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PRESENTATION

Operator

Good morning and welcome to the Bridgepoint Education 2012 earnings conference call. Today's 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, sir.

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

Thank you, Jennifer, and good morning, everyone. Bridgepoint Education's 2012 earnings release was issued earlier this morning and is posted on the Company's website at www.bridgepointeducation.com. Representing the Company today are Andrew Clark, Chief Executive Officer; Dr. Jane McAuliffe, Chief Academic Officer; and Dan Devine, Chief Financial Officer.

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, the impact of our student support efforts, timing satisfaction of jurisdictional requirements, our ability to manage regulatory metrics, and commentary regarding 2013. 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 risk that the results of new initiatives are different than currently anticipated or the risk that military tuition assistance funding is reduced for an extended period. Please note that these forward-looking statements speak only as of the date of this presentation and we undertake no obligation to update these forward-looking statements in light of new information or future events, except to the extent required by applicable securities laws.



Please refer to our SEC filings, including our year-end report on Form 10-K for the period ended December 31, 2012, to be filed with the SEC, 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.

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

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

Thank you, Paul, and welcome to Bridgepoint Education's 2012 earnings call.

For those of you on the call who may be new to our story, I'd like to provide a brief introduction to the Company. Bridgepoint is an innovative educational services company that is using the power of both innovation and technology leadership to advance higher learning. Our institution, Ashford University and University of the Rockies, offer a practical and dynamic educational model to students seeking associates, bachelors, and graduate degrees online or on campus. The foundation of our University's ability to deliver value to students has always been their educational philosophy, which is comprised of four pillars -- Affordability; access; academic quality; and student success. This philosophy, together with our advanced technologies, expands and enhances our efforts to offer students a broad selection of rigorous, engaging, and practical courses. As the parent Company, Bridgepoint supports the mission of our Universities in a number of ways, including the development or acquisition of advanced technologies and new learning methods.

I want to begin today's call by reiterating what I've said consistently since last summer. Our number one priority is to maintain regional accreditation for Ashford. In doing so, Ashford is focused on maintaining its Higher Learning Commission accreditation in good standing, as the University continues along the path toward WASC accreditation. Because of the importance of our accreditation, we want to focus on recent developments with both HLC and WASC before we discuss our results for 2012. On Tuesday, February 28, we announced that the Higher Learning Commission rendered decisions on two matters involving Ashford, the University's substantial presence plan and the special monitoring HLC initiated last summer.

To provide you with more details about those decisions, I would like to turn the call over to our Chief Academic Officer, Dr. Jane McAuliffe.

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

Thank you, Andrew.

Let me begin with the decision regarding substantial presence. You may recall that Ashford submitted a plan on December 1, 2012 detailing how it would come into compliance with HLC's requirement that accredited institutions have a substantial presence in its 19-state territory if Ashford did not achieve WASC accreditation or significantly delayed. In its public disclosure notice following its February meeting, the HLC board stated, as expected, that the University had not demonstrated substantial presence in the HLC region. However, it determined that the interest of the students were best served by allowing the University a limited amount of time to complete the accreditation process with WASC prior to the Commission taking any action. Should the University not achieve WASC accreditation, it will move forward with the implementation of the plan it submitted to HLC to demonstrate substantial presence in the HLC region.

Many of you know that HLC was required to respond after WASC' decision last summer on Ashford's accreditation application and HLC did so by placing Ashford under special monitoring. As part of its special monitoring, HLC required Ashford to submit a report specifying how the institution continues to meet HLC's minimum expectations and criteria for accreditation, with special emphasis on the areas in the WASC findings. Following the submission of our reports on these issues, Ashford hosted a visit and the HLC visiting team made the recommendation to the President of the Commission and then shared with the commission board. At HLC's February meeting, the board voted to place the University on notice. Notice is a Commission sanction indicating that an institution is pursuing a course of action that if continued, could lead it to be out of compliance with one or more criteria for accreditation. An institution on notice remains accredited. At the end of the notice period, the board of trustees may remove the sanction, place the institution on probation if the identified concerns have not been addressed, or take other action.



Included in the visiting team's final report to the University, the team noted that the University has met the minimum expectations for accreditation. Additionally, the board concluded that the University meets the criteria under which it was evaluated in fall 2012. However, the Commission had concerns about the University's capacity to meet the newly revised criteria that became effective on January 1, 2013, post the visit. The University is required to submit additional future reports on the alignment of the University's mission with its instructional model, governance of the University independent from its corporate parent, efficiency of faculty, assessment of student learning, and use of data to improve graduation retention rates and shared governance structures involving faculty and administration. As we have discussed on previous calls, the University has made significant progress in addressing each of these areas over the past 12 months.

