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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Apollo Group Inc. fiscal 2010 first quarter earnings conference call. At this time, all participants are in a 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, January 7, 2010, and may not be reproduced in whole or in part without permission from the Company. There will be a replay of this call until January 15, beginning approximately two hours after we conclude today. Additionally, this call will be broadcast over the Internet and can be accessed via the Company's website I would now like to turn the call over to Allyson Pooley,Vice President, Investor Relations of Apollo Group, Miss Pooley, go ahead, please.

Allyson Pooley - *Apollo Group - VP IR*

Thank you and thank you all for joining us today. Speaking on the call will be Charles Edelstein, our Co-Chief Executive Officer, Greg Cappelli, our Co-Chief Executive Officer and Chairman of Apollo Global, and Brian Swartz, our Senior Vice President and Chief Financial Officer and Treasurer. Joe D'Amico, President and Chief Operating Officer is also here and will be available during the Q&A period.

Before we begin I would like to remind you that as we discuss our results, unless we note otherwise we will comparing our first quarter of fiscal 2010 which ended November 30, 2009, through this first quarter of 2009. I'd also like to remind you this conference call may contain forward-looking statements with respect to the future performance and financial condition of Apollo Group that involve 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 most recent 10-K and subsequent 10-Q reports filed with the SEC. The does not undertake any obligation to update anyone with regard to the forward-looking statements made during the call. Additionally during the call we may refer to non-GAAP financial measures which are intended to supplement but not substitute the most directly comparable GAAP measures. A reconciliation of these GP to non-GAAP metrics is included in our press release issued today and available on our website.

On today's call Greg will provide highlights of the quarter and an update on our primary investment areas. Brian will review our financial results and Chas will finish with an overview of recent milestones achieved including the program review report received from the Department of Education. I'll now turn the call over to Greg.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you, Allyson. Thanks for joining us today everyone to discuss our first quarter results. We're pleased to report that we had a solid start to fiscal 2010. In the first quarter, including our recent acquisition of BPP, revenue grew approximately 31% to $1.3 billion and net income excluding special items grew 27% to $229 million, $1.47 per diluted share.

Our flagship institution, University of Phoenix enrolled 98,100 new students during the first quarter for total degree enrollment of 455,600 students. That's an 18% increase versus a year ago. And importantly we are now experiencing stronger growth in our core bachelor programs which has been a key focus and important goal of ours over the last couple of years. Overall we're very focused on our long-term strategic plan, our balance sheet remains strong which puts us in a good position to execute in key areas of investment and our focus remains steadfast with respect to delivering a high quality student experience.

Now, I want to quickly focus on a couple of key areas today with respect to the University of Phoenix and our strategy and then just give you brief update on Apollo Global. As you know the University of Phoenix is our top priority for investment within the Apollo Group. We have been extremely focused on delivering high quality college level programs to all those who think they can benefit. I'm sure it comes as no surprise to any of you that there are tremendous number of working adults that know they need to get a college education to better prepare them for the incredible changes we've seen in our economy and job base in just the last few years. And we want to educate as many of these people that we believe have a reasonable chance of succeeding in our rigorous programs. However, as we've indicated before, more students are coming to us unprepared for college and we need to respond which we continue to do on a number of fronts.

First, through an important initiative we call University Orientation which I'll discuss more in a moment. Second, implementing student protections such as our Responsible Borrowing Calculator and new Withdrawal process. Third, significant technological advances around our learning platform. Fourth, marketing focused on attracting better prepared students at the bachelor and advanced degree levels. Here is what we can expect in the near term.

A continued student mix shift to higher level programs, some pressure on bad debts which should level off and ultimately improve and Brian is going to go into more detail on this. Fewer students who incurred debt and fewer students leaving us before they can benefit from our programs. Over time it is our objective to achieve improved retention and graduation rates, lower bad debt and default rates and make continued gains in marketing efficiencies. Here is the bottom line. We're committed to providing access to high quality education, while balancing this against our responsibility to ensure only students that have a reasonable chance to succeed to enroll in our universities, in order to better identify who these students are, we're refining some of our marketing efforts, and Chas will discuss more of this in just a minute. And we have introduced, as we mentioned during our last quarter conference call, a pilot assessment before a student starts class.

This initiative is called University Orientation. It combines stronger commitment of time and energy from students up front with more help and assistance from us prior to the formal enrollment and receipt a Title IV loans. In its current format the program requires prospective students at selected campuses who have less than 24 credit hours to take a free three-week orientation program prior to enrolling. We're still in a test and evaluation phase of the program, however as expected it is having impact on new enrollment growth. For the first quarter we reported new enrollment growth of about 14%. Had we included students who entered our orientation program rather than starting class right away new enrollment growth would have been a few hundred basis points higher. Also expected, the impact on new enrollment was greatest at the associate level. Importantly, we think this is the right thing to do for the student and if we are successful we also believe the financial impact should ultimately be positive for us. As students that enroll and retain have a far greater impact on our profitability.

Now I'd like to quickly address student persistence. We did see a decline of persistence for the first time in many quarters. This is an area we're sensitive to and while persistence isn't the same as retention, we certainly don't want to see this trend in the wrong direction. Particularly after the significant strides we've made over the last year. This is despite the continued mix shift to associate students which makes it more difficult to maintain our overall persistence levels to begin with. In addition there are a few specific factors which adversely impacted associate persistence this quarter, including the extra associate new enrollment date in the fourth quarter and the larger percentage of associate graduates in the first quarter of fiscal 2010 compared to a year ago.

Retention, which is what we focus on internally and which takes into account our graduates, isn't as weak as the persistence numbers would suggest. We have achieved significant retention improvement over the last year and as a result further gains are more difficult to attain. In the first quarter we saw some pull back in retention at the associate level, however we generally maintained or improved retention at the bachelor and graduate levels. Retention continues to be one of our primary areas of focus at the Company and we hope the initiatives we're taking, such as University Orientation will help drive further improvement over time, particularly with associate students.

I'd also like to touch on some of the marketing efforts we put in place and investments we're making in our brand equity. As you know we acquired Aptimus over two years ago with two primary goals in mind, to lower the cost of acquiring a student and to take back control of our brand. Now over the last couple of years we've learned much through our market research. Today, we are better at directing our marketing spend to reach the right students. One of the positive results of our efforts is the quality shift we're seeing to the growth in bachelor students. In the first quarter our new bachelor enrollments grew 23% which was faster than associates. Something that hasn't happened in over three years here. Some of this growth was a result of a greater number of students matriculating from our associates program. In fact, well over half of all associate students who graduate now continue on to get a bachelors degree. That being said the vast majority of the growth in our bachelor's programs continues to be from students new to the University of Phoenix. We believe this is the result of many factors including our branding efforts, increased focus on local marketing and the improvements we made to our website, among other things.

Just a brief update on Apollo Global. Since its inception over two years ago now, Global has been building a strong management and operations team. During the first quarter, John Baule joined us from K-12 and will serve as the COO and CFO of Apollo Global, we're very excited to have him on board as John's education in international and operational experience will benefit us as we continue to grow Global's existing three institutions as well as further expand our global education network.

Our first quarter was the first full quarter with BPP operations and in total we have been working with BPP for over five months and we're pleased with the integration process. The key areas of focus are marketing, technology and human resources and our teams are working together to share best practices and streamline operations, particularly for BPP's recently launched business school. We're starting to see the benefits of our global education network and representatives from all of our schools are sharing knowledge in many areas, including academics and marketing and we remain excited about the many opportunities that exist in the international marketplace.

Before I turn the call over to Brian, let me just quickly address share repurchases. We continue to have $500 million authorized for share repurchases. We didn't repurchase any shares during the first quarter. Unfortunately there are many restrictions placed on us when it comes to buy-backs. We have internal rules around blackout dates and we always consult our legal counsel. However, we have bought our stock back in the past and share repurchases are part of our capital allocation plans in the future.

With that I'll turn the call over to Brian.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Thanks, Greg, and good afternoon, everyone, our strong first quarter results were driven by revenue increasing nearly 31% compared to the same period a year ago. Excluding the impact of $89 million in revenue from our recent acquisition of BPP revenue growth was 22%. The components of this increase were primarily University of Phoenix's 18% enrollment growth, combined with increased tuition rates. While I'm talking about enrollment I want to remind you that during the second quarter of fiscal 2010, there will be one less Monday as compared to a year ago. Which will have an adverse impact on associates enrollments for that quarter.

