

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

BPI - Q1 2013 Bridgepoint Education Inc. Earnings Conference Call

EVENT DATE/TIME: MAY 06, 2013 / 3:30PM GMT



## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

**David Warner** *First Analysis Securities - Analyst*

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

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

**Jeff Volshteyn** *JPMorgan - Analyst*

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

**John Crowther** *Piper Jaffray & Co. - Analyst*

**Tim Connor** *William Blair & Co. - Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the Bridgepoint Education first-quarter 2013 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.

---

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

Thank you, Ann. Good morning everyone. Bridgepoint Education's first-quarter 2013 earnings release was issued earlier this morning and is posted on the Company's website at [www.BridgepointEducation.com](http://www.BridgepointEducation.com).

Representing the Company today are Andrew Clark, Chief Executive Officer, and Dan Devine, Chief Financial Officer.

Before we begin, we'd like to remind you that some of the statements we make today may be considered forward-looking, including statements with respect to our expectations regarding accreditation, enrollments, student persistence, financial and related guidance, as well as commentary regarding enrollments, bad debt, and the performance of our business for the remainder of 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 risks that the results of 2012 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 report on Form 10-Q for the period ended March 31, 2013 to be filed with the SEC, 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's CEO, Andrew Clark.



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

Thank you, Paul. And welcome to Bridgepoint Education's first-quarter 2013 earnings call. After I discuss our operational results for the first quarter and our accreditation progress, our CFO Dan Devine will review our first-quarter results and key operating metrics. After Dan speaks, I will offer my closing comments.

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 institutions, 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 for acquisition of advanced technologies and new learning methods.

I want to start by reaffirming that our number one priority is for Ashford to maintain regional accreditation. Ashford continues to focus on the resolution of its notice status with the Higher Learning Commission of the University moves along the path toward WASC accreditation. This objective has inspired changes in Ashford's recruitment and admission process from student outreach, to the structure and function of the admissions team, to more stringent admission standards and increased resources dedicated to student success. The goal of these initiatives is to attract higher-quality students who are more likely to benefit from the educational programs we provide and who will persist and complete their educational programs at higher rates. In addition to these near-term goals, we have always been committed to a culture of continuous improvement in both of our academic institutions, and we are continuing to execute on a number of internal programs that are designed to ensure that Ashford and Rockies are considered best-in-class institutions.

Ashford's commitment to recruiting well-qualified students is continuing and has shown outcomes in line with expectations. For example, we are continuing to see that, of the students who enter Ashford's free two-week orientation program, approximately 28% do not enroll in their first course.

Also, the Ashford promise is continuing to show positive results. As you will recall, this initiative allows students a full refund for all tuition and fees through the third week of their first class. As we reported to you last quarter, this initiative is continuing to show consistent results by screening out 11% to 12% of students prior to their incurring any financial obligation.

We at Bridgepoint fully support Ashford's vision for the future. Ashford University continues to focus its policies and outcomes on a meaningful shift towards high-quality students who persist at higher rates. I want to stress that Ashford University continues a meaningful repositioning of the institution centered on increased student persistence and improved outcomes. An example of this transition can be seen in the commitment to instructional costs and student services versus admissions, advisory, and advertising expenses during the quarter.

It's important to emphasize that the institution has been in the midst of a historic transition for the past 10 months. This transition will not be complete until the end of 2013.

Additionally, the industry continues to encounter a challenging external environment and unfavorable economic trends. With that said, we continue to anticipate that the University will return to positive quarterly year-over-year new enrollment growth by year end, but we expect Ashford's total enrollment at year-end will be below the University's current student level.

Before I turn the call over to Dan, I'd like to provide you with an update on Ashford's accreditation progress. In April, a WASC visiting team conducted a site visit in support of Ashford's reapplication for initial accreditation. The visiting team will provide a draft report this month for Ashford's review and Ashford will have an opportunity to respond to any errors of fact at that time. A final report will be written by the visiting team which will be sent to Ashford as well as WASC. In addition, the visiting team will make a confidential recommendation to the Commission regarding Ashford's application. Ashford will have the opportunity to present to WASC in June and WASC expects to note notify Ashford of its decision in mid-July.



