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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Apollo Group, Incorporated fourth quarter and year-end 2008 earnings conference call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. (OPERATOR INSTRUCTIONS). This conference call is being recorded today, October 28th, 2008, and may not be reproduced in whole or in part without permission from the Company. There will be a replay of this call available through November 7th, 2008, beginning approximately two hours after we conclude today. The replay number is 1-800-642-1687, or 706-645-9291 for internationally. The conference ID for the replay is 63579735.

Additionally, this call will be broadcast over the internet and can be accessed via the Company's website at www.apollogrp.edu. I would now like to turn the call over to Allyson Pooley, Vice President, Investor Relations of Apollo Group. Ms. Pooley, go ahead, please.

Allyson Pooley - Apollo Group - VP-IR

Thank you. Good afternoon, and thank you for joining us today. Speaking on today's call are Dr. John Sperling, Executive Chairman; Chas Edelstein, Chief Executive Officer; Joe D'Amico, President, CFO and Treasurer, and Greg Cappelli, Executive Vice President, Global Strategy, and Assistant to the Chairmen. Additionally Brian Swartz, our Senior Vice President, Finance, and Chief Accounting Officer will be available during the question and answer period. During the Q&A period, we ask that you be respectful of everyone's time and limit your questions. We expect to take the time necessary to answer all of your questions. Before I begin, I would like to remind you that the detailed financial data and a reconciliation of GAAP to non-GAAP measures are included in our press release, which was issued today and is available on our website.

Additionally, as we discuss our results, note that unless otherwise stated, we will be comparing the fourth quarter of fiscal 2008 to the fourth quarter of fiscal 2007. I would also like to remind you that this conference call may contain forward-looking statements with respect to the future performance and financial condition of Apollo Group that involves risks and uncertainties. Various factors could cause actual results of the Company to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in Item 1A and elsewhere in the Company's 10-K report and in subsequent 10-Q reports filed with the Securities and Exchange Commission. The Company does not undertake any obligation to update anyone with regard to the forward-looking statements made during this conference call. And with that, I'll turn the call over to John.

Dr. John Sperling - Apollo Group - Acting Executive Chairman of the Board

Thank you for joining us today to discuss our fourth quarter and fiscal 2008 results. 2008 was a transformative and record year for us, and the year also brought changes in our organizational leadership, plus a series of strategic investments that we believe will generate incremental shareholder value over time. On the leadership front, we recently announced that Charles Edelstein had accepted the position as Apollo's CEO, a position that has been vacant for a period of time. I have known and worked with Chas for almost 10 years; and in that time I have been impressed with his sharp intellect, knowledge of and keen insight into the education industry. Chas has proven his strong record of leadership skill, and we believe his ability to bring people and ideas together to work toward a common vision will benefit Apollo as it continues to grow. Already Chas has integrated himself into the organization, and has been working closely with management team. Thus, I would like to again, welcome Chas to Apollo; and with that, I'll turn the call over to him.

Charles B. Edelstein - Apollo Group - CEO

Thank you, John. I'm honored to be in the role of CEO of this exceptional Company, and applaud you for all you've done for Apollo -- and in fact, the entire industry over the years. I'm excited to work with you and the team to further capitalize on the opportunities that lie ahead. We're very pleased that our 2008 results have generated meaningful operating income growth for the first time in three years. Leading this was strong revenue growth, significant new degreeed enrollment growth, and improved persistence. Before we review these results, I would like to say a few words about why I joined Apollo and what you can expect from me in my new role as CEO. In the two months that I have been here, I have confirmed by prior belief that this is a Company full of talented individuals, and they share my passion for education. Over the last couple of years, the Company has made many important investments and embarked on a solid strategy to optimize all aspects of the organization, and I plan to continue along this path. I believe there are significant opportunities ahead to grow our domestic business, as well as expand

internationally, and our senior management team is like-minded with regard to our approach. You'll hear all of us talk about focus on the student, academic quality, and a disciplined return on capital approach to decision making.

Further, you can expect me to be focused on leading our management team based upon shared mission and share values of this Company. At the core of our decision-making process are four primary values. First, integrity and social responsibility, which center around acting with the highest ethical standards. Second, changing lives through education, which speaks to our core mission to provide access to high-quality education to as many people as possible. Third, creating long-term value. This will be done with a disciplined focus on return on capital in the knowledge that in order for our shareholders to enjoy attractive returns, our students must realize an attractive value proposition. And fourth, becoming the job of choice. This refers to our goal of maintaining a positive workplace for our employees, which includes having policies centered on fairness and respect. It also refers to having a comprehensive training program to attract and develop our future managers. We believe if our employees are treated well, this will carry over in to their interaction with our students. I believe that the culture of this Company is very compatible with these four values, which is important, and I believe the foundation for our future success.

Going forward, you can expect to hear from me, from Greg Cappelli, who I've worked closely with in the past, Joe D'Amico, and others, as we work together as a team to update you on our business. This format is reflective of our partnership and my approach to managing the business. I would like now to turn the call over to Joe, our President and CFO, to provide a review of our operations and financial results. Joe took on the role of President in June, and has done a tremendous job. As a result, he is taking on this role permanently, and I would like to congratulate him on this recognition. After Joe finishes, Greg will update you on our investments and give you insight as to how we're thinking about 2009. So with that, I'll turn it over to Joe.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Thanks, Chas. I would also like to welcome Chas. I have known Chas for a couple of years now, and I look forward to working with him as we continue to grow the business at Apollo. I plan today to discuss our financial results, and weave into that discussion some of the operational initiatives that are driving those results, with an emphasis on the value drivers of our business. First, I'll discuss our revenue growth, driven by new enrollments, total enrollments, retention and pricing. Next, I'll review our operating results, and their impact on our margins and cash flow. And third, I'll touch on our cohort default rates, the current student loan environment and regulatory matters. Regarding revenues, for the fourth quarter we reported consolidated net revenues of \$831 million, a 16.5% increase.

The primary contributor to this growth was our 15.4% total enrollment growth, which was driven by very strong new enrollment growth of 19.1%, and continued improvement in student retention. This is the second quarter in a row that we have seen an acceleration of our new enrollment growth, which we believe is the result of a number of factors, including better quality leads as we gain more visibility into the advertising channels that produce the best converting and persisting leads. Two, improvements in our internal lead management systems, including enhancements to our website content, that is yielding a greater number of higher converting leads. And while difficult to convert -- to confirm, we believe we may be benefiting to some degree from the current state of the economy. We are particularly pleased with the increase in new bachelor enrollments, which grew 14.3% during the fourth quarter. This is the result of new traditional University of Phoenix bachelor students, as well as students matriculating from our Associate's degree program to our Bachelor's program. Part of the increase versus last quarter is due to a seasonal trend in our fourth quarter, with August being a traditionally larger start period. We are very pleased with these results; and while we believe new enrollment growth will continue to be strong, we do not expect to maintain this level of new enrollment growth over the long term.

On the topic of retaining students, during the fourth quarter, we again saw improvement and persistence at each degree level. In fact, our persistence rate improved 240 basis points versus a year ago to 80.8%. Similarly to a year ago, there was some seasonality in persistence during our fourth quarter as many students take breaks during the summer months. Academic quality is key to the success of our business and is the foundation on which we are able to achieve the results I just discussed. Going forward, you have can expect to see emphasizing our quality on our marketing and on our website to a greater degree. We are proud of the quality of our academics, and we believe it is this quality that enables us to create long-term value to our stake holders. With respect to pricing, we implemented selective price increases effective July 1st. As expected, we did not realize much impact on revenue from these increases during the fourth quarter, as many students prepay for classes at the old rates in anticipation of increases. A year ago, we raised tuition prices for our Associate's programs in early May, so the timing of tuition rate increase comparisons isn't completely apples to apples.