As expected revenue growth was impacted by the higher discounts we are now offering our active duty military students and participation to the fullest extent possible in the Department of Veteran Affairs Yellow Ribbon Program. Net income was $240 million or a $1.54 per share compared to $180 million or $1.12 per share in the first quarter a year ago. Excluding the $11.4 million tax benefit resulting from our recent settlement with the IRS our net income increased 27% to $229 million resulting in EPS of 1.47 per share. BPP's operations added $0.04 per share in the first quarter. Operating income increased 28% to $393 million however we saw a 70 basis-point decline in operating margin primarily due to BPP's cost structure, an increase in bad debt expense. Excluding the impact of BPP's operations, operating margin would have been 100 basis points higher. The change in operating margin was driven by a 280 basis-point increase as a percentage of revenue in instructional cost and services for ICS, offset by 180 basis-point decrease in selling and promotional expenses and a 30 basis-point decrease in general and administrative expenses or G&A.

Before I discuss each individual cost category, I'd like to spend a few minutes discussing BPP's business model in more detail. As we indicated last quarter, BPP experienced lower new student enrollments in the fall of 2009 versus 2008. Primarily due to economic conditions in the UK. As a result, we do not expect to see much growth at BPP this year. Additionally, BPP has significantly more seasonality than our other businesses due to its student intake being driven by a more traditional fall school year start as well as the timing of the various certification exams which together tend to drive stronger revenues in our first and third quarters. Furthermore, we intend to make significant investments in BPP, and BPP's cost structure is fairly fixed which results in large swings in margin and will result in BPP contributing fairly significant losses in our fiscal second and fourth quarters. In fact, we expect the loss in the second quarter to more than offset the contribution this quarter and the loss in the fourth quarter to be greater than the second.

Now I'll spend a minute on the variances in each of our expense categories. First, ICS. The significant increase in ICS was primarily driven by BPP's expenses as well as an increase in bad debt expense. Offsetting some of the increase was leverage of certain operating expenses such as space and employee costs. Bad debt expense increased 130 basis points to 4.9% of revenue, compared to 3.6% a year ago. BPP's operations favorably impacted overall bad debt expense as a percentage of revenue by 40 basis points in the first quarter of fiscal 2010.

The year-over-year increase in bad debt expense is the result of the same factors we experienced last quarter. Namely, lower collection rates on older receivables, in part to a difficult economy, and a shift to a larger portion of associate students at the University of Phoenix. Additionally some of the operational changes we implemented during the fourth quarter of 2009, including the 30-day dispersement delay for certain students to receive Title IV funds as well as the evaluation of transfer credits prior to loan certification have had a permanent impact on bad debt expense. Consistent with past quarters our allowance for doubtful accounts continues to exceed all receivables greater than 90 days old.

We monitor bad debt expense trends as a percentage of revenue on a last 12-month basis due to seasonal fluctuations. We expect recent LTM trends in bad debt expense to continue in the near term and therefore we are evaluating some of the operational measures available to us which we believe can eventually help reverse this trend. We believe that over time our operational actions, improvement to economic conditions, and a mix-shift toward more bachelor and graduate degree students should lead to lower bad debt expense as a percentage of revenue.

Selling and promotional expense as a percentage of revenue improved versus a year ago for the fourth quarter in a row. Primarily due to continued improvement in enrolling effectiveness. On the marketing side, consistent with the past couple of quarters, the majority of the dollar increase was due to non-internet marketing which is primarily focused on long term branding initiatives. I want to point out that in the first quarter BPP's operations benefited us in selling and promotional expense by about 120 basis points as a percentage of revenue due to their seasonally strong revenue and generally lower selling and marketing costs as compared to our other businesses.

Finally, G&A, which was down slightly year-over-year as a percentage of revenue primarily due to lower share based compensation. In the first quarter share based compensation totaled about $14 million. We continue to believe share based compensation for the fiscal year will be approximately $65 million to $70 million. Our effective tax rate in the first quarter was 38.4%. Which includes a tax benefit of $11.4 million associated with the settlement of an IRS audit related to stock option compensation. Excluding any additional unusual items we expect our effective tax rate for the remainder of the year to be consistent with our prior estimate of 41%. However, this rate could vary depending on the outcome of our state tax initiatives and the results of our foreign operations.

Now, let me turn to the balance sheet and cash flows. We continue to maintain a well capitalized balance sheet as of November 30, 2009, with unrestricted cash and cash equivalents, as well as marketable securities of about $925 million. Furthermore, during the quarter, we paid down the majority of our revolving credit facility leaving total debt outstanding in November 30, 2009, of $193 million, versus $589 million dollars at August 31, 2009.

During the first quarter, we generated approximately $330 million in adjusted free cash flow, a 13% increase versus the first quarter a year ago. Adjusted free cash flow growth was lower than earnings growth due primarily to the increase in accounts receivable, partially offset by lower income taxes paid due to the timing of tax payments. As a reminder we define adjusted free cash flow as cash flow from operations less CapEx and changes in restricted cash. Excluding Apollo Global, our days sales outstanding for the first quarter was 32 days, consistent with the amount at August 31, 2009. But higher than the 26 days a year ago. This year-over-year increase is primarily due to operational changes at the University of Phoenix which I mentioned when discussing bad debt expense as well as increases in growths and accounts receivable due to lower collection rates on aged receivables. Before I turn the call over to Chas, I want to address the SEC informal inquiry which we announced in October.

First, we continue to fully cooperate with the SEC to ensure they have all of the information they need to complete their inquiry. Second, we continue to believe that our accounting policies are appropriate and in accordance with GAAP. We will not be commenting about the inquiry at this time. With that I'll turn the call over to Chas.

Chas Edelstein - *Apollo Group - Co-CEO*

Thanks, Brian. Today I'd like to highlight a few key milestones which we accomplished over the past several months and touch on a few initiatives which will give you a feel for our priorities. Our management team is actively focused on lowering our risk profile as part of our efforts to create long term value. We understand this includes both how we operate our business as well as removing uncertainties to the extent we can. Over the last several months we have made significant progress in this area.

First, as we announced a few weeks ago, we resolved our qui tam lawsuit. This settlement brings closure to a long running dispute and enables us to avoid the uncertainty and further expense associated with protracted litigation. Importantly, we admitted no liability or wrongdoing as a result of this settlement. Second, University of Phoenix recently received a recertification of its program participation agreement, thus providing University of Phoenix students access to Title IV for the next three years. And, third, as Brian discussed, we recorded a reduction in our income tax expense during the first quarter associated with our settlement of an IRS audit. Fourth, we've received our program review report from the Department of Education. I'd like to provide a little more detail on this recent event.

As you know, in February of '09, the Department performed a focus program review of University of Phoenix's policies and procedures involving Title IV programs. We received this report last week. The report contains six findings and one concern. Three of the findings generally relate to our procedures for determining the date of student withdrawals, which is relevant for calculating the date on which we must return unearned Title IV funds. No errors were identified in our calculation of the amount of Title IV funds to be returned. Another finding relates to isolated clerical errors in verifying student supplied information. The two remaining findings were self-reported by University of Phoenix, and involve our calculation of student financial need in certain cases without taking into account tuition and fee waivers and discounts, as well as the use of Title IV funds for non-program purposes like transcript application and late fees. In addition the department expressed a concern that some students enroll and begin attending classes before completely understanding the implications of enrollment, including their eligibility for student financial aid.

We believe our liability resulting from the findings will be approximately $1.5 million which has been accrued in our financial results. In addition the department's regulations require certain institutions to post a letter of credit when a preliminary program review cites untimely return of unearned Title IV funds for more than 10% of sampled students, which applies in our case. Absent relief from this requirement, we will be required to post by January 30th a letter of credit in the amount of credit in approximately $125 million.

We are reviewing the report in detail and expect to submit a response in the 90-daytime frame as required. The process was constructive and we have taken or expect to take actions to address each finding and concern. Until the final report with our response has been issued, we won't be discussing the contents of the program review reports in any further detail.

Also, on the topic of risk management we continue to closely monitor the current negotiated rule-making process and other developments in Washington. Since our beginnings over 35 years ago, Apollo has been through many of these processes and we're confident we'll once again manage through the outcome. Additionally in order to further enhance corporate governance, we strengthened our Board of Directors with the addition of Sam DiPiazza, former Global CEO of PriceWaterhouseCoopers International. Sam has joined the audit committee and we look forward to the benefit of his vast experience in leading a large global organization.

Finally, as we strive to lead the industry in delivering greater accountability and transparency in higher education we published University of Phoenix second academic annual report. In it we have again reported a variety of metrics which provide a transparent look at issues such as academic quality including student performance and satisfaction as well as completion rates which are notable given the risk factors associated with the non-traditional students that we serve.

