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APOL - Q2 2010 Apollo Group Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Apollo Group Incorporated fiscal 2010 second 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. Please refrain from entering into the queue until those instructions are given. (Operator Instructions). This conference call is being recorded today, March 29, 2010, 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 April, beginning approximately two hours after we conclude today's call. Additionally, this call will be broadcast over the internet and can be accessed via the Company's website. I'd like to now 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 morning, everyone. Particularly those on the West Coast, it's very early. We appreciate you joining us. Participating with me on the call today are Chas Edelstein, co-Chief Executive Officer, Greg Cappelli, co-chief Executive Officer of Chairman of Apollo Global, and Brian Swartz, our Senior Vice President and Chief Financial Officer. Joe D'Amico, President and Chief Operating Officer, is also here and will be available during the Q & A period.

Before we begin, I'd like to remind you that as we discuss results, unless noted otherwise, we will be comparing the second quarter of fiscal 2010 which ended February 28, 2010, to the second quarter of fiscal 2009. I'd also like to remind you this conference may contain forward-looking statements with respect to future performance and financial conditions, as 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 call. These factors are discussed in Item 1 A and elsewhere in the Company's most recent 10-K and subsequent 10-Q reports filed with the SEC. The Company 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 GAAP to non-GAAP measures is included in our press release which was issued today and is available on our website. On today's call, Chas will provide highlights for the quarter and discuss our view of the current events in Washington. Greg will give you an update on our primary investment areas, including an update on University Orientation and Brian will then review our financial results and provide you with our outlook for the third quarter.

I'll now turn the call over to Chas.

Charles Edelstein - Apollo Group - Co-CEO

Thanks, Allyson and thank you for joining us today to discuss our second quarter results. We're pleased to report solid results, and importantly, to share the progress we're making in our effort to shift our student mix to higher degree levels. In the second

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quarter, including our acquisition of BPP, revenue grew approximately 23% to \$1.1 billion and net income from continuing operations, excluding special items, was \$130 million or \$0.84 per diluted share. Consistent with our expectations, University of Phoenix experienced greater bachelor new enrollment growth, but slower growth at the associate level.

In total, we enrolled 87,500 new students during the second quarter for total degreed enrollment of 458,600 students. That's a 15% increase in total degreed enrollment versus a year ago. During the second quarter, there was one less Monday than in the second quarter last year, which adversely impacted new enrollments by about 500 basis points and of course the impact was even greater at the associates level. As a reminder, there will be one extra Monday in the third quarter, which will positively impact our reported new enrollments at that time.

Now let me spend a minute on our primary objectives for the business and our views on the recent events in Washington. Our Management team continues to focus 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. To that end, we continued to actively monitor the rule making process and other developments in Washington. It's important to note we support the Department's efforts to enhance accountability within higher education and we strive to play a leadership role in that regard.

In general, we encourage education policy which supports Congressional intent, and we advocate for consensus-building rule making in order to achieve responsible education policy nationwide. Importantly, we caution against policy development with the potential for unintended consequences that could restrict educational access or limit career choice or unfairly disadvantage historically underserved student populations. Because of that, we're engaged in constructive dialogue with the Department of Education and legislators regarding the pending gainful employment provision, in order to help by providing our perspectives on what the consequences of that provision in its current format could be.

At the same time, we're in the process of analyzing our universities more than 100-degree programs to determine debt to earnings ratios, median loan balances and loan repayment status by program of study. Given the number and range of disciplined offered by our universities as well as the uncertainties regarding the implementation process of the draft proposal, our analysis is both extensive and complex. The rule making process is ongoing, and as such, we can't predict what the final outcome of gainful employment will be, but we are hopeful that together we'll arrive at a position which addresses the underlying goal; that of providing students with quality education while not overburdening them with debt, and do so without having unintended consequences which could be detrimental to both students and society as a whole.

At Apollo, we remain committed to doing the right thing for students. We have several initiatives in place which are allowing us to transform and improve the student experience across our universities to ensure optimal student outcomes and greater administrative oversight. Inherent in this process is a commitment to high quality, practical, and accessible educational offerings, which combined with a positive student experience, should result in sustainable long term growth. We promote responsible borrowing practices and are committed to enhancing financial literacy. To this end, we've introduced a series of tools to assist students in better understanding the direct and indirect cost of their education, enabling them to make informed decisions.

In summary, we take our responsibility as a leader in education for the working learner very seriously, and are committed to being a role model within our industry. Now I'll turn the call over to Greg, so he can provide an update on some of the initiatives we're taking as an industry leader.

Greg Cappelli - Apollo Group - Co-CEO

Thanks, Chas, and good morning, everyone. Today I'd like to focus on a couple of key areas with respect to the University of Phoenix and our strategy and then give you a brief update on Apollo Global as well. As you know, the University of Phoenix is our top priority for investment within the Apollo Group and we remain steadfast in our goal of delivering high quality college level programs to all of those who are willing to put in the effort and believe they can benefit from a college education.



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We want to deliver the best student experience we can to those enrolled in our universities which means high quality academics and outstanding service all tailored to the student needs. To that end, we continue to invest in our curriculum and technology, and in fact we've begun rolling out our components of our new learning platform and data platform this quarter. Every month, our talented team brings new and innovative ideas to the table, all of which help us in our quest to reinvent education again, not only in this country but globally as well. However, University of Phoenix is not for everyone. While there is tremendous demand for our college education today, there are also more students that are unprepared for the challenges and rigor of our programs. Last quarter we shared with you some of the ways we are addressing this issue including University Orientation, student protections, enhancements to our learning platform, and refinements to our marketing efforts.

We continue with each of these initiatives and are pleased with the progress we're making. We also talked about the fact that University Orientation carries with it some near term impacts, including reduced new associate enrollment growth. Most importantly, we strongly believe the steps we are taking are the right thing to do for our students, and despite any near term volatility in our enrollment or financial metrics, if we're successful, they should result in significant value creation for all of our stakeholders. This is because we expect University Orientation to improve overall retention, lead to better graduation rates, and lower bad debt, and that means better long term profitability and cash flow growth.

Let me just take another minute on this important relatively new program. University Orientation is a free three week program designed to help our new students with limited college experience better sample and understand the requirements necessary to be successful, prior to starting their degree program. And importantly, prior to taking any college debt. Students must complete the program before they can attend our University. We're still in our test and evaluation phase of the orientation program; however, similar to the first quarter, it had a fairly significant impact on new enrollment growth.

For the second quarter, we reported new enrollment growth of 9.4%. Now, adjusting for the number of days and University Orientation, new enrollment growth would have been about 19%, and the impact on the new enrollment at the associate level was even greater. We're monitoring the results of this pilot very carefully and while our sample size is still relatively small, it has grown, and we're very encouraged by the early results, particularly the retention rates of the students that complete the program, which are significantly higher. Additionally, feedback from our students regarding the program is very positive. It's still early, but it's looking like the program is effective and we plan to continue with the pilot.

Because of this, we anticipate that associate new enrollment growth could actually decline in the third quarter. Now that said, we've been working hard to reinvigorate our bachelors level programs, which has been paying dividends. Because of bachelor students have better retention relative than to associate students this should positively impact incremental profitability, and while there is still much to do, we're really excited about the initial results of this important program.