We expect to see a positive impact from the price increases beginning in the first quarter and continuing throughout the year. Reported net income for the fourth quarter was \$230 million, resulting in earnings per share of \$1.43. During the quarter, the 9th Circuit Court vacated it earlier judgment associated with the Securities Class Action lawsuit in favor of Apollo, and as a result we reversed the \$170 million charge -- in

charges previously recorded. Also included in net income is a \$9.5 million gain as a result of a third-party termination -- as a result of a third-party terminating their option to purchase our headquarters building in Phoenix. Excluding these items, as well as special items of \$6.4 million a year ago, net income increased 12.5% to 120.5 million, and earnings per share increased 21% to \$0.75. The incremental gain in EPS is due to higher net income and fewer shares outstanding as a result of our share repurchase activity over the past 12 months. We want to note that approximately \$0.04 of EPS in the fourth quarter of 2008 was due to lower share-based compensation, primarily as a result of the departure of our prior President in June of 2008.

Excluding the reversal of the \$170 million in charges and special items a year ago, our operating margin increased 180 basis points to 23.8% from 22% in the year-ago quarter. This increase was driven by a 220 basis point improvement in instructional costs and services, and a 200 basis point improvement in general administrative expenses, partially offset by a 250 basis point increase in selling and promotion. Let's look at the primary reasons for these changes. As a percentage of revenue, ICS declined 220 basis points to 43.6%, a significant improvement. This -- the improvement was primarily driven by lower bad debt expense. On a comparable basis, which reflects an adjustment to the 2007 amount to account for the bad debt reclassification that I have discussed on previous calls and as detailed in our SEC filing, bad debt expense as a percent of revenue declined 140 basis points to 3% from 4.4% a year ago. The lower amount of bad debt is due to our continued focus on student retention, which has been steadily improving, as well as our focus on collections. Selling and promotional expenses as a percent of revenue increased 250 basis points to 26.8%.

The increase is due to an increase in enrollment counselors' compensation, higher levels of advertising and other costs associated with our strategic marketing efforts, including Aptimus, all of which contributed to the 19.1% new degree enrollment growth that I mentioned earlier. Enrollment counselors' compensation and related expenses accounted for 40 of the 250 basis point increase. This increase relates primarily to the increased hiring we did during the first half of 2008. Although we continue to selectively hire enrollment counselors, we are focusing our efforts on providing further support to our existing enrollment counselors to enable them to be more successful in converting leads to new students. As a percentage of revenue, advertising costs increased 80 basis points, primarily due to an increase in internet-based advertising. The remaining increase in selling and promotional expenses is primarily related to our acquisition of Aptimus and other strategic marketing efforts we have placed, including those for Apollo Global and Insight Schools. Our overall marketing costs on an absolute dollar basis as a percentage of revenue and relative to starts continue to be higher than we would like.

However, our marketing team continues to make progress in a number of areas, and we believe over time will help bring down our cost, and give us more control over our brand. We measure this progress in several ways. Most importantly, we monitor -- we closely monitor and evaluate which lead sources generate the lowest cost per new student. Our approach to marketing has become much more sophisticated since we brought it back in house earlier this year. Now G&A. As a percentage of revenue, G&A, excluding special items of a year ago, declined 200 basis points to 5.8% of revenue in the fourth quarter. As I indicated earlier, this reflects lower share-based compensation expense associated with our prior President's departure, which is the majority of the variance from a year ago. Additionally, we experienced lower employee compensation a result -- as compared to the third quarter, due in part to lower bonus expense, which is also due to this departure.

For fiscal 2009, we currently expect share-based compensation expense to be approximately 75 to \$80 million. This amount fluctuates by quarter due to the timing of equity-award grants and the required accelerated expense recognition for certain awards. With respect to income taxes, we expect our 2009 full-year tax rate to be between 39.3% and 40%. Now let's turn to highlights on the balance sheet and our cash flow statement. Cash and marketable securities, excluding restricted cash, totaled approximately \$511 million versus \$393 million a year ago. We generated approximately \$158 million of cash flow from operations during the fourth quarter, bringing the total for the fiscal year to \$726 million. The quarterly amount was offset by \$25 million of CapEx, and \$23 million for the Apollo Global purchase of a majority stake in a ULA. Consistent with past quarters, our total allowance for (inaudible) accounts continues to exceed all receivables greater than 90 days old. Excluding approximately \$30 million in receivables in our Apollo Global operations and the associated revenue, our DSO in the fourth quarter declined 29 days -- declined to 29 days from 38 days. This is primarily due to improvements in our processing time for the receipt of student financial aid and the write-off of approximately \$32 million previously received on collectible accounts receivable during the quarter.

Next, let me address cohort default rates. The cohort default rate, or CDR is measured -- is a measurement used by the Department of Education to track the percentage of students who defaulted on their Stafford loans -- Stafford student loans -- within a specific time frame. Last month the DOE released the 2006 CDR; and while the University of Phoenix rate declined slightly from 7.3% to 7.2%, Western International University's rate increased from 11.4% to 27.4%. The WIU rate increased primarily due to the start in the Fall of 2004 of our then new Associate's program at WIU, which in April of 2006 was transitioned to the University of Phoenix due to its broader capabilities to manage anticipated growth. As a result, we expect the University of Phoenix 2007 CDR to increase. While the actual 2007 rate will not be known until next September, our internal calculations suggest it will remain under 10%. However, it is important to note in the event that it does exceed 10%, we do not expect a resulting delay in disbursement of certain Title IV funds to have a significant negative impact on either our cash flow or our operating results.

The reason is -- for this is that the 30-day disbursement delay impacts only the first disbursement to first-time borrowers enrolled in their first year of school. In 2008, these disbursements represented less than 10% of our revenues. Let me spend a minute providing an update on the current lending -- lending environment. This remains a hot topic, as there are still concerns that consumers are unable to get student loans; and this may be true in the private loan market, but at this time we are still not seeing any changes in our student's ability to receive federal funding. In fact, in the last couple of months, we have added two additional preferred lenders, bringing our total to seven; although this may actually become six at some point due to the potential consolidation of Wells Fargo and Wachovia. Also, the federal government recently extended the law that enables the DOE to purchase student loans from lenders through June of 2010, which gives us comfort that our students will have access to the federal funding as needed through that time period. Private lending decreased in 2008 to approximately 3% of our revenue. As a result, we do not expect lending to affect our business in the near term.

The whole industry has witnessed a dramatic increase in the demand for federal student loans, as Title 4 loan limits have increased and the availability of private loans and other sources has decreased. For us, this has resulted in more Title 4 payments versus cash payments, yielding an increase in our 90/10 roll calculation to 82% in fiscal 2008. We have a plan in place which is targeted at maintaining this ratio below 90%, and we will continue to monitor the situation closely. On the regulatory front, in the course of other periodic update discussions we have had with the Department of Education, we were informed that we, along with other institutions, will likely be the subject of an ordinary course-focused program review during fiscal 2009. Before I turn the call over to Greg, I would like to acknowledge and thank our over 18,000 employees and 26,000 faculty who spend their days focused on our mission to providing access to the highest quality education to our students. I would like to thank them for their incredible efforts, which helped contribute to a very successful 2008. I'll turn the call now over to Greg Cappelli.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Okay. Thanks, Joe. And good afternoon, everyone. I also would like to echo those sentiments with respect to our employees at all levels, and the fact that nothing has impressed me more over the past 19 months since getting into the Company than the passion I see every day from the people working at this Company. Today, I would like to give you an update on the investments we're making in both our core investments, as well as our newer business areas; and then secondly, I'll provide you some color on how we're thinking about the timing of these investments looking in to 2009. First, our core domestic business, which as we have said in the past, is our top priority for investment. Because of the high returns we generate in this area, we continue to invest aggressively and broadly in the University of Phoenix. In particular, we continue to focus intensely on retention, where our investments included expanding programs, improving curriculum and instructional innovation, expanding faculty training and mentoring, the selective use of discounts and improving academic and support services for our students.

