

Alliance For Economic Stability, Inc.
747 Third Avenue, 25th Floor
New York, New York 10017

May 4, 2010

Arne Duncan, Secretary
U.S. Department of Education
LBJ Education Building
400 Maryland Avenue, SW
Room # 7W311
Washington, DC 20202

Dear Secretary Duncan:

We believe that Bridgepoint Education, Inc. is operating counter to the intent and explicit provisions of current U.S. law covering post-secondary educational institutions receiving funds as part of Title IV of the Higher Education Act of 1965, as reauthorized (the "HEA").

As you may be aware, Bridgepoint owns Ashford University and the University of the Rockies, though it is Bridgepoint's administration of Ashford University that is of particular concern. In 2004, Bridgepoint was started by a Wall Street private equity fund in partnership with former executives from Apollo Group, Inc. In 2005, Bridgepoint acquired the Franciscan University of the Prairies, a religious-affiliated institution with approximately 300 students, with revenues estimated to be less than \$10 million. Bridgepoint renamed the institution Ashford University, and drove enrollment through Ashford's online program to a reported 65,788 students as of March 31, 2010, with revenues of \$526 million in the last twelve months.

This growth has come not from educational performance but from an incentivized sales force of over 1,400 salespersons equal to one for every 44 students, and growing. Astonishingly, the vast majority of this sales personnel growth occurred while the Office of Inspector General ("OIG") of the Department of Education ("DOE") was supposedly working to remediate Bridgepoint's use of taxpayers' funds to pay sales personnel in violation of DOE regulations.

See Table 1, which shows the growth in Bridgepoint's student enrollment, and Table 2, which shows the growth in Bridgepoint's revenues.

Our foremost concern about Bridgepoint is that the company is directly violating DOE regulations surrounding "Safe Harbors" for incentive compensation payments to employees. Bridgepoint employees who enroll students are compensated solely and exclusively for their sales work.

Bridgepoint's business relies upon paying its massive sales force for enrolling individuals who have little to no ability to evaluate their alternatives or the cost and benefit of a Bridgepoint education.

Bridgepoint sets its tuition fees to be significantly lower than other large, publicly-traded companies operating for-profit online universities. The tuition fees of Argosy University, the University of Phoenix,

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and DeVry University are 37% to 55% higher than those of Bridgepoint's Ashford University. See Table 3.

Even with significantly lower tuition fees, Bridgepoint consistently spends more tuition revenue on marketing than on actual instruction. See Table 2. Bridgepoint spent more than \$44 million on marketing and promotions in the quarter ended March 31, 2010. This was nearly triple the amount that Bridgepoint spent for the same period of 2008. This increase was during the time of the compliance audit of Ashford University conducted by OIG.


Bridgepoint also devotes a far lower portion of its tuition revenue to providing instruction than similar companies. See Table 3. Bridgepoint devotes a far, far lower portion of tuition fees to instruction than more traditional and reputable not-for-profit educational institutions.

While other companies operating for-profit, online universities have been able to obtain deferential treatment from the DOE, we believe that Bridgepoint's abuse of regulations surrounding Title IV funding and of the intent of the HEA is far more egregious than even any of its for-profit counterparts. Bridgepoint evidences aggressive enrollment tactics, illegal incentive compensation, and an incredibly low portion of tuition devoted to instruction. Even in an industry built on abuses of a government program, Bridgepoint's irregularities stand out.

The DOE has the authority not only to pursue typical sanctions, but to conduct a more broad-based review of abuse by Bridgepoint of DOE regulations and of the intent of the HEA and to issue sanctions more much more severe than the sanctions the DOE has typically imposed upon for-profit, online education providers. The DOE's past sanctions of for-profit education providers have failed to remediate harm and have had the contrary effect of providing incentive to engage in the abuses discussed above.

On a personal note, for over a decade, I have been an adjunct professor of business at various community and four-year colleges, and I know firsthand the effects that a lack of financial aid has on students' ability to obtain a college degree within a reasonable amount of time. Many students find themselves working full-time or part-time jobs just to fund a portion of their higher education. The enrichment of these private enterprises at the expense of American students who are this country's future is deplorable.

Sincerely,


Daniel Rodriguez
Director

cc: Peter Cunningham, Assistant Secretary
Office of Communications and Outreach

Robert Shireman, Deputy Undersecretary
Office of the Under Secretary

Kathleen S. Tighe, Inspector General
Office of the Inspector General

David J. Aspling, Assistant Special Agent in Charge
Office of the Inspector General

David Bergeron, Director of Policy,
Planning and Innovation
Office of Postsecondary Education

Howard Sorensen, General Counsel
Office of Inspector General

Enclosures

Bridgepoint Education, Inc. (BPI)