I thought I would highlight a few for you. First and foremost, the University board of trustees hired a new University president with experience as chancellor in managing a large public university system. And also has elected a new board chair with significant experience leading a large public institution. They are both now in place and moving the institution forward. As you may recall, Ashford has implemented a comprehensive plan addressing student readiness, beginning with improvements in the recruitment of students, with the introduction of the student inquiry center and the recruitment for all online students to be at least 22 years of age. Additionally, the University has made a concerted effort to ensure that only qualified students are matriculated into the institution, with the introduction of its free orientation program and free conditional admissions under the title the Ashford Promise. In the past 12 months, the University has also focused on improving the learning experience for students who have matriculated by increasing the number of full-time and terminally degreed faculty. In addition to faculty, Ashford has increased the number of student advisors by approximately 200, allowing for more individual student interaction and assistance.

In the area of program review, the institution recently transitioned to a comprehensive five-year program review model where it formally reviews courses and programs to ensure student learning. Faculty have now refined the model and have accelerated the time line for reviewing programs that are now mature enough to be formally reviewed. Evidence of student learning is reviewed. Outcomes at the course and program level are analyzed. Course rigor is substantiated. The curriculum itself is updated if necessary, and a credit hour analysis is conducted to ensure quality academic experience for all students. The faculty have made significant improvements to the process over the past several months, have implemented processes to ensure the adequacy, availability, and reliability of the data obtained for program review, invited external reviewers to provide input, and focused on closing the loop to ensure that there is a sustainable, continuous process improvement cycle in place.

The Ashford University faculty and administration recently conducted a comprehensive review and revision of their governance structures. The academic governance model has now evolved to a faculty senate model that explicitly includes online and campus-based full-time and associate adjunct faculty representation, with structure and functions of the faculty senate and its standing committees assure appropriate faculty oversight of the University. With new University leadership in place and a revised faculty senate structure, all governance, as well as administrative structures, have been reviewed to ensure proper oversight of University operations and overall institutional effectiveness. Additionally, the relationship between the University and Bridgepoint Education is well defined with roles and responsibilities clearly outlined, ensuring the appropriate autonomy of the institution.

I would like to provide you with a time line for the remaining accreditation steps with WASC. Early next month, a visiting team will conduct a site visit in support of Ashford's reapplication for initial accreditation, which was submitted last October. The visiting team will prepare a report and Ashford will have the opportunity to review the report and submit comments. The WASC Commission will meet in late June and will then notify Ashford of its decision. With respect to HLC, Ashford will provide HLC with an interim report on the status of our migration to WASC by July of this year. If the University at that point has not been accredited by WASC, the University will be required to host an HLC-focused evaluation no later than October 1, 2013 to determine whether the University has completed certain steps specified in its December 2012 plan to establish presence in the commission's region. If Ashford has not officially moved to WASC, the University will be required to host a focused HLC evaluation on or before December 15, 2013 to examine retention, graduation, and the University's progress in resolving the identified issues.

I also want to provide you an update on the University of the Rockies. On March 4, 2013, they received confirmation from the Higher Learning Commission that the institution has transferred a substantial presence of business and administrative personnel and operations to the new local, new location in Denver, Colorado. The Commission also granted approval for the University to offer courses at the new location in Denver. University faculty and leadership are now looking forward to launching face-to-face classes at the Denver location in the coming months.

Now, I would like to turn the call back over to Andrew.



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

Thank you, Jane.

In addition to the 2012 initiatives we have mentioned to you on prior calls, I want to share with you the important enhancements and the support we are providing the students and career services and job preparedness. In 2012, Ashford expanded its career services and alumni support staff by over 90% in several areas that are crucial to a new graduate's ability to make the most of their education. Enhanced self-directed tools for resume building, job search, interview preparation, and personalized resume review and coaching. Students receive online interactive topic-driven workshops in all of these areas and as much customized one-on-one support as they request. Attendees at our online workshops often number in the hundreds.

Ashford is working to increase employer awareness of the University and its talented graduates. Our work with employers includes posting the job openings on Ashford's career management boards, as well as helping employers identify and focus their recruitment efforts on graduates with specific skills. Our support for alumni also includes an expanded alumni networking platform, where alumni can share ideas, news, and job leads. I want to emphasize what Dr. McAuliffe said earlier. We are carefully monitoring the early impact of Ashford student success initiatives, which were fully implemented by the end of the calendar year 2012. While it is too soon to know the full impact of our efforts, we are seeing emerging evidence to suggest that these initiatives are providing a positive early benefit to Ashford students. For example, as a result of our free two-week orientation program, which is mandatory for all students with no transfer credits, approximately 28% of students who enter orientation do not enroll in their first course. But the remaining students have shown increasing four and five-month progression rates.

The Ashford Promise is also showing particularly strong initial results. At the same time that the initiative is screening out between 11% and 12% of potential students who are unprepared for college level work, we have seen higher two-month persistence rates for both AA and BA students since the program launched in mid-November. As we have said before, students who do not progress beyond three weeks take on no debt for their time at the institution. I want to stress how positive this result is. Ashford's new, more selective admissions criteria, the 60% reduction of admissions personnel, the new student orientation and the Ashford Promise all are producing outcomes that demonstrate a strong commitment to quality and student success. Most importantly, through the orientation program and the Ashford Promise, we expect to matriculate a better prepared cohort of students beyond the first course. In light of these changes, the limited year-over-year decline in new enrollments demonstrates strong new student demand and affirms Ashford's value proposition of affordability, value, and quality.