Now, I'll turn over the call to Dan.

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

Thank you, Andrew. Let me begin by providing some key operating figures for the quarter ended March 31, 2013. I should remind you that, 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 increased transparency into our 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 with the new presentation.

For the quarter, revenue decreased to \$222 million compared with \$250.4 million for the same period last year. As of March 31, 2013, total student enrollment was 78,782 compared with 94,863 in the same period last year. New enrollments for the period were 13,300 as compared to 24,275 the first quarter of 2012. The level of new student enrollments in the first quarter was consistent with our internal expectations resulting from our commitment to higher-quality student outcomes.

For the first quarter of 2013, instructional costs and services were \$107.3 million, or 48.3% of revenue, compared with \$82.5 million, or 32.9% of revenue, in the same period last year. The increase is due primarily to increased investment in personnel in the areas of academic advisory, financial aid support, and student services, as well as increases in bad debt, instructional support services, instructional related facilities, and IT expenses. Included in instructional costs and services for the third quarter of 2013 was bad debt expense of \$23.9 million, or 10.8% of revenue. During the quarter, the Company performed a review of its Accounts Receivable that resulted in an increase in bad debt expense for the quarter. We've incorporated the results of our analysis into our model. We're estimating bad debt expense in the future. We anticipate the bad debt expense will be more in line with historical levels in coming quarters.

Admissions, advisory, and marketing expenses for the first quarter of 2013 were \$57.5 million, or 25.9% of revenue, compared with \$90 million, or 36% of revenue, in the same period last year. The decrease is primarily due to decreased compensation resulting from fewer admissions personnel. Other factors contributing to the decrease are lower costs for advertising, facilities, and IT.

General and administrative expenses for the first quarter of 2013 were \$19.4 million, or 8.7% of revenue, compared with \$25.5 million or 10.2% of revenue for the same period last year. The decrease is primarily due to the \$10.8 million legal settlement which was expensed in the first quarter of the prior year. This decrease is partially offset by increased administrative compensation and staffing services.

Including in our three main expense categories for the first quarter of this year is approximately \$3.6 million related to stock-based compensation expense in the aggregate compared with \$2.5 million for the first quarter last year. For the first quarter of 2013, operating income decreased to \$37.8 million from \$52.4 million in the same period last year. Our effective tax rate for the quarter ended March 31, 2013 was 39.2% compared to 37.7% in the same period last year.

Net income for the first quarter of 2013 was \$23.5 million, or \$0.43 per diluted share, compared with net income of \$33 million or \$0.59 per diluted share for the same period last year. Fully diluted EPS was calculated based on a diluted share count of 55 million shares for the first quarter of 2013 compared with 56.2 million shares for the same period in 2012.

As of March 31, 2013, we had cash and total investments of \$524.9 million compared with \$514.7 million as of December 31, 2012. The Company generated \$15.6 million of cash from operations for the quarter ended March 31, 2013, compared with \$40.4 million for the same period in 2012.

Our Accounts Receivable net of allowance for doubtful accounts was \$71 million, which represents 29 days sales outstanding on a quarter-to-date basis compared with 33 days sales outstanding for the same period last year. Capital expenditures for the first quarter were \$3 million compared with \$7.2 million for the same period last year.

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

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

Thank you, Dan. Bridgepoint Education, through its institutions, continued to demonstrate a strong commitment to affordability, value, and quality.

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 investments in the form of increased earnings power. Third, consistently, our students have rated the quality of their education in our institutions as being equal to or greater than their experiences at previous institutions.

Ashford University continues to focus its policies and outcomes on a shift towards high-quality students that persist at higher rates. From new leadership of the institution, prioritization on educational resources, increased full-time faculty, a significantly reduced admissions team, increased student advisement, tightened admissions 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.

Bridgepoint fully supports Ashford's vision for the future. We also believe the governance model between Bridgepoint and Ashford responds in a best-of-class fashion with importance placed upon the independence on any institutions 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 for our institution students in their endeavors, we believe we are creating a successful and sustainable model for all stakeholders.