Before we close, I'd like to elaborate on an important priority for us. This is our commitment to do the right thing for our students, including implementing student -- certain student protections. For example, we have recently made a Responsible Borrowing Calculator available to students who are considering enrolling at University of Phoenix. This tool enables the student to determine the exact amount of borrowing required for his or her needs as well as motivate students to identify and eliminate excessive borrowing. Second, our pilot University Orientation program helps identify prospective students who are not yet prepared for the rigors of college before they incur tuition fees or debt. You can expect to see us doing more work in this area.

As Greg mentioned earlier, we're also trying to use our marketing intelligence to better identify students who have a greater chance of succeeding in our rigorous programs. As a result, we have been making some adjustments to our marketing efforts which we hope will resonate with more prepared students looking to return to college. As with University Orientation, our changes in marketing may initially result in lower new enrollments but our hope is that if successful, we trade lower new enrollments for higher completion rates. We also strive to be one of the most responsible corporations through the environmental work we do, and through our focus on employee wellness, and our efforts to give back to the communities through support of employee volunteerism and corporate giving.

In summary, we believe we have a responsibility to be leaders in education for the working learner and we are committed to being a role model within our industry. We will maintain the position as leader and role model through our initiatives aimed at responsible growth, our student protection measures and through continued elimination of those uncertainties over which we have control. We believe we can accomplish these goals for the benefit of our students while achieving the long-term internal growth targets which we have previously outlined. Before we take your questions, we would like to thank our dedicated employees and faculty who work hard everyday to deliver the service I just mentioned. Their passion and talent drive our positive results. With that I'll turn the call back over to the operator so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Gary Bisbee from Barclays Capital.

Gary Bisbee - *Barclays Capital - Analyst*

Never heard it pronounced like that. Hey, guys, good afternoon.

Chas Edelstein - *Apollo Group - Co-CEO*

Hi, Gary.

Gary Bisbee - *Barclays Capital - Analyst*

I guess a couple of questions, can you clarify it for us, I appreciate the comment on buybacks and wanting to get more into the SEC but does that inquiry preclude you from share buy-backs in the near term or have you got the legal okay to do that if you chose to next week?

Greg Cappelli - *Apollo Group - Co-CEO*

Gary, what we've said about it is that they're definitely part of our capital program, and it is something that we'll consider going forward. We do have the buy-back in place. We consult with legal, continuously as you would expect, and we would expect to have buy-backs as a part of our capital allocation program going forward.

Gary Bisbee - *Barclays Capital - Analyst*

Okay. Can you give us anymore color on this -- orientation program pilot? Is that -- how extensively have you rolled that out to date, when -- over what timing will you do the rest of that, and you may not be able to answer this, but the last one there is just does -- has that -- it would seem like that might be something that would be helpful in this one concern that the program review brought up. Is that something that was considered in that -- during that review?

Greg Cappelli - *Apollo Group - Co-CEO*

Actually University Orientation is something that we have been thinking about for a long time. It's taken time to design it, to implement it, to start testing and piloting it. We're excited about it. I mean, we told you the last couple of quarters the direction we want to go with the university. Maybe what I'll do is just ask Joe to comment a little bit further and try to answer your question.

Joe D'Amico - *Apollo Group - President, COO*

Yes, we're evaluating it every month and every quarter to see how much further we want to roll out the pilot and the benefits it's bringing. So we're going to continue to work on that and roll that out as we deem appropriate.

Gary Bisbee - *Barclays Capital - Analyst*

Would it be reasonable to expect that the impact, the starts that you mentioned for this quarter, might increase from that level? Or is that maybe a reasonable number to think -- about using for the rest of the year?

Greg Cappelli - *Apollo Group - Co-CEO*

If -- it's possible, Gary. We haven't really had that looked at it that way. We are truly in the evaluation stage in different regions and in different campuses and different areas of online. We'll try to do it responsibly as we roll it out. We're not looking to try and kill all of our enrollment growth. We were very pleased to see the increase in our bachelor degree programs, which again we're working on here for some time. And ultimately what we want is to do the right thing for the students and for the university. So that's how we're thinking about it in terms of rolling it out. I think it was important that Chas highlighted that while doing that, that we can achieve our long term goals which we highlighted last quarter.

Gary Bisbee - *Barclays Capital - Analyst*

Thanks a lot.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you, Gary.

Operator

Your next question comes from the line of Andrew Steinerman from JPMorgan, your line is open.

Andrew Steinerman - *JPMorgan - Analyst*

I'd like to repeat maybe, know, emphasize some of the points in the program review, I think either this was in part or in full, that there is not a question of the amount of Title IV to be refunded but it is just the timing of Title IV to be refunded, and is the $125 million letter of credit helped resolve that issue and how much does $125 million letter of credit cost?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, hi, Andrew. Let me try to answer all those questions. First of all to confirm yes, you're correct, the finding in the program deals with the timely return of Title IV funds, not the amount. There were -- as Chas mentioned, there were now determinations that the amount that we returned were incorrect. So it deals with the timing and it really deals with the determination of when a student has withdrawn and at that point you have a certain amount of time to return funds to the programs and in our case we were late in the sample that the Department of Ed looked at.

With respect to the letter of credit, the Department of Ed has a rule if there is a sample with more than a 10% error rate which there was in this case on a number of samples, that you have to put a letter of credit in place which represents 25% of your prior year total return to lender dollars and in our case that is approximately $125 million. So we disclosed that and that is what the letter of credit would require and we'll talk to the department to see if there is any opportunities from relief in terms of how much that letter of credit has to be.

Andrew Steinerman - *JPMorgan - Analyst*

Right, and in the last part $125 million letter of credit is not that expensive.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, I know, we have the ability to issue it out under our credit facility. Obviously there is some interest costs with doing that. But we have the ability to do that, there's plenty of liquidity in our balance sheet.

Andrew Steinerman - *JPMorgan - Analyst*

So this is a pretty low amount of money to get this behind you?

Greg Cappelli - *Apollo Group - Co-CEO*

I mean -- all things considered, I have to say that we were pretty pleased with the entire process of the program review. Again, I don't know, Joe, if you would like to comment on it because I know you were directly involved, but--

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Joe D'Amico - *Apollo Group - President, COO*

Yes, I would just add that the process was very constructive, and we continue to have I think good dialogs with the department just as the regulator should have with the largest provider of Title IV, handler of Title IV funds.

Andrew Steinerman - *JPMorgan - Analyst*

Right. Thanks for all of those clarifications.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you.

Operator

Your next question comes from the line of Sara Gubins, from Banc of America, Merrill Lynch, your line is open.

Sara Gubins - *BAS-ML - Analyst*

Thanks, good afternoon. Could you talk a bit about the decline in persistence in associate-degree students? Just any sense of what you think might have driven that?

Greg Cappelli - *Apollo Group - Co-CEO*

Well, I mean, one thing right off the bat is we just had a much harder comp. It was about a year ago that we saw some real improvement in that. But the reality is that, as that pool gets larger those are tougher students to retain, and we want to make sure that if there is a trend there we stop it immediately.

There was also just in the persistence the way you calculate it for models, that extra start date just technically last quarter versus this quarter, drives part of the difference as well. But all that being said, I guess that would have smoothed last quarter and this quarter to be a little bit more consistent and a lower level drop in persistence rate quarter to quarter. That being said there is some drop there and we're all over it. We want persistence and we want retention which is what we focus on internally to be stable and improving. We knew it would be harder with the levels and gains we've made to keep going up at the rate we were, but it's the reason why we're putting the programs in place is the reasons why we're doing things for the university that we are.

Chas Edelstein - *Apollo Group - Co-CEO*

I just add on that there were also a higher number of graduates versus a year ago and so that -- that as you look at the persistence number, that's -- in associates, that is part of it as well.

Sara Gubins - *BAS-ML - Analyst*

And you mentioned some changes in your marketing to get after more prepared students. Can you give us details about how the marketing campaign is changing?

Chas Edelstein - *Apollo Group - Co-CEO*

Sure, in terms of marketing it's really in gathering data to identify what are the characteristics of students most likely to succeed. So, for example, we're trying to understand more about the characteristics of individual marketing partners and affiliates as we think about those marketing channels. Also, other characteristics like number of credit hours that students come to us with, so if we can understand these characteristics better by gathering data and target our marketing efforts more toward the characteristics that are likely to result in more prepared students, that gives us a better base.

Greg Cappelli - *Apollo Group - Co-CEO*

One of the things we watch closely is does it cost more money to get the same type of a student or additional student into the university, and I think as was previously said in the script, that is not the case. We are moving around our targeting in these areas to some extent but we're pleased with the cost to acquire a student at this point.