Let me just quickly address student persistence. In the second quarter, we again saw a decline in the persistence rate at the associates level; however, persistence turned around this quarter at the bachelor level, helping students succeed 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 improvement over time, particularly at the associate level students. I'd also like to touch on some of the branding and marketing efforts we've been investing in over the past couple years. As our capabilities continue to get better in the areas of data mining and analytics, we're now able to better direct our marketing spend to reach students we think will have a better chance of success at the University of Phoenix.

In the second quarter, we again enjoyed solid growth in our new bachelor enrollments. which we think is a direct result of our efforts in this area, including the many improvements we've made to the University of Phoenix website. We also continue to see greater matriculation into the bachelors program from the associate program and if University Orientation is successful, we hope to see more potential transfers over the long term. With our bachelor enrollments now moving in the right direction, we're turning our efforts towards masters and doctoral programs and we hope to eventually have a similar impact there.

Just a brief update on Apollo Global. First, our schools in Chile were affected by the earthquake last month; however, we were relieved that none of our employees nor their family members were injured in the quake. The earthquake occurred while school



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was out for the Summer so thankfully no students were there. We did have some damage to our campus; however in the grand scheme of things, it was relatively minor and we were able to begin classes on schedule. We take our hats off to the Chileans for the high level of preparedness and the resilience they've demonstrated throughout this crisis. It is this strength of character that makes Chile such a compelling and strategic market for Apollo and Apollo Global.

As a point of interest, we have a first mover advantage in the online education market in Chile. In less than a year, we've been able to enroll more than 1400 students into our online programs there. We're very excited about the prospects of the future in Chile. Now, regarding BPP, revenues are suffering a bit from the lingering effects of the economic crisis; however, we are beginning to see some evidence of stabilization. Despite the challenging economic environment, we continue to invest in BPP. Not only is it a critical part of our global education network, but it provides a global platform in its own right. The British education system is respected around the globe, and we believe our ability to award accredited degrees worldwide represents a tremendous opportunity.

Now, before I turn the call over to Brian, I want to touch on our share repurchase program. During the second quarter, we repurchased 3.4 million shares at an average price of just under \$60 per share. Additionally in mid February, our Board increased our authorization by \$500 million. As of today, we have \$800 million available under the current repurchase authorization. As you know, we have a disciplined capital allocation process, and share repurchases are part of that plan we'll continue to use our capital repurchase shares when we believe it appropriate.

In summary, we have a lot going on at Apollo Group and the University of Phoenix. We are investing in all areas of the business, and we understand the new direction we're taking with our most important asset, the University of Phoenix, will require great care, sound judgment and constant monitoring. These are bold steps we're taking, what we believe are the right steps for an organization that is intent on reinvesting education again in a global scale. So with that I'll turn the call over to Brian.

Brian Swartz - Apollo Group - SVP, CFO

Thanks, Greg and good morning everyone.

I'd like to start by providing you a summary of our second quarter financial results. Revenue increased 23% compared to the same period a year ago, excluding \$53 million in revenue from BPP, revenue growth was 17%. The components of this increase were primarily University of Phoenix's 15% total enrollment growth, combined with increased tuition rates. As expected, revenue growth was impacted by higher discounts to our military students which we expect to continue. Net income from continuing operations was \$103 million or \$0.67 per share compared to \$129 million or \$0.79 per share in the second quarter a year ago. During the second quarter, we entered into settlement talks in regards to a securities class action lawsuit.

As you may remember, the case was ruled in our favor by the court back in August of 2008, and the plaintiffs appealed that ruling. A ruling has not been made on the appeal. As a result of settlement discussion, which did not result in a settlement, we accrued \$44.5 million for this liability during the second quarter. If we exclude this charge, net income from continuing operations was essentially flat versus a year ago, at about \$130 million, and EPS increased 6% to \$0.84 per share versus \$0.79 per share a year ago. BPP's operations reduced our EPS by \$0.06 per share, principally due to their seasonally soft second quarter revenue.

Operating income declined in the quarter to \$173 million. Excluding the litigation reserve, operating income increased 3% to \$217 million; however we saw a nearly 400 basis point decline in operating margin, primarily due to BPP's cost structure and increase in bad debt expense. Excluding the impact of BPP's operation, the margin contraction would have been about 180 basis points. Now, I'll spend a minute discussing each of the expense categories, starting with instructional cost and services or ICS. The significant increase in ICS was primarily driven by BPP's expenses, as well as a 280 basis point increase in bad debt expense.

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Bad debt expense as a percentage of revenue was 6.9% compared to 4.1% a year ago. BPP's operation positively impacted bad debt expense as a percentage of revenue by 40 basis points in the second quarter of fiscal 2010. As we indicated in February, the year-over-year increase in bad debt expense is a result of lower collection rates on older receivables, due in part to a difficult economy and a larger portion of associate students at the University of Phoenix, as well as operational changes made during the fourth quarter of fiscal 2009. We believe that bad debt expense in the third quarter on an absolute dollar basis will be slightly less than the second quarter level, which should result in a fairly significant decline as a percentage of revenue due to our seasonally higher revenue in the third quarter. We're seeing some signs of stabilization and bad debt expense in the quarter, but it's too early to tell if that trend will be sustained into the fourth quarter. We are taking steps to lower our bad debt expense; however we believe that the biggest improvement will come over time as we shift our student mix towards bachelors and graduate degree level students and improved retention, particularly at the associates level.

Selling and promotional expense as a percentage of revenue was down 120 basis points; however BPP's operations accounted for the majority of that improvement. We also continue to see improvement in enrollment counselor 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.

Finally, G & A. G & A was down 130 basis points as compared to a year ago, primarily due to the unusual expense in the year ago quarter resulting from our review of our Satisfactory Academic Progress calculation, as well as lower share based compensation as a percentage of revenue in the second quarter of fiscal 2010. In the second quarter, share based compensation totaled about \$15 million. We believe share based compensation for the fiscal year will be about \$65 million.

Our effective tax rate in the second quarter was 40.6%. We expect our effective tax rate in the third quarter to be about 41% and in the fourth quarter to be about 40%. The reduction in the fourth quarter rate is a result of a discrete item that we expect to record in that quarter related to the release of an uncertain tax position. These rates could vary depending upon the outcome of our State tax initiatives and the results of our foreign operation.

Now, let me turn to the balance sheet and cash flows. We continue to maintain a well capitalized balance sheet as of February 28, 2010, with unrestricted cash and cash equivalents of \$661 million. Our outstanding debt was \$176 million at February 28, versus \$589 million at the prior year-end. During the second quarter, our adjusted free cash flow remained strong, excluding the impact of two one-time payments. The first was an approximate \$80 million payment in connection with the settlement of our Qui Tam lawsuit and the second was an approximate \$23 million payment to the IRS related to our tax dispute. 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 quarter declined to 30 days from 32 days at August 31, 2009 but was slightly higher than the 25 days a year ago. The year-over-year increase is primarily due to the previously discussed operational changes at the University of Phoenix, as well as increases in accounts receivable due to lower collection rates.