This concludes our presentation on today's call. 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.

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

You have made so many significant changes in your operations that I think it's hard for us on the outside modeling to try to understand some of the enrollment numbers. Can you speak -- I know you said that the performance was in line with your expectations, but can you try to break down for us how much of the decline in the starts you see is a function of your efforts to improve quality and be more selective in terms of which students are coming in and likely to be successful? And how much of it is a function of things that are going on in the market or perhaps even market share changes that you're seeing?

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

Sure, Trace. I think primarily there's two main components to the decline in the enrollments. First and foremost, it is the repositioning of the institution and the admissions policy around student selectivity and attracting a higher quality student that persists at longer rates. And I think that is in large part a driver, along with just the, as I said, the historical transition that the institution is going through and all that that means. You alluded to all of the operational changes that the institution has made. So I think those two things contribute the most, and I really believe that the external part is -- might be a flight factor but, you know, I guess I should emphasize that, you know, we continue to see demand for the value proposition of Ashford, but it's really Ashford's decision to be a higher -- more higher selective institution that has led to the enrollment declines.



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

You have redeployed a number of your admissions counselors into other roles and as a function of that I believe have fewer admissions folks. What is life like for them? Do they have a bigger number of people that they have to talk to, or has the number of leads that they're dealing with been reduced as well?

---

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

Well, you know, we have a student inquiry group that takes a look at prospective students and tries to ensure that those students meet the criteria before they are passed along to anybody in admissions at Ashford. So I think that helps from that perspective.

And then we repositioned the role of the university advisors so they're not only just enrolling a student in their first course trades but they're working with that student through the first four courses. So they're not only focused on assisting new prospective students but then also on helping students that they've enrolled continue to persist in the first four courses which, as you know from previous conversations we've had, you know those are the most of the most meaningful period time in terms of whether a student is able to persist eventually onto their degree or not, they're likely to drop within those first four courses.

---

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

Okay. And then a last question, I wanted to ask Dan if he could maybe elaborate a little bit on the comments regarding the bad debt analysis. Can you speak to what exactly you identified that caused the spike this quarter and then why we should expect the number to sort of revert back to historical norms going forward?

---

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

Sure. Well, we did -- we've been looking at this issue for a little bit now. We did a deeper analysis. The issue that kind of caused the spike so to speak is that, in our underlying data we use to build our models, those models that certain credits applied to them from when a student would leave the institution or receive a credit for another reason. That created one version of kind of our aging buckets, and then we made the decision that it may be more appropriate if we kind of suppressed those credits and that created another view of the aging buckets which we feel is more appropriate. So that's kind of the situation. There's no underlying items behind that. We think, going forward, we're going to adopt this new methodology for modeling this, and it should be more in-line going forward.

---

**Operator**

Jarrel Price, Height Analytics.

---

**Jarrel Price** - Height Analytics - Analyst

Thank you for taking my question. Just a quick focus on military enrollments. I was wondering if you experienced any disruption in TA enrollments during the four to five week program suspension. And did you see any surge in TA enrollments when the program was restored in mid-April?

---

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

Yes, sure Joe. That's a good question. We definitely did see some disruption in the military enrollments from the disruption in TA. And you know, it was then reinstated but it took a little while for it to be reinstated; it didn't happen quickly. And so if you look at the persistence number that you calculate, there's some -- some of that decline in persistence is really around the disruption that occurred in military and TA. That seems to -- now



that the benefits are being restored, we seem to see students coming back and re-engaging into their courses. But that takes a little bit of time for that develop.

---

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

But the students, during the suspension, the students that you lost, did you see them come back in higher numbers after it was reinstated in April or are those students kind of forever lost?

---

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

No, not forever lost by any stretch. I think many decided to, because of the flexibility of the way Ashford schedules, many were able to take breaks and kind of wait for things to settle out in terms of their benefits, so they were still actively scheduled but not enrolled. So, we were able to call those folks up and say now that your benefits have been restored, we can actually schedule the course and get you back from break. We haven't seen any material number of students that took a break and for some reason didn't come back. That just doesn't happen.