Sara Gubins - *BAS-ML - Analyst*

Is there any chance you might slow down the rate of growth in your marketing spend in that you're going after a more targeted focus and so start growth might be lower but sales and marketing expense might also be commensurately lower?

Greg Cappelli - *Apollo Group - Co-CEO*

That is possible. What I would say about that there is more likely to be a shift in it, so if you look at the rate of growth, and I realize you have a number that's consolidated, but we're able to look at that and say, well, where is the growth in that number? And there is much more significant growth in our long-term branding and awareness campaign than there is perhaps in what you would look at in terms of traditional ways of getting students. So that's possible, but, again, the composition of that number has changed some and may continue to do that over the next couple of quarters.

Sara Gubins - *BAS-ML - Analyst*

Okay. Just last quick question. Are you actually changing your enrollment policies in terms of who can be admitted into programs or is it more of a targeting approach?

Joe D'Amico - *Apollo Group - President, COO*

This is Joe, it is more of a targeting approach. But if a student comes in with less than 24 credits we are looking at them participating in University Orientation, at least in selected markets at this point.

Greg Cappelli - *Apollo Group - Co-CEO*

It's important for us that they understand that it's a rigorous program, it's going to take time and effort and we want them to realize that and to get some flavor and experience of what it is going to be like in college prior to taking on debt.

Sara Gubins - *BAS-ML - Analyst*

Thanks very much.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you.

Operator

Your next question comes from the line of Trace Urdan from Signal Hill, your line is open.

Trace Urdan - *Signal Hill - Analyst*

Thanks, good afternoon.

Greg Cappelli - *Apollo Group - Co-CEO*

Hi, Trace.

Trace Urdan - *Signal Hill - Analyst*

Hey, I wanted to go and see if you might be able to comment on the issue regarding the determination of when a student has withdrawn. Was there a sort of a difference in understanding between you and the Department of Ed over that issue? Was it simply an error on your part? Is there any change, you know, was there something systematic there, or was it just they just kind of found some errors?

Joe D'Amico - *Apollo Group - President, COO*

Trace, it is Joe. We had a process in place to ensure that any student who withdrew from the university or let's say did not attend, was automatically withdrawn from the university and payments for those who withdrew were made timely. The discussion really was around exactly when does this student initially indicate that they want to withdraw. Of course, we have a lot of documentation and systems and times with the discussions that take place with students, and many times a student will call and say they're thinking about withdrawing and the like. So there are notes around that, notes and files that then became a dialog around what the student at that point intend to withdraw and shouldn't that be the date on which the withdrawal is determined.

So there is some element of systematic impact here. It only related to one year. And I think Greg mentioned the new withdrawal process that we put in place. Well, that in part was really an idea that came from both discussions because we felt that we could eliminate that issue totally by putting a better process in place, one that was more -- that first of all, provided self-service capabilities which is totally consistent with what we want to do. It brought efficiencies for us, created clarity for the student, clarity around the whole issue, consistency, communication, and just a matter that we knew was going to be part of the program review. So bottom line is it results in a better student experience. Finally, I want to be sure everybody understands it is totally unrelated to the recognition of revenue. So we think it was a good result. In fact when we talk about the process with the Department of Education being constructive, this is one area where I felt it was very constructive.

Trace Urdan - *Signal Hill - Analyst*

Okay.

Joe D'Amico - *Apollo Group - President, COO*

By the way the average number of days late for this sample for this one year was around six days. So and we have 45 days generally to return from the initial time a student intends to withdraw.

Trace Urdan - *Signal Hill - Analyst*

Okay. So given all of that , how long does a letter of credit need to stay

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Joe D'Amico - *Apollo Group - President, COO*

Well, that -- that is -- that is something that we're going to talk to the Department on, but I believe it's a two-year requirement or up to two years, or could be more, I suppose, than two years. But if you think about the amount that we're talking about, $125 million to cover this, is really a huge amount and I don't think the rules were written for our situation, quite frankly. So at least we'll talk to the Department around -- around that requirement and see if -- if in fact this totally applies and how we might discuss it and do it.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Trace, it is Brian, just to be clear, too, how long the LCD is going to be in place we're still looking at that. We believe it is September 2011. More importantly as Joe mentioned we have over a $1 billion of liquidity just to reiterate that. So the LC mechanically we can do under the credit agreement and overall it's not going to impact our capital.

Trace Urdan - *Signal Hill - Analyst*

Okay. On a different topic, I wondered if you have seen any kind of movement in terms of demand in the military market as a result of your pricing change there? Has it worked?

Chas Edelstein - *Apollo Group - Co-CEO*

Yes, it is working.

Trace Urdan - *Signal Hill - Analyst*

Any more elaboration?

Chas Edelstein - *Apollo Group - Co-CEO*

No.

Trace Urdan - *Signal Hill - Analyst*

No? Okay. Fair enough. And then the final thing before I let you guys go, I was hoping that you might just offer a little bit of commentary on the criticism that the OIG has levied against some of your creditors including HLC around the recognition of credit hours. You worked with HLC for a long time. What is at the heart of that, in your opinion, and do you see any changes likely resulting at the accreditation level as a result of this kind of wave of activity by OIG?

Chas Edelstein - *Apollo Group - Co-CEO*

We don't really have any way to forecast that. I can tell you from our pros perspective we have a constructive relationship with HLC and our approach is as long as we do everything right by our students from an academic perspective. We intend to maintain a good relationship with HLC and all of our creditors.

Trace Urdan - *Signal Hill - Analyst*

Thanks, I'll let you guys move on. Thanks.

Greg Cappelli - *Apollo Group - Co-CEO*

Thanks, Trace.

Operator

Your next question comes from the line of Suzi Stein from Morgan Stanley, your line is open.

Suzi Stein - *Morgan Stanley - Analyst*

Can you delve a little deeper into the bad debt issue, I mean do you think that the (inaudible) gets better? I know you have plans to put procedures in place to mitigate it but how quickly this happen? Just wondering if it makes sense to build an incrementally higher number for the next few quarters?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, Suzi, we do look at the way we monitor the trends and bad debts as I mentioned is on a last a 12-month basis, kind of LPM basis and we've seen that increase as you can see in the last few quarters and we do expect that trend to continue in the near term. Over time there are things we can do to help control this, the principle on being targeting students that retain longer. As we said before, our receivables and our bad debt occur when our students drop out of a class and so tying into all of the discussion that Greg mentioned in terms of targeting more bachelor and graduate degree students is an obvious one that we're doing and going to do more of. Then there are also other things we can do just operationally to help manage it over time.

Greg Cappelli - *Apollo Group - Co-CEO*

It is a prudent thing to do, we don't know but it certainly could go up over the next couple of quarters. We are going to anniversary, eventually what Brian talked about before in terms of the change that was made, with one of the issues affecting bad debt. And that could help, that could provide some relief as well. But ultimately it is the things we talk about strategically that we expect to play the biggest role here.

Suzi Stein - *Morgan Stanley - Analyst*

Okay. I know you don't want to comment on the SEC inquiry but could you maybe just address how it is being handled internally, have you hired experts beyond your auditors to look at the recognition policies, any commentary you can address, you can give us about that would be helpful?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, Suzi, unfortunately we're not going into a lot of details there. I'm sure you can appreciate why given the sensitivity. But I think it is important for everyone to know that we're fully cooperating with the SEC and we believe all of our accounting policies are appropriate and in accordance with GAAP.

Suzi Stein - *Morgan Stanley - Analyst*

Just a nitpicky one, can you address the net increase in corporate overhead expense year-over-year?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

You're referring to the segment table you're referring to?

Suzi Stein - *Morgan Stanley - Analyst*

Yes.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, it is principally due actually just some -- well, adjustments year-over-year and allocation of costs through the segments. There was some minor differences in how we allocate costs. It shows that it's going up, obviously our cost structures up, our revenue is up, that is part of it as well. It is just an allocation issue and timing issue.

Suzi Stein - *Morgan Stanley - Analyst*

Okay. Great. Thank you.

Joe D'Amico - *Apollo Group - President, COO*

If I can just add to Brian's point, we also obviously paid very close attention to our cost structure, especially with the things that we've spoken about earlier. So cost management is definitely something top of mind.

Suzi Stein - *Morgan Stanley - Analyst*

All right. Thanks a lot.

Operator

Your next question comes from the line of Bob Craig from Stifel Nicolaus.

Bob Craig - *Stifel Nicolaus - Analyst*

Good afternoon, everybody.