Now, I'd like to provide a brief update on the SEC informal inquiry, which we originally announced in October. We have and will continue to fully cooperate with the SEC. Since the inquiry began, we and our auditors have provided information and documents to the SEC at their request. These requests have been for information related to revenue recognition practices and other matters including policies and practices relating to student refunds, the return of Title IV funds to lenders and bad debt reserves. We continue to believe that our accounting policies are appropriate and in accordance with GAAP.

Finally, before we take your questions, I'd like to share with you our current business outlook for the third quarter. This outlook is based on our current business trends. Of course, many things can and will change. We talked earlier about our plans with marketing and the University Orientation and the impact they might have on new enrollment. Given the student mix transition we are undertaking, we want to help you understand how we expect that to translate into our operating performance in the near term. It is important to note that we are intensely focused on long term value creation, which means we make an investment where we believe we can create long term value even if they cost us near term margin dollars; however, we also recognize that our near term operating performance is important to our stakeholders.



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Based on our current business trends which as I mentioned earlier could change, third quarter revenue should be approximately \$1.3 billion which includes \$75 million to \$80 million in revenue from BPP. Absent any additional share repurchases, and thus assuming approximately 153 million diluted shares outstanding, as well as a tax rate consistent with my previous comments, this results in earnings per share of approximately \$1.55. This includes a contribution from BPP based on current exchange rates of approximately \$0.03 per share. Additionally, based on current trends for the full year 2010, we should achieve our long term operating income growth target of mid-teen growth, excluding the impact of special items and discontinued operations. We also want to remind you that BPP's business has significant seasonality with the fourth quarter being its weakest, barring further economic weakness in the UK, we would expect BPP's revenues at current exchange rates to be approximately \$35 million in the fourth quarter and for them to generate a loss per share of approximately \$0.13.

With that, I'll turn the call over to the Operator so we can take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from the line of Andrew Steinerman from JPMorgan. Your line is open.

Andrew Steinerman - JPMorgan - Analyst

Hi, everybody, it's Andrew Steinerman, JPMorgan. Great results. My question is about the difference in operating margins between Axia degrees and bachelor degrees. I think it was mentioned that starts might go negative on Axia and I guess that means that it's possible that at some point, revenues might go negative on Axia, and so my question is, will the mix shift to bachelors, given the great bachelors starts, be a lot more meaningful than any negative operating leverage that might happen if Axia revs go negative?

Greg Cappelli - Apollo Group - Co-CEO

Andrew, it's Greg. That is a good question and obviously, the profitability at Axia is significantly higher, excuse me, at our bachelors level is significantly higher than that in the Axia area, so what we haven't discussed exactly, the mix shift and how it would impact profitability, your intuition is correct, that there should be an offsetting effect there, on the regardless of revenue, on the profitability from the mix shift.

Brian Swartz - Apollo Group - SVP, CFO

Andrew, it's Brian. The only thing I'd add is that many of our associate students today aren't with us for very long as you can tell from our operating statistics that we provide, so although we're generating some revenue from them, there's many of them that we don't generate a lot of revenue from and a lot we lose money on, so you can do some implied math to get to some of those numbers based on the data we provide.

Andrew Steinerman - JPMorgan - Analyst

Well, super and let me just try one more question. Do you have any preliminary sense for the students that enroll in the orientation, what percentage actually go on to enroll in degree classes?

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Joe D'Amico - Apollo Group - President, COO

Yes, this is Joe. Yes, we do. We have that data and we're continuing to analyze that in terms of the pilot program.

Andrew Steinerman - JPMorgan - Analyst

And is it as you would have planned?

Joe D'Amico - Apollo Group - President, COO

Yes, it's consistent with our expectations.

Andrew Steinerman - JPMorgan - Analyst

Excellent. Thanks for all the comments.

Greg Cappelli - Apollo Group - Co-CEO

Thanks, Andrew.

Operator

Your next question comes from the line of Gary Bisbee with Barclays Capital. Your line is now open.

Gary Bisbee - Barclays Capital - Analyst

Thanks. Yes, given the prospect for negative starts at Axia, I guess it seems to me that's got to be the big thing behind the bad debt going up, so is it reasonable to think that we could actually see bad debt on an absolute basis start to come down as we move forward over the next year, or is there some reason that maybe that might be a little bit aggressive a statement at this point?

Brian Swartz - Apollo Group - SVP, CFO

Hi, Gary. I mean, I would expect over time as we execute on the mix shift, that the bad debt would come down. Now when exactly that happens and what quarter will depend on how successful we are at that mix shift change, but the majority of our bad debt expense is related to associates so as we change that mix, you would expect the expense to come down over time.

Gary Bisbee - Barclays Capital - Analyst

And then can you give us anymore color on what you've done differently to drive the better bachelors? I know you've talked about getting more sophisticated in your marketing. Anything else you can tell to help us understand that, and I guess what I'm trying to get at is how confident are you that you can continue to have a good let's say teens or in the teens somewhere better growth from start in the bachelors?



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Greg Cappelli - Apollo Group - Co-CEO

Well, it's our goal, and we're working very hard to do that. It's a combination of things, and it's operational. We've talked about in the past putting the right sources in the right areas, Gary, and that can stem from how you advertise and market and put the University of Phoenix out there, getting back into the local markets in a myriad of different ways. There's a lot of things that go together to drive bachelors growth, and we're working hard to do that, so hopefully those trends will continue.

Gary Bisbee - Barclays Capital - Analyst

Okay, and then just one last question. I know the long term plan for BPP is to really get the college and degree granting part of the business going. What's a reasonable expectation as to how quickly that really ramps? Is there an awful lot of investment that you have to make over the next year or two before you really start turning it on in terms of enrollment growth or is that something that you can get a fairly quick return on?

Greg Cappelli - Apollo Group - Co-CEO

Well, we have planned and continue to make the investments in BPP. We're very excited about their future. How quickly those enrollments come at the degree granting level, we're anxious to see, but we have high expectations for BPP. We've got a tremendous management team in place and a good plan in place to do that but it would be nice to see a little stability in their business outside of that in the UK. That will come. We think their market position is healthy and good and again, are excited about the potential prospects for the degree granting business as well. Sorry I can't provide more specifics there but we're very engaged in that and I mentioned in my prepared remarks that BPP is an important asset and piece of our goal and network going forward.

Gary Bisbee - Barclays Capital - Analyst

Okay, thanks a lot.

Brian Swartz - Apollo Group - SVP, CFO

Thanks, Gary.

Operator

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

Amy Junker - Robert W Baird - Analyst

Great. Good morning, thank you. Can we just touch for a minute on some of the margins and expectations for that going forward? You saw more leverage out of the selling and promotional than I would have expected. Is that something, was there something in the quarter that was specific, or should we expect that trend to continue going forward?

Brian Swartz - Apollo Group - SVP, CFO

Amy, actually, most of that improvement in the consolidated numbers was from BPP, so in the supplemental schedule that we provide you can actually see the selling and Promo with and without BPP and it's more or less flat, it's down just slightly excluding the BPP operations.

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Amy Junker - Robert W Baird - Analyst

And then seasonality on BPP, is there anything that would change that going forward on that line item specifically?

Brian Swartz - Apollo Group - SVP, CFO

No. I think as we invest in BPP over time that we'll include more marketing, selling and promotional type expenses to grow the business.