We also continue to build out our new resource centers at various locations throughout the U.S. Having a high-quality product and multiple modalities is important; but you need to have a vehicle to get this message out and attract the right kinds of students into the right programs, albeit at an appropriate cost. As you know, we acquired Aptimus to execute on improvements in marketing, take better control and improve our brand image and lower the cost of acquiring a student long-term. There's much hard work still to do, but we are pleased with the results thus far and see the potential for really strong results here over the long term. In addition to investing in the University of Phoenix, we continue to invest in new market opportunities, and we hope to leverage our strength and experience in other markets as well. Let me update you on the progress we have made at Apollo Global, Insight Schools, and Meritus.

First, Apollo Global. During the fourth quarter, Apollo Global closed its second transaction. It acquired a 65% stake in the University of Latinoamericana or ULA, at an implied \$47 million. ULA is an accredited private university based in Mexico City. We have got an integration team in place and really look forward to working with an already very strong management team at this institution as well. Apollo Global generated \$13.4 million in revenue in fiscal '08 and had an operating loss of \$1.9 million. We do expect meaningful revenue growth from Apollo Global in fiscal 2009; but given the current levels of investments, do not expect to reach profitability this fiscal year.

Having side that, we are pleased with our first two acquisitions, and we now have footprints in Chile and Mexico from which we expect to expand and further penetrate Latin America. In addition, our pipeline remains robust, and we continue to evaluate opportunities with our teams in other key geographies including Brazil, Europe, China and India. We hope to be able to discuss some of these opportunities with you in the near future. And as previously noted, we continue to be very disciplined with respect to strategy and valuation with our primary focus on creating long-term shareholder value. And we also continue to invest in our K-12 division, Insight Schools, our online high school. As you'll note when you see our 10-K, we began reporting Insight as a separate segment this quarter.

For the year, Insight Schools generated \$7.5 million in revenue and had an operating loss of \$18.9 million. Insight opened seven schools during the fiscal year, and began the fiscal '09 school year with 11 schools in 10 states. As we indicated last quarter, we expect Insight to generate fairly significant revenue growth in fiscal 2009 due to the additional schools; but because it is in start-up phase, we expect it to have a similar operating

loss in 2009. It's worthy to note that Insight and Apollo's Global businesses incur different seasonality than our core business, as they operate on a traditional school year versus having classed year round. And in Chile, for example, the seasonal breaks are almost the opposite of those in the U.S. Now quickly, let me update you on Meritus, our Canadian online degree granting institution. We had our grand opening and ribbon-cutting ceremony in September, and we started our first cohort of students in October. As a reminder, Meritus was initially approved for three programs, and we expect it to grow from there. We're excited about the prospects of our first Canadian degree granting school, and we'll keep you updated accordingly.

Let me now update you on our share repurchase program. During fiscal '08, we repurchased approximately 9.8 million shares at a weighted average price of \$46, for a total expenditure of \$454 million. This quarter, we elected not to buyback our shares, as we were evaluating our domestic opportunities both domestically and abroad. In addition, we're also cognizant of the meaningful destruction in the financial markets, as well as the state of the economy. Now that said, during fiscal '08 we generated free cash flow -- and we define that as cash flow from operations less Cap Ex -- of about \$621 million. That was a 28% increase over the prior year. Including available borrowings under our credit facility, we now have well over \$1 billion in liquidity, and we think that puts us in a strong financial position to fulfill our investment objectives going forward.

As I've said in the past, we'll continue to evaluate all of our future investment opportunities, utilizing our cash-flow based valuation framework, and that will include the potential to repurchase our shares. So in conclusion, 2008 was a rewarding year for us. We had a strong enrollment, revenue and cash flow growth year, and we continue to experience positive momentum in these key areas. Because we remain focus on maximizing long-term returns, fiscal '09 will be another year where we invest aggressively in our existing and our newer businesses. This, of course, will use margin points as we build for the future. And while we acknowledge our increased investments have negatively impacted margins over the past couple of years, we are now starting to reap some of the benefits, as demonstrated by our increased level of operating profit growth. And finally, despite our continued investments, we do not expect our operating margin to decline fiscal year '09 over the prior year.

So we have a lot of work in front of us; but our mission and goals are clear. We've got excellent opportunities to invest around the globe, and we look forward to updating you along the way. With that, we'll turn it over to the operator so we can take any of your questions.

QUESTION AND ANSWER

Operator

Thank you. Ladies and gentlemen, at this time we'll be opening up the call for the question-and-answer session . (OPERATOR INSTRUCTIONS). One moment, please, for the first question. And the first question is from Sara Gubins from Merrill Lynch. Go

Sara Gubins - Merrill Lynch - Analyst

Thanks, good afternoon. And congratulations on the quarter.

Charles B. Edelstein - Apollo Group - CEO

Hi, thanks.

Sara Gubins - Merrill Lynch - Analyst

Just a couple of questions. First, could you talk a bit about recent student demand trends, say, over the past month or two? We have heard a lot of articles about students trying to go in to lower-priced programs more broadly in the market. I'm wondering if students are taking any more time off, or essentially if you are seeing any negative reaction to what is happening in the broader economy?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

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Well, this is Joe. We haven't seen any negative reaction as a result of the broader economy. The -- as you see from our fourth quarter new student growth, it was very, very robust, and -- and significantly above where we have been. And we're pleased with all of the good things we're doing from a marketing perspective. So at this stage, I would just say we're happy with where we're at, and, you know, hope that the momentum continues in to the future.

Sara Gubins - Merrill Lynch - Analyst

Thanks. And then corporate reimbursement trends, has there been any change there?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Not -- not that we can see on the corporate side. That -- that is an area that we are focusing on, and -- and so right now we think that there are -- there is a significant opportunity in that part of the market, and up until now we haven't -- although we have, of course, always served the corporate environment, we are enhancing those efforts as we speak. So at this point, we haven't seen any issues, and we'll probably keep you posted on this as we go forward in the future.

Sara Gubins - Merrill Lynch - Analyst

Okay. And is that true also for students who are coming to school on their own, but getting reimbursed for some of their tuition by their employers?

Greg Cappelli - Apollo Group - EVP-Global Strategy

I think we thought that that -- that was what you were asking about.

Sara Gubins - Merrill Lynch - Analyst

Oh, it was, I just wasn't sure if you were referring to doing programs specifically at companies as opposed to consumer getting corporate reimbursement -- but that's -- you did mean no change in corporate reimbursement for students who are coming on their own?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Correct. No. I was -- yes, I wasn't trying to make a distinction there.

Sara Gubins - Merrill Lynch - Analyst

Okay. Thanks. And then just the last question, the Bachelor's new student enrollment growth was impressive, and you mentioned that you were seeing a traditional University of Phoenix degree completion students coming in there. I'm just wondering what is leading to that improvement? Is it new programs? It is better marketing efforts?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

You know, I think it's a combination of a lot of things that we're doing. I think we want to watch this for the next few quarters and see how that progresses, if that now is the start of a trend, or an (inaudible), because we really can't tell you today exactly what caused it. We know our graduates from our Associate program contribute to this, and contribute in a better way; but, you know, it's not something that we at this point can say is the start of a new trend. It is absolutely a goal, and there is, of course, seasonality in that fourth quarter start.

Sara Gubins - Merrill Lynch - Analyst

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Okay. I'll turn it over. Thanks a lot.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Thanks, Sara.

Operator

The next question is from Mark Marostica from Piper Jaffray.