Greg Cappelli - *Apollo Group - Co-CEO*

Hello, Bob.

Bob Craig - *Stifel Nicolaus - Analyst*

I want to make sure I understand the shift I was going to call it a strategic shift but that might not be accurate to emphasizing the higher end programs, especially in the light of some of the success you've had in terms of increasing that migration rate. Is that a temporary phenomenon, do you believe, until the University Orientation program is completely rolled out, or is this something that will continue for a while?

Greg Cappelli - *Apollo Group - Co-CEO*

Just so I'm clear, are you talking about matriculation rate from --

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Bob Craig - *Stifel Nicolaus - Analyst*

Associate to bachelors.

Greg Cappelli - *Apollo Group - Co-CEO*

Yeah. No, we don't think that the increase in that is temporary by any means. In fact, that's been trending nicely for a long period of time now. And as we mentioned it is significantly over 50% at this point. So that is something that we're really happy about.

Chas Edelstein - *Apollo Group - Co-CEO*

Bob, are you asking about the actions that we're taking to focus more on higher-level degrees--

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Bob Craig - *Stifel Nicolaus - Analyst*

Yes, yes, that is what I was asking you.

Chas Edelstein - *Apollo Group - Co-CEO*

So I think that really stems from I think what we're learning, which is that as we move forward we're seeing more students come to us who are less prepared, particularly at the associate level, and so we're doing things to try to attract more prepared students. And that will logically mean probably more higher-level students on a relative basis than previous.

Greg Cappelli - *Apollo Group - Co-CEO*

It is also where you focus your efforts, where you point your marketing efforts, what you choose to focus on internally, where you roll out your programs of study, at what level. We were very focused on the associate level for a long period of time. As you know from the last several calls we've had, where our focus is going forward.

Bob Craig - *Stifel Nicolaus - Analyst*

Is part of that, Greg, is that an emphasis in terms of program development, too, on higher-end programs?

Greg Cappelli - *Apollo Group - Co-CEO*

Yes.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. Can you quantify that in any way?

Greg Cappelli - *Apollo Group - Co-CEO*

How many programs?

Bob Craig - *Stifel Nicolaus - Analyst*

Yes. How many program in the pipeline.

Greg Cappelli - *Apollo Group - Co-CEO*

I don't really want to do that at this point, Bob, but we'll keep you updated there as well as on the technology front which is going to play a role in that as well. As we mentioned, we're doing some very exciting things on that front and we'll have more to say about that in future calls.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. Last question and I'll turn it over. I know there is a long tail to this, but any measure of the ROI of the brand spending you're doing and any change overall in receptivity to your marketing message?

Greg Cappelli - *Apollo Group - Co-CEO*

There is absolutely a measure to the ROI, we look at that closely all the time.

Joe D'Amico - *Apollo Group - President, COO*

There has been very good receptivity to the marketing, as to the branding message, and we actually monitor that very closely and adjust accordingly. And you'll see there's some new ads out maybe within the last 60 days, or so, that are helping -- helping our thought leaders understand University of Phoenix in a very clear way, understanding our accreditation and understanding who we are. And we -- what we find is that the more someone understands what the University of Phoenix is all about, what we're trying to do, and the good that we have done, the perceptions of who we are, are changing. And our objective is to get that message out, because we, of course, internally understand it very clearly, that's why we're here, but we want everybody to understand it. And that will change, the perception of our brand.

Bob Craig - *Stifel Nicolaus - Analyst*

Is the magnitude of that spend going to remain fairly constant here?

Joe D'Amico - *Apollo Group - President, COO*

I think in the near term it probably will. So.

Greg Cappelli - *Apollo Group - Co-CEO*

We've actually, we've actually obviously budgeted for a certain amount of spend in this fiscal year, and right now we're on that plan.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. Thanks guys, appreciate it.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you ,

Operator

Your next question comes from the line of Andrew Fones from UBS, your line is open.

Andrew Fones - *UBS - Analyst*

Yes, thanks. I just wanted to follow up and clarify on the buy-back. I was just wondering, if you can tell us when the blackout period ends, related to this earnings release, whether or not at the moment you are expecting to be in a position to potentially buy back stock if you wish or whether the SEC inquiry would still currently impede that?

Greg Cappelli - *Apollo Group - Co-CEO*

Andrew, the blackout ends a couple days after our -- after today, after we release earnings.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

After two full trading days our internal policies will allow us to consider opening the window.

Greg Cappelli - *Apollo Group - Co-CEO*

The only thing we're going to say about buy-backs, is they have been part of our capital allocation plan in the past and they re going to be part of it going forward. It is part of our assessment always in terms of how we use our capital.

Chas Edelstein - *Apollo Group - Co-CEO*

Andrew, even during periods where our policies have the windows open we still have to review with counsel at that time to see what the deal is.

Andrew Fones - *UBS - Analyst*

Okay. And then going back to one of Gary's questions, I was a bit unclear on kind of how you answered it, but can you give us the exact kind of time in terms of when you implemented the new boarding and marketing strategy? I would just kind of like to understand whether that impacted Q1 results at all or whether that is something that will be incremental and incremental going forward.

Joe D'Amico - *Apollo Group - President, COO*

The University Orientation is what you're referring to, Andrew?

Andrew Fones - *UBS - Analyst*

Yes.

Joe D'Amico - *Apollo Group - President, COO*

That started quarters, a couple of quarters ago, anyway. I don't remember the exact start date, for the pilot, and the pilot has been growing which is why now it is something we're speaking about because it is now having impacts. So now we're beginning to discuss it as it continues to grow.

Andrew Fones - *UBS - Analyst*

Okay. And then the -- in terms of kind of the shift on marketing that is also just been some gradual change or is it a real start date there?

Greg Cappelli - *Apollo Group - Co-CEO*

No, that's -- marketing, I think we've said this all along, the longer we -- the more control we've had now over the brand and the data, and we see what's happening, we're constantly making changes to our marketing and our focus, and taking and relating data in ways that we have never done before. So we've gotten, let's say, more sophisticated about it, and we're really tying the performance of our partners to new enrollments that remain. That's what's key. Not new enrollments, not the cheapness of it. New enrollments that retain. That's what we're focused on.

Greg Cappelli - *Apollo Group - Co-CEO*

In fact that is what we used to measure the ROI, as brought up in the prior question. That is a big part of the calculation.

Andrew Fones - *UBS - Analyst*

Thanks. Then just final one, in terms of the 45 days that you have to return the funds and I guess 10% of the sample students being over that time frame, I was wondering how that can occur, for instance, for a program where you have a five-week period for the program, so that's only 35 days for the entire program, and yet the kind of the return of the funds because you weren't sure if the student dropped out was longer than that period.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

The rules, Andrew, are when you make a determination that a student has withdrawn from university, at that date you have 45 days to return the funds to the program. It doesn't deal with the time length of the course, but more around the determination of when someone withdraws from the university and at that point the clock starts to return the funds within the 45 days.

Andrew Fones - *UBS - Analyst*

Okay. Thanks.

Operator

Your next question comes from the line of Mark Marostica from Piper Jaffray.

Mark Marostica - *Piper Jaffray - Analyst*

A couple questions here. First is your master start growth was flattish, and I'm curious what you're doing there to drive additional movement there. You talked about attempting to get people to move to higher level programs, and then tied to that you did mention the matriculation from associates to bachelors, can you talk about the same sort of matriculation from bachelors to masters?

Greg Cappelli - *Apollo Group - Co-CEO*

Mark, I don't have an update for you right now to update you on matriculation from bachelors to masters. We were talking about this earlier in the quarter. Again, so much of it gets down to focus. Bachelors is a large area in this industry, and we put a focus in place to begin to grow that again after many quarters of not growing. And we need to do the same thing in masters. We need to focus in on it. We're starting to do that and I believe that we have as much opportunity as anybody to grow masters. But, you know, we initially put our focus outside of associates into bachelors, that's what we've done and now we're moving from there.

Andrew Fones - *UBS - Analyst*

Okay. And perhaps tied to that, I know you don't disclose ground versus on-line enrollments, but I'm curious if you are seeing -- I think you mentioned this in the past -- some sort of resurgence of ground enrollments and how prevalent that is across the system, and perhaps you can talk about -- you can talk about the enrollment counts or effectiveness, how is that looking ground versus on line?

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Greg Cappelli - *Apollo Group - Co-CEO*

We can tell you unequivocally that we care about our ground operations. We want them to be stable and growing and in fact they did grow in the quarter.

Mark Marostica - *Piper Jaffray - Analyst*

And would you say it's fairly prevalent across the system, or is it still more isolated in select geographies?

