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APOL - Q4 2009 Apollo Group Earnings Conference Call

Event Date/Time: Oct 27, 2009 / 09:00PM GMT



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PRESENTATION

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Operator

Good afternoon, ladies and gentlemen, and welcome to Apollo Group Incorporated fiscal 2009 fourth quarter and year-end 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, October 27, 2009 and may not be reproduced in whole or in part without the permission of the Company. There will be a replay of this call available through November 6th, 2009 beginning approximately two hours after we conclude today. The replay number is 800-642-1687 or 706-645-9291 internationally. The conference ID for the replay is 32796980.

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

Allyson Pooley - Apollo Group - IR

Thank you, and thank you, everyone, for joining us today. Speaking on the call will be Chas 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, Chief Financial Officer and Treasurer. Joe D'Amico, our President and Chief Operating Officer is also here with us and he 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 be comparing our fourth quarter of fiscal 2009 which ended August 31st, 2009 to the fourth quarter of fiscal 2008.

I would also like to remind you that this conference call may contain forward-looking statements with respect to the future performance and financial condition of Apollo Group that 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 1-A and elsewhere in the Company's most recent 10-K report filed with the Securities and Exchange Commission today. The Company does not undertake any obligation to update anyone with regard to the forward-looking statements made during this conference call. Additionally during the call we may refer to nonGAAP financial measures which are intended to supplement, but not substitute, the most directly comparable GAAP measures. A reconciliation of these GAAP/nonGAAP metrics is included in our press release issued today and available on our website.

On today's call, Chas will provide you with some highlights for the quarter end year, Brian will review our financial results in more detail and Greg will provide you with an update on some areas of investment as well as certain operational aspects of the business. And with that, I would like to turn the call over to Chas.

Chas Edelstein - Apollo Group - Co-CEO, Director

Thanks, Allyson, and good afternoon, everyone. Thanks for joining us today to discuss our fourth quarter and year-end results. We're pleased to be sharing another strong quarter which capped an exceptional year from the perspective of improved retention, higher enrollment and increased margins. For the year, we generated close to \$4 billion in revenue, a 27% increase over the prior year, and excluding special items which Brian will summarize a bit later, earnings per share increased approximately 49% year-over-year.

In the fourth quarter, revenue grew approximately 29% to \$1.1 billion and net income excluding special items grew 37% to \$166 million or \$1.06 per share. Additionally during the fourth quarter, Apollo Global closed its largest acquisition to date, acquiring London-based BPP. BPP's operations negatively impacted fourth quarter EPS by \$0.03. Excluding special items as well as BPP, earnings per share would have been approximately \$1.09 a 45% year-over-year increase.

University of Phoenix, our flagship institution, enrolled 102,000 new students during the fourth quarter for a total degree enrollment 443,000 students. During the fourth quarter, we did have one additional new enrollment date for our Associates programs compared to the fourth quarter a year ago. We haven't experienced this calendar phenomenon for over three years and it will impact our data presentation in almost every quarter for the next couple of years. Without this extra week, we estimate new enrollment growth would have been in the high teens versus the reported 23%. In addition, we saw retention improve at most degree levels.

Over the last several months, we have embarked on a Company-wide initiative to enhance our strategic plan and position ourselves for responsible growth. The overarching objective of our strategy is to continue to provide access to high-quality education through innovation to a broad spectrum of working learners, while balancing this against our responsibility to ensure that only students who have a reasonable chance to succeed enroll in our universities. Greg is going to elaborate a little more on our specific efforts in this area.

We remain committed to our belief that delivering a superior student experience enabled by our talented and engaged faculty and our counselors is essential for our shareholders to achieve attractive returns on their capital over time. To that end, we will continue to invest in our people, our systems and our organization with a long-term perspective as they are the foundation of our future success. We believe our efforts will enable us to meet and exceed our students' expectations and further differentiate us from our competition. With that, let me turn over the call to Brian to discuss the financial results in more detail.

Brian Swartz - Apollo Group - CFO

Thanks, Chas and good afternoon, everyone. Our fourth quarter results were driven by revenue increasing over 29% compared to the same period a year ago, and excluding the one month of revenue contribution from our recent acquisition of BPP of \$13 million, revenue growth would have been 28%. The components of this increase were primarily University of Phoenix's 22% enrollment growth combined with increased tuition rates.

Net income for the fourth quarter was \$92 million or \$0.59 per share as compared to \$230 million or \$1.43 per share in the fourth quarter a year ago. Excluding special items in both years, net income increased 37% to \$166 million resulting in EPS of \$1.06 per share. Included in this EPS amount is a loss from BPP's operations of \$0.03 per share. Excluding BPP, our EPS would have been \$1.09. The special items net of tax in the fourth quarter of 2009 totaled \$74 million as compared to gains net of tax of \$109 million in the fourth quarter of 2008.

The four special items in the fourth quarter of 2009 were, one, \$80.5 million for our estimated settlement including all legal expenses in the qui tam lawsuit, two, \$9.4 million related to our rationalization of software, three, \$5.5 million for the cost of a currency hedge associated with our BPP acquisition and four, the write-off through our tax provision of \$4.7 million of deferred tax assets as a result of certain disallowed reductions related to share-based compensation. In our press release, we have provided a detailed reconciliation of these special items to our GAAP-based financial statements. Additionally, we have provided a table that breaks out the impact of BPP on our fourth quarter financial results. We will continue to provide this detail regarding BPP's financial results until we anniversary the acquisition.

Operating income increased 42% to \$281 million, excluding the special items I mentioned. And our operating margin expanded 230 basis points to 26.1% from 23.8% a year ago. Excluding the impact of BPP's operations, the operating margin would have been 90 basis points higher. The increase in operating margin, excluding special items, was driven by 150 basis points decrease as a percentage of revenue in instructional costs and services or ICS and a 240 basis point decrease in selling and promotional expenses which were partially offset by 160 basis point increase in general and administrative expenses or G&A.

I'll spend a minute on the variances in each of these expense categories. First ICS, the significant improvement in ICS was primarily driven by economies of scale, facilitated with our 29% increase in revenue, as well as continued savings from our lower negotiated contract costs with third-party vendors, particularly in the area of financial aid. As a reminder, the re-negotiation of this contract went into effect on September 1st, 2008. As a result, we have now anniversary the savings.

Offsetting some of this improvement in ICS were two primary items; BPP's expenses and higher debt bad expenses. BPP's operations in August increased our ICS expense as a percentage of revenue by approximately 110 basis points. Bad debt expense increased 120 basis points to 4.2% of revenue compared to 3.0% a year ago.

The year-over-year increase was primarily due to three items; first, lower collection rates on older receivables, in part due to a difficult economy, two, an increase in the aging of our receivables and the related risk of collecting them, and three, the shift in our student body mix to more associate students. Consistent with past quarters, our total allowance for doubtful accounts continues to exceed all receivables greater than 90 days old. Selling and promotional expense improved for the third quarter in a row which in large part is a result of more effective marketing, as well as continued improvement in enrollment accounts or effectiveness.

Finally, G&A; the increase in G&A as a percentage of revenue, excluding the software write-off I mentioned earlier, is predominately due to lower compensation expense in the fourth quarter of 2008, due to the departure of certain senior executives. As a reminder, that lower

compensation added about \$0.04 to last year's fourth quarter EPS. Included in our operating expense in the fourth quarter was approximately \$19 million of share-based compensation, which brought the total for the year to \$68 million.

Looking ahead, we currently believe share-based compensation for fiscal 2010 will be approximately \$65 million to \$70 million. Our effective tax rate in the fourth quarter was higher than anticipated primarily due to three factors; one, higher state taxes, two, the estimated tax impact of the qui tam lawsuit reserve and three, the write-off of the deferred tax assets previously discussed.