Mark Marostica - Piper Jaffray - Analyst

Hey, congratulations on the quarter also. I wanted to ask about the program review; and I know you mentioned ordinary course, but I was wondering if you have any sense for what specifically the department might be aiming at as their goals for the review?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

No, we don't -- we don't have a sense of exactly where they intend to focus. All we know is that it is a focused review. We know also that they have been, as a department, looking at, you know, having a more, let's say sophisticated way or a way of approaching the companies that they oversee looking at risk factors and a variety of things. With the University of Phoenix being the largest Title 4 recipient of, you know, in the country, you know, this is not unexpected for us.

Mark Marostica - Piper Jaffray - Analyst

Okay. And then a question on the hiring of enrollment counselors. Joe, you did mention that you expect to continue to invest there. I'm curious, based on your current level of enrollment counselors what your -- where you are at today and what your hiring plans are for '09?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Mark, I think that we have looked at this carefully, and we're selectively hiring; but I believe, as I said in the prepared remarks, what we're really focused on is providing the tools to our existing enrollment counselors, and hope that that will enable them to effectively be very successful in converting students, and we're seeing some of that progress today. So we -- you know, of course, don't give out what our hiring plans are, but we'll watch that closely, and make sure that we have the level of enrollment counselors that we need to support the growth that we're experiencing.

Mark Marostica - Piper Jaffray - Analyst

And one last question, and I'll turn it over. Greg, you walked through a number of reasons for improved persistence based on the Company's focus. Is there any one or two of those that are driving in your minds the improved persistence in the quarter?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

You know, what -- I'll answer that by saying I think there's just an attitude and a -- you know, we're on a mission here. We really want to support the student, and every one of our people believes that and understands that mission. And so we're -- you know, that's really the way we're operating now as an organization, and I think that's paying off, paying some dividends. There have been and continue to be a number of, let's say, specific things that we're doing; but it's very, very hard to say that there's one, you know, that's out doing the other. But I am pleased to say that there are just -- you know, we care about the student. I think that comes across to the student. We help them in any way we can, and I think that's showing up in the retention.

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Greg Cappelli - Apollo Group - EVP-Global Strategy

And Mark, from an investment standpoint, yes, I mean, a period of time ago we committed to making, you know, an increased investment in that area, and we have done that; and it has used some points of margin, but, you know, we think it's showing results that are acceptable to us. So we're looking forward to hopefully driving more going forward.

Mark Marostica - Piper Jaffray - Analyst

Okay. Thank you.

Operator

And the next question is from Kevin Doherty, Banc of America Securities.

Kevin Doherty - Banc of America Securities - Analyst

Thanks. You know, I know it's difficult to isolate the economic impact on enrollments, and you mentioned that; but has there been any change in the profile of some of those new students? You know, are they gravitating towards certain types of degree programs? Any demographic changes that you might have witnessed?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Nothing specific, Kevin, that I can point to. We are going to look deeper in to that. One of the things is that we have obviously an increase in the Bachelor program. I don't know if that's in part from what is going on in the economy. Chas, did you want to add something?

Charles B. Edelstein - Apollo Group - CEO

Well, I would say you mentioned demographics, and of course, there -- there is an impact on age when you see the mix of degrees that we have, and we may be seeing some decrease in age as well in terms of demographics. Uh-huh.

Kevin Doherty - Banc of America Securities - Analyst

Okay. And I know in the past you have kind of broken out maybe the larger population you serve. You've talked about over 500,000 students, and I guess some of those are students who have had some relationship with Apollo but aren't actively in classes, whether they're on some sort of break. You know, could you just talk about -- have you seen any changes from those folks as you look to reengage them? I mean, has that been a drive of growth recently or has your growth primarily just come from really new leads coming into the Company?

Greg Cappelli - Apollo Group - EVP-Global Strategy

We -- this is Greg. I mean, when you look at where the growth has come from it, it's pretty broad-based. And then obviously, we were pleased to see that the Bachelor programs pick up. You know, how that trend is going to continue, some of it will depend on the matriculation rate from Axia, which continues to go in the right direction as well, and the programs that we add in certain areas. What we have not started to do yet is specifically target, right, colleges, in terms of marketing, or specific degree program areas in terms of marketing, which is something that is being evaluated from an investment standpoint going forward. So that has the potential to move the mix a little bit as well going forward, in terms of the other programs outside of the Axia area.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

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And I think re-entry of students is something that, you know, has been going on here for many, many, many years; and, you know, is just a part of our normal operation. I don't know that we have seen any differing trends there.

Kevin Doherty - Banc of America Securities - Analyst

Okay. And then just a question on pricing. I know you mentioned not really expecting much of a boost in 4Q, just given kind of how the prepaids work, but how shall we think about the impact as we move through '09, just as those increases kind of work their way through the rest of the enrollment base?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Well, we certainly expect to begin to see some impact in Q1. It won't be, you know, the full impacts; but then into Q2, and Q3, you know, we expect, then, to begin to see the full impacts of the increases.

Greg Cappelli - Apollo Group - EVP-Global Strategy

And Kevin, what we focus on is, you know the price increases for Associate's levels and then what we did for Bachelor's and Master's. And, you know, the key is you can raise price -- it takes a little bit of time to see what the average revenue per student is doing, because to some extent you have to look at retention for those programs as it flows through for the year.

Kevin Doherty - Banc of America Securities - Analyst

Okay. Thanks, guys.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Thank you.

Operator

The next question is from Suzi Stein from Morgan Stanley.

Suzanne Stein - Morgan Stanley - Analyst

Thank you. Can you give us some more color on the increase to the 82% federal loan percentage? I kind of recall that number being in the mid-60% range, and I thought it remained fairly steady. So maybe you could just shed some light on what is driving it, if it's not a decline in corporate reimbursement?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

It's -- first of all, it was approximately 70% in the past, and there -- a couple of things, maybe, to understand about corporate reimbursement. There's -- there is -- first of all, if a student is getting corporate -- reimbursement from their employer, they can also apply for Title 4 funds. So part of this is, are they paying Apollo -- or University of Phoenix direct, or is the student paying us, and then students being reimbursed by their company? And this actually opens up one of the areas where we say we have plans in place to address this. That's one of the things that we can potentially change, is whether we are being paid directly by the employer, versus the employee. Again, the employee can get Title 4 funds; so even though it is a corporate item, it shows up in the numbers as a Title 4 reimbursement. So that -- I mean, that -- that's, I think, one of the answers to your question.

Suzanne Stein - Morgan Stanley - Analyst

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Okay. That makes sense. Another question on advertising costs, I know you are seeing, you know, total spend up, but is that volume driven? Are you seeing any improvement in rates across your channels?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Well, in -- there is -- there is some softening in rates, and I know that others are reporting that. In -- you know, we have been spending our money and gearing our money more toward some of the -- you know, the -- what we call the direct advertisers -- so the Google, Yahoos, MySpace and so on. And so in those channels, the softness has not been as great. But having said that, the conversion rates are higher. And so, you know, there is a quality aspect, and we're looking at all of our advertising spend, and looking and it more on a cost-per-start basis, and also in the future we'll be looking it not only cost-per-start but how do the students from that particular source persist? So we're getting a little more sophisticated as to how we look at this.

Charles B. Edelstein - Apollo Group - CEO

I think -- this is Chas -- I think the other thing you'll see in our numbers overall is that we're making some investments in branding and those issues, and you'll see that in what we're going to put some dollars against here in the past quarter, as well as some quarters ahead.

Suzanne Stein - Morgan Stanley - Analyst

Okay. Thanks.

Operator

The next question is from Andrew Steinerman from JPMorgan.

Andrew Steinerman - JP Morgan - Analyst

Hi there, I know there was -- a thought within in the Company at some point that working adult education would be less counter cyclical than other areas of post secondary; but in the intro remarks today, there surely was the comments of some help of this great growth is coming from the economic backdrop. Could you give us a little thought on, you know, is your business benefiting from the economy a little bit, and most of it is Apollo's efforts? How is the split between those two?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

I would really love to be able to give you some precise breakdown on that, but honestly, we really don't know. It's just difficult for us to sort that out, especially right now. I think we'll have to watch this overtime, and maybe we'll be able to shed some further light on that at some point down the road; but today, we really can't tell you exactly what is causing the uptick.