Amy Junker - Robert W Baird - Analyst

Okay, great. And then if we can just touch on the strategy shift to go after more bachelors, I'm just curious, I know you've talked a lot about this but are you primarily accomplishing that through a change in marketing strategy? I'm assuming you're not turning away Axia students who are coming in, so you're still getting a fair amount of starts there, but how are you really accomplishing that? Is it just a change in message or a change in kind of how you're targeting your new students?

Greg Cappelli - Apollo Group - Co-CEO

No, as I said before, Amy, it's a number of different things, including where you put your focus and your resources, and we're putting more of them into that area. I mean there's other things that come into play, there's corporate alliances that are paying dividends for us that we're now more focused on, so there's just a lot more focus and effort from the whole organization being put in that area. It's a priority for us.

Amy Junker - Robert W Baird - Analyst

Okay, great. I'll pass it over, thanks.

Greg Cappelli - Apollo Group - Co-CEO

Thank you.

Operator

Your next question comes from the line of Andrew Fones with UBS. Your line is now open.

Andrew Fones - UBS - Analyst

Yes, thank you. A couple of questions. First, just over the last three quarters, we've seen much higher growth in deferred revenue, around 40% or more than we were seeing previously, and we are currently seeing an overall revenue growth. Is that due to BPP or is there anything else we should be aware of there, please?

Brian Swartz - Apollo Group - SVP, CFO

Yes, Andrew. At the end of the year there was very little deferred revenue in the balance sheet related to BPP, there were mostly student deposits so since the end of the year given their seasonality and their operations and their student intakes, a big chunk of the deferred revenue increase came from the BPP operations since year-end.

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Andrew Fones - UBS - Analyst

Okay, thanks, and then our understanding regarding an SEC inquiry is within a certain period of time, the SEC has to make a determination internally whether or not to make an inquiry, an investigation into that time period would have already passed. It appears as though the SEC inquiry remains as such, so can you just kind of confirm as your understanding as to whether that actually occurred, that there was a decision made internally there at the SEC to keep this as an inquiry rather than expand the scope, thanks.

Charles Edelstein - Apollo Group - Co-CEO

Well, it's Chas. We don't have any indication that there's any change there. We don't know, we can't predict the timing or the scope of the inquiry, so we've disclosed to you what we know in that regard.

Brian Swartz - Apollo Group - SVP, CFO

Andrew, as far as we know though, it remains an informal inquiry.

Charles Edelstein - Apollo Group - Co-CEO

Absolutely.

Andrew Fones - UBS - Analyst

Okay, thanks, and just in terms of could you tell us what you expect bad debt expense to be since your revenue in Q3 perhaps what's implied by your guidance, thanks?

Brian Swartz - Apollo Group - SVP, CFO

I'm sorry, can you say that again, I didn't get the question.

Andrew Fones - UBS - Analyst

Yes, sorry, just looking for guidance on bad debt expense for the third quarter if you don't mind, thanks.

Brian Swartz - Apollo Group - SVP, CFO

We expect it to be as I mentioned slightly down from the Q2 level.

Andrew Fones - UBS - Analyst

Thank you.

Operator

Your next question comes from the line of Arvind Bhatia from Sterne Agee.

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Arvind Bhatia - Sterne Agee - Analyst

Thank you and good quarter. I wanted to just go back to BPP real quick. By my calculation, the guidance you've given suggests about \$0.13 a share loss this year and obviously you've got some plans down the road for growth in that business. Is there anything else that you can do let's say in 2011 that can bring down those losses, anything on the cost side, any other efficiencies that you see as you continue to integrate and move forward with this acquisition?

Greg Cappelli - Apollo Group - Co-CEO

Sure. Our team is working hard on those things including looking at new revenue opportunities and again some stabilization in the base business would be helpful, but I think they're doing a good job overall controlling those expenses in this environment. We'll continue to make investments for the long term here. BPP, we were interested in BPP joining the Apollo Group family for obvious reasons that we've gone over extensively in the past, and we're excited about those opportunities so we're looking at long term, making investments for the long term there, but again, we're not oblivious to the fact we want to try to control expenses to the extent we can. We're still making investments important to the growth of the future of BPP.

Brian Swartz - Apollo Group - SVP, CFO

The only other thing I'd add is since the first year of the acquisition we went through purchase accounting so there is quite a bit of amortization of intangibles in that loss, in that \$0.12 or \$0.13 loss number you mentioned for the year.

Arvind Bhatia - Sterne Agee - Analyst

So can you, are you suggesting then that that goes down significantly, could we look at a breakeven number next year?

Brian Swartz - Apollo Group - SVP, CFO

No, I'm not commenting on 2011. I'm just suggesting there is a lot of amortization expense that yes, will go down over time and you can actually see that in our 10-K filing from last year, the level of amortization that goes down over time for the whole Company.

Arvind Bhatia - Sterne Agee - Analyst

One last one. On the military student growth, can you provide us some color on whether you're seeing acceleration or similar growth rates you've seen recently, any change in the trajectory there?

Joe D'Amico - Apollo Group - President, COO

There is some improvement in military activity, especially because of the spouses program, which has taken off, and we play a fairly sizeable role there. The trends in military is still good for us and strong.

Arvind Bhatia - Sterne Agee - Analyst

Great. Thank you guys.

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Operator

Your next question comes from the line of Ariel Sokol with Wedbush Morgan. Your line is now open.

Ariel Sokol - Wedbush Morgan - Analyst

Yes, good morning. A couple of questions. One, how did costs for enrolling bachelor students trend in the quarter? Are costs for these students stable or are they rising?

Greg Cappelli - Apollo Group - Co-CEO

We don't comment on the cost interquarter for acquisition cost of students but as we said in the past, it is more expensive to acquire and enroll a bachelor student and an upper level masters and doctoral student than it is an associate student. Obviously the economics of that student to us are different, so we're more than willing to pay that difference.

Ariel Sokol - Wedbush Morgan - Analyst

And then with respect to conversion rate of associate students who become bachelor students, how does it compare to the prior year and also what percent of bachelor new starts came from associate students, that matriculated to be bachelor students?

Brian Swartz - Apollo Group - SVP, CFO

The matriculation rate continues to improve year-over-year, so it was again better this quarter versus the prior year. As for the specific number, we don't give that out. But it was less than half of the growth. Well less than half of the growth in the growth rate above the bachelor students. Let me just say, but over half of our associate graduates, well over half of our associate graduates do matriculate to bachelors.

Ariel Sokol - Wedbush Morgan - Analyst

Okay, so is it fair to say that given the large numbers of associate students that have kind of gone to enrolled in the program the last several years that we should start to see a real lift for bachelor students given nothing more than just the associate students who are finally graduating and taking bachelors classes?

Greg Cappelli - Apollo Group - Co-CEO

The majority of our growth as I said before from bachelors is organic. It's not coming from the associates pool. Given, think about our graduation rates which are published in our annual academic report and the numbers of people actually going into the bachelors program even at the higher as Chas mentioned higher rate, so it's just the math involved there but again the majority of our growth in bachelors is coming outside of that.

Ariel Sokol - Wedbush Morgan - Analyst

Okay, thank you.