Regarding taxes, I would like to note that we recently reached an agreement in principal with the IRS Office of Appeals, related to our open audits for tax years 2003 to 2005. Subject to negotiations of final documentation, we have settled these open matters for less than the \$50 million reserve we have accrued. This settlement when finalized will result in a reduction in this accrual and a one-time decrease to our effective tax rate for a portion of the amount accrued. Looking ahead, we expect our tax rate for fiscal 2010, excluding any discrete or one-time item adjustments including the settlement of our open tax audits, to be approximately 41%. But this could vary, depending on a number of factors, including the outcome of our state tax initiatives and the results of our international operations.

Now let me turn me turn to the balance sheet and cash flows. We continue to maintain a well-capitalized balance sheet and generated approximately \$175 million or a 60% increase of adjusted free cash flow during the fourth quarter and \$785 million for a 47% increase for the full year of 2009 compared to 2008. 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 fourth quarter increased to 32 days compared to 29 days a year ago. This increase is due to both structural and temporary changes to our operations.

One of the structural changes is that we now ensure transfer credits are evaluated and a student is fully matriculated prior to certifying their loan which supports our commitment to a better student experience. Temporary items include the timing of the billing cycle relative to year-end and a more pronounced seasonal increase due to our annual student financial aid system enhancements and upgrades. This temporary early postpones the processing of student financial aid requests which results in a delay of the corresponding disbursement of Title IV funds.

Total debt outstanding increase to \$589 million and August 31, 2009 primarily due to us drawing the maximum amount, \$500 million, under our revolving credit facility. Subsequent to year-end, we repaid approximately \$393 million of our revolving credit facility. We drew on our credit facility in part to manage our liquidity as well as to provide a natural hedge against a portion of our BPP net assets.

I would like to touch on two other items quickly, the extra new enrollment date during the quarter that Chas mentioned earlier, as well as tuition discounts. During the fourth quarter, due to the way the calendar fell, we had an extra new enrollment date for our Associates program as compared to a year ago. For our online operations, we begin classes one day per week; Mondays for Associates and Tuesdays for the rest of our online operations. During the fourth quarter of 2009, there were 14 Mondays versus the typical 13 in any given quarter. This phenomenon continues in various quarters to the third quarter of fiscal 2012 and will then again normalize again for several years. While the calendar issue impacts enrollment, it does not have a significant impact on revenue.

Now on tuition discounts. As has happened historically at the University of Phoenix, during the fourth quarter we experienced a seasonal increase in discounts as a percentage of gross revenues due to an increase in student prepayments prior to our July tuition changes. This year as part of our tuition changes, we also began offering higher discounts for our active duty military students and we are participating to the fullest extent possible in the Department of Veterans Affairs Yellow Ribbon Program. As a result, we expect that going forward, discounts will likely be higher as a percentage of gross revenues than what we have historically experienced.

Before I turn the call over to Greg, I want to address the SEC informal inquiry which we announced today. We have been informed by Enforcement Division of the Securities and Exchange Commission that they have commenced an informal inquiry into our revenue recognition practices. Unfortunately, we don't have any further insight into the scope, duration or outcome of this inquiry at this time but we are fully cooperating with the SEC. Importantly, we believe that our revenue recognition policies are appropriate and in accordance with GAAP. And with that, I'll turn the call over to Greg.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Thanks Brian. Today I would like to briefly address several key topics, including an update on key investments areas at the University of Phoenix and Apollo Global. I will also provide you with an update on Insight schools as well as 90/10 and then finally update you on our internal long-term growth targets.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

First, key areas of investment with the University of Phoenix. We continue to invest in numerous quality initiatives within the University of Phoenix, including faculty and employee training, new program development, brand building and enhancements to our learning management system. We also continue to invest in our admissions process and are increasing the development and use of sophisticated tools to identify students with the greatest likelihood of success. We currently have a pilot program in place which combines stronger commitment of time and energy from students upfront with more help and assistance from us prior to their formal enrollment and application for Title IV loans. Additionally, we rolled out a "responsible borrowing calculator" to assist students as they evaluate the amount Title IV funds they need for their education.

Now importantly, it is our intention that by taking these steps, particularly with entry-level students in the area of our university where we have an open enrollment environment, we can get better at determining their commitment and readiness to enroll in college courses prior to their taking on the burden of college debt. The problem balancing open access to education with the responsibility of completion is not unique to the private sector. It is a national problem in higher education. But for Apollo, we feel it is even more important that we take a leadership role in investing in the policies, systems and processes to protect students and that put us on the leading edge of keeping the student success and education experience front and center.

If this results in a slower rate of growth in future new student enrollment, we would gladly make this trade-off for higher retention and better student outcomes for those enrolled in the University of Phoenix. In addition, the financial impact should ultimately be positive for Apollo, as students that enroll and retain have a far greater impact on our profitability than those that enroll for a short time to try their hand at college and then drop out.

Now on to marketing. This has been another area of key investment for us and one that is linked to the student experience and ultimately the student completion. We continue to improve our internet marketing efficiencies while taking steps to produce better informed students about the University of Phoenix. We think these higher quality student inquiries have a better chance of succeeding in our university.

As previously noted, we continue to invest a greater proportion of our marketing spend on long-term brand building which we hope will continue to better align the perception of the University of Phoenix with the quality we think our students receive when they enroll in one of our programs of study. In fact, the majority of the increase in marketing expense in the fourth quarter versus a year ago was due to our long-term branding, specifically our I Am A Phoenix campaign, being delivered online as well as in traditional and local advertising channels including television, radio and print.

Now a brief update on Apollo Global. During the fourth quarter, Global closed on its third transaction, the acquisition of BPP, a UK-based education company. The final purchase price was \$602 million. We have now been working with the BPP team for almost three months and integration is well on its way. We are very impressed by the talent and passion of the employees and look forward to developing and growing this business together. I'm not going to go into a lot of detail on BPP on this call, as there is more detail available in our 10-K, also filed today.

But just briefly, I want to point out a couple of key items. This is a fairly late cycle economic company whose test prep has long pipelines. BPP experienced lower new student enrollments in the fall of 2009 versus 2008, due to economic conditions in the UK. And while some of this can be offset by price and cost containment efforts, we don't expect to see much in the way of growth this year at BPP.

Additionally, earnings profitability will be impacted by significant amortization of intangibles related to purchase accounting as well as investments being made in order to grow the business college. Accordingly depending on our financial results, we expect BPP to be slightly dilutive to our 2010 earnings, but expected it to be accretive thereafter. BPP is also more seasonal than some of our other businesses which impacts both the income statement as well as cash flows. Their business tends to be strongest in our fiscal first quarter, due to strong revenues and intakes, followed by our fiscal third quarter which is driven by professional education. Our fiscal fourth quarter is BPP's weakest from a profitability and cash flow perspective followed by our fiscal second quarter.

Now let me quickly move to Insight Schools. Apollo Group acquired Insight Schools in 2006 and has invested significantly to grow this business over the last several years. During 2009, Insight generated an increased operating loss, primarily due to regulatory compliance costs and additional start up expenses. While showing good revenue gains during the year, the business has encountered a number of administrative challenges which ultimately led us to exit two states where they serve students.

As part of our enhanced long-term strategic plan, we have made the decision to explore the sale of Insight Schools as we see the need to focus our time on the huge and growing global post secondary portion of the education market. We're early in this process so there is not much in the way of detail that we can provide you with right now, but we'll certainly update you on any meaningful progress going forward.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Briefly on 90/10. As you know, this is a federal regulatory requirement that states proprietary schools cannot obtain more than 90% of their cash revenues from Title IV funds. Due in large part to the loan limit increases put in place over the last couple of years as well as the growth of our Associates program, the University of Phoenix's percentage of revenue that is coming from Title IV continues to trend up. During our fiscal 2009, the amount was 86% excluding any temporary relief for loan limit increases that we might obtain which we estimate could decrease the percentage by about 50 to 300 basis points.