---

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

Great, and then one final one in this vein. Are you modeling the same kind of TA reimbursement rates or payments, rather, through the end of the year, or are you anticipating any change to the program?

---

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

Right now, we're just modeling the same approach through the end of the year. We're not anticipating any change.

---

**Operator**

Corey Greendale, First Analysis.

---

**David Warner** - *First Analysis Securities - Analyst*

This is actually David Warner for Corey. Based on our calculations, the revenue per student number was up, revenue per student figure was up considerably year-over-year. Could you maybe speak to what were some of the factors that were driving that, whether they were price increases or changes to fees or --?

---

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

Sure. This is Dan. I don't know if it was up significantly, based on the way we do it. The way I do it, I had us up about 3%, which is consistent with our price increase last April offset partially by lower tech fee in the quarter. So I would say it's consistent with what we thought, that it should increase. I don't know what number -- what number did you come up with for percentages?

---

**David Warner** - *First Analysis Securities - Analyst*

A bit higher than that.



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

Yes, well, we use -- I'll tell you how I do it. I take the beginning and ending enrollment, split it and divide it by the revenue. And that's about 3.5% based over Q1 2012.

---

**David Warner** - *First Analysis Securities - Analyst*

Okay. And I guess, on a similar vein, what are your expectations for scholarships going forward? They've sort of trended at about 10% growth year-over-year now that enrollment is starting to stabilize or flatten. What are your expectations as far as availability of scholarships?

---

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

The largest scholarship that is in our number is the military discount, so I would say you would see that number maybe increase a little bit if the enrollment declines. The military enrollment does not decline at the same rate as total enrollment, so your scholarshiping percentage would be a little bit higher. But there's no new scholarships on the horizon that we plan on providing that would materially change the number besides that.

---

**David Warner** - *First Analysis Securities - Analyst*

All right. I'll turn it over. Thanks.

---

**Operator**

Gary Bisbee, Barclays.

---

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

Hi guys, good morning. I guess looking at the expense line, G&A, if you backed out that charge a year ago, was actually up quite a bit year-over-year and in dollar terms up quite a bit from all four quarters of last year. Were there any one-time issues in here or one-time expenses as part of all of the restructuring you're doing, or is this a run rate we might think of moving forward?

---

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

In the first quarter of 2013, there were no significant one-time items in G&A expense. We've made a significant amount of investment in our compliance efforts. We have ongoing legal expenses that are not declining, and we've increased our internal legal and regulatory staff. So that really would be the component of the increase in G&A.

---

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

Okay. And then on the admissions advisory and marketing, that line looks like it should probably fall considerably until you lap the headcount cuts. Outside of that, are you -- have you reduced marketing spend or is that flattish or are there other moving parts there, or is that pretty much all just the headcount?

---

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

Well, no, we reduced the corresponding investment and marketing to the headcount not percent to percent, but we reduced our external marketing purchases because we have fewer admissions representatives. So there's two components to that line. Both of them are moving downward.

---

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

Okay, all right. That's helpful. And then just lastly, on capital spending, do you have any sense where it would likely be in the year? It was lower this quarter. Is that just timing, or are you pulling back some versus the prior plan? Thank you.

---

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

Some of that is timing. Most of our capital expenditures are in the second and third quarter, which corresponds to kind of the break at the campus. It is down; I don't think our -- it's not going to be down for the year the same percentage as it was down in the quarter, but it will probably be lower this year than it was last year, yes.

---

**Operator**

Jeff Silber, BMO Capital Markets.

---

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

Thank you so much. I wanted to go back to Trace's question. You had mentioned the more stringent admission standards the Company has been employing. Can you just remind us when you did that? I know you talk about the two-week orientation program and the Ashford promise program. If you could tell us when those were instated and if there is anything else that I'm missing. Thanks.

---

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

Yes, sure Jeff. Most of the newer admission standards were put into place kind of the late third quarter, early fourth quarter of last year, especially the orientation program as well as the Ashford Promise was kind of late Q3 and certainly impacted the entire fourth quarter as well as the first quarter.