Greg Cappelli - Apollo Group - Co-CEO

Thank you.

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Operator

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

Corey Greendale - *First Analysis - Analyst*

Hi, good morning.

Greg Cappelli - *Apollo Group - Co-CEO*

Good morning, Corey.

Corey Greendale - *First Analysis - Analyst*

Just to start with the question that came up last quarter and don't know if you'll say anymore this quarter but can you say anything about how widely the orientation program has been rolled out?

Greg Cappelli - *Apollo Group - Co-CEO*

Corey, we're not commenting. It's in the pilot phase. It's grown in size every quarter for us, but as I said in my prepared remarks, it's still relatively small in compared to the total enrollment of the overall organization, but it has been growing in size, and it's a significant enough sample size for us to get the kind of data we were looking for from it, from a retention standpoint, as I mentioned we're really pleased with the outcomes there.

Corey Greendale - *First Analysis - Analyst*

Okay, and in terms of the strategic shift more toward the bachelor from the associates just to set some parameters, are you still thinking that in the long run the associates will be growing mid-high single digits or could the emphasis be more severe than that, such that you'd start to see over time associates actually shrinking by design?

Greg Cappelli - *Apollo Group - Co-CEO*

What we've said in the past and continue to believe is that the associate level program for us continues to be an important program for us. We're trying hard to make refinements to that to really improve the program and the outcomes for the University of Phoenix, so while I can't comment on exactly where growth at any degree granting level is going to come out, Corey, what we can say is that we're comfortable that with our position within that large market and the direction where we're taking the associate program, I don't know if you want to comment, Brian on the growth in general?

Brian Swartz - *Apollo Group - SVP, CFO*

No, that covers it.

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Charles Edelstein - Apollo Group - Co-CEO

One thing I would say there, you asked about our intention on the associate program, I wouldn't want to leave the impression that it's our intention to shrink the size. It's our intention to admit as many people as we can who can get through the program, so that's the way we think about it.

Corey Greendale - First Analysis - Analyst

And I had one mechanical question about that. Are students starts into degree levels based on how many credits they have or could someone theoretically come in with zero credits and be identified as a bachelor student based on their intention to enroll in a bachelor program?

Joe D'Amico - Apollo Group - President, COO

No, they can go wherever they want. We'll counsel them and provide some guidance but whatever path they choose, they are free to go down.

Corey Greendale - First Analysis - Analyst

And just one more, for Brian. On the G & A looking back over the past couple of years, there's no consistent pattern in terms of what it does through the year. All else equal, should we model G&A staying roughly flat, just the dollar amount in each quarter that's remaining at a year?

Brian Swartz - Apollo Group - SVP, CFO

Yes, I think we've gotten some recent leverage in that, some of the benefit in the current quarter year-over-year is because we had unusual expenses in the prior year but for the most part, the legal costs which are included in G&A, those can fluctuate and quite frankly, they do vary quarter to quarter, but we're not expecting any step change in G&A that we're aware of today.

Corey Greendale - First Analysis - Analyst

Great. Thank you very much.

Operator

Your next question comes from the line of Jerry Herman with Stifel Nicolaus. Your line is now open.

Jerry Herman - Stifel Nicolaus - Analyst

Thanks, good morning, everybody. Hi guys.

Charles Edelstein - Apollo Group - Co-CEO

Hi, Jerry.

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Jerry Herman - *Stifel Nicolaus - Analyst*

A question with regard to bad debt and the operational changes you referenced. Could you again maybe review those operational changes and in particular, is there any way to disaggregate the influence of those on bad debt and ultimately what I'm getting to is when those items might be lapped from a comparative point of view?

Brian Swartz - *Apollo Group - SVP, CFO*

Yes, Jerry. The operational changes that I referenced, there were really principally two that occurred in the fourth quarter of 2009. The first one was the implementation of the 30 day delay for first year, first time borrowers because we had anticipated our CDR would be about 10% for this coming year. The release of the CDR as of September, and then the second one was we actually basically, we evaluate transfer, fully evaluate transfer credits for our students that transfer in credits prior to certifying their loans, so both of those basically had the effect of Apollo or University of Phoenix acting as the bank for lack of better word, and we carry the receivables longer, that's why our AR has increased pretty dramatically in the last two quarters so those were the two operational changes again in Q4 of 2009, I think that was your question.

Jerry Herman - *Stifel Nicolaus - Analyst*

Yes, and the issue is what influence can you disaggregate or help quantify the influence of those relative to associates?

Brian Swartz - *Apollo Group - SVP, CFO*

Yes, and I've provided some commentary on where we expect bad debts to be in Q3 and longer term. We like what we're seeing thus far in terms of a pattern and we think a lot of it has been baked in given that we're two quarters beyond the implementation of those operational changes.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, and will they be lapped in a year effectively then?

Brian Swartz - *Apollo Group - SVP, CFO*

I think it's better now and I would certainly hope by the end of the year we've seen the majority of the one-time impact from those things by the end of the year.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, great and then a question about the SEC inquiry. Your language changed a little bit in the Q, and it seems to at least on the surface resemble or maybe get a little bit closer to some of the things that were referenced in the program review. And you know what I'm getting at here. Is there enough similarity between those two issues to make you feel that there is in fact some relationship between the two? Thanks.

Charles Edelstein - *Apollo Group - Co-CEO*

This is Chas. I don't, no, I don't think we were signaling any sort of similarity. Our intent there was, we had a number of questions about what's the nature of the process so far and we were just intending to clear up the process. It's our understanding that in an informal inquiry, the SEC asked a broad range of questions so we were just trying to convey that that's what was happening.

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Jerry Herman - *Stifel Nicolaus - Analyst*

And one final one. You guys are scheduled to respond to the program review by basically in the next couple days. That's still true, that's still on track?

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

We expect to file it within at least the next 30 days. We've spoken to the Department of Education. We've requested an extension of time to file to the end of April which we believe will be granted. That's the preliminary indication anyway, but we'll file it when we need to and on time.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. Thanks guys.

Charles Edelstein - *Apollo Group - Co-CEO*

Thank you.

Operator

Your next question comes from the line of Kelly Flynn with Credit Suisse. Your line is now open.

Kelly Flynn - *Credit Suisse - Analyst*

Thank you. A couple different topics. First back to the bachelors growth. Can you talk about how you perceive the weak economy to be helping the new student and total enrollment growth there and then related to that, what do you see as kind of a sustainable long term enrollment growth target for that business?

Greg Cappelli - *Apollo Group - Co-CEO*

Kelly, we don't, as we said in the past on the economy, it could be helping all enrollment to some extent. Who knows exactly how much that's moderated over the past year as the economy's gotten a little bit better or a little less worse I guess you could say, so where we may see more of an impact from that is in employee retention where we've been seeing some of the numbers we've seen in that area. As far as the long term growth in bachelors programs, what we're sticking to in terms of conveying our long term growth targets are what we said before on the revenue and the operating profit side of things, exactly how that plays out with the degree and mix shift has yet to be seen but we can tell you that where we're putting more of our focus is in the area of degree granting programs, for all of the reasons that we talked about earlier, so we certainly hope and are planning for that to continue to grow.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, thanks, and then Brian? I think you addressed this or a related item but if you could just go back to it, the impact in basis points from the orientation at Axia, did you give out the impact on the new student growth for associates?