We believe our institutions offer an innovative, high quality, and differentiated learning option to working adults. The branding program we initiated in 2012 helps attract a higher quality of students to Ashford, as measured by several factors that are correlated with student success, including the number of credits transferred in and the direct demographic profile of students who are more likely to be successful. We will therefore continue the branding effort in 2013 with the expectation that it will enhance our ability to attract students who are well prepared and will also help ensure that the quality, affordability, and value offered by our institutions are relevant to the prospective students who come to us. As such, the branding campaigns are designed not only to increase awareness of our institutions, but also to attract well-prepared students who are seeking a high quality education and who are more likely to persist through graduation. Our focus has always been to deliver a high quality education that is affordable and represents excellent value to students.

Now, for the fourth year running, I'm pleased to present to you the results of Ashford's annual alumni survey, which we believe, again, demonstrates the University's success at delivering these important outcomes to Ashford graduates. Out of the 89% of alumni who reported having previously attended a traditional institution, 92% feel the quality of education at Ashford is the same as or higher than it was at a traditional college or university. Similarly, in WASC's own survey of nearly 23,000 Ashford students, 91% of respondents said they are satisfied or very satisfied with the quality of instruction they are receiving at Ashford. In our survey, 93% said that they would recommend Ashford to others. 90% of our graduates indicated that they were satisfied or very satisfied with their Ashford experience. 88% of our alumni agree that earning their degree from Ashford gave them the confidence to pursue new job opportunities. And finally, 92% of alumni agree that earning their Ashford degree was worth the time, commitment required to fulfill their educational goals.

We also ask our alumni about how they view the return on their investment in their education, as measured by their salaries before and after attending Ashford. Based on alumni survey responses reported in 2013 from our bachelor's degree earners, we estimate that the average salary of



these alumni is 39,654, which is an increase of 10.5% over the average salary they were earning when they first enrolled at Ashford. Our graduate degree earners do even better. We estimate the average salary of these alumni is 43,372, which is an increase of 15.5% over the average salary upon first enrolling at Ashford. Particularly, in the difficult US economy, where stagnant wages are common, these survey results continue to reaffirm that an Ashford education is creating a positive return on investment for our alumni. We continue to be pleased with the value proposition offered by an Ashford degree and the benefit it is bringing to the lives of our alumni and their families.

Before I turn the call over to Dan, I want to just say a few words about how Bridgepoint itself is innovating with technology to support students at our institutions, as well as students outside Ashford in the University of the Rockies. In 2012, with the objective of leveraging our technologies across our entire educational platform, we consolidated all of our technologies, including Waypoint and our mobile classroom app, into one products group and brought in additional leadership to that group. Going forward, our Products Group will continue to focus on developing new products that promote student learning. Bridgepoint will continue to focus on developing technologies that have a beneficial impact on the lives and successes of our institution students.

Now I would like to turn the call over to our Chief Financial Officer, Dan Devine, to review our financial and operating results.

Dan Devine - Bridgepoint Education, Inc. - CFO

Thank you, Andrew.

Today, I'll provide you with some key financial and operating figures for our year ended December 31, 2012. Effective in the fourth quarter of 2012, the Company made changes in the presentation of its operating expenses. We determined that these changes would better reflect industry practices and would provide more meaningful information, as well as an increased transparency to its operations. We believe that the reclassification better represents the operational changes and the business initiatives that have been implemented. The Company has reclassified prior periods to conform to the new presentation.

For the fiscal year 2012, revenue increased to \$968.2 million compared with \$933.3 million for 2011. The increase in revenue primarily resulted from the 3% tuition increase implemented on April 1, 2012. As of December 31, 2012, total student enrollment decreased to 81,810 from 86,642 at December 31, 2011. For the year ended December 31, 2012, instructional cost and services were \$355.3 million, or 36.7% of revenue, compared with \$303.9 million, or 32.6% in the same period last year. The increase in 2012 was primarily composed of increased instructional salaries, information technology costs, bad debt expense, and additional costs for instruction-related facilities. In the fourth quarter, the increase in bad debt was related to internal processing issues involving existing students and the timeliness of their financial aid packaging for their new academic years. The Company has addressed this process and issue and expects that it will not repeat in 2013.

Admission advisory and marketing expenses for the year ended December 31, 2012 were \$339.2 million, or 35% of revenue, compared with \$297.6 million, or 31.9% of revenue in the prior year, primarily due to greater compensation expense and additional branding initiatives during the year. General and administrative expenses for the year ended December 31, 2012 were \$71 million, or 7.3% of revenue, compared with \$58.1 million, or 6.2% of revenue for the prior year. The increase was primarily due to higher administrative compensation, legal expense, and external professional and consulting fees. Included in the -- our three main expense categories for fiscal year 2012 is approximately \$13.7 million related to stock-based compensation in the aggregate compared with \$10.6 million for the fiscal year 2011. For the year ended 2012, operating income decreased to \$202.7 million from \$273.7 million in the year ended 2011.