Charles B. Edelstein - Apollo Group - CEO

I would tell you, Andrew, looking at it, you know, over the past, sort of 13, 14 years, it -- in -- the Company, you know, sort of grew pretty consistently in good and bad times from an economy standpoint, so it's something we're looking at pretty closely. I would say we'd like to think a lot of the efforts we talked about over the past three, four, five quarters are having an impact. You just don't know how much of it is from that and if you are getting a boost from the economy to a percentage detail. What I think we do know is that from an employee turnover perspective, it is probably giving us some help there.

Greg Cappelli - Apollo Group - EVP-Global Strategy

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Yes. One other observation, I think -- you know, as we look at our competition and we look sort of their growth, and if you go back three or so quarters, you know, we weren't keeping up. Today we're keeping up -- I think, anyway. It feels that way. And I think that's -- that tells us that we are doing a number of things right. Even if the economy is helping us, we absolutely have to be an institution of choice, and that is certainly what we want to be and expect to be, and I think our marketing efforts are absolutely contributing to it. So I feel like we're now keeping pace, and that at some point we hope to actually maybe accelerate that -- competition that is.

Andrew Steinerman - JP Morgan - Analyst

Right.

Greg Cappelli - Apollo Group - EVP-Global Strategy

(Overlapping Speakers). Market share.

Andrew Steinerman - JP Morgan - Analyst

Thank you so much for taking the time.

Charles B. Edelstein - Apollo Group - CEO

Thanks, Andrew.

Operator

Your next question is from Amy Junker from Robert Baird.

Amy Junker - Robert W. Baird & Company - Analyst

Hi, good afternoon. I just wanted to actually follow-up on Sarah's question, and maybe look at it from the flip side. She had talked about, are more students taking time off. I'm actually wondering if, given the weakening economy you might be seeing perhaps better matriculation from Axia into the Bachelor's than you might have thought, meaning students aren't taking time off because there are no jobs to be had and the economy is tough. Do you have any sense if that perhaps is driving some of the bachelor's growth is just better matriculation from Axia at a faster pace?

Greg Cappelli - Apollo Group - EVP-Global Strategy

Well, the trend line continues to be up in that, so we're pleased with it. But I don't sense that there is an abnormal growth in the matriculation from our Associate's program in to our Bachelor's program. It's steady. It's positive, and, you know, we're pleased with it, but I don't see it significantly accelerated.

Charles B. Edelstein - Apollo Group - CEO

Yes, in fact -- in fact, more of our growth in Bachelor's was from outside matriculation than it was from the matriculation.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Correct.

Amy Junker - Robert W. Baird & Company - Analyst

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Okay. Thanks, and then just a -- kind of a related question, of those student that are matriculating, any pushback on increase in price between Axia and University of Phoenix, particularly in the face of a more challenging private-lending environment? Have you, perhaps, been given more discount those students to encourage them to matriculate?

Greg Cappelli - Apollo Group - EVP-Global Strategy

Well, we do have a discount program for that group, you know, if they stay in the program, but, you know, we're not experiencing as far as we have heard, you know, any real pushback on that. You know, there's Title 4 funds available to them, and the differential after our price increases between our Bachelor program and our Associate's program is narrowed, so, you know, maybe that's helping too.

Amy Junker - Robert W. Baird & Company - Analyst

Great. I'll pass it on. Thank you.

Operator

The next question from Andrew Fones from UBS.

Andrew Fones - UBS - Analyst

Yes. Thanks. I had a follow-up to that line of questioning, if I could just clarify. Are you seeing an increase in the proportion of students that are matriculating from the Associate's into the Bachelor's program, or is the growth just purely being driven by an increase in the number of associate students graduating? Thanks.

Greg Cappelli - Apollo Group - EVP-Global Strategy

We're, you know, pleased with the trend line there. We continue to see matriculation. But as we have said, you know, the majority of the increase came from just direct into our bachelor's program. So I don't know that I can add any other color to that. Do any of you have anything to add to it?

Charles B. Edelstein - Apollo Group - CEO

No, I think that's right.

Charles B. Edelstein - Apollo Group - CEO

Yes.

Andrew Fones - UBS - Analyst

Okay. Thanks. And then you also -- you mentioned the impact that (inaudible) was having on the quality of your leads. Can you give us any kind of thoughts on conversion trends? You know, that would be very helpful. Thanks.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Well, I'll just give you just directionally -- definitely better. And I think the quality of our leads are -- have improved, I think the way we evaluate and look at what Aptimus is doing and the successes, you know, from all of our internal ways of looking at it, we're very pleased. I mentioned that, you know, I think we're getting a bigger gain out of our -- people going to our website. That has been very positive. And we have made

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changes to the website, so -- and that has been driven by the Aptimus folks, so we're doing a number of things that are leading to higher conversion rates.

Charles B. Edelstein - Apollo Group - CEO

Definitely more analytics and sophistication around search as well is having an impact, Andrew.

Andrew Fones - UBS - Analyst

Okay, thanks. And congratulations, Chas and Joe, on your new positions.

Charles B. Edelstein - Apollo Group - CEO

Thanks very much.

Operator

And the next question is from Gary Bisbee from Barclays Capital.

Gary Bisbee - Barclays Capital - Analyst

Great job on the quarter.

Charles B. Edelstein - Apollo Group - CEO

Thank you, Gary.

Gary Bisbee - Barclays Capital - Analyst

I guess the first question, Greg, you have said operating margins won't decline year-over-year in '09. Given the pricing, which seems to me is going to add in the ballpark of \$100 million to the top line and the \$50 million of cost saves you highlighted cast quarter, it would take a heck of a lot of investment for those two things not to contribute to a meaningful -- or at least reasonable year-over-year margin increase. So I guess I wanted a little more color, and if the levels of reinvestment are going to be so large that margins might not go up a lot, I would love to understand where that's coming from.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Gary, they do have the opportunity to go up. But we are investing a lot. And don't forget, not just in to the new businesses we have talked about, but in to the core business as well. So you are right, I think -- I think, you know, in looking at it that way, we do have the opportunity for margin improvement. I think we're comfortable saying at this point that we don't think it's going to be down -- if it's up, great. The way we're focused on managing this business in total at the senior management level and beyond, is we're looking at the opportunities that are out there. We're taking a long-term approach. We're thinking about -- thoughtfully about the investments we have to make so that we can maximize returns over a three to five year period. So you know, that's the way we're looking at it. The margin will be what it is. Now, you're right -- there -- you know, it would be great if there would be some margin improvement this year. We're not committing to that and we're not certainly giving guidance on that, but we don't think it is going to be down. If it's up, that will be terrific.

Gary Bisbee - Barclays Capital - Analyst

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Okay. And you gave a sum range of what we should expect for a couple of the growth businesses. I guess I would just ask for a little color on Meritus. Is that a substantial spend in terms of the initial marketing push? Or are we talking a couple million dollars here?

Greg Cappelli - Apollo Group - EVP-Global Strategy

Yes, that's not one of the -- that's not one of the more -- it is -- there are dollars going into that, and those dollars will increase in fiscal '09, but, you know, that's not going to be as substantial as say, Insight schools will be.

Charles B. Edelstein - Apollo Group - CEO

Or certainly not as substantial as our core business -- what we're investing in marketing and, you know, sort of the engine that's driving it. That's -- in terms of dollars, that's where your -- you know, larger categories are.