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Brian Swartz - Apollo Group - SVP, CFO

Well, the new student growth was about 9.5% for the quarter and I think we said that it's about 500 basis points higher give or take excluding the impact of the days year-over-year and a similar amount if we didn't have the University Orientation going on so if you combine all of those together, the growth would have been about 19%.

Kelly Flynn - Credit Suisse - Analyst

But was that total or just for associates?

Brian Swartz - Apollo Group - SVP, CFO

That's total, and the program is principally, the University Orientation program is principally at the associates level.

Greg Cappelli - Apollo Group - Co-CEO

Just to be clear that's new enrollment growth.

Kelly Flynn - Credit Suisse - Analyst

Okay, and then the last question, sorry to go back to this but just on the SEC inquiry, we saw in the Q as someone else referred to a change in the language. I just want to clarify, when you initially indicated that there was an informal inquiry, it was discussed as one related to revenue recognition and now there are other items listed. Is it your understanding that the scope has broadened relative to what you initially thought it was, or is it all just kind of under the same umbrella still at this point?

Charles Edelstein - Apollo Group - Co-CEO

Yes, we haven't received any notification that it's anything other than the informal inquiry that it is that it is. That's what we believe. We're trying to give you a feel for according to the nature of the process, so in the spirit of an open dialogue, so we don't have any reason to believe that anything has changed in the scope but we can't predict what the scope of the outcome is going to be.

Kelly Flynn - Credit Suisse - Analyst

Okay, we appreciate that.

Brian Swartz - Apollo Group - SVP, CFO

Kelly, Chas mentioned earlier that it's also our understanding when you go through an informal inquiry that the SEC asks a broad range of questions.

Kelly Flynn - Credit Suisse - Analyst

Okay, we appreciate all that information. Thanks.

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Brian Swartz - Apollo Group - SVP, CFO

Thank you.

Operator

Your next question comes from the line of Mark Marostica with Piper Jaffrey. Your line is now open.

Mark Skitovich - Piper Jaffray - Analyst

Good morning. It's actually Mark Skitovich. Just a couple of questions here. What have been the inhibitors to your masters start growth and can you talk about what you'll be doing to reignite growth here and whether any new masters programs will be part of any new initiatives here, thanks.

Greg Cappelli - Apollo Group - Co-CEO

I think the biggest inhibitor is just focus, again it's where you put your resources and we've decided to put more focus on bachelors and now we're starting to get more of that focus and attention on masters, exactly when that growth and how quickly it will pick up, we can't tell you exactly but you're going to see more of our time and attention put on that area and again it's people, it's process, it's resources that you put in place, it's the way you advertise and market the programs. There's a lot of things that go into it just like the bachelors area, so hopefully we'll have some better results for you there.

Charles Edelstein - Apollo Group - Co-CEO

It's also which programs that we put forth, so we talked about what program we're going to offer as well.

Mark Skitovich - Piper Jaffray - Analyst

Okay so in terms of timing and in terms of when we'll see that improvement can you give some color on that?

Greg Cappelli - Apollo Group - Co-CEO

I can't actually, no. All I can tell you is that we are investing in that area and we're putting resources on it and we expect to see results.

Mark Skitovich - Piper Jaffray - Analyst

Great. Separately on the instructional cost line if you strip out BPP, what would growth have looked like there and kind of just trying to get at if we're seeing leverage on the ICS line excluding BPP.

Brian Swartz - Apollo Group - SVP, CFO

Yes, the ICS line is about half of the increase on a basis point change is related to BPP. The balance really is bad debts, year-over-year our bad debt expense in there and as you know that amount is up year-over-year so those are really the two principal items impacting ICS.

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Mark Skitovich - Piper Jaffray - Analyst

Great, one quick final one on enrollment counselor productivity. Can you comment on what levels you're seeing today and where are we at today versus historical levels and can we expect to see any further productivity gains from here? Thanks.

Greg Cappelli - Apollo Group - Co-CEO

We don't provide exact comments on that but we're pleased with the productivity that we're seeing over the prior year in that area.

Mark Skitovich - Piper Jaffray - Analyst

Okay, great. Thanks guys.

Greg Cappelli - Apollo Group - Co-CEO

Thank you.

Operator

Your next question comes from the line of Paul Ginocchio from Deutsche Bank. Your line is now open.

Paul Ginocchio - Deutsche Bank - Analyst

Thanks for taking my question. Could you just talk about the timeline to when the orientation program would be fully implemented so all students I guess with less than 24 credits would go through the program, and is your threshold that less than 24 credits, is your thoughts about that threshold changed at all with the way you've got it so far? Thanks.

Joe D'Amico - Apollo Group - President, COO

Yes, it really depends on the results and the continuation of the results that we see and we'll think carefully about any rollout and the timing of that.

Greg Cappelli - Apollo Group - Co-CEO

One of the things I want to make clear, we want to make clear is that we will do that consistent with our remarks about the total value proposition to not only the University of Phoenix but to our stakeholders as well and obviously, if we do do that in a more aggressive matter, then we expect to see enhanced results as a result from a profitability perspective over time in that area.

Paul Ginocchio - Deutsche Bank - Analyst

So maybe a follow-up on the timeline. Is it within the next few quarters you think you'll be fully implemented or the next few years, any way to size that for us?

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Greg Cappelli - Apollo Group - Co-CEO

We haven't decided that yet. As Joe said we're looking at the results we're getting in every week from this important program. We're pleased with the data that we're getting back and we'll keep you guys up to speed in terms of the pace of the rollout.

Paul Ginocchio - Deutsche Bank - Analyst

Great. Maybe I could sneak one in on 90/10. Any update on where you are with 90/10? It sounds like military enrollment is strong, have you been able to move that down a little bit? Thanks.

Joe D'Amico - Apollo Group - President, COO

Well with regard to 90/10, we have seen some increases in that as you know, but we do expect to stay below 90% for this year including the temporary release so I just want to make sure you understand that.

Paul Ginocchio - Deutsche Bank - Analyst

Thank you.

Joe D'Amico - Apollo Group - President, COO

Thanks.

Operator

Your next question comes from the line of Sara Gubins with Banc of America. Your line is now open.

Sara Gubins - BofA Merrill Lynch - Analyst

Hi, thank you. Following up on that, can you give us any update on the percent of your revenue that's coming from corporate tuition reimbursement and if that has been increasing significantly?

Joe D'Amico - Apollo Group - President, COO

We don't provide that information, Sara, but we're pleased with the changes that have been made and the investment we've made, we feel we are improving and enhancing and expanding the relationships with very significant corporations across the country.

Sara Gubins - BofA Merrill Lynch - Analyst

Okay, and then also, there was an earlier question that asked about where you were placing students in terms of Axia or bachelors degrees and my understanding had been before that if a student has less than I think it was 24 credits they go into Axia, and if they came in with more than that they would go into the bachelors degree program. Is that still the case, or could a student with very few credits go into a bachelors degree program and I'm wondering if that's a strategy change, but also if it makes it more difficult for us to compare historical growth at Axia and the bachelors degree program versus currently.