Net income for the year ended December 31, 2012 was \$128 million, or \$2.29 per diluted share, compared with net income of \$172.8 million, or \$3.02 per diluted share for 2011. Fully diluted EPS is calculated based on a diluted share count of 55.9 million shares for the fiscal year 2012, and 57.1 million shares for the fiscal year 2011. Our effective tax rate for the year ended December 31, 2012 was 37.9%. As of December 31, 2012, we had cash, cash equivalents, and investments of \$514.7 million. The Company generated \$143.2 million of cash from operations for the year ended December 31, 2012, compared with \$220.8 million for the same period in 2011. Our accounts receivable net of allowance for doubtful accounts, was \$75.2 million, which represents 32 day sales outstanding on a quarter to date basis, compared with 25 day sales outstanding at December 31, 2011. Capital expenditures for the year ending December 31, 2012 were \$24.1 million compared with \$34.5 million for the prior year.



Moving to regulatory items. For the year ended December 31, 2012, Ashford University derived 86.4% of its revenues from Title IV funds, calculated according to department regulations. For the year ended December 31, 2012, the University of the Rockies derived 87.3% of its revenue from Title IV funds, also calculated under department regulations. Our institutions have managed this metric effectively throughout the past seven years and expect to continue to do so going forward.

Before I turn the call back to Andrew, I would like to comment on the recent developments involving the Department of Defense tuition assistance program. Last week, the Army and the Marine Corps suspended new TA enrollments until the current fiscal situation is clarified. Students who are currently enrolled in approved classes will be able to complete those classes using TA, but will not be able to submit new requests for TA. It is anticipated that other branches of the military are also considering changes to the tuition assistance programs. We remain focused on providing service members with information about alternatives for funding their education, including veteran GI bill education programs. We remain committed to serving our military students and providing them with the education benefit that they have earned while serving our country.

Now, I'll turn the call back over to Andrew for his closing comments.

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

Thank you, Dan.

It is clear that the national focus on higher education, as outlined by the President of the United States, centers on affordability, value, and quality. Bridgepoint Education, through its institutions, continues to demonstrate a strong commitment to these three qualities. First, our institutions were founded on and have been leaders in affordable tuition for students. Second, in alumni survey after survey, our students have reported a tangible return on their investment in the form of increased earnings power. Third, consistently, our students have rated the quality of their education at our institutions as being equal to or greater than experiences at previous institutions. Ashford University continues to focus its policies and outcomes on a shift towards higher quality students that persist at higher rates.

From new leadership of the institution, prioritizing on educational resources, increased full-time faculty, a significantly reduced admissions team, increased student advisement, tightened admission standards, focusing on new student preparedness, career service and alumni support, and a revised governing model, the university has taken dramatic and meaningful steps towards achieving its stated goal of becoming one of the best private sector institutions in the country over the next several years. We at Bridgepoint fully support Ashford's vision for the future. We also believe that the governance model between Bridgepoint and Ashford responds in a best of class fashion to the importance placed upon the independence of any institution under today's accreditation criteria. Finally, all of us at Bridgepoint, Ashford, and the University of the Rockies, believe that our success will be derived from the success of our institutions' students at meeting their educational goals. By continuing our support of our institutions, students in their endeavors, we believe we are creating a successful and sustainable model for all stake holders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Trace Urdan with Wells Fargo Securities.



Trace Urdan - Wells Fargo Securities, LLC - Analyst

I wanted to ask about pressures on revenue per student. I didn't hear you address that specifically in the prepared remarks. I'm wondering what the different factors are that you saw weighing on the revenue per student and what we might expect as a trend line there going forward.

Dan Devine - Bridgepoint Education, Inc. - CFO

I think the trend line going forward you'll see some reduction in the revenue per student in 2013, primarily due to the fact that we changed the technology fee shifting. So, everybody who is currently existing in the institution, the technology fee was already paid for them. So, therefore, you'll see some reduction. Single-digit, mid single-digit reduction in revenue per student from that factor. We are -- the University did announce a 2.75% tuition increase effective April 1. That's consistent with close to what it was in the past, at 3%. But generally, that's where you should see the reduction on an annual basis. There's some shortness in the fourth quarter. So, you usually see a little bit of a dip there.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

Can I ask a follow-up? I just wondered if the changes that you've instituted, particularly in governance, what the faculty response has been, whether you have any qualitative feedback on all of the changes that have gone on at the University and what -- and I know you survey the students pretty extensively, but how are the faculty feeling about what's going on?

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

Hello, Trace, this is Jane. The faculty actually developed the governance model. Recently, I had a visit to Clinton campus and that was one of the faculty members who was very instrumental in developing that, putting it together, getting faculty input and working with administration. He was very positive and excited about how they were moving forward. So, from what I'm hearing, very positive.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

What's the mechanism for involving the adjunct faculty and the faculty senate? Can you describe that just briefly for us?

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

Yes, I think the vision was to make sure that everyone had a voice in the institution. So, you have the associate faculty right alongside the full-time faculty, serving on committees and making decisions about curriculum and programs. So it's really just putting everybody at the table.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

Okay. Thanks, Jane.