Gary Bisbee - Barclays Capital - Analyst

Okay. And then just, I guess if I could ask a high-level question on the cohort default level issue. I hear your explanation on the call and what you said prior to that. I guess the question in my mind is if the default rates were so high at Axia, even if they come down fairly substantially from that number that was reported, it sort of begs the question, is the value proposition, you know, real and attractive for students? I guess wondering what you could say to prove this, or do you have any data? Have you talked to grads? Is there a segment of the market you are focusing this on that you have done background research on, or anything you could say to get me comfortable that despite that high (inaudible) default rate, the value proposition for the growth part of the business is really strong? Thanks.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Sure, Gary, I think one thing to take in to consideration is that this is the first major impact that -- the first cohort that is in these numbers for -- the WIU, and it was brand new at the time. And when you have a brand new program, especially one that is reaching a different type of student and we've, say, targeted before, it's not going to be perfect. Your curriculum needs to be adjusted -- and what I mean by that is, for example, the first courses may have been too hard, so a student drops out. And one thing to note is that all you need to have somebody in that cohort is a dollar that doesn't get repaid back. So it could -- there could be small dollars involved with this. It's the numbers that are the key. And you should know that we are looking at the Associate's program, and have been putting a great deal of effort -- this goes to investments that, you know, you don't see and we don't talk about a lot. But we're looking at, you know, are there tweaks we should make to our programs for the Associate's to even get better results? And by the way, we're very pleased with the results, and I do not think the cohort default rate for WIU, which was also based on a very small population of -- you know, WIU is very, very small. When they get combined with us, it's -- they are at this point relatively small to the rest of our -- to the University of Phoenix. So, you know, there's a lot of factors going into this. And lastly, it's just -- if even get over the 10%, it's a just significant.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Gary, to answer the second part of your question, maybe it was the first half, yes, we do survey our students. We are doing analysis internally about the value proposition, and obviously the feedback that we've gotten and the value we think is being added is there. One way to look at the way it -- I mean, when it started originally, remember, it was a different institution at WIU, and they do things differently than we do at the University of Phoenix, which had been in place to handle larger numbers for a much longer period of time with more sophistication around how to handle students in general. And so there's a tremendous amount of analysis being done in looking at the value equation and value proposition from these students over time. And you can look at them on their own as stand-alone students in just the two-year Associate's program, and then the value if they go on for another two years for a Bachelor's program. In either case, if we didn't think they were creating value for us, it wouldn't be -- the program wouldn't continue.

Gary Bisbee - Barclays Capital - Analyst

Okay, great. Thanks.

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Operator

The next question is from Jerry Herman from Stifel Nicolaus.

Jerry Herman - Stifel Nicolaus - Analyst

Good afternoon, everybody, and Chas, congratulations, good luck.

Charles B. Edelstein - Apollo Group - CEO

Thanks, Jerry.

Jerry Herman - Stifel Nicolaus - Analyst

First question is about student volume and outcomes. The numbers that you guys reported were the biggest that we've seen in several years. It kind of rings back to the old days. And I guess the question is, your confidence in the ability for the retention programs to keep up with that growth now that it has become a focus, and just the ability to keep those students relative to what it was a few years ago.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

That's a good question, Jerry. You know, we feel the quality of these starts is -- if you will, these new students is equally as good as what it has been in the last several quarters, and there we have seen the improvement in persistence. And so we do have to monitor closely, you know, our staffing for this because of the growth, but I do also believe that our people are well equipped and well positioned to manage the growth that we have here. We certainly are not trying to grow beyond our means, so I don't expect -- but I can't guarantee -- but we certainly are going to work hard to retain the students that have come in to our curriculum.

Jerry Herman - Stifel Nicolaus - Analyst

Great. Thanks. Just a quick follow-up on the cohort default rate. You guys have alluded to the significant changes in that program since it was first introduced. Is there any way to measure retention in that program then versus now? Any metrics that might measure how much they have improved then versus now? So as to have a favorable impact on CDR?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

I have to think about that question. I mean, I think when -- when we get in to that 2007 cohort period, we will look at the breakdown of the Associate students, and what they contribute to the cohort default rate versus, you know, perhaps what it was under WIU. But I do think we've -- we've -- I do think that we have made, you know, a number of changes that -- that do impact this, and I don't see it to be a problem.

Charles B. Edelstein - Apollo Group - CEO

Jerry, this is Chas. One of the things that may help clarify it is that we have done, of course, some preliminary analysis on this, and from our perspective, it seems that the default rate is managed by process. Default rate management programs that we have in place at the University of Phoenix that were not the same programs that were in place at WIU, so -- and we're -- our preliminary analysis is showing us some impact of the process that we have, and that's the basis of the statements that we're making. So it's not without doing some work around it. (Overlapping Speakers)

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

We have people responsible for that very -- managing that very issue.

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Charles B. Edelstein - Apollo Group - CEO

Default rate management.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Default rate management, but long before -- I mean, long before -- and not for just dealing with any increase that came from WIU, the people have been around for a while at the University of Phoenix.

Greg Cappelli - Apollo Group - EVP-Global Strategy

And I think, Joe, as you noted before, sort of a real time check for us, because of course you can't know exactly what it is going to be next year at the time, but that's why you pay such close attention to persistence and for us retention internally.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Right, right.

Greg Cappelli - Apollo Group - EVP-Global Strategy

(Inaudible) along the way.

Jerry Herman - Stifel Nicolaus - Analyst

Sneak in one more. It's a conceptual question -- I'm not looking for a lot here -- but can you guys just talk about your cash management strategies in light of the lawsuit of the (inaudible)?

Greg Cappelli - Apollo Group - EVP-Global Strategy

I'm assuming -- are you talking about cash management from a balance sheet perspective and how much we have on hand in our investments, or -- ?

Jerry Herman - Stifel Nicolaus - Analyst

Right. And how you think about that relative to the risk of potentially losing some.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Right. Right.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Well, we have \$1.3 billion in cash, and borrowing capacity today that continues to grow. We certainly don't intend to use that to pay to litigants, but it's -- you know, but we feel still good about, you know, the strength of this Company for sure, and we're spending money to defend ourselves in a lot of different ways with respect to that suit, which we, you know, hope to win.

Greg Cappelli - Apollo Group - EVP-Global Strategy

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It's a good question, Jerry, and we're trying to be prudent, you know, with our liquidity and what not, and I think we all agree we have been to this point.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great, guys. Thank for your time.

Greg Cappelli - *Apollo Group - EVP-Global Strategy*

Thank you.

Operator

The next question from Jeff Silver from BMO Capital Markets.

Jeff Silver - *BMO Capital Markets - Analyst*

Great. Had a question on selling and promotion. I just wanted to clarify something. In the press release, you talk about selling and promotional costs going up in the near term. I'm assuming you are referring to as a percentage of revenues, if you could just confirm that. And I'm not sure if you're going to quantify it, but how high can this go? I mean, it seems to go up every year. Do you have some sort of goal in mind in terms of how high you are going to let that increase? Thanks?

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

Well, one thing you want to consider when you look at selling promotion, this year -- first quarter of next year over first quarter of this year -- is that we cut the advertising spend in the first quarter last year because we were taking over -- Aptimus was transitioning in for ad.com. So we spent less last year than we probably otherwise would have in a normal situation, and I believe we actually commented on that back a while ago, so -- but I -- I think that we have -- we have a plan in place. It's to achieve certain objectives. We're investing in those today and in the near term to achieve those objectives, and we believe once we do, that, you know, you all will see that and hopefully be very pleased with the investment that we made.

Charles B. Edelstein - *Apollo Group - CEO*

Jeff, you asked about our goal and how high can it go? And to be clear, the reason we're making these investments in marketing is because we have a goal to reduce marketing expenses and increase our efficiencies, even though that expenditure in the near term won't -- you know, won't accomplish that goal tomorrow. The goal is not to find a level that's higher and stay there, but over time to come down.