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Joe D'Amico - Apollo Group - President, COO

Well the Axia degree is an online degree so students who may have fewer than 24 credits who want to attend on campus would attend in a bachelor program, so there are choices for students.

Charles Edelstein - Apollo Group - Co-CEO

And you may be thinking that some of our previous comments we've talked about many students who have lesser amounts of credits do go online and start the Axia program. Part of that is our price consideration. There's a pricing differential as well.

Sara Gubins - BofA Merrill Lynch - Analyst

So if they were going online and they have fewer than 24 credits would they still go into Axia or could they go into a bachelors degree program?

Joe D'Amico - Apollo Group - President, COO

We would be counseling those students probably to go through an associates program but if the student is intent on getting a bachelor degree and they seem to have the wherewithal to achieve that, we could also put them into a bachelor program.

Sara Gubins - BofA Merrill Lynch - Analyst

Okay, and then first, thank you for the guidance and do you plan to continue to give quarter ahead guidance from now on?

Brian Swartz - Apollo Group - SVP, CFO

Yes, Sara, it's Brian. I think as we're going through this transition, obviously in the student mix, we want to help all of our investors understand how we're thinking about that, so I think at least through the current transition we would expect to provide some commentary.

Sara Gubins - BofA Merrill Lynch - Analyst

Great. Thanks a lot.

Greg Cappelli - Apollo Group - Co-CEO

And again that's an extrapolation of the trends that we're seeing that we are trying to provide help with. We're actually not even thinking of it as guidance internally as we have an idea of what the trends are right now in the quarter and that's what we're trying to help you understand.

Operator

Your next question comes from the line of Suzi Stein with Morgan Stanley. Your line is now open.

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Suzi Stein - Morgan Stanley - Analyst

Hi. I just wanted to follow-up on the 90/10 question and how will the shift away from the associate students impact this? Can you just talk maybe a little bit about how bachelors are paying for their education, what percent is non-Title IV and sort of on a relative basis how that compares to associate degree students?

Joe D'Amico - Apollo Group - President, COO

Well, we don't give details on that but as you might appreciate, the higher level students have a higher cash pay or a Company pay support which obviously helps on 90/10 front. The associate degree students, many of them, most of them, the majority of them certainly are paying through Title IV.

Suzi Stein - Morgan Stanley - Analyst

Okay, and I can't remember if you've given us any numbers on this but have you talked in the past about your draft CDRs for the coming year?

Greg Cappelli - Apollo Group - Co-CEO

We have not yet.

Suzi Stein - Morgan Stanley - Analyst

Can you provide any color on that or are you not doing that at this point?

Greg Cappelli - Apollo Group - Co-CEO

We're not doing that right now.

Brian Swartz - Apollo Group - SVP, CFO

We did say last year that we expected it to be above 10% for the 2008 cohort rate.

Suzi Stein - Morgan Stanley - Analyst

Okay, thank you.

Operator

Your next question comes from the line of Trace Urdan with Signal Hill. Your line is now open.

Trace Urdan - Signal Hill - Analyst

Thank you. Greg, I heard you loud and clear about turning your attention to the master starts but I wondered if you could comment just on what you saw in the quarter to what extent the weakness appeared to be coming from fewer leads or possibly an issue with conversions or some combination of the two. Can you comment on that?



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Greg Cappelli - Apollo Group - Co-CEO

Not really at this point. I don't have the data to tell you whether it was from lead flow or conversion or what not. There was, well let me just say this, again. I appreciate the question but it's where you put your focus and what not. I don't think there's anything structural of why our masters programs can't grow. We've got great people in our masters division. We're continuing to make improvements there and we're going to put more focus there going forward.

Trace Urdan - Signal Hill - Analyst

Okay, and then I don't mean for this to be a leading question at all but I'm curious as to whether or not you think that the orientation program might begin to give you information that will allow you to target either your messaging or sort of where you're sourcing your leads from differently for the associate program and whether you even have maybe seen some of that already.

Joe D'Amico - Apollo Group - President, COO

Absolutely. That is we expect that to happen.

Trace Urdan - Signal Hill - Analyst

Okay, thank you.

Greg Cappelli - Apollo Group - Co-CEO

Thanks Trace.

Operator

Your next question comes from the line of Scott Schneeberger with Oppenheimer Funds. Your line is now open.

Scott Schneeberger - Oppenheimer Funds - Analyst

Thanks, good morning. With regard to the targeting focus to bachelors, how much consideration is being given to pricing among the degree levels and perhaps discounting?

Greg Cappelli - Apollo Group - Co-CEO

What we said and continue to believe is there will be some pricing increases going forward but we haven't elaborated on exactly where this will be. It's an evaluation process every year and we look at that carefully.

Scott Schneeberger - Oppenheimer Funds - Analyst

And really actually put into practice until early next year?

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Greg Cappelli - Apollo Group - Co-CEO

Can you say that one more time, I'm sorry?

Scott Schneeberger - Oppenheimer Funds - Analyst

You probably wouldn't put any pricing changes into practice until early next year?

Brian Swartz - Apollo Group - SVP, CFO

We generally, if we increase prices generally over the summer months usually around July 1 but we haven't made any final decisions for this year.

Scott Schneeberger - Oppenheimer Funds - Analyst

Thanks and along those lines, you mentioned not only advertising but corporate partnerships is a way that you can control that shift. Could you take us a little deeper on some of the things you're doing there?

Joe D'Amico - Apollo Group - President, COO

Yes, we have a group of our people who are focused on academic alliances. Those vary Company to Company based upon the Company needs, and we're very focused on extending and expanding that program and have been successful at doing that.

Scott Schneeberger - Oppenheimer Funds - Analyst

Thanks, and more broadly, just any comments on rate trends for advertising and costs being put to you, prices being put to you?

Brian Swartz - Apollo Group - SVP, CFO

Nothing that would stand out at this point in the quarter from prior quarters.

Scott Schneeberger - Oppenheimer Funds - Analyst

Okay, thanks, and then finally, just now \$800 million in authorization for share repurchase, would you view that as the main priority for use of cash right now or if you could just give us a priority hit list? Thanks.

Greg Cappelli - Apollo Group - Co-CEO

As we discussed in the past, we use a framework where we evaluate all of our capital needs and the returns with respect to every capital decision that's a major one, the University of Phoenix given its return on incremented invested capital gets the top attention followed by other assets in the organization including those of Apollo Global. Share repurchase is definitely part of the capital allocation process. We've returned cash in the past and it's part of our plan going forward.



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Scott Schneeberger - *Oppenheimer Funds - Analyst*

Thanks.

Charles Edelstein - *Apollo Group - Co-CEO*

Thank you.

Operator

Your next question comes from the line of Paul Condra with BMO Capital Market. Your line is now open.

Paul Condra - *BMO Capital Markets - Analyst*

Great, thank you. I just wanted to clarify on one thing regarding the days, the 500 basis points that was going to the shift in days, was that for total new starts or just for the associates level?

Brian Swartz - *Apollo Group - SVP, CFO*

There was one extra Monday in the second quarter this year versus last year and our associate programs online start on Mondays, our non-associates bachelors and other degrees start on Tuesday so with one extra Monday, that change did come from the associates level this quarter.