Operator

Peter Appert with Piper Jaffray.

George Tong - Piper Jaffray & Co. - Analyst

Hello, this is George Tong for Peter Appert. What's your current military exposure? And what percentage of enrollments do you expect will be impacted from the announced TA cuts?



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

George, we don't give out the number in terms of active duty military that receive TA benefits. As Dan said in his comments, our focus is going to be ensuring that those students understand their options, including the top-up and access to GI bill and VA funding. And I think it's still very -- this is obviously all very new and early and none of us knows how things will play out. So, I think our main focus at Ashford that has been related to me is just supporting the students and doing what's in the best interest of the students.

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

And just a quick follow-up, could you provide some perspective on the demand environment and specifically whether you expect to see declines in starts throughout 2013 and possibly into '14?

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

Well, I think as I commented, the demand environment is particularly strong. If you look at the admissions area, just on its own, Ashford made a decision to reduce that area from a staffing perspective by 60%. You saw new enrollments in the fourth quarter off around 33% or so. So that tells you right there that demand continues to be strong. You didn't see a one-for-one relationship between the staffing layoff and the negative new enrollments.

My sense, again from talking to folks at Ashford, is that you will see some negative new enrollments in the first half of this year, certainly. But that should start to improve in the back half, especially the last quarter of the year. I certainly have no reason to believe that it would continue into 2014.

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

Thank you very much.

Operator

Jarrel Price with Height Analytics.

Jarrel Price - *Height Analytics - Analyst*

If Ashford is not accepted into WASC in June, you'll face a focused HLC evaluation in October to examine whether you've met certain steps in your transition to HLC, as you mentioned in the prepared remarks. Could you just remind us what some of those steps are and then second, if you've already started any of those initiatives?

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

Well, I'm not quite sure, Jarrel, what steps you're referring to. We have the October of 2013 visit, which would be predicated upon either the institution not being accepted into WASC or the institution deciding to not continue to pursue WASC accreditation. HLC would look at substantial presence in particular in October and the plan that was submitted to HLC, but I --.

Jarrel Price - *Height Analytics - Analyst*

But are there significant steps toward establishing a substantial presence in the North Central region that you're expected to meet by the October evaluation?

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

Well, we have submitted a plan. Ashford submitted a plan to the Higher Learning Commission and they have accepted that plan. So there are steps that would be taken. But those steps would not be taken until the institution had either, A, decided not to pursue WASC, or B, had not been accepted by WASC.

Jarrel Price - *Height Analytics - Analyst*

Okay. Thanks.

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

Yes.

Operator

Corey Greendale with First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Appreciate the color you gave on the new student perspective for 2013. Was hoping you might be able to comment a little bit on the cost side and your fixed cost structure and how representative to Q4 cost structure is and what we should expect going into 2013.

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

I'm trying to understand your question. You're saying what's the difference between our cost structure in Q4 and what we expect for 2013?

Corey Greendale - *First Analysis Securities - Analyst*

Yes, just some color on the cost structure in 20 -- and measure that elevated bad debt in Q4, so you ignore that. Basically, how representative the cost structure is.

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

I think -- I'm sorry. I didn't catch the very end of your last comment there.

Corey Greendale - *First Analysis Securities - Analyst*

I am just looking for some color on your fixed cost structure in 2013, if you could provide any color on that.



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

Yes. So, what we've got in 2013 -- or 2012, is we made the appropriate investments in the area that we thought needed to be for student support, additional faculty, et cetera. We expect that, that's going to continue into 2013. So the cost structure that you see existing for Q4, you're not going to see major structural changes to that cost structure as we go through 2013.

We're continuing to complete some of those investments, particularly in the faculty area that we initiated in 2012. And we have made some of the adjustments in the admissions advisory area. We reduced that staff, which is reflected more in Q4 than it is in the first three quarters. So, you'll see that trend continue also.

Corey Greendale - *First Analysis Securities - Analyst*

If I could ask one follow-up, on the 2.75% price increase, with the changes you made in governance, could you just talk to how a price increase position is made, who makes that decision, and how you're thinking about scholarships or if you are thinking about scholarships?

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

Yes, certainly, Corey, I would be happy to answer that question for you. When it comes to tuition increases at Ashford University or University of the Rockies, those increases are decided upon by the administration, the leadership of the institution and then approved by their board of trustees. We have a shared services agreement between Bridgepoint and Ashford, as well as the Rockies.

As part of that agreement, when the institutions are studying a tuition increase, they will ask Bridgepoint marketing to provide them with data on other private sector institutions, as well as public and nonprofit and independent universities and what they are doing from a tuition increase standpoint. So they will take all that information and make it part of their analysis as well. But that is effectively how the decision is made. It's made at -- it is made by the respective institution.

Corey Greendale - *First Analysis Securities - Analyst*

And the question about scholarship, do you think you might do anything more there?

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

Scholarships is the same process as tuition.

Corey Greendale - *First Analysis Securities - Analyst*

Okay. Thank you.