Table 1

Analysis of Change in Student Population and Marketing and Promotional Co

	<u>2010</u>		<u>2009</u>		<u>2008</u>				<u>2007</u>				
	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u> ³	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u> ⁴	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>
Beginning of Period Student Population	53,688	54,894	45,504	42,025	31,558	30,547	22,607	19,509	12,623	12,716	8,666	6,856	4,471
Plus: New Students ¹	<u>24,300</u>	<u>10,600</u>	<u>19,500</u>	<u>14,600</u>	<u>16,800</u>	<u>7,100</u>	<u>12,600</u>	<u>8,100</u>	<u>8,800</u>	n/a	n/a	n/a	n/a
Total Number of Available Students	77,988	65,494	65,004	56,625	48,358	37,647	35,207	27,609	21,423				
Less: End of Period Student Population	<u>65,788</u>	<u>53,688</u>	<u>54,894</u>	<u>45,504</u>	<u>42,025</u>	<u>31,558</u>	<u>30,547</u>	<u>22,607</u>	<u>19,509</u>	12,623	12,716	8,666	6,856
Calculated Drops and Graduates:	<u>12,200</u>	<u>11,806</u>	<u>10,110</u>	<u>11,121</u>	<u>6,333</u>	<u>6,089</u>	<u>4,660</u>	<u>5,002</u>	<u>1,914</u>				
Drops and Graduates - % of Beginning Population	23%	22%	22%	26%	20%	20%	21%	26%	15%				
Average Student Population (ASP) During Period ²	59,738	54,291	50,199	43,765	36,792	31,053	26,577	21,058	16,066	12,670	10,691	7,761	5,664
ASP Growth During Period	10%	8%	15%	19%	18%	17%	26%	31%	27%	19%	38%	37%	n/a
Net Increase (Decrease) in No. of Students	12,100	(1,206)	9,390	3,479	10,467	1,011	7,940	3,098	6,886	(93)	4,050	1,810	2,385
Analysis of Marketing and Promotional Expense:													
Per New Students	1,819	3,821	1,872	2,719	1,732	3,732	1,675	2,272	1,716	n/a	n/a	n/a	n/a
Per Net Increase in No. of Students	3,654	n/m	3,887	11,411	2,780	26,212	2,657	5,939	2,193	n/m	2,395	4,751	2,642

(1) Disclosed in Bridge Point's quarterly earnings releases.

(2): Average Student Population defined as the arithmetic mean of disclosed total student population at beginning and end of period.

(3): BPI's IPO was completed on April 20, 2009.

(4): The U.S. Department of Education's Office of Inspector General began a compliance audit of BPI's Ashford University in May 2008, covering the period from March 10, 2005 to June 30, 2009.

Bridgepoint Education, Inc. (BPI)
Table 2
Revenue, Instructional Cost, and Marketing Expense

(In Millions)	<u>2010</u>		<u>2009</u>			<u>2008</u>			<u>2007</u>				
	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>	<u>31-Dec</u>	<u>30-Sep</u>	<u>30-Jun</u>	<u>31-Mar</u>
Revenue	156.1	131.8	127.4	110.9	84.3	69.1	60.3	49.9	38.9	31.2	24.2	16.6	13.7
Instructional Costs and Services ¹	39.4	36.5	33.1	28.4	22.1	20.7	16.4	12.7	12.9	10.7	7.8	6.1	5.3
Bad Debt Expense (included in Instructional Costs)	7.9	7.3	6.8	4.6	4.5	4.6	3.5	0.8	3	n/d	n/d	n/d	n/d
Adjusted Instructional Costs ²	31.5	29.2	26.3	23.8	17.6	16.1	12.9	11.9	9.9	n/a	n/a	n/a	n/a
Marketing and Promotional Expense	44.2	40.5	36.5	39.7	29.1	26.5	21.1	18.4	15.1	11.5	9.7	8.6	6.3
<u>Per Average Student Population (ASP)³</u>													
Revenue / ASP ⁴	2,613	2,428	2,538	2,534	2,291	2,226	2,268	2,372	2,424	2,463	2,264	2,139	2,419
Instructional Cost / ASP	660	672	660	648	602	669	616	605	806	845	730	786	936
Gross Profit / ASP During Period ⁵	1,954	1,755	1,878	1,886	1,689	1,557	1,652	1,767	1,618	1,616	1,538	1,352	1,495
Marketing and Promotional Expense / ASP	740	746	727	906	791	855	792	872	938	908	907	1,108	1,112
<u>As % of Revenue:</u>													
Instructional Cost as % of Revenue	25.2%	27.7%	26.0%	25.6%	26.2%	30.0%	27.2%	25.5%	33.2%	34.3%	32.2%	36.7%	38.7%
Adjusted Instructional Cost as % of Revenue ²	20.2%	22.2%	20.6%	21.5%	20.9%	23.3%	21.4%	23.8%	25.4%	n/a	n/a	n/a	n/a
Marketing and Promotional Expense as % of Revenue	28.3%	30.7%	28.6%	35.8%	34.5%	38.4%	35.0%	36.9%	38.8%	36.9%	40.1%	51.8%	46.0%

(1): Instructional Cost and Services includes bad debt expense.

(2): Adjusted Instructional Cost defined as instructional cost less bad-debt expense.

(3): Average Student Population defined as the mean of disclosed total student population at beginning and end of period.

(4): Revenue divided by Average Student Population (ASP), i.e. revenue per student.

(5) Gross Profit equals revenues less Instructional Cost without any adjustments to remove bad debt expenses that Bridgepoint includes in Instructional Cost.

Updated 5/3/10

Bridgepoint Education, Inc. (BPI)

Table 3

Tuition Fees Per Undergraduate Credit Hour for BPI's Ashford University and Comparables

<u>University (ticker)</u>	<u>Tuition Fee</u>	<u>% above (below) Ashford</u>
Ashford University (BPI)	372	--
DeVry University (DV)	575	55%
University of Phoenix (APOL)	530	42%
American InterContinental University (CECO)	390	5%
Strayer University (STRA) ²	353	-5%
Argosy University (EDMC)	510	37%
Average Tuition	455	22%

1: The American InterContinental University tuition fee listed is for non-degree students taking undergraduate level classes.

2: Strayer charges \$1,590 per course for undergraduate part-time students; all courses are 4.5 credit hours.

* CPLA and APEI are not included, as Capella has a complicated fee structure, varying by undergraduate course level, and APEI caters more to the military community than Title IV recipients.