In conclusion, the fourth quarter was a positive ending to a terrific year. And although both our enrollment and financial metrics reached record levels, we're most excited about the progress we have made during the year on certain other key initiatives. These include an exceptional focus on retention, our commitment to student services and student interests and to significant investments we have made to enhance the student experience at the University of Phoenix

In addition, we have invested and continue to invest significant dollars into our technology capabilities as we look to build our online learning platform and classroom for the future which we're very excited about and look forward to showing you more on this front at the appropriate time.

Additionally this past year, we took the time to plan and invest back into assets already owned at Apollo, like WIU which is being led by an exceptional management team and we have made significant investments into Apollo Global which is quickly becoming a major player in the international marketplace.

In summary, we have many exciting things happening at Apollo Group today. We have the financial and human capital and importantly, we have the discipline in place to execute on our strategic plan. But most importantly, our management team is completely aligned in the belief that none of this would be possible without always remembering to put our students first. We strongly believe that maximizing the returns of our students will ultimately drive the magnitude of our long-term success.

With this as our foundation, we can successfully work to further improve the quality and access to higher education around the globe. We believe that if we achieve these goals over the next three to five years, our organization can continue to grow responsibly and we have internal objectives to generate low double-digit revenue growth and mid-teens operating profit growth at Apollo Group globally. Before we take your questions, we would just like to thank our dedicated employees and faculty who have worked so hard to deliver high quality education to all of our students every day. Your passion and talent are what drives the positive results we generated this year and their efforts and innovations will allow us to continue to succeed in the years ahead. With that, we'll turn the call back over to the operator so we can take your questions. Thanks.

QUESTION AND ANSWER

Operator

(Operator Instructions). And your first question comes from Andrew Fones with UBS.

Andrew Fones - UBS - Analyst

Thank you. Regarding the SEC inquiry, I was wondering if you can tell us whether this relates at all to the elective that you received -- responded to regarding revenue recognition practices back in February?

Brian Swartz - Apollo Group - CFO

Hi, Andrew. It's Brian. We don't know if it does. That letter was from the Division of Corporate Finance of the SEC, and we addressed their comments to their satisfaction in that letter and were responsive to their questions.

Andrew Fones - UBS - Analyst

Was this inquiry from that same division within the SEC?

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Brian Swartz - Apollo Group - CFO

No. That came from the Division of the Corporate Finance. This letter is from the Division of Enforcement.

Andrew Fones - UBS - Analyst

Okay. And then just in terms of the guidance, I was wondering if you could just elaborate in terms of the double-digit top line growth -- the break out there between expected enrollment growth and pricing things.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global r

Andrew, what we can say about that is that in general, we have been asked about pricing from an industry's perspective and an Apollo Group and University of Phoenix perspective. And what we have said is that that is going to depend on what is happening in any given year. But generally speaking, we can see price increases in the 3% to 5% range over time so you can back into what that means for revenue and enrollment growth.

Andrew Fones - UBS - Analyst

Thanks. And then finally on the qui tam settlement, I was wondering if you can detail roughly how much the legal costs were versus the settlement and whether there was any difference or tax treatment on those two elements. Thanks.

Chas Edelstein - Apollo Group - Co-CEO, Director

With regard to the qui tam, we said that amount includes both expected settlement and legal costs. But we don't have any specific break-out to offer at this time.

Andrew Fones - UBS - Analyst

Thank you.

Chas Edelstein - Apollo Group - Co-CEO, Director

Thank you.

Operator

Your next question comes from Suzanne Stein with Morgan Stanley.

Suzanne Stein - Morgan Stanley - Analyst

Can you just talk about -- have you changed the way you recognize revenues? Are you doing anything different from the industry? Is there anything that you can make us aware of that would help shed some light on this?

Brian Swartz - Apollo Group - CFO

Yes, Suzi, it's Brian. There have been no significant changes -- and has been applied consistently. In connection with the calendar issue that I discussed in the script, in Q4 of this year we went from recognizing revenue on a weekly basis to a daily basis which isn't significant. Had we not done that, we would have accelerated revenue into the fourth quarter which would be an advance in delivering the services which we think is absolutely appropriate. That did not have a significant impact on any prior periods.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Suzanne Stein - Morgan Stanley - Analyst

Can you just also tell us when you became aware of this inquiry?

Brian Swartz - Apollo Group - CFO

Last week.

Suzanne Stein - Morgan Stanley - Analyst

And going forward, how do you plan on communicating information to the street on this?

Brian Swartz - Apollo Group - CFO

We plan on cooperating fully with the SEC and we'll make any further discussions in light of whatever is discussed at that time.

Suzanne Stein - Morgan Stanley - Analyst

Okay. Thank you.

Operator

Your next question comes from Kelly Flynn with Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

Thanks. Just following up on the revenue recognition thing. I read in the 10-K that you don't have a receipt of the program review from the Department of Ed, but I was wondering have you had any dialogue with them about how you recognize enrollments and dropouts or anything that might be broadly related to this? I understand the SEC is a separate entity, but wondering if there was anything you discussed with the Department of Ed that you think might relate?

Joe D'Amico - Apollo Group - President & COO

No. There is absolutely no connection to the best of my knowledge. (multiple speakers)

Kelly Flynn - Credit Suisse - Analyst

All right. Thanks Joe. And hey, Greg, on these operating goals you laid out, what is the timeframe on those?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

The timeframe is the next three to five years. We build a long-term model and our strategy and strategic plan is built around that.

Kelly Flynn - Credit Suisse - Analyst

Thanks. And just a couple more. On G&A, do you consider that to be at a normalized level right now that we can somewhat extrapolate for next year?

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Brian Swartz - Apollo Group - CFO

Kelly, it's Brian. As I mentioned, the software rationalization charges of about \$9 million, those are included in G&A. When you take those out of Q4 of 2009 and you adjust for the lower compensation in Q4 of 2008, it is actually consistent with a percentage of revenue. Those are the unusual items floating through Q4 of 2009.

Kelly Flynn - Credit Suisse - Analyst

But [ex dollars] then. Do you think it is normal? I'm just trying to make sure that -- you mention some of the year-ago items that there is nothing else that we should consider after we model it fourth quarter for that one off item.

Brian Swartz - Apollo Group - CFO

Nothing that comes to mind.

Kelly Flynn - Credit Suisse - Analyst

Okay. And then on BPP, you said a \$0.03 loss in this quarter and then you also said losses in 2010. Do you think the losses are going to be similar to what they are in a run rate off of Q4? Or do you expect them to narrow as we progress through 2010?

Brian Swartz - Apollo Group - CFO

We expect for the full year of 2010 for it to be slightly dilutive. Our 2004 -- or I'm sorry, our Q4 is BPP's weakest quarter. They were included for one month in our Q4 results. And then for our Q1 -- our Q1 and Q3, their results are stronger followed by their Q4 and Q2. And Q2 there is a weak quarter for them as well.

Kelly Flynn - Credit Suisse - Analyst

For the weaker quarters, is \$0.03 a good baseline? Are you saying you would have to increase that loss because you only had it for part of the quarter?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Part of that depends on the economy.

Brian Swartz - Apollo Group - CFO

Yes. Part of it is the economy and a lot of other things. The fourth quarter is their weakest quarter, and August specifically, is a very weak month in that quarter.

Kelly Flynn - Credit Suisse - Analyst

Okay. Thank you very much.