Operator

Gary Bisbee with Barclays Capital.

Gary Bisbee - *Barclays Capital - Analyst*

Maybe I'm missing something, but I didn't see fourth quarter results, which is odd, because in prior fourth quarters, you've put the annual number in the fourth quarter. And when you combine that with changing what's in each line, there was zero ability to analyze what's going on. So, I wonder

if you could tell me where those numbers are, if they are somewhere other than the press release, and if not, when you're going to give us some restated numbers along the new way you're defining the cost line.

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

We'll make those available, Gary, when we file the 8-K this afternoon.

Gary Bisbee - *Barclays Capital - Analyst*

And why the decision not to have fourth quarter numbers in the press release? It mind boggling, given that there is an inability to -- and your response to Cory's question about the fourth quarter being good cost structure and have going forward, we don't know what it was, right, because you changed the line item.

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

You know the gross cost structure, right?

Gary Bisbee - *Barclays Capital - Analyst*

Yes.

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

The reason we didn't do it had to do with a draft figure for the way we restructured it. There's draft figures for 2011 and audited for 2012, just a regulatory thing. We went with the full-year version, which is audited to audited.

Gary Bisbee - *Barclays Capital - Analyst*

And then if I could ask a real question about the business. Can you give us a sense, it sounds like the new refund policy has been successful in terms of helping get the students you want in, in the program. But how much of an impact did that have on the new enrollment and revenues in the quarter?

I assume you're not booking revenues if the kid drops in the first three weeks or doesn't make academic progress, you're also not having the students in the new student metrics that you reported. Is that a big number?

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

Well, so I think you're referring to the Ashford Promise, Gary.

Gary Bisbee - *Barclays Capital - Analyst*

Yes.

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

And from that perspective, as I mentioned, we have about 11% to 12% of students who either self select out or the institution intervenes and asks them to withdraw within the first three weeks of their course. So you did see -- that was instituted during the quarter in the fourth quarter. So you did see some of that, certainly, in the fourth quarter, both the new enrollment and total enrollment.

Gary Bisbee - *Barclays Capital - Analyst*

But hadn't you previously -- hadn't it been a similar thing at two weeks and you moved it to three weeks, or am I confusing it different?

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

From a revenue perspective, we did not book revenue until those students -- we used to book it based on a completion of two weeks to five weeks. We would book 50%. Now we don't book -- we book it at the completion of three weeks.

Gary Bisbee - *Barclays Capital - Analyst*

So did that have a meaningful impact?

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

No.

Gary Bisbee - *Barclays Capital - Analyst*

Or was that fairly modest?

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

It did not have a meaningful impact.

Gary Bisbee - *Barclays Capital - Analyst*

Okay, thank you.

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

In revenue, it did not have a meaningful impact.

Gary Bisbee - *Barclays Capital - Analyst*

Yes. All right. Thanks.



Operator

Thank you. Jeff Silber with BMO Capital Markets.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Just to follow up on Gary's question, it didn't have a meaningful impact on revenues; what about on starts?

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

It did have some impact on starts, Jeff. I can't give you an exact number, but it definitely had -- the student -- the Ashford Promise did have an impact, as well as the orientation. Both of those initiatives impacted new enrollments. But, our pursuit is one of attracting the highest quality student who is most likely to persist the longest and eventually hopefully graduate. So, I -- we fully support those decisions by the institution and we think they are the right ones.

Jeffrey Silber - *BMO Capital Markets - Analyst*

And can you just remind us when the orientation program started?

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

Well--

Jeffrey Silber - *BMO Capital Markets - Analyst*

Roughly.

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

-- orientation was going on throughout 2012. It was implemented across all zero credit transfer students in the fourth quarter. So, all of those students go through orientation. And as I mentioned, there's about 28% who participate in orientation and do not enroll in their first course.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Shifting gears and talking about the regulatory front. So, you had mentioned in your prepared remarks and you filed previously that University of the Rockies was able to comply with the substantial presence rules by HLC. Can you give us some examples of what you had to do to comply and if there's any read through to what Ashford might have to do?

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

Well, each institution is independent and makes their own decisions. The way that the rule reads, Jeff, with the Higher Learning Commission, is that a majority of the institution needs to reside in the region. They don't define majority. Of course, you could define it as 51%, if you wanted, I guess. But the Rockies made an institution to definitely put a majority of their resources in Denver and that obviously was reviewed by HLC and their view was that they were in compliance.



Jeffrey Silber - *BMO Capital Markets - Analyst*

And by resources, you mean head count?

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

Well, it would be everything from -- I mean, certainly leadership of the institution, academic leadership, as well as overall headcount that would enable you to present a majority of the institution was in region.

Jeffrey Silber - *BMO Capital Markets - Analyst*

And just a quick numbers question. I'm sorry. For 2013, what should we be modeling for both taxes and capital spending?

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

For taxes I would model -- close to what we did, 38% for taxes and for capital spending we did \$24.1 million. I think we would probably stick to that range, about \$25 million, if you're just going to round them.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Thanks so much.