Jeff Silver - *BMO Capital Markets - Analyst*

Okay, yes. I did realize that, but I appreciate the color, thank you. Just a couple of quick numbers questions. What are you budgeting for capital spending in the current fiscal year, fiscal '09?

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

Well, the spend, I think will be probably above last year, but not, you know, substantially. It's 100 million plus.

Jeff Silver - *BMO Capital Markets - Analyst*

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Okay. And then again, just clarifying some numbers, the enrollment data that you just released, does that include or exclude any enrollments beyond the core business -- Apollo Global, et cetera?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

This is just the University of Phoenix enrollment numbers we reported.

Jeff Silver - BMO Capital Markets - Analyst

Okay, great. Just wanted to clarify that. Are you going to be reporting Apollo Global or any of the other facilities enrollments in the future?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

If it became significant and important in our view, then we would certainly consider that, but at the moment we have no plans to do so. We actually think we disclosed quite a bit more than many other of our competitors, so we're trying to manage that a little bit as well.

Jeff Silver - BMO Capital Markets - Analyst

All right. That's fair. Thanks so much.

Brian L. Swartz - Apollo Group - VP, Corporate Controller & CAO

Jeff, and just to be clear, the enrollment and starts number include -- at the University of Phoenix it's also any students at the Associate's level at WIU, which is the students that are still there as a result of the Associate's program starting there back in '04.

Jeff Silver - BMO Capital Markets - Analyst

Very small number.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Very, very small. It's a modest number, and, you know, declining every quarter. It's the original Associate degree people that are completing.

Jeff Silver - BMO Capital Markets - Analyst

Great. Thanks so much.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Thanks, Joe.

Operator

The next question from is Trace Urdan from Signal Hill.

Trace Urdan - Signal Hill - Analyst

Hey, good afternoon.

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Greg Cappelli - Apollo Group - EVP-Global Strategy

Hey, Trace.

Trace Urdan - Signal Hill - Analyst

I'm cognizant of the fact that we're talking about August data here, but the world has changed pretty significantly since then. I'm wondering if you have experienced any phenomenon where some of the students that are employees of certain companies have been laid off, and what the implications of that are, and maybe, you know, whether you have done any kind of risk analysis by looking at your concentration among different employers and what you might be prepared to do for those students in the event that they do get laid off.

Greg Cappelli - Apollo Group - EVP-Global Strategy

So your question, Trace, just to clarify, is you are asking about companies whose employees may be going to school at the University of Phoenix?

Trace Urdan - Signal Hill - Analyst

You have been asked about corporation reimbursements -- and I understand that you haven't seen anybody sort of cut back on their program. But I'm more concerned about the possibility that people who are benefiting from corporate reimbursement programs might start to get laid off, and I'm wondering what kind of thought you have put in to that possibility, and whether you would in that circumstance if it became significant actually step up and lend to those students if they were finding that all of a sudden they had a gap emerge as a result of that?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Well, Trace, the students today -- let's say if they were on our Associate's program --

Trace Urdan - Signal Hill - Analyst

Well, I'm really focused on, I think, Bachelor's and Master's program with this question.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Oh, okay.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Trace the first part of your question, are we doing some work and analysis around that? We are talking to corporations, and we do, you know, look at the levels of reimbursement that they offer. I would say in general, the average hasn't changed much. I'm sure you know that in terms of what that level is of around \$5,200. Would we start to use our balance sheet to -- to fund them if they do get laid off? To this point, we have not decided to do that, and that's something that we have stayed away from in the past, so I -- you know, that -- at this point, the answer is no to that.

Trace Urdan - Signal Hill - Analyst

Greg, do you -- can you tell us maybe what kind of concentration you have by employer? I mean, does it get meaningful with any specific sort of Fortune 500-type companies?

Greg Cappelli - Apollo Group - EVP-Global Strategy

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No, it's a good question. It really doesn't; and Joe, you may want to talk about -- we have got a fantastic new and strong effort there to actually grow that program. And I don't know if you want to add any more color, Joe, but --

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Right. With our size, there isn't a single employer that moves the needle one way or another. And, you know, generally if someone is laid off, sometimes, especially if they are in a higher degree program, part of the severance or part of the departure is to continue to support the education for a period of time as well.

Trace Urdan - Signal Hill - Analyst

I'm sorry, I didn't really understand what that last part was getting at it. Continue to support the education, what do you mean?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

As part of the severance --

Trace Urdan - Signal Hill - Analyst

Oh, I see. Okay. That's a typical provision with -- in those program is your experience?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

That's not -- I'm not trying to say it's a typical provision, I'm just trying to point out that that is one of the things that we know occurs when people are laid off.

Trace Urdan - Signal Hill - Analyst

Okay. All right. Thank you.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Thanks, Trace.

Operator

Our next question ask is from Brandon Dobell from William Blair.

Brandon Dobell - William Blair - Analyst

Thanks. In the past couple of calls, you guys have talked about a number of initiatives to improve retention, and I was hoping to get a little more color on some of those things like in the student resource centers, where you stand with those in terms of numbers and your expectations, the first class audits, kind of program, maybe some back-end discounts for people who complete the programs. It's just kind of a broader brush at what some of those bigger initiatives are and how they are trending for you?

Greg Cappelli - Apollo Group - EVP-Global Strategy

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Brandon, in terms of the -- this is Greg. In terms of the resource centers we haven't given that number out exactly every quarter, but the number does continue to grow.

Brandon Dobell - William Blair - Analyst

Okay.

Greg Cappelli - Apollo Group - EVP-Global Strategy

And I would say we're pleased with the early result we're seeing there, not only from a retention standpoint, but from a conversion standpoint as well. So we're really excited about what this program might be able to do on both fronts around the country. I'm sorry, what were the other questions that you had behind that?

Brandon Dobell - William Blair - Analyst

There was some -- there was some talk a while back about letting prospective students check out a course, and decide if they want to continue with the program as maybe a potential way to avoid some of the early attrition numbers that were so difficult to get by. What is your thought process around that? And I guess at the back end, is there any thought on, you know, kind of back-end loaded discounts for completion, and those kind of things?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Brandon this is Joe. We have used the back-end discounts as one of the incentives to help. I would -- certain isolated situations -- but the retention techniques that we're using -- you know, there are several. They all focus, really, on the people who have the day-to-day contact with our students to understand what the issues are, to make sure that if we see trends developing, that we put in place, you know, real action, real substantive changes to -- or processes to address those needs. So that could be tutoring. It could be, you know, need to discuss something with a faculty member, somebody who is struggling because of a death in the family, helping them through that, you know, they -- it's really looking at the student and trying to help them cope with working and every day life, and getting through the programs.

Brandon Dobell - William Blair - Analyst

Okay. A final question for you. As you look at your enrollment counselor cohort, I guess if you want to call it that, how satisfied are you with productivity, or if you can kind of scale for us where are you along that productivity curve? Are you talking second or third inning, or do you think you've -- you get lot of room, or is it 6th or 7th inning you have got some tweaks to make? But there's -- the growth will be more from headcount versus productivity going forward?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

I think we're very pleased with progress that we're making. I think we've -- we're in the earlier innings, if you will. I think there's a lot we can do. I think that has to be proven, though. And we will monitor our activities and what we're doing with our enrollment counselors, and based on that, decide, you know, how to proceed. But today, we're very pleased with progress that we're making.

Greg Cappelli - Apollo Group - EVP-Global Strategy

Brandon, I think that's one of the reasons in Joe's prepared remarks, he was talking about our expectation that hiring of enrollment counselors, you know, in the near term will be only selective, but a focus is really in giving enrollment counselors the tools they need.

Brandon Dobell - William Blair - Analyst

Okay. All right. Thanks, guys.

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Greg Cappelli - Apollo Group - EVP-Global Strategy

Thanks, Brandon.

Operator

The next question is from Corey Greendale from First Analysis.