Operator

Your next question comes from Sara Gubins with Banc of America.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Sara Gubins - Banc of America - Analyst

Thank you. In terms of the goals that you laid out -- the longer term goals, I'm trying to think about how to apply those to 2010, particularly given the impact of BPP. Is the thought that the underlying business, excluding BPP would be up in the mid-teens or would that include the negative impact of BPP?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Remember that wasn't a 2010 number that I gave. Those are our long-term goals. You can average those over three to five years.

Sara Gubins - Banc of America - Analyst

I am just trying to get a little bit more color heading into 2010, given a lot of moving parts both around the unusual number of start dates as well as the impact of BPP. Can you give us any other color there?

Chas Edelstein - Apollo Group - Co-CEO, Director

Sara, maybe the other thing that would help on that is that those long-term goals are excluding acquisitions. We wouldn't include an acquisition for example in the year we made it. And those are internal growth numbers. You would only expect to see acquisitions included once they're anniversaried if you will, if that helps.

Sara Gubins - Banc of America - Analyst

Okay. I'm wondering would you expect 2010 to be better than those goals to the extent that you're able to talk about it?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We're not giving guidance, but you can see what -- as we've come off the past couple of years, what we've said in the past is we're not looking for stair-step functions in our financials in any given year, unless there is something that happens to the business or economically or what not. It is certainly not the way we're planning for our business.

Sara Gubins - Banc of America - Analyst

Okay. In terms of the SEC inquiry, can you give any detail around what they may have requested? Is there any way to give an indication of what it is that they're looking for? I'm just particularly wondering if this is something that impacts the Company as a whole. Or is it specific to any part of your operations or the Company?

Brian Swartz - Apollo Group - CFO

This is Brian. We don't know what the focus of their inquiry is. We believe all of our revenue recognition is appropriate and in accordance with GAAP.

Sara Gubins - Banc of America - Analyst

Okay. Great. I'm sorry --

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We just note also that we put out our 10-K today and that 10-K is signed by Deloitte auditors.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Sara Gubins - Banc of America - Analyst

Okay. Then your academic report, when should we expect that out?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We're hoping that comes out in the next few weeks. There is formatting and things and -- that is done by the university, Sara. That is going to be up to them, but that is what we're hoping for.

Sara Gubins - Banc of America - Analyst

Any preview on how that looks?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

No. We don't have a preview for you at this time.

Sara Gubins - Banc of America - Analyst

Okay. Thank you.

Operator

You're next question comes from Andrew Steiner of JPMorgan.

Andrew Steiner - JPMorgan - Analyst

Hi there. My question is about 2010 operating margin. If it is going to be a year of operating margin expansion or could it be a year of investing - just bridge you off the comments that you made, Greg. In general, we don't look for stair-step moves in either direction. With that philosophy, could you just give us a general comment on 2010 operating margin?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

One, we are not operating the business for the operating margin. I know you already know that. But two, we believe that the business has the ability to continue to have some increases in the margin over the next three to five years. That possibility is there for 2010. I would like to be able to give you more than that. But again, there is the possibility for us to have margin improvement in fiscal 2010.

Andrew Steiner - JPMorgan - Analyst

Okay. There is nothing in terms of investments -- looking upwards that would make that a challenging proposition?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We're investing significant margin points at this point back into the business. But even with that, we have done that within the last year and we have been able to show margin improvement.

Andrew Steiner - JPMorgan - Analyst

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Okay. Thank you very much.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

You're welcome. Thank you.

Operator

Your next question comes from Mark Marostica with Piper Jaffray.

Mark Marostica - Piper Jaffray - Analyst

Thank you. I wonder if you could frame for us the increase in discounts that we should expect going forward.

Brian Swartz - Apollo Group - CFO

Yes. Hi, Mark. It is Brian. I don't have a specific number for you. But clearly with our participation in the Yellow Ribbon Program and the discounts we provide to our active duty military which we think are very important for members of the armed forces. That it will go up.

Mark Marostica - Piper Jaffray - Analyst

Do you expect -- can you give us in terms of basis point? Is it material? Is it something we should -- for modeling purposes be aware of here? Just give us a sense if you would on a quantitative basis on how we should look at that.

Brian Swartz - Apollo Group - CFO

Mark, again we don't think it will be stair-step. These are changes we are doing for the benefit of our students which is what we're focused on. We're not giving specific guidance on the number.

Mark Marostica - Piper Jaffray - Analyst

Okay. Fair enough. And then on the selling promotion line, you mentioned you saw a significant leverage there. What proportion of the leverage was driven by lower [inquiry] costs versus (inaudible) improvements? Could you (inaudible) for us?

Brian Swartz - Apollo Group - CFO

No. Mark, it is Brian. We're not giving that out. We're not giving that detail out anymore, but we did see improvement in both.

Mark Marostica - Piper Jaffray - Analyst

In both. Very good. Just a question on [neg reg]. Does Apollo or University of Phoenix have any representation on the committees for next week and going forward or any comments on the neg reg process that you might provide to us?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

No. We don't have any representation on that.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Mark Marostica - Piper Jaffray - Analyst

Okay. Fair enough. I'll turn it over. Thanks.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Thank you.

Operator

Your next question comes from Jerry Herman with Stifel Nicolaus.

Jerry Herman - Stifel Nicolaus - Analyst

Thanks.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

I'll just add on to that that here is representation from an industry standpoint on that.

Joe D'Amico - Apollo Group - President & COO

I'll add something, too. We of course or monitoring the neg regs very closely and those hearings.

Jerry Herman - Stifel Nicolaus - Analyst

Great.

Chas Edelstein - Apollo Group - Co-CEO, Director

All right, Jerry, go ahead.

Jerry Herman - Stifel Nicolaus - Analyst

Thanks. A question about 9010, Greg. You referenced 86%, excluding the benefit. I'm assuming that is the unsubsidized Stanford loans. More specifically the question is can you talk about the percentages as you exited the year as opposed to the average of the year and progress on your efforts to diversify those revenue streams.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Let me take the last part of that first. As we mentioned last year, we are very focused on diversifying the revenue streams from a corporate business perspective, military perspective and also some other areas as well. We laid those out very specifically in our 10-K just for people to review on that. I think things are on track and going very well. We were pleased of where 9010 came out this fiscal year.

Jerry Herman - Stifel Nicolaus - Analyst

Great. And just an update on the direct loan program, i.e. the implementation process that you guys intend.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Brian Swartz - Apollo Group - CFO

Hi, Jerry. It is Brian. We did roll out direct loans for a very small part of our loans, I believe it was in July of this past year or this past summer. And we're gearing up to be prepared to ramp that up over the course of the next 10 to 12 months.

Jerry Herman - Stifel Nicolaus - Analyst

And did you notice any difference in timing of either cash flows or administrative burden?

Brian Swartz - Apollo Group - CFO

Nothing that I'm aware of.

Jerry Herman - Stifel Nicolaus - Analyst

Okay. And then just one final question with regard to the qui tam potential settlement. I'm trying to recall if you guys verified that the negotiations include the [relaters] as well as the DOJ, the DOE and the OIG.

Brian Swartz - Apollo Group - CFO

You wanted to do -- what we verified is that it includes the Department of Justice, the [relaters] and ourselves. I think that is what you asked, right?

Jerry Herman - Stifel Nicolaus - Analyst

Okay. Great. Thanks, guys. I'll turn it over.

Operator

Your next question comes from Trace Urdan with Signal Hill.

Trace Urdan - Signal Hill Group - Analyst

Thanks, guys. In her testimony in Congress recently, the acting Inspector General of the Department of Ed talked about the difficulty of monitoring and verifying online student attendance. I wonder if you guys could address how you deal with that issue internally. When you decide a student and not complete or away from the computer for a period of time?

Joe D'Amico - Apollo Group - President & COO

Trace, we have specific policies with respect to monitoring students in class. And our online classes, we actually have attendance requirements for students to be in attendance. If they're not, we have policies with respect to the withdrawal of those students, either from the course or from the university.

Trace Urdan - Signal Hill Group - Analyst

Is it weekly?

Joe D'Amico - Apollo Group - President & COO

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

The attendance taking?

Trace Urdan - Signal Hill Group - Analyst

Yes.

Joe D'Amico - Apollo Group - President & COO

Yes.

Trace Urdan - Signal Hill Group - Analyst

Okay. I presume that that relates as well to revenue recognition -- that stops if they fail to attend within a week?

Joe D'Amico - Apollo Group - President & COO

It is -- I didn't say if they failed to attend in a week that that has any particular ramifications. But we do follow -- if a student withdraws from a class or from the university, we do not recognize revenue.

Trace Urdan - Signal Hill Group - Analyst

Okay. I presume that that is the case. I just was asking for a little bit more specificity there, Joe.

Joe D'Amico - Apollo Group - President & COO

Trace, can you -- maybe you can reframe the question.

Trace Urdan - Signal Hill Group - Analyst

I'm hoping you can tell us more about what the specific policies are. How do you monitor student attendance and at what point do you --

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Okay. We got it. We'll do that.

Brian Swartz - Apollo Group - CFO

Maybe just to clarify, Trace, when a student attends their first night of class, we record in accounts receivable related to that course and we also record deferred revenue. That deferred revenue is amortized into the income statement as revenue as that course takes place and is delivered over whatever respective period of time, generally five to nine weeks. If a student withdraws and they qualify for a refund and (inaudible) our refund policy, then we stop recognizing the revenue.

Trace Urdan - Signal Hill Group - Analyst

Right. The question is if a student doesn't formally withdraw, how do you make a determination.

Brian Swartz - Apollo Group - CFO

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

They are required to post attendance in the courses. If they don't post attendance, then it follows the withdraw process and the refund policy.

Trace Urdan - Signal Hill Group - Analyst

And is there a grace period?

Brian Swartz - Apollo Group - CFO

I'm not sure what you mean by a grace period.

Trace Urdan - Signal Hill Group - Analyst

The attendance is weekly. I made the statement then you stop recognizing revenue. And I think Joe objected to that. I'm asking if they fail to record their attendance in a given week, what happens next?

Joe D'Amico - Apollo Group - President & COO

If the student is out of attendance for two weeks -- any two weeks within the five or nine-week period -- at least I know with a nine-week period, it is a two-week non attendance then they are withdrawn from the course by us.

Trace Urdan - Signal Hill Group - Analyst

Okay. And the 16-week course, is it different?

Joe D'Amico - Apollo Group - President & COO

No. Nine weeks. We don't have 16 weeks courses. (multiple speakers)

Trace Urdan - Signal Hill Group - Analyst

Five weeks.

Joe D'Amico - Apollo Group - President & COO

It is nine or five weeks. I don't recall if in the five-week course what the rules are.

Trace Urdan - Signal Hill Group - Analyst

Okay. Fair enough. I noticed in the queue you changed the refund policy there. It looks like you're actually being more conservative in terms of refunding dollars to students. I wonder if you could just talk about the decision process in making that change.

Brian Swartz - Apollo Group - CFO

Trace, just to be clear we modified our refund policy approximately six quarters ago so this was in the spring of 2008. That policy change actually made it more favorable for the student -- from the standpoint if they attend just a couple of nights of a course or one night of course, they're eligible for a bigger refund than they were previously. That policy was reviewed, as I mentioned earlier from Andrew's question, by the Division of the Corporate Finance in their SEC comment letter. And to our knowledge, we satisfactorily resolved so that disclosure has been in our public filings I believe for the last six quarters.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Trace Urdan - Signal Hill Group - Analyst

Fair enough. And that was the specific issue that came up in the other situation.

Brian Swartz - Apollo Group - CFO

(multiple speakers) What other situation?

Trace Urdan - Signal Hill Group - Analyst

I am sorry. I'm just asking you to -- I think what I heard you just say is that that was the other SEC inquiry that came up recently that you resolved as related to the refund policy.

Brian Swartz - Apollo Group - CFO

Yes. The SEC comment letter that came out last January/February timeframe -- that letter had some questions about the refund policy that was put in place about three quarters earlier.

Trace Urdan - Signal Hill Group - Analyst

And they're happy with that?

Brian Swartz - Apollo Group - CFO

As far as we know, it was satisfactorily resolved.

Trace Urdan - Signal Hill Group - Analyst

Thanks for your patience. I'll let you move on.

Operator

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

Jeff Silber - BMO Capital Markets - Analyst

How are you doing? I hate to go back to this SEC issue, but I'm going to.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We figured there probably wouldn't be any questions on it.

Jeff Silber - BMO Capital Markets - Analyst

Yes, I'm sure you did. If you got this information last week, wouldn't it have been considered material enough to disclose it last week as opposed to waiting until tonight? The way your stock is reacting, it is certainly material.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We consulted with legal counsel and we made the determination that disclosing it today was the appropriate time.

Brian Swartz - Apollo Group - CFO

In light of the fact that we had our 10-K filings and earnings release this Tuesday.

Jeff Silber - BMO Capital Markets - Analyst

Right. Let me just move on to BPP. In terms -- I think you mentioned this in the K. I haven't gone through every page yet. What is the expected amortization expense associated with that acquisition in fiscal year 2010?

Brian Swartz - Apollo Group - CFO

I don't have the numbers exactly handy, but I can point you to where they are in the 10-K. They're in the goodwill and tangibles footnote. It will show you the amortization for the next five years in that footnote.

Jeff Silber - BMO Capital Markets - Analyst

Actually, that will be helpful. Do you plan on disclosing BPP's operations separately each quarter like you did in the press release tonight?

Brian Swartz - Apollo Group - CFO

Yes. Two clarifying points. One, as you read through the 10-K, you will notice that the BPP is a separate segment -- we're presenting outside -- not just part -- it's part of the Apollo Global segment. But we are reporting their results separately, the revenue and operating profit. And then further as I mentioned in the press release, there is a schedule that separately will show BPP's full income statement, relative to Apollo's non BPP financial statement and we'll continue to show that until we anniversary the acquisition.

Jeff Silber - BMO Capital Markets - Analyst

That will be helpful. Thanks so much.

Operator

Your next question comes from Amy Junker with Robert W. Baird.

Amy Junker - Robert W. Baird & Co. - Analyst

Hi. I am not going to ask a question about the SEC investigation. And instead ask about if you could spend a minute on retention. You've made some huge strides there. Can you just talk a little bit about how much more opportunity you think you can get? That is the question. How much more opportunity you can get and is that baked into your longer term targets of low double-digit top line?

Chas Edelstein - Apollo Group - Co-CEO, Director

I think your question implies that is it harder to get improvements in retention, the higher the retention rate grows? I think it is harder as it gets better. We've got still we believe room to go as we drive to a culture more focused on retention. We talked a little bit in the script about the steps that we're taking to identify students that are most likely to succeed. Those steps -- if we can figure out up front who is most likely to succeed, we

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

expect that that will positively impact retention through a number of variables -- through our mix of the students and the make-up of students. And that really is the focus of our student retention efforts.

Amy Junker - Robert W. Baird & Co. - Analyst

Okay. My understanding with your long-term targets is that that does assume some continued improvement in retention. Is that fair?

Chas Edelstein - Apollo Group - Co-CEO, Director

That is fair.

Amy Junker - Robert W. Baird & Co. - Analyst

If I can just ask one on -- probably for Greg. Your investments that you have talked about in WIU -- that's a business you've talked about a little more in the past two quarters and I feel like you haven't talked about it for two years prior to that. What really changed to make you decide that that was a business worthy of really accelerating the investment in? What is the ultimate strategy there with that business?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

It's a very high quality accredited university that Apollo Group did not focus on previously to the extent that we are now. We see the potential to grow WIU in a number of different areas where it won't overlap exactly with the University of Phoenix where we see opportunities in the marketplace globally. That is really one of the reasons why we're putting more of a focus on it now. It is taking some investments. There is an excellent management team in place. They're doing exciting things, both academically and technologically. We think there is good prospects for them going forward.

Amy Junker - Robert W. Baird & Co. - Analyst

Is this release the campus expansion through WIU? Is this more going to be done in an online forum?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

The possibility exists for both.

Amy Junker - Robert W. Baird & Co. - Analyst

Okay. Great. And if you can just sneak one more in on Insight. I'm just curious what drove the decision to go ahead and step aside there? Did you feel as if maybe the decision to get into that business was perhaps rash or was it not what you expected it to be?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Insight Schools is a great business. It's led by great people that have worked very, very hard. It has grown very fast to get where it is today. There are so many hours in the day for us to focus on our businesses. And we see a lot of opportunity in post-secondary education, an area that we think we know very, very well. We spent a lot of time getting to know the global marketplace and that is where we want to focus the bulk of our time.

Amy Junker - Robert W. Baird & Co. - Analyst

Thank you.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Thank you, Amy.

Operator

Your next question comes from Paul Ginocchio with Deutsche Bank Securities. Sir, your line is open.

Paul Ginocchio - Deutsche Bank - Analyst

Sorry about that. Going back to that SEC investigation, looking at the revenue recognition policy, would you agree with me that determining when a student drops is probably the biggest assumption you make in that revenue calculation? Would you agree with that comment?

Brian Swartz - Apollo Group - CFO

I am -- in terms of the judgment we made -- I believe our revenue recognition policy, first of all don't have a lot of judgment, Paul, if that was your question. The policies are straight forward and they are in accordance with GAAP. All of them.

Paul Ginocchio - Deutsche Bank - Analyst

Okay. But the two weeks of determining -- and then deciding withdrawal. That is over a five-week period that would be maybe the biggest assumption you make, otherwise it is pretty clear cut.

Brian Swartz - Apollo Group - CFO

They either post attendance or don't post attendance so that's not a judgement call. They post attendance, they're in attendance and we're recognizing revenue. If they don't post attendance or stop posting attendance and it is for a period of time that exceeds our policies, then it triggers a withdrawal and we issue a refund and stop recognizing revenue.

Paul Ginocchio - Deutsche Bank - Analyst

If it is -- let's say it's two weeks, do you then go back and take off those two weeks or do you leave the two weeks of revenue?

Brian Swartz - Apollo Group - CFO

No. Whatever -- you follow the refund policy and of course obey it. And two nights -- we recognize revenue for two nights. And then if they get a refund on the balance, we stop recognizing revenue once the refund is processed. If they attended enough of the course -- say whatever it is, I don't know the exact numbers, four or five weeks where we've earning 100% of it and then they drop out, we continue to recognize revenue. And they owe us money back because we have a balance receivable from our customer -- or our student.

Paul Ginocchio - Deutsche Bank - Analyst

Another way -- just to size this, can you give us what typically the amount of revenues from the return to lender calculation per quarter or roughly per quarter?

Brian Swartz - Apollo Group - CFO

No. We don't provide that data.

Paul Ginocchio - Deutsche Bank - Analyst

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Just think the market would want to try to -- personally I think this is the issue people are focused on and this might provide into size at least on the revenue recognition -- help the market size this potential issue.

Brian Swartz - Apollo Group - CFO

Paul, to be honest with you. We don't provide the data. I can't even tell you off the top of my head how much a return to lender is in any given period.

Paul Ginocchio - Deutsche Bank - Analyst

Just going on to guidance now. Certainly you have given that guidance of mid-teens EBITDA growth into an improving economy. Is there any assumption on where the US unemployment goes over that five-year period? Is there any sensitivity to unemployment in that five-year assumption? Thanks.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We have taken a lot of things into consideration for that. Again, those are internal goals for us, not guidance for you. We have -- factored into that, Paul, are a lot of things. It's our domestic business. It's certainly the University of Phoenix and what we're doing there.

It is our other operating assets like WIU. It's global -- are factored into that. There is a lot that goes into it. We're not -- what I can tell you we're not doing is thinking about whether the economy improves by a certain amount and whether we'll make these investments into these areas going forward.

What we want to do is make good rational decisions in terms of using our capital. If we use our capital the right way and we can achieve the kinds of returns that we're looking for, we want to make those decisions whether the economy is currently good or bad. Because we believe there is going to be a demand for our educational services globally for a long time to come and we want to be well-positioned for that.

Paul Ginocchio - Deutsche Bank - Analyst

Thank you.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Thank you.

Brian Swartz - Apollo Group - CFO

If I could make one clarifying point, Paul, you were asking some questions about return to lender versus refund and revenue recognition. I want to be clear, the return to lender calculations are separate and apart from the way we recognize revenue and is separate from our commercial refund policy with our student. We have a commercial refund policy with our student that is different from the amount of funds. We might need a return to one of their lenders if they were to drop out. The return to lender rules follow the education department rules. Our revenue recognition policies follow our commercial refund policy with our student.

Joe D'Amico - Apollo Group - President & COO

And this is Joe D'Amico. Let me make another qualifying point. First of all, we're not required as I understand it by the department rules to take attendance. We do happen to take attendance.

We set up policies to basically deal with an online situation where we take attendance and someone withdraws. Of course if we're told that somebody wants to withdraw from the university, then we're obligated to actually process that withdrawal. And otherwise for a correction, if it is

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

a nine-week course it is if you miss three weeks, you're withdrawn from the course and the university. If it is a five or six-week course, then it is a two-week timeframe.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

I think the policies are that you're withdrawn from the course, not necessarily the university overall. Right?

Joe D'Amico - Apollo Group - President & COO

Yes. There are some rules that apply then potentially to withdraw you from the university.

Operator

And gentleman, your next question comes from Gary Bisbee with Barclays Capital.

Gary Bisbee - Barclays Capital - Analyst

A couple questions. Even adjusting for the extra start Monday at active enrollment, new student enrollment was very strong given what was the first much tougher comp. Can you give us any sense how we should think about the next couple of quarters? Given that you did so well against the tough comps, should we expect this type of good growth would continue? Or is there anything you're seeing from the lead flow or anything, in terms of how you're investing that would lead us to believe this may moderate somewhat or quite a bit during fiscal year 2010?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

It is hard to say exactly, Gary. We're working very hard. Our goal -- honestly as we put this in place -- could be last year or the year before for this year to make the right investments in the right places and hopefully that yields good results. We have -- one of the aspects of our plan going forward is that it should appeal to and enroll students who are better prepared for the challenge of our programs. Right? Which are rigorous.

And to that end, we have seen a greater number of students in the industry that are seeking to go to college. And for us, we want to make sure that those students are prepared to go to the University of Phoenix. We're putting some tougher policies in place to make sure that we're enrolling students that will retain. It is better for them. It is better for us. It is better for the university.

And frankly, we really don't want to take their money if they're just trying it out and we think that they're going to drop. We're taking that into consideration as well going forward. But that ultimately should yield a student that retains longer which will yield better metrics for us and even better financial results.

We're taking a lot of things into consideration. We were pleased with the enrollment growth in the quarter. There is nothing -- as we look at fiscal 2010 outside of what I'm telling you we're doing in terms of our plan that we can see will have a big impact at this point.

Gary Bisbee - Barclays Capital - Analyst

I think the risks of not -- given that you're two months into the quarter and not saying anymore than that, is that estimates are going to be all over the map. And maybe you don't care. But it seems to me that a comp would be a couple of percentage points more difficult so maybe it slows a couple of percentage points. Is that -- two months into the quarter, does that seem reasonable? Or is there any reason that we should really think that maybe some of these policies to get more quality students in the door are going to lead to a bigger slowdown.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Gary, you can see the trend. And now you have seen the trend over the past year and now you have seen a trend with the tougher comp. And we made comments about stair-step functions. But what we're telling you is, we're going in the direction here to try to make sure that we are enrolling students that are better prepared for college. If that happens to have a bigger impact than what I made on the comment of the stair-step

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

function, we're okay with that. Because we'll be doing the right things for the university and ultimately for our profitability long-term. And obviously most importantly for the students.

Gary Bisbee - Barclays Capital - Analyst

Has there been a big change in that over the last couple of quarters? I understand the long-term goal and I think you're spot-on with it. I'm just trying to understand -- have you made real progress figuring out how to do that?

Chas Edelstein - Apollo Group - Co-CEO, Director

I would say over the past year, probably due to today's economic circumstances, we are seeing more students enroll who are less well prepared for college than we have seen in the past. That in a sense that is a change. And we're looking to respond to that change by increasing the sophistication of the tools that we're using to try to identify these students. If that results in lower new student enrollment, but with a better -- with instead a group of students who are better prepared for our university, that is okay. That is what we're saying.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

It is not a key change in our philosophy, we're just continuing to move forward with it.

Gary Bisbee - Barclays Capital - Analyst

Okay. I'll move on to something else. Can you give us any sense on what type of investments you're likely to make in BPP? Given that they didn't have quarterly results and we just haven't seen a lot of financials, what we have probably most of us seen is the projections of some of the analysts across the pond had for the business. But they were really not investing much in the college business. Is it safe to assume that you guys would be thinking \$10 million, \$15 million, \$20 million type investment in infrastructure and marketing and all this stuff to really kick-start that business? Can you give us any sense on how you're thinking about that?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Sure. Built into our plan in fiscal year 2010 and going forward is significant investment dollars into BPP for the business school and for some other things that collectively we have planned together to do going forward. This is a major platform for us in the UK and hopefully the rest of Europe.

We see great opportunities right now. They're the only university that is for profit that has degree awarding powers. And again we are looking to make the investments now to grow that business. And so we can offer a good education to more people in the UK and Europe going forward.

Gary Bisbee - Barclays Capital - Analyst

Do you have approval to offer online classes or is that something that you're trying to get at this point?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We do have approval.

Gary Bisbee - Barclays Capital - Analyst

And then just one last question. Can you talk to us how you're thinking about holding debt? I realize you paid down a lot of that in the line of credit borrowing. But given how much cash you have, given how much cash you're generating, how should we think about this moving forward? Thanks a lot.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Brian Swartz - Apollo Group - CFO

Gary, when you think about a current debt level, we manage our liquidity as necessary and we paid off a lot of the draws on the credit facility that we made in Q4 subsequent to year-end, as I mentioned. I'm not sure what you mean.

Gary Bisbee - Barclays Capital - Analyst

For example, you have more than enough cash to pay down all the debt and still have several hundred million dollars in cash. I can appreciate why companies would hold that. I'm trying to understand your medium term -- next couple of years philosophy. Would you more likely buy back stock and keep that debt or do additional acquisitions? You're earning a lot less in interest on the cash than you're paying on the debt. I'm trying to understand how you're thinking about all of that. Thanks.

Brian Swartz - Apollo Group - CFO

A couple of things. The reason why we didn't pay off the entire balance subsequent to year-end and this is all disclosed if you work through the 10-K, is we borrowed a portion -- the balance we did not repay is borrowed in pounds. It acts as a hedge in our net investments and BPP. That is the shorter term answer. In terms of longer term, as Greg talked about in the past and we've all talked about, we think about our capital allocation and here the new structure with the University of Phoenix at the top, and our existing businesses is next, acquisitions thereafter and when it is appropriate, return that capital to shareholders.

Gary Bisbee - Barclays Capital - Analyst

Okay. Thanks a lot.

Operator

Your next question comes from Corey Greendale with First Analysis.

Corey Greendale - First Analysis - Analyst

Thank you. My question about the SEC investigation, one of the things that the department has been talking about is more inter-connecting various federal agencies, like the SEC to the Department of Education. Is it your understanding that just the very fact that there is an SEC inquiry could trigger other types, whether it is a program review or whether it is an accreditation question. Any other things that could be triggered by this?

Brian Swartz - Apollo Group - CFO

Corey, we don't know.

Corey Greendale - First Analysis - Analyst

Okay. And the second question is on the guidance that you provided, Greg. I think the way you framed it was that this is guidance for the overall Company. I believe the prior long-term targets you talked about were for domestic growth. Within the new numbers, are there different assumptions for domestic growth than you had communicated in the past?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Just to be clear, it is not guidance. Those are our internal goals that we're sharing with you. And there is some shift in mix in both domestic and global and what not. But it takes into consideration the entire Company now, instead of just domestic organic growth.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Corey Greendale - First Analysis - Analyst

Okay. And one other regulatory question, would you be willing to share how your preliminary [guard] default rates for the '08 [co-hort] have been trending?

Brian Swartz - Apollo Group - CFO

Yes. We actually expect to exceed the 10% when those draft rates come out late winter, early spring next year. We do expect to exceed the 10%.

Corey Greendale - First Analysis - Analyst

Just -- slightly a feed or just -- I'm trying to benchmark how much it would be relative to the 2007 co-hort.

Brian Swartz - Apollo Group - CFO

We're not given the exact number, Corey. I would like to point out as you will know as you work through the 10-K as well that won't have any impact on us when we exceed the 10% threshold. We actually early adopted the 30-day delay for first year -- first-time borrowers during this past fourth quarter.

Corey Greendale - First Analysis - Analyst

Okay. Thank you.

Chas Edelstein - Apollo Group - Co-CEO, Director

Thanks.

Operator

Your next question comes from Scott Schneeberger with Oppenheimer and Company.

Jim Dangross - Oppenheimer & Co. - Analyst

Good afternoon. This is [Jim Dangross] for Scott. Just a question on bad debt and how you're provisioning for that. Looking at your write-offs actually for the year -- for 2009, I see it actually lower than last year, net of recoveries and your provision is higher. Can you just speak to how you're thinking about that? And also, average age of receivables that are -- specifically that are in the delinquent bucket if you could give us a trend there.

Brian Swartz - Apollo Group - CFO

A couple things. Let me break those down. In terms of your first question, in any point in time, you can't really compare increases in bad debt expense with increases in write-offs. Over time they should equal each other. But expense in any given period is a function of -- or the balance sheet reserve rather is a function of what we expect future write-offs to be. Over time they should be equal, but that can be over a several year period through the estimation process for bad debts.

With respect to your second question, given the current environment we're comfortable with the bad debt levels with where they're at. And as long as they stay in the 4% to 5% range on an LTM basis, that feels right given the current environment to us. If at any time we felt uncomfortable, there is actually things we can do to control the bad debts over time.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Jim Dangross - Oppenheimer & Co. - Analyst

Okay. Thank you.

Operator

Your next question comes from [Chris Schudler] with William Blair.

Chris Schudler - William Blair & Co. - Analyst

Good afternoon. Can I just ask first about the strength and persistence, especially the Bachelor's level this quarter. Can you just quickly review for us top few items there that have impacted that from a positive perspective?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Chris, one of the things that we've talked about in the past in terms of retention or persistence levels is -- there is a number of things we have talked about that we're doing to try to drive persistence and retention higher. One of them that we think has had an impact on the Bachelor's area has been over the past year. We had more of a GAAP between -- our GAAP levels of students in Title IV funding that -- a big portion of that went away last year when the limits got increased. We think that that's been having a positive impact on that.

And there is other things that we're doing as well, obviously that we have talked about in the past, to help improve retention across the board. We're still not satisfied with retention. We know that as you get closer -- as you get higher and higher, it is harder to get continued improvements. But as Chas mentioned, we're working very hard. And that is part of the reasons why we made the comments we did, in terms of working hard to have prepared students that are going to college.

Chris Schudler - William Blair & Co. - Analyst

Fair enough. And then on the topic of the day, the revenue recognition. Maybe you can just talk about -- and I'm sorry if you already answered this. But have you actually verified that if somebody attends a class, is it the teacher's call? Is it all automated? Or how does that work?

Brian Swartz - Apollo Group - CFO

For courses that are at the on-ground campuses, we actually take attendance when a student shows up. There is a form that you sign in when you come in to verify attendance. In the online environment, it actually tracks every time an individual logs in. And those log-ins are with student-specific identifiers so we know when a student logs into the online learning system.

Chris Schudler - William Blair & Co. - Analyst

Okay.

Joe D'Amico - Apollo Group - President & COO

I would just add to that. They have to not only log in, but make [substantive] posts during the week. I believe the requirement is at least two substantive posts during that week.

Chris Schudler - William Blair & Co. - Analyst

Okay. Then final question, a minor one. Brian, can you just tell us the currency hedge in the quarter, is that in the other line on the P&L? Is that where that is located?

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Greg Cappelli - *Apollo Group - Co-CEO, Chairman - Apollo Global*

Yes. It is below income from operations in the other nonoperating income.

Chris Schudler - *William Blair & Co. - Analyst*

Okay. Thanks guys.

Greg Cappelli - *Apollo Group - Co-CEO, Chairman - Apollo Global*

Thank you.

Operator

Your next question comes from [Arvind Bhatia] with Sterne Agee.

Arvind Bhatia - *Sterne Agee & Leach Group - Analyst*

Thank you. I'm not familiar with your February SEC settlement at that point. I am just wondering if you can tell us how much time it took for you to respond to their inquiry and the whole process at that point.

Brian Swartz - *Apollo Group - CFO*

Just to be clear, there was no settlement of any kind. It is absolutely normal course for public companies to get comment letters from the Division of Corporate Finance. In fact, my understanding is they're required to review every public registrar every two years, although I could be mistaken. It is very ordinary course to get comment letters on disclosures and accounting policies. We received one. I don't remember when we exactly received it. I think it might have been last December.

We received the letter, I recall there were five questions in that letter. I think three of them had to do with the revenue recognition. We went back and forth with the SEC which is very common. This is all very ordinary course or normal. The SEC accepted our responses to those letters without any significant implications. And in accordance with the SEC policies, they post all of those comment letters to their website, I believe it is 30 or 45 days after the comment letter review process.

Arvind Bhatia - *Sterne Agee & Leach Group - Analyst*

Would you expect a similar timeframe for this issue to be closed?

Brian Swartz - *Apollo Group - CFO*

We don't know.

Arvind Bhatia - *Sterne Agee & Leach Group - Analyst*

Okay. Couple you of minor ones. Can you shed some light on how much growth in the military enrollment you saw this quarter and how much is left on your stock buy-back program right now?

Greg Cappelli - *Apollo Group - Co-CEO, Chairman - Apollo Global*

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

We have \$500 million on our stock repurchase program right now before we would have to go back to the Board and get another reauthorization. And I'm sorry, what is the first question?

Arvind Bhatia - Sterne Agee & Leach Group - Analyst

On enrollment on the military side, what was the growth rate during the quarter?

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

We don't comment on that specifically. We just tell you we've been pleased with the enrollment growth there.

Arvind Bhatia - Sterne Agee & Leach Group - Analyst

Thank you, guys.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Thank you.

Operator

Your next question comes from Kelly Flynn with Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

Thanks so much for taking another one. Sorry to belabor this, but, Brian, I'm going back to this revenue recognition point. You mentioned a couple of times once the refund is processed. My question is do you stop recognizing revenue once they stop attending class or once the refund is processed?

Brian Swartz - Apollo Group - CFO

We stop recognizing revenue when the refund is processed for whatever we haven't earned. The refund policy says for the first few courses we recognize -- we earn as an institution, our commercial refund policy with our student, we earn on a pro rata basis, the cost of that course based on the number of nights attended versus the total nights that will be attended. If it is within the early part of that where we are recognizing that ratably and they withdraw from the course, tell us they don't want to go to that course anymore, we will refund the balance and we stop recognizing revenue.

Kelly Flynn - Credit Suisse - Analyst

What if you don't process it for a month after they stop attending? Do you then reverse what you recognize?

Brian Swartz - Apollo Group - CFO

No. We have processes in place, Kelly, that adjust for refunds. And to the extent there is a late refund that happens two or three weeks, we push that back to the appropriate period before we close the books. There are processes and procedures in place to properly adjust for the timing of when refunds are processed.

Kelly Flynn - Credit Suisse - Analyst

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Okay. Then just to clarify on the 60% cut-off that is mentioned by the Department of Ed rules and also your refund policy, if someone attends 61% of a course do you recognize all of the revenue even if they drop out thereafter?

Brian Swartz - Apollo Group - CFO

I'm sorry. Can you say that again?

Kelly Flynn - Credit Suisse - Analyst

I'm referencing the 60% cut-off. If somebody attends just for the sake of discussion, 61% of a course and they drop out in the 70th percent, do you get to recognize all the revenue?

Brian Swartz - Apollo Group - CFO

Yes. We continue to recognize the revenue and we have a receivable on our books as a valid receivable. And we collect that or we don't collect that in some cases and have bad debt expense.

Kelly Flynn - Credit Suisse - Analyst

Okay. After 60% you recognize everything -- all revenue even if they're not there?

Brian Swartz - Apollo Group - CFO

Yes. That is what the refund policy says and that is how we recognize it from a revenue perspective.

Kelly Flynn - Credit Suisse - Analyst

Thanks a lot. I appreciate you taking another one.

Operator

Your next question is a follow-up from Paul Ginocchio with Deutsche Bank Securities.

Paul Ginocchio - Deutsche Bank - Analyst

Thanks for taking my question. Another one on that. What is more -- what is a more conservative rev pulse? Do you recognize more revenue than the return to lender calculation? Or do you recognize revenue that is roughly the same as return to lender calculation? Thanks.

Brian Swartz - Apollo Group - CFO

Just to clarify at a high level, the policy references a 60% which is consistent with the 60% number that is in return to lender requirements for the Department of Education. But do keep in mind, the Department of Education is over an academic year, which generally is 24 hours. We have a policy in place for each course that we have which is generally three credit hours. It mirrors it, but they don't line up exactly.

Paul Ginocchio - Deutsche Bank - Analyst

This is -- the rough revenue recognition would follow the return to lender calculation.

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Brian Swartz - Apollo Group - CFO

The policy does, but keep in mind they're over very different time periods. The refund policy is over a course which is three credits and can last from five to nine weeks. The general return to lender rules are over our 24 credit hour academic year which can be upwards of many more months than that.

Paul Ginocchio - Deutsche Bank - Analyst

Right. Maybe that is the question that -- a different way. How many students per quarter would be in a return to lender calculation out of the total? Any idea roughly what that would be?

Brian Swartz - Apollo Group - CFO

I don't know that number.

Paul Ginocchio - Deutsche Bank