Operator

Jeff Volshteyn with JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

I appreciate the comment on new enrollments. I was wondering if you could give us a little bit of color or a framework how to think about total enrollment in 2013 from a perspective of improved persistence from your initiatives and then graduations that are coming up in 2013, as well as dropouts.

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

Yes, sure, Jeff. Well, I would anticipate from an Ashford perspective that you'll see persistence be relatively flat throughout the year. You could see some improvement in various quarters. I think the overall total enrollment number ought to be around what it's been. I don't think it will change dramatically one way or the other. But, there's a variety of factors going on externally. Certainly, the new development with the sequester and TA funding.

That could generate a little bit of unforeseen decline in persistence, for example, in a particular quarter. But I think our overall view for the year is that it ought to be fairly consistent and we certainly hope that several of these initiatives that we're doing demonstrated emerging evidence that they are the right things and they are generating persistence gains. But those will flush themselves out as you get towards the back half of the year.

Jeff Volshteyn - JPMorgan - Analyst

And then when we look at bad debt expense for 2013, should that be about 6% or slightly different?

Andrew Clark - Bridgepoint Education, Inc. - CEO

I think it should be about 6%. We discussed in our prepared remarks that we did incur some additional charge in Q4 related to an issue for existing students and related to the cross-over year. It has to do with when a student starts at the institution. Their second academic year, they have to go through a certain amount of paperwork. We had some system problems, as well as some execution areas there and some of the students left the institution before they could be funded. But going forward, we -- yes, 6% I think is probably fair.

Jeff Volshteyn - JPMorgan - Analyst

Okay. Thank you very much.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Thanks, Jeff.

Operator

Brandon Dobell with William Blair.

Brandon Dobell - William Blair & Company - Analyst

Wonder if you could give us, I guess, let's call it tangible evidence or even some anecdotes around -- and the successes within your efforts around career services. Is there a strategy to be, I guess, more integrated with how the students are going out and looking at employment, either from a current student perspective or even alumni of the institution?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, sure, Brandon. It's a great question. Well, certainly the institution has invested quite a bit in that area. As I mentioned, they have increased the staffing by 90%. I guess the anecdotal evidence of the benefit that, that has is just the number of students and alumni that have decided to take advantage of those services, hundreds of students that join various webinars that, that group conducts.

And so, I think it's definitely helpful. In terms of integrating it, I know that the institution is pursuing a strategy of reaching out and creating deeper relationships from a corporate perspective. And so it would make sense that there would be integration between the career services, alumni support team and the corporate team that's working closely with the organizations.

Brandon Dobell - William Blair & Company - Analyst

And then, I guess, from a similar point of view, given that you guys have put in place a handful of initiatives the past, let's call it, 9 or 12 months. If you take a little bit of a look back, what's worked as you expected or better than you expected? And what hasn't? Are those things that have not worked for you, have you made any major changes that we should think about for the next 12 months or so?



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

Yes, sure. Great question. Well, in terms of what's worked or the most meaningful, I think the orientation and the Ashford Promise are the two most significant things that have worked from a student perspective. Certainly the branding initiative worked wonderfully in terms of attracting a higher quality student. It's still early for some of the other initiatives. The institution hasn't made any determinations or at least doesn't have any data at this point that would say a particular initiative is not working.

Most of the emerging evidence that it has around the initiatives on whether it's the admissions -- tighten admissions standards or student preparedness or the governance model with faculty, career services, alumni, equipment, all of those things seem to be pointing directionally positively and doing what they were intended to do.

Brandon Dobell - *William Blair & Company - Analyst*

And then one follow, I think, for Dan. Just want to make sure I understood how you were talking about revenue per student. You said down mid single-digits. I'm assuming that included both the impact of the technology fee and the tuition increase that's coming up shortly, or is that just about the impact of the technology fee?

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

That was just about the impact of technology. So, if you net it out, you're probably 2% down.

Brandon Dobell - *William Blair & Company - Analyst*

Got it. Just wanted to make sure. Thanks, guys. Appreciate it.

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

Thank you.

Operator

James Samford with Citi.

James Samford - *Citigroup - Analyst*

Just a quick follow-up on the brand spend. I think you mentioned that you plan to continue to increase brand spend, but at the same time, you're operating with, what is it, 60% less admissions advisors. Just wondering, given the lower capacity how you think about return on marketing dollars at this point? And are you shifting away from lead Gen segment, as you have depended on in the past?

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

Yes, great question, James. I want to be clear, we're not looking at increasing brand spend. I would think that the branding spend for 2013 would be very similar to what 2012 was. Now, you're certainly correct, there's 60% fewer folks in the admissions area. However, having the equivalent branding spend does reflect a strategy where the institution relies less on less on aggregators to provide prospective students, since typically those students seem to persist at a much lower rate.



And we do know. We have hard data that shows that from our branding programs, that the quality of the student as measured by a bunch of different variables is higher when the institution is actively engaged in a branding campaign. So, for a multitude of reasons, it makes sense for the institution to continue. But we won't increase it over 2012.