Corey Greendale - First Analysis - Analyst

Thanks. Good afternoon, and congratulations, and thanks for sticking around to take all of our questions. First question is, I believe Joe, on a previous call when you brought up the topic or someone brought up the topic of direct lending you said that you thought it would be difficult for the program to handle a school of your size. Could you just kind of revisit that? Have you explored hooking in to the direct-lending program at all? Do you think it would be possible if necessary?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Yes. It's a good question. We did -- in fact, I have had direct conversations with the department about it. We have applied to go direct and we have begun the process with one of our programs, and what I communicated to the department is that we may accelerate that to do a little bit of stress testing. They were a little bit concerned by that, but we -- we will work it out with them. They understand that we could overwhelm them. So we -- we do have a -- we have had a discussion, and we have some plans in place so that, you know, in the unlikely event of a water landing, that we're prepared to get through this.

Corey Greendale - First Analysis - Analyst

Okay, that's good to hear. And second question, in this kind of economic environment, thinking specifically of Axia, do you think that not offering job placement services could put you at a competitive disadvantage? Is that something that you would consider doing?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Another very good question. We won't be doing job placement, I don't think -- certainly not in the near term. But, you know, we are thinking about different ways of being helpful to our students during difficult times.

Corey Greendale - First Analysis - Analyst

Okay.

Greg Cappelli - Apollo Group - EVP-Global Strategy

To be clear, we -- you know, we believe that the majority of our students continue to be working adults.

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

Yes, absolutely. Whether it's the Associate's program or the more advanced degrees. Very good point.

Corey Greendale - First Analysis - Analyst

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And then if I would revisit, Greg, your answer to -- I think it was Gary Bisbee's question, talking about the margins. I know that you are looking at the business on a return on capital -- from a return on capital perspective in three to five years. But in general, if there are sort of larger investments such that margin is flat year-over-year even though you got the pricing and the good enrollment, would you expect that those greater -- those greater investments would be accompanied by commensurate greater revenue results, or could it be that we would see a quarter where you have investments up and the revenue trend line not up as much with the expectation that you would get that return in two years?

Greg Cappelli - Apollo Group - EVP-Global Strategy

Well, let me say it this way. The expectation is to, as I said before, invest for the long term. And we're not looking not to grow the margins in this business. You know, the comment was just around, you know, how do we -- how do we think about, you know, the investment we're going to put to work. And, you know, we think of it, you know, like a matrix, where, you know, on the one hand you look at, could we get the margin to a certain point by next year? Yes, we probably could. However, what do you give up in terms of the operating profit growth you might be able to generate over a longer period of time? And we look at that analysis regularly; and if that analysis suggests that we're going to drive more cash flow to you, the shareholders, and therefore, more value to the Company, we would rather go that route. I hope that makes sense. In other words, we're looking to maximize the value we drive. So it's not just a, you know, guess in terms of what we might be doing near term. All of that being said, you know, I got the question not too long ago, well, would you guys intentionally spend away any extra, you know, profits that might be dropping to the bottom line to show margin improvement? And the answer to that is no. You know, it's a combination. It's a mix. And hopefully, that explains the way we're looking at it.

Corey Greendale - First Analysis - Analyst

That's helpful, and just one last quick one maybe for Brian, do you know which specific line of the costs break out, the gain on the termination the sale leaseback is running through?

Brian L. Swartz - Apollo Group - VP, Corporate Controller & CAO

Yes, actually, it's below the line, so it's not included in the operating margin or income from operations. It's down below in non-operating income.

Corey Greendale - First Analysis - Analyst

Okay. Thank you.

Operator

And the next question is from Scott Schneeberger from Oppenheimer.

Arla - Oppenheimer - Analyst

Hi, this is actually [Arla] for Scott. I have a question on the discount. So your discount as a percent of total growth revenue has been increasing a bit year-over-year, so just wonder what your plans for next year? Should we expect them to be flat? Or shall we expect them to be up at maybe 1 to 2% year-over-year, considering the current environment? And then maybe -- and also increase your prices?

Joseph D'Amico - Apollo Group - President, CFO & Treasurer

The -- I think the -- we -- you know, we really don't give guidance on -- on individual lines or numbers like that. I think that discounts will -- you know, are a component of our retention efforts, and those continue to improve. So whatever we spend, if you will, in that area, we look for a return on that, so we expect to have that, you know, hit the bottom line. And, you know, we sometimes have pilot programs that we test and the like. All, again, looking to get to the better retention. And military is one of the larger items that's included in the discounts; and of course we feel that that's a good investment for a lot of different reasons, especially today. So, you know, I don't think I can give you much more than that kind of color.

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Greg Cappelli - *Apollo Group - EVP-Global Strategy*

It's probably fair to say it is less likely given what's happened with Title -- the increases in Title 4 financial aid, that you would see those go up significantly (inaudible) discounts for the next couple of years.

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

Yes, that is a good point. Because of the increase in Title 4, maybe the level of discounts don't have to be as great as well.

Arla - *Oppenheimer - Analyst*

Okay. Thank you. And another question on -- just a follow-up on the earlier discussion on selling and marketing expenses, so can you give us some idea of when do you expect this expense as a percent of revenue to come down? You did say that in the near term it will go up, but in the long term you expect them to go down. So should we expect, you know, overall FY '09 will be flat or do you think it may take some longer term? Thank you.

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

Yes, again, unfortunately, I can't give you a lot more guidance than what I have said there. You know, in the near term we don't expect to see that go down, and -- but certainly over the longer term, we do. Exactly where that line is going to cross, you know, I can't quite say today.

Arla - *Oppenheimer - Analyst*

Okay. Thank you.

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

You're welcome.

Operator

And the last question comes from Jennifer [Childs] from Credit Suisse.

Joseph D'Amico - *Apollo Group - President, CFO & Treasurer*

Hey, Jennifer.

Greg Cappelli - *Apollo Group - EVP-Global Strategy*

Hi, Jennifer.

Jennifer Childs - *CSFB - Analyst*

Hi. Thanks, congratulations on a great quarter. Most of my question have been answered, just a quick one. What gives you confidence that you won't break through the 10% CDR threshold at this point versus a couple of weeks ago or so when you guys were a lot more uncertain about where you might fall out? Are there some new initiatives that you plan to undertake to influence these numbers, or something else?

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Joseph D'Amico - Apollo Group - President, CFO & Treasurer

No, we begin to get data now, since the year for defaults ends September 30. So we have been getting data right along to have a sense of where the default rate will come out. We don't have full and total data, which is why we can't give you a guarantee; but based on our analysis, we don't believe we will hit the 10% --

Greg Cappelli - Apollo Group - EVP-Global Strategy

I think maybe the more important issue even to take away from the commentary that Joe gave up front, Jen, was the fact that, you know, let's say it does. I mean, we don't have perfect visibility. But fit does, you know, we did a lot of analysis around what kind of an impact would that have on us financially if it did breach 10%, and that's what we got some additional color on and comfort on.

Jennifer Childs - CSFB - Analyst

Okay. Understood. Maybe just one quick one. I know you said you weren't pleased with the level of market spending, but taking out the investment spending includes is in that; did your cost per start increase significantly in the quarter?

Greg Cappelli - Apollo Group - EVP-Global Strategy

You know, we don't really take out the investments. It's not the way we think about the analysis, so we -- it's not -- it's not a specific analysis that we do.

Jennifer Childs - CSFB - Analyst

Okay. Thank you.

Charles B. Edelstein - Apollo Group - CEO

Thank you.

Operator

I would like to turn the call back over to Chas Edelstein for closing comments.

Charles B. Edelstein - Apollo Group - CEO

Well, thanks very much. It was great to be with you all, and let me just say that we appreciate your support and the time you spent with us on this call, and look forward to talking with you -- with many of you in the weeks and months ahead. Thanks very much.

Operator

That concludes today's conference call. You may now disconnect.

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