Greg Cappelli - *Apollo Group - Co-CEO*

I don't have that level of detail for you right now for this call and perhaps we can follow up with you.

Mark Marostica - *Piper Jaffray - Analyst*

Fair enough.

Greg Cappelli - *Apollo Group - Co-CEO*

But again it gets down to some of the things we're directly doing and part of that is the local marketing you may have seen, in certain markets, Mark.

Mark Marostica - *Piper Jaffray - Analyst*

One point of clarification. You mentioned six findings and one point of concern with the program review, and then you walked through a number of items. And I just wanted to make sure I understand, what was the exact concern of the list that you gave us?

Chas Edelstein - *Apollo Group - Co-CEO*

Let's see. First, I mean, just to help you with the difference between findings and concerns.

Mark Marostica - *Piper Jaffray - Analyst*

Yes, that was my next question.

Chas Edelstein - *Apollo Group - Co-CEO*

A finding is something that we need to specifically respond to and have to have an action with regard to it. And a concern is a broader -- is a broader comment and but we -- we expect to address both findings and concerns. So the concern that was specifically addressed here is that some students who enroll and begin attending the classes before they completely understand the implications of the enrollment, like their eligibility for financial aid and all of the implications of what it means to enroll. So they expressed it. It is not a specific finding but it is a rather a concern and we're going to be thoughtful about it. I would say that we learned something from this process and we're going to be thoughtful in responding.

Greg Cappelli - *Apollo Group - Co-CEO*

It absolutely fits in with what we're doing going forward.

Mark Marostica - *Piper Jaffray - Analyst*

That is what I was going to add. So the concern really hits at what you're doing at the boarding process?

Greg Cappelli - *Apollo Group - Co-CEO*

It certainly does.

Mark Marostica - *Piper Jaffray - Analyst*

Got it. Thank you.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you .

Operator

Your next question comes from the line of Sally Flynn from Credit Suisse, your line is open.

Greg Cappelli - *Apollo Group - Co-CEO*

Is this Kelly's long lost sister Sally?

Kelly Flynn - *Credit Suisse - Analyst*

Yes. Hey, guys. A couple of questions, I know you don't want to give guidance, but I was wondering for the starts for the second quarter, could you help us out just in the interest of avoiding completely wrong estimates? There is a lot of moving parts. You have got the I guess one less Monday, you've got the pilot, among other things. What type of deceleration should we be thinking about? I mean, what can you tell us there to help us out?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Well, Kelly, maybe one way to think about at least the calendaring issue or item, not issue, but we talked last quarter in Q4, if you recall, we had one extra Monday in Q4 of '09, and I think we reported around 22, 23% enrollment growth and we said that it would have been in the high teens, without that extra day or extra start. So I think you could use that as a benchmark of what it would mean for Q2. So hopefully that helps you a little bit.

Kelly Flynn - *Credit Suisse - Analyst*

Yes. And then I guess one way to come at this is, the orientation pilot, to what extent is the it rolled out, sort of what percentage whatever is relevant, is it currently covering, and how much is there to go?

Greg Cappelli - *Apollo Group - Co-CEO*

Yes, Kelly, we have it rolled out in a number of areas. We don't have percentages right now with you that we're going to share. We do consider it a pilot. But it has meaningful numbers of students and it will have more in it by the time we speak next quarter. One of the things that's difficult just on a forecasting perspective right now, even internally on that front is we're going to be getting people out of that program that are going to be coming to enroll in the university. Not everybody is excluded. They go through the program, we hope it screens out the appropriate numbers of people that are not as prepared as they need to be and then some are going to enroll back into the program. It is growing, it is meaningful at this point in terms of how it is impacting university, and but we're going to monitor it closely and we're going to try to be careful how quickly we continue to broaden the program.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. Great. And then a related question on margins. Also looking for a little help there. Given what you said about BPP, I mean, should we expect a year-over-year margin decline?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Well, Kelly, we're not giving exact numbers, but I did in my part of the script talk qualitatively about the BPP seasonality and hopefully provided you some guidance on ways to think about it -- the seasonality more directly. I also made some qualitative comments about bad debts as well.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. And then you reiterated the longer term targets that you gave out on the last call. Would you give us a little help with that in terms of do you feel like you slow below that in the near term and that ends up being kind of a reacceleration goal, or how should we think about that in the context of what you're implying about the second quarter?

Greg Cappelli - *Apollo Group - Co-CEO*

We didn't imply that. It's certainly possible that that could happen. With the thing that we're going to do, without question, is we are going to get this -- we are going to get this right. From the standpoint of how we want to run the university, what we want the makeup of the university to be, the quality we expect out of the entire university, including all the processes around what we are doing, that is what we are totally focussed on.

Now we also are modeling things out, we're forecasting, and we know the size of the industry, we know the numbers of people that are in the industry both domestically and internationally and our goal is consistent with what we talked about last quarter in terms of our long-term targets. What happens every quarter, on the way to that, can't tell you for sure. But and you can tell we're going through a bit of a shift right now in terms of what we're driving at but overall we feel good about the fact if we do the right things, we have the capability to meet our internal targets over time.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, great.

Greg Cappelli - *Apollo Group - Co-CEO*

We will certainly update you on that if that changes.

Kelly Flynn - *Credit Suisse - Analyst*

Finally, just a lighter question, I was watching the Bachelor the other night, I saw a new ad the one that detailed, what university has 400,000-plus graduates et cetera. I was wondering what that new ad campaign is and where does the I am a Phoenix campaign stand, is it no longer going on and what is the new message, et cetera?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Kelly, it is Brian. Both campaigns are still going on you maybe heard us refer to it as our thought leadership campaign. Those are the advertisements or the actual PR around that campaign that initially was rolled out in a certain location and now we're doing it more broadly so.

Greg Cappelli - *Apollo Group - Co-CEO*

It is interesting because a number of people have called over the quarter and we'll get questions like, from an industry perspective given the economy, maybe jobs are not as difficult at this point, is there some big shift you're seeing in terms of how difficult it is to attract students. I think the answer to that is unequivocally no it is not but it depends who you want to be, in what area you want to go after and that, there is a different answer to that but there's no question in my mind if you want to put a certain amount of capital towards marketing you can achieve a certain enrollment goals if you want to in this industry at this point.

Kelly Flynn - *Credit Suisse - Analyst*

Let me just start a last one because it relates to what you just said--What is your current view on counter-cyclicality and do your comments about mix-shift relate at all to the expectation that associates may slow more than bachelors for that reason and are you seeing any of that now?

Greg Cappelli - *Apollo Group - Co-CEO*

That counter cyclicality wasn't the reason for that comment. Mix-shift is, gets back to where we want to put our focus. So that is an important distinction. I think our views on counter cyclicality haven't changed. I rely on my research from years past which absolutely in certain areas I found some counter cyclicality in this industry and in other areas not as much, not as much at the university level. But it's certainly absolutely something that occurs and to what level into any one year we don't have an exact estimate for you. What we talk about a lot internally is we're not going to sit around and wait for the economy to do certain things and worry that the economy is going to do certain things.

We believe that there is going to be an increasing need here to educate students both domestically and internationally, that it is something that is going to be hugely important for our economy going forward, and regardless of the economy at any one point in time we're putting in the strategy and the plans to do that, over the next five years and the long-term.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. Great. Thank you very much.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you, Kelly.

Operator

Your next question comes from the line of Brandon Dobell from William Blair.

Brandon Dobell - *William Blair - Analyst*

Appreciate you sneaking me in here. Kind of leveraging off of Sally and business question.

Greg Cappelli - *Apollo Group - Co-CEO*

Close call, by the way.

Brandon Dobell - *William Blair - Analyst*

I was expecting a butchering of mine but at least we snuck through there. I guess asked a different way, on a continuum of rolling out the orientation program or being more selective in terms of financial aid disbursements how connected are those two things, are they connected with the student resource center effort that you had going on kind of an earnest last year? I'm trying to get an idea of how connected all of these things are or if they're individual efforts that are not really tied together. And the larger question is if we go back a year and a half or so, you guys talked about 15 or 20 different pilot programs put in place to -- a lot of them look at retention in program development, were these some of them, how many have dropped off? How do you feel about the success rate of those pilots?