And then you'll recall that there's a lot of other admission standards, including having achieved perfect attendance in the first quarter, increasing the age requirement. I think if you kind of stack up the standards that we've put in place from an admission standpoint, it's pretty significant compared to Ashford's peer group or competitors. So -- no, go ahead.

---

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

So I guess my question is if these programs for the most part were instated for the full fourth quarter, I guess we were a little bit surprised at the steep decline Q4 versus Q1. I know down 31% was pretty bad, but down 45% is even worse. Is there anything that really explains it?

---

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

Yes. I think, again, that goes to the second part of my answer to Trace's question, which is if you have institution that is going through a tremendous amount of transition and repositioning and with all of the operational changes that have been made and just to focus the division of attracting and retaining a much higher qualified student, that takes a while for an institution to kind of adapt through all of those changes and transition through them.

And as I said in my comments, my expectation is it will take the entire year this year for the institution to kind of move through that. So we weren't surprised internally by new enrollments in the first quarter and what they ended up being at, but -- so that should give you some comfort on your end. But we think they're totally in line with the significant transition that the institution is going through.



---

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

So, I know you didn't give specific guidance by quarter, but you know, I'm looking at the current quarter. Should we expect that kind of steep decline again this quarter?

---

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

Yes. I can't really answer your question even though I want to because of the fact that we don't give guidance. I mean I think, directionally, what I've indicated is that we -- I indicated it last quarter as well as this quarter -- is that we still have the view new enrollments will turn positive in the fourth quarter of the year.

---

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

Okay, that's fair. And then just following up I think it was from Gary's question about the run rates on expenses. If I look at your three major expense line items and I remove the bad debt issue, should we expect that kind of run rate going forward?

---

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

Yes, you should.

---

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

And on bad debt, when you say it should be more normal going forward, does that include the current quarter?

---

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

You mean, does that include the current quarter -- I mean the second quarter?

---

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

Second quarter, correct.

---

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

I think it's going to work its way back down over several quarters is effectively right.

---

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

All right, great. And then just one quick numbers question. Tax rate for the year which you will be using?

---

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

You could use the current rate. I believe the 39.2% -- I'd say, yes, I think 39.5% is probably fine.

---



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

Okay great. Thank you so much.

---

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

Yes, thanks Jeff.

---

**Operator**

Jeff Volshteyn, J.P. Morgan.

---

**Jeff Volshteyn** - *JPMorgan - Analyst*

Good morning and thank you for taking my question. You mentioned new enrollments came in about as expected. What about student retention and some persistence, at least the way we calculate it? And how did that fare against your internal estimate?

---

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

Yes, sure, Jeff. It's great question. It was -- student persistence was down a little bit more than what we expected internally, but that was due to the tuition assistance disruption for the military primarily. There is a little bit of, as you know, noise quarter to quarter that impacts your view of persistence externally. Our overall view that persistence directionally should be positive, especially in the back half of the year, with all of the new admissions standards and criteria that Ashford has put in place.

---

**Jeff Volshteyn** - *JPMorgan - Analyst*

That's helpful. When I look at the reclassified expenses the way we see them now and this quarter being somewhat transitional as far as buckets of expenses, how should we think about seasonality of expenses, gross (inaudible) expense line items for the remainder of the year?

---

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

I would save my only seasonality comment would be that you saw last -- 2012 in the third quarter, you saw seasonality related to branding in the third quarter. I think you'll see some of that again this year. The rest of the expenses should not have significant seasonality in them.

---

**Jeff Volshteyn** - *JPMorgan - Analyst*

Okay great. Thank you very much.

---

**Operator**

Paul Ginocchio, Deutsche Bank.

---

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

Thanks. I guess if you took out the TA, what would have persistence looked like in the first quarter? And is there anything we can see publicly that would sort of highlight the improvements to quality of the students so far that we can sort of pick up on, or is that still yet to come? Thanks.