James Samford - Citigroup - Analyst

And just a quick follow-up on the tuition assistance side, what's the mix of tuition assistance versus VA benefit in your military at this point? Maybe some color on Marines versus Air Force and Army, et cetera?

Andrew Clark - Bridgepoint Education, Inc. - CEO

I would love to help you out with that, James. We don't give out what the mix is between the VA, DOD personnel versus active duty military TA benefits. I can't really answer that question for you.

James Samford - Citigroup - Analyst

Okay, thanks.

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes.

Operator

Paul Ginocchio with Deutsche Bank.

Paul Ginocchio - Deutsche Bank - Analyst

It's almost the end of the first quarter. Just wondering if you could maybe give us a new enrollment update relative to the fourth quarter, what the first quarter is looking like, better, worse, similar?

Andrew Clark - Bridgepoint Education, Inc. - CEO

Yes, Paul, I can't really answer that question for you. I can answer it for you in May, when we have our first quarter earnings call. But I think you could go back to my earlier answer to somebody else's question around new enrollment at Ashford for the year.

And my comment was that I expect -- we expect the negative trend that we've had in the first half with an improving trend the second half. And certainly we don't have any reason at this point to believe that we would have a negative trend in 2014.

Paul Ginocchio - Deutsche Bank - Analyst

Just if I could ask a follow-up, looking at the questions everybody's asking around TA and maybe just looking at 90/10, will you have to alter your admissions policies because TA's going to get you -- without TA funds, you're going to get a lot closer to that 90/10, so will that make you change how you think about admissions? Thanks.



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

Yes, well, first of all, it's very early, obviously. The sequester development is a very new one and no one knows whether it's temporary or longer term. I don't see it changing admissions policies. I think it's important to point out that the institution has a lower tuition rate, which naturally causes the institution to have a higher percentage, 90/10, because it's a more affordable tuition, which can be entirely covered in some cases by Title IV funding for a student.

And so it naturally occurs. However, with that said, the institution has maintained compliance with that regulation for the past seven years and not once has come up close to it. So, obviously, I'm confident Ashford will monitor it very closely, as they have for the past seven years.

And I think other areas of focus, I know that they are focusing in a very diligent way on the corporate area and relationships with the private sector. I think all of that could help offset some of the other changes, if they were to become longer term and sustained.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay.

Operator

James Berkley with Credit Suisse.

James Berkley - *Credit Suisse - Analyst*

Calling on behalf of Kelly Flynn. Just remember last quarter you guys had talked about certain quality enhancement initiatives hurting starts more than PR fallout from accreditation. I was wondering if you could just give some color on that again this quarter. Is that still the same trend? And then if you could just finish up, please, by talking about the initiatives that you put in place last quarter and whether or not you're seeing any improvement in regards to retention?

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

So the quality initiatives that we talked about last quarter, I'm assuming when you refer to those, those are many of the initiatives, obviously, that we're talking about today, because they occurred last quarter. So, raising admissions standards, having to be 22 years of age or older, for example, cutting a couple of the Associate Degree programs that didn't have the appropriate outcomes that the institution was looking for.

All of those things, as I mentioned today, James, in my opening remarks, were done in the fourth quarter. And as I discussed earlier, the emerging evidence is that many of these things are having a positive impact. You asked about retention, particularly around persistence. You see that students that go through orientation, students that actually matriculate beyond the Ashford Promise, that we have then an increased quality of the cohort of students that is pursuing courses beyond their first course.

That's what the emerging evidence, initial data is suggesting. So, directionally, I would have to say that the initiatives undertaken by the institution were the right ones and are producing the right outcomes. It's still fairly early, but I don't know why those would not continue to perform as they have here in the early stages.



James Berkley - *Credit Suisse - Analyst*

So, I guess, just as far as the starts issue goes, would you say that those initiatives hurt starts again this quarter more than PR fallout from like accreditation issues or have the accreditation issues really come to the forefront?

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

Well, I mean -- These are -- again, I want to separate. These aren't accreditation issues. These are initiatives that the institution undertook based upon evidence that supported that they were in the best interest of the students. And those initiatives have all been taken in the fourth quarter. I don't have any information that would tell me that the initiatives would lead to worse outcomes in future quarters.

I think it would be similar to this quarter. Maybe likely, slightly off this quarter and slightly more negative or perhaps slightly more positive. I think time will only tell. But I don't think it will be materially different negatively in the next few quarters based upon what we've seen.

James Berkley - *Credit Suisse - Analyst*

Okay. Thank you very much. I was just trying to get a read on how accreditation was impacting starts in the last quarter. Thanks.

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

Yes. And just to be fair, on the accreditation piece, I think that prospective students, certainly some prospective students do raise the issue of the institution effort and its status on accreditation, and we try to answer those in the best possible way. And I'm sure it had some impact. I think, though, the largest impact in new enrollments in total have been the initiatives that the institution itself chose to make. So, hopefully that better answers your question.

James Berkley - *Credit Suisse - Analyst*

Yes, thank you very much. Appreciate taking my call again.

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

Yes.

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

Operator, this should conclude our call today.

Operator

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

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