Chas Edelstein - *Apollo Group - Co-CEO*

I'll try to answer that, Brandon. They are all connected. They're connected to a philosophy. The philosophy is to create the right student experience to deliver our education to students who have a reasonable chance to succeed in our program, try to not put people into debt that just want to try it out and don't understand what they're getting into. It's about quality of the institution and it's about doing the right thing. This is all connected and I think all of these would fall into that category. We are making investments to be the best we can possibly be as an educator. And that's where the technology -- some of the technology discussion comes in. It will -- we believe some of those investments will also contribute to retention. So all of this is really connected and there is a theme here which I think Greg played out at the very beginning of

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Brandon Dobell - *William Blair - Analyst*

Okay. I guess in a different direction here, if you look at the impact of delayed disbursements, or you're choosing to make delayed disbursements, how big quarter on quarter or year on year impact was that to bad debt or was it mostly the difficult collections on older receivable that drove the year-over-year increase?

Joe D'Amico - *Apollo Group - President, COO*

Yes, Brandon, I mean I think it is a combination of the two, as I mentioned. There's no doubt the 30-day delay we did in the fourth quarter as well as implementing a full evaluation of transfer credits prior to certification, those are impacting the level of accounts receivables and ultimately bad debts, how much of it is that versus how much is the economy, is it difficult to even tell. And, you combine that with the student mix issues. There is a lot of moving parts in there and so they are all impacting it and at the end of the day we think it is all the right thing to do for the students in the long term and that is why we did them.

Greg Cappelli - *Apollo Group - Co-CEO*

Just to add on to what Joe said, if we do those things and we're successful, we'll be successful financially. It's okay to have, from what we've had in the past, lower level of enrollment growth, and better financial returns, you know? That is okay. And you can do the right thing for the student and achieve your financial objectives which is what I was trying to say earlier.

Brandon Dobell - *William Blair - Analyst*

And final question for you and Chas, you mentioned the report as part of the ongoing effort to kind of manage the risk I guess or look at it from that perspective. The sample sizes that you guys got on the different tests like sales and map, it seems real small compared to the number of graduates or the number of students, that the utility of that information I think some people could call into question because you guys are such a big organization. How do you reconcile the utility of that information with the size of the organization or do you have the opportunity or the ability to make people when they graduate take the math test, so you have got a broader sample size that I think the average investor or politician would view with a little more robustness or utility?

Chas Edelstein - *Apollo Group - Co-CEO*

Well, we don't require -- it is voluntary, and so, we really haven't discussed it if we would want to require students to do that. I guess it's something to think about it. It's really been in a voluntary basis and it's been conducted by an outside party so we know we're getting good data. But, it is not every student so that's a fair point.

Brandon Dobell - *William Blair - Analyst*

That does it for me. Thanks a lot.

Greg Cappelli - *Apollo Group - Co-CEO*

Thanks, Brandon.

Operator

Your next question comes from Paul Ginocchio with Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Looking back at your '09 new enrollment can you give us idea what percentage of your associates and what percentage of your bachelors would, under this new program go through University Orientation, and what was the impact, I think you said couple hundred basis points on overall new enrollment growth, could you break that out into or talk about what was the impact on Associates? Thanks.

THOMSON REUTERS

Greg Cappelli - *Apollo Group - Co-CEO*

Sorry, can you just clarify your question. Are you saying go back historically and see how it would have compared to a year ago? Just clarify for us what you're after.

Paul Ginocchio - *Deutsche Bank - Analyst*

What percentage of your new enrollment is subject to new orientation, less than 24 credits, to the University Orientation program?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

You're saying if it was rolled out?

Paul Ginocchio - *Deutsche Bank - Analyst*

If it was rolled out. I'm trying to understand what impact it has or what percentage of students.

Greg Cappelli - *Apollo Group - Co-CEO*

We don't have the percentage for you -- we don't have the data with the exact number of students that have less than 24 credit hours right now and we don't give that out.

Paul Ginocchio - *Deutsche Bank - Analyst*

You track it?

Greg Cappelli - *Apollo Group - Co-CEO*

We absolutely know how many credit hours students come in with.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. Just trying to, can you give us -- obviously there is a bigger impact on associates the deceleration on associate enrollment growth this quarter, more than--?

Greg Cappelli - *Apollo Group - Co-CEO*

Yes.

Paul Ginocchio - *Deutsche Bank - Analyst*

You won't size that for us?

Greg Cappelli - *Apollo Group - Co-CEO*

Yes, most of the students that come in with modest number of credit hours are associates students, that's true.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. Great. And finally can you again question about second quarter enrollment growth, can you help us, should we assume one less start week for associates and use that as a metric to factor the deceleration or the impact?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Paul, as I mentioned to Kelly, the way to think about it is to use the data from Q4 of '09, where we had the opposite effect. We had one extra Monday in the fourth quarter of '09, we have one less Monday year-over-year in Q2 2010, so we gave some qualitative analysis about what the impact was on Q4, and you could use -- you could draw similar conclusion to Q2 of 2010.

Operator

Your next question comes from the line of Amy Junker, with Robert W. Baird, your line is open.

Amy Junker - *Robert W. Baird - Analyst*

I'll keep it brief because I know it is getting late. Brian, I hope you can help us understand, I appreciate the color with BPP and the seasonality there, I was wondering, my understanding is, the majority of the hit to the gross margin exclusive of bad debt came from BPP, should we expect that same level of impact -- I guess I'm wondering should we think about gross margin being down 300 basis points going forward in each quarter, does the seasonality change that going forward?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, with respect to BPP, Amy, and obviously I gave a lot of qualitative discussion in my comments, but their seasonality is much more pronounced than our other businesses. So the financial performance that they had for Q1 2010 and the operating income they generated we said would be more than offset in the second quarter, because that's one of their seasonally weak quarters, they just have a fixed cost structure, is the nature of their business. You can certainly think about it that way and look at the numbers relative to all of the other non-BPP businesses within Apollo and the general seasonality amongst those, specifically University of Phoenix.

Amy Junker - *Robert W. Baird - Analyst*

If you could maybe tell me roughly what percentage of their revenues fall in each of the four quarters?

Greg Cappelli - *Apollo Group - Co-CEO*

I actually don't know those numbers off the top of my head. We'll get that to you.

Amy Junker - *Robert W. Baird - Analyst*

If you could follow up that would be great and then last one and I'll pass it over. I certainly appreciate not wanting to comment on the SEC inquiry, and I'm not going to ask a specific but last quarter when you announced it you said you didn't really know why -- what they were looking at specifically, and I'm wondering if today you have more clarity on that, if you've had enough conversations with the SEC to understand exactly what they're looking for, and again I'm not even asking what that is, I'm just wondering if you feel comfortable with what they're looking at?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Believe me, I appreciate the question, and again given the sensitivity of this, Amy, I'm sure you can appreciate we're not elaborating on the details. One of the comments I did say which will kind of somewhat answer your question is that today we absolutely are comfortable with our accounting policies and believe they're in accordance with GAAP so I mentioned that and we still stand by that as a management team and the Company.

Amy Junker - *Robert W. Baird - Analyst*

Thanks, guys.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you.

Operator

Your next question comes from the line of Jeff Silber with BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

One quick one and I'm going back to the program review. In the press release in the Q, you talk about these findings in the 2009 program review. If I remember correctly the department had told you they were going to do an annual program review. Has there been a new program review that has started since then and can you tell us anything about that?

Joe D'Amico - *Apollo Group - President, COO*

There has not been a new one.

Jeff Silber - *BMO Capital Markets - Analyst*

Fantastic. Thanks so much.

Greg Cappelli - *Apollo Group - Co-CEO*

Thanks, Jeff.

Operator

Your next question comes from the line of Scott Schneeberger with Oppenheimer, your line is open.

Scott Schneeberger - *Oppenheimer - Analyst*

Two quick ones to follow up on that, program review, it was a single year assessed. Is that correct?

Joe D'Amico - *Apollo Group - President, COO*

I'm sorry, no, it covered more than one year.

Scott Schneeberger - *Oppenheimer - Analyst*

Okay. But I think one of you mentioned it was a single year that that is where the concern arose?

Greg Cappelli - *Apollo Group - Co-CEO*

With respect to the -- with the amount or the timing of withdrawals and the payment on a timely basis, that related to only one year, they did not find that issue in prior years or in all of the years that they examined. Just in one.

Scott Schneeberger - *Oppenheimer - Analyst*

Okay. Got it. Thanks. And on another topic, just, some discussion earlier on use of cash and share repurchase, some restriction there. What is the outlook now with regard to acquisitions with a few months under the belt of BPP, where and how robust is the pipeline and how active do you expect to be going forward?

Greg Cappelli - *Apollo Group - Co-CEO*

There is a very good pipeline in place, there are very good people in place, now at Global. We are continuing to have discussions with organizations really around the globe in different areas. We're building long-term relationships, and I think that you'll continue to see Apollo Global grow from the capital that we're putting into it. So the opportunity is there, and we're certainly excited about those opportunities, and when the time is right, we'll certainly continue to build out the network. Does that answer your question?