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

Yes, Paul, I mean we don't give the exact percentage numbers out, but it would have been slightly lower and not materially lower. In other words, we see that -- those fluctuations occur from quarter to quarter. And what's important more is the overall trend. You know, I think, publicly, we've indicated that the initiatives -- the admissions criteria that we've put in place has led to better persisting students in their second and third courses or their fourth course and beyond. And you know that's why I make the comments I do about whether it's better persistence towards the back half of the year. I think that's when, publicly, you'll be able to really see the outcomes that are derived from those new admissions criteria.

---

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

And based on what you're seeing, what would that do to the overall level of persistence, how we calculate it over the longer-term?

---

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

Well, it will increase your overall level of persistence. I mean, I can't tell you by how much, but it will increase it. I can tell you, on a cohort basis internally, our view is that the cohort persistence rate should increase at a fairly healthy rate on a year-over-year basis.

---

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

Okay.

---

**Operator**

Peter Appert, Piper Jaffray.

---

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Yes, you've got John Crowther on for Peter. Just going back real quickly to the starts issue, as you pointed out, you're going through a tremendous period of transition. And I'm just wondering if there's something underneath the numbers that gives you confidence that you can growth starting in the back half of -- or in Q4 of this year beyond just anniversary of those -- implementing those initiatives in fiscal 2012.

---

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

Sure, John. That's a great question. Yes, I mean underlying what you are seeing externally, we continue to see strong demand for the value proposition that Ashford University offers prospective students. And our negative new enrollment declines here are completely driven based upon a choice and decisions that leadership at Ashford made around increased selectivity of students. So, that gives us confidence as we kind of look towards the end of the year and into 2014 that there will be continued demand for a value proposition. And once the institution has moved through the repositioning of the institution, the transitional components of it as well as the new admissions criteria, that the institution will be in a very modestly positive new enrollment growth position going forward.

---

**Operator**

Tim Connor, William Blair.

---



**Tim Connor** - *William Blair & Co. - Analyst*

I saw that you had your commencement in Clinton. How many students participated in person? And then how many students across Ashford do you expect to graduate this year?

---

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

You know what, Tim, I don't have those numbers in front of me in terms of the number of students that participated in commencement this weekend. We don't usually give out the number for the entire year. We do generally report it in our fourth-quarter earnings call how many students graduated. I can tell you just at a very high level though that the commencement ceremony was standing room only. So it was that capacity, it was the best part of what Ashford got was a great weekend.

---

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Okay. Do you expect situations to be up this year though?

---

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

Yes, I think they'll be up slightly compared to previous years. Yes.

---

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Okay, thanks. Then a follow-up, this one is probably for Dan on average revenue per student. I think you mentioned the way you calculate it on average enrollments. It looks like the trend from the fourth quarter to the first quarter got about 300 basis points better if not a little bit more. And then with the tech fee going away, I would've assumed that would be a little bit of a headwind. So how can you explain the average revenue per student trying getting better in the first quarter? Is there something --?

---

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

Sequentially, you get better because you have a short quarter in the fourth quarter. So sequentially you get better that way. If you look at our revenue in the fourth quarter, it's traditionally lower, and that's because we have an annual break that is incorporated in the fourth quarter.

---

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Okay. And then at what point will the tech fees start to sort of feed into that average revenue per student and become a little bit more of a headwind? Is that occurring right now?

---

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

I think it would be if you're counting headwind. I think the biggest headwind you'll probably see would be in this quarter and then it should be less of a headwind, but it will still be a drag for the next five quarters or the five -- basically 2013 and the beginning of 2014.

---

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Got it. Okay. Thanks a lot.

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

It will drag. Each quarter gets better and better and better back to where -- back to a higher number.

**John Crowther** - *Piper Jaffray & Co. - Analyst*

Right, thank you.

**Operator**

With no further questions in the phone queue, I would like to turn the call back over to Andrew Clark for any additional or closing remarks.

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

Yes, I just want to thank everybody for joining our call today and for your interest in Bridgepoint Education. Thank you, operator.

**Operator**

And this does conclude today's conference. We thank you for your participation.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2013, Thomson Reuters. All Rights Reserved.