Charles Edelstein - *Apollo Group - Co-CEO*

But that was a 500 basis point put the effect of that change on total new enrollments.

Paul Condra - *BMO Capital Markets - Analyst*

Oh, okay. So can you disclose how much of that impact was just on the associates level?

Greg Cappelli - *Apollo Group - Co-CEO*

No.

Paul Condra - *BMO Capital Markets - Analyst*

Okay. And I apologize if you've answered it but how many students incoming associate actually have less than 24 credits?

Brian Swartz - *Apollo Group - SVP, CFO*

We don't give out that specific information. We have it obviously and we manage and monitor it but we don't provide that data.

Paul Condra - *BMO Capital Markets - Analyst*

And then just related to the interest expense since you've paid down substantially most of your debt--

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Joe D'Amico - Apollo Group - President, COO

Your line is cutting out there. Can you get closer to the speaker.

Paul Condra - BMO Capital Markets - Analyst

Yes, I'm sorry. How is this?

Joe D'Amico - Apollo Group - President, COO

Much better.

Paul Condra - BMO Capital Markets - Analyst

Okay, sorry about that. Regarding interest expense and now that your debt has come down considerably I wonder if you could give us any sense of how that will trend going forward?

Brian Swartz - Apollo Group - SVP, CFO

We're not giving specifics. We've given a lot of data points in terms of our business outlook for Q3 based on trends but we're not giving out specifics on interest expense.

Paul Condra - BMO Capital Markets - Analyst

Okay, and then just one more. Are you going to be providing any financials regarding Insight or any related historicals excluding Insight?

Brian Swartz - Apollo Group - SVP, CFO

Any financial on our Insight subsidiary?

Paul Condra - BMO Capital Markets - Analyst

Yes, Insight Schools, sorry, right.

Brian Swartz - Apollo Group - SVP, CFO

Well, previously Insight Schools was a separate segment in our financial statement so you can actually see their revenue and operating income in our previous 10-Qs and 10K. This quarter, we are presenting them as a discontinued operation so that in the income statement, they've been carved out and they are shown below the line as a discontinued operation and then there's a footnote in our 10-K that we filed this morning to add more detail as well.

Paul Condra - BMO Capital Markets - Analyst

Great, thanks. That's it.

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Operator

Your next question comes from the line of Bob Wetenhall with Royal Bank of Canada. Your line is now open.

Bob Wetenhall - RBC Capital Markets - Analyst

Thank you, good morning.

Charles Edelstein - Apollo Group - Co-CEO

Good morning.

Bob Wetenhall - RBC Capital Markets - Analyst

In new degree enrollment for the bachelors you had a 25% move which was pretty impressive. Do you think that kind of growth rate for the bachelors program for new degree enrollment is sustainable?

Greg Cappelli - Apollo Group - Co-CEO

No. Not at that level. We've said in the past not for any degree of running programs over time are we growing or do we think the growth will remain in something like the mid 20s. Part of the reason for that is we want through a long period of time where we didn't see growth at the bachelors level and you're seeing impact of year-over-year against those come par it sons. Now that being said do we look for that to fall off a cliff? No we don't. We're making investments and we're mindful we want quality growth to us, it's not, obviously the mix shift is extremely important here to you to the degree each program grows we're not giving out our guidance on exactly where that's going to come out but again we are focused there, we're investing there and we do expect to see growth there going forward.

Charles Edelstein - Apollo Group - Co-CEO

But Bob to give you a sense of more sustainable growth levels, it was one of the reasons why we put forth our three to five year target, so as you look at those revenue and operating income targets that gives you a feel for what kind of sustainable growth rate we would expect. That's helpful.

Bob Wetenhall - RBC Capital Markets - Analyst

With the mix shift and long term goals where would you like to see the bachelors program as a percentage of total degree enrollment within like the next three years? Is there a target you guys have?

Greg Cappelli - Apollo Group - Co-CEO

No, not that we're-- no. What we've done is we've made important decisions internally about the direction we want to point the University and we're making the investments to do that and ultimately, we expect to see the growth and the percentages fall out in those directions, but to the exact extent and percentage, we're not providing guidance on that at this point.

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Bob Wetenhall - RBC Capital Markets - Analyst

That's totally fair. I mean is it likely to expect you'll see kind of a decline in the associates as a percentage of enrollment starting in 2011?

Greg Cappelli - Apollo Group - Co-CEO

That's a fair assumption. Again, we're not running the business to pinpoint a certain percentage where it needs to be but yes, that would be a fair assumption to make.

Bob Wetenhall - RBC Capital Markets - Analyst

Got it. It's really helpful. Thank you very much.

Greg Cappelli - Apollo Group - Co-CEO

Thank you, thank you.

Operator

Your final question comes from the line of Brandon Dobell with William Blair. Your line is now open.

Brandon Dobell - William Blair & Co - Analyst

Dragging up the rear here. Just a couple of easy ones. The last couple quarters it seems that I've seen a lot more in the way of new location openings so new physical campuses or learning centers, maybe an update on where the physical capacity stands now and how you think about that aspect of the growth strategy over the next year or two?

Joe D'Amico - Apollo Group - President, COO

Yes, Brandon, we look at all of our locations across the country in a strategic way and have identified where there are opportunities where we should be that we're not and we continue to see success with their learning centers and they've been well received and it's great for the student experience, so we'll continue to expand those in a normal way, not nothing extraordinary going on there. I think the message there is that our ground operations are extremely important to us. We want to have a meaningful presence on the ground in the US, and we would like to see our ground locations grow as well in terms of the student population.

Brandon Dobell - William Blair & Co - Analyst

Those new ground locations, those all come with some kind of a student resource center opportunity for the online students or how are you using the ground capacity to either increase retention with the online students or use it as a way to generate incoming?

Greg Cappelli - Apollo Group - Co-CEO

I think we've sort of freshened, if you will, our campuses and the new ones are certainly a different look and feel in a more student consistent with what students need and want these days so for example, more computers locations, more computer space and more accessibility to computers and the like.

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Brandon Dobell - *William Blair & Co - Analyst*

Final one. Given the ongoing discussions around all these topics, I guess mostly around incentive compensation--

Charles Edelstein - *Apollo Group - Co-CEO*

Brandon, you're breaking up a little bit. Could you get a little closer to the mic?

Brandon Dobell - *William Blair & Co - Analyst*

Yes, sure, how do you think about the direction you want to take enrollment counselor compensation? Have you made any specific changes or real structural changes or do you have a bunch of different pilots going on to try and figure out what might be the right structure for incenting those Advisors?

Charles Edelstein - *Apollo Group - Co-CEO*

Well, Brandon, the way we think about that is that we try, we're trying to make sure that we evaluate our counselors based on the relationship they build with the students so those are the trials that we have going on in thinking and understanding and learning more about the relationship.

Brandon Dobell - *William Blair & Co - Analyst*

Thanks, guys.

Charles Edelstein - *Apollo Group - Co-CEO*

Thanks, Brandon.

Operator

I'd like to turn the call back to Chas Edelstein for closing remarks.

Charles Edelstein - *Apollo Group - Co-CEO*

Well, we appreciate you being with us on this early morning and look forward to keeping you in touch with all of the things we're doing. Take care now.

Operator

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

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