Scott Schneeberger - *Oppenheimer - Analyst*

Yes, thank you.

Greg Cappelli - *Apollo Group - Co-CEO*

Okay. Thanks.

Operator

Your next question comes from the line of Ariel Sokol with Wedbush, your line is open.

Ariel Sokol - *Wedbush Morgan - Analyst*

Hi, guys, couple of questions. One, you mentioned of University of Phoenix academic reporting, thanks for calling it out. You listed the average student salary increases for bachelors and master students but I didn't see anything about associates degree program students who now represent close to 50% of the total student body. Could you provide those numbers?

Greg Cappelli - *Apollo Group - Co-CEO*

In the academic report -- I don't recall -- I don't have that report right in front of me. I'm sorry.

Ariel Sokol - *Wedbush Morgan - Analyst*

Okay. Okay. Well maybe offline then?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

There certainly would be no reason for us to omit something versus one or the other categories.

Ariel Sokol - *Wedbush Morgan - Analyst*

Can you parse out what the three-year default rate is for Axia students separate from the University of Phoenix. I'm trying to get a sense of what the default rate is for an associate student?

Chas Edelstein - *Apollo Group - Co-CEO*

We don't have that data. You know what the three year default rates were for the institution but don't have it broken down by degree type.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

And I just wanted to point out that Axia is not a separate university. It is part of the University of Phoenix and that is the way the government tracks it as well.

Ariel Sokol - *Wedbush Morgan - Analyst*

I'm trying to assess the conversations with associates degrees. I guess here's the question I have, you guys are talking about a reasonable chance of success for these students but you haven't defined what the measure of success is. The report says there is 31% completion rate for the 2004 cohort after three years. What is the completion rate you guys are targeting?

Greg Cappelli - *Apollo Group - Co-CEO*

You're right. We didn't say it has to be a magic number it has to be a certain completion rate. What we said is we're not happy with how many students we're finding who want to go to school and don't realize how hard it is and that they're actually not prepared to do so at this point in time. So we know that that is an issue for us and we're dealing with it and we outlined the things we're doing to deal with that. What is the absolute number that completion rates would have to get to? Higher.

Chas Edelstein - *Apollo Group - Co-CEO*

Think of it this way, if we can identify up front maybe even before we paid for the lead, but in any event, before they're incurring debt and start our program, if we can identify students who are going to come in and in a couple of months, figure out that this is way too hard for them before they start all that, it is better for us because we don't spends the money to bring them in and it is better for them because they don't incur debt. And that is the way to think about it.

Greg Cappelli - *Apollo Group - Co-CEO*

One of the ways you can get completion rates higher is to make the courses easier and we're not going to do that. The rigor of the course is what it is.

Ariel Sokol - *Wedbush Morgan - Analyst*

The last question, regarding getting students retained longer and better quality, it sounds simple but presumably there are other schools out there, competitors who are also targeting the same quality of leads, what would give you the confidence that you can implement this program without increasing the cost of the quality lead and would you potentially anticipate those costs could increase over the next year or two?

Greg Cappelli - *Apollo Group - Co-CEO*

Historically speaking, yes, higher-level students, in the higher-level program are more expensive leads. It is an allocation of where you put your focus and your dollars and your investments. However, you traditionally get higher returns off those areas as well. There is a trade-off. Even if they're technically the exact same numbers of those students if the returns are higher, financially it could be just as rewarding for the Company. So there is a lot that goes into it. There is a history here of growing bachelors and masters programs successfully for years. Focus changed some, during the journey, and, we've outlined clearly where we're going with this.

Ariel Sokol - *Wedbush Morgan - Analyst*

Okay. Well, thank you very much and sounds like you guys are doing the right thing by students.

Greg Cappelli - *Apollo Group - Co-CEO*

We appreciate that. We're trying.

Chas Edelstein - *Apollo Group - Co-CEO*

Thank you .

Operator

Your next question comes from the line of Corey Greendale with First Analysis.

THOMSON REUTERS

Corey Greendale - *First Analysis - Analyst*

Thanks for sticking around long enough to take everyone's questions. Can you speak to -- if you have to look at the students who have gone through the orientation, what the retention of those students is like once they enroll in a standard class versus people who didn't go through the orientation?

Greg Cappelli - *Apollo Group - Co-CEO*

I don't have that data available for you right now. That is something that potentially we'll look to give out in the future. When you're in the pilot -- I can understand you wanting it when you're in the pilot phase and you're rolling things out, that is not something we want to share at this point.

Corey Greendale - *First Analysis - Analyst*

I understand that. It's not entirely intuitive that overall retention with an associates could be down at a time when you're rolling out a program to improve retention. So that--?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Exactly. Remember, there is a lag effect here. It doesn't happen magically right away. And we knew that was going to be the case. There needs to be a catch-up.

Corey Greendale - *First Analysis - Analyst*

Understood. The second question I had, Brian, if you look at the instructional costs and services line and exclude BPP, the rate of growth in that line in the costs accelerated from last quarter, even after you can look at bad debt, and actually the rate of growth decelerated slightly, and the rate of revenue growth decelerated so what is driving the rate of accelerated growth and instructional costs and services ex BPP and would that continue to accelerate?

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Yes, I would have to look at some of the data a little more closely. We did get leverage in some of the other costs that are in there as I mentioned around our employees and, all of our students that are -- all of our employees and service students in that category. We did see leverage in those other categories including our space and elsewhere. There are some variable costs in there around, faculty costs and other costs that are more variable like textbooks and publishing fees. But on a high level those are main things driving numbers.

Greg Cappelli - *Apollo Group - Co-CEO*

Technology as well.

Corey Greendale - *First Analysis - Analyst*

Okay. Any follow-up with you off line on that one. I apologize if you think you've answered this already but I'm not still entirely clear so I'll ask it again. Looking at the question raised in the feedback you got from the department on the withdrawal date, I'm still not entirely clear why it wouldn't affect the dollar amount since I think you have to return dollars as of the withdrawal date that is identified and if there is a discrepancy in the date why the dollars wouldn't be different?

Chas Edelstein - *Apollo Group - Co-CEO*

It is -- the point of that was the finding was not that we didn't return the right dollar amount or didn't calculate the right dollar amount to return, the finding was that in some cases we have 45 days from the date that the student withdraws and in some cases there was a question about what was the date that the student actually withdrew and, therefore, did we meet that 45-day mark when we sent the money in.

Joe D'Amico - *Apollo Group - President, COO*

The calculation of the amount that we -- there is an amount that we've said -- that we would be likely paying as a result of the program review. I think it's $1.5 million. Included in that is a factor of some amount related to the timing of the return of monies. So there is -- there is an impact but the dollar amount we returned, the principal amount so to speak, was correct.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

So basically it is an interest charge for returning some funds.

Corey Greendale - *First Analysis - Analyst*

No, I understand that. What I'm asking is if you have identified that the student has withdrawn a week later than the department thinks you should have, why you shouldn't be returning an extra week of (inaudible)?

Chas Edelstein - *Apollo Group - Co-CEO*

Because we can go back to the date the student last attended for these determinations.

Greg Cappelli - *Apollo Group - Co-CEO*

That calculation is not in question.

Chas Edelstein - *Apollo Group - Co-CEO*

That is not in question. That is exactly the point.

Greg Cappelli - *Apollo Group - Co-CEO*

That is a very good point that you made.

Chas Edelstein - *Apollo Group - Co-CEO*

You calculate it as of the last date of attendance but it is the termination of withdrawal when the 45 day clock starts when you have to start returning the money. The calculations were correct.

Corey Greendale - *First Analysis - Analyst*

Thank you for clarifying that.

Brian Swartz - *Apollo Group - SVP Finance, CFO, Treasurer*

Corey, it is Brian again, just to answer your earlier question around the ICS or instructional costs, you might recall this was -- the fourth quarter was the last quarter where we anniversaried year-over-year our savings, we have other contractual savings with vendors but we had a very large contractual savings of your call, so I think that is why you see the growth rate go up significantly from Q4 to Q1 as a result of that. We anniversaried the savings.

Corey Greendale - *First Analysis - Analyst*

Thank you for that.

Operator

We are out of time and I'd like to turn the call back to the Management Team for closing comments.

Greg Cappelli - *Apollo Group - Co-CEO*

Thank you, everybody for joining us and we look forward to following up with you throughout the quarter. Bye, everyone.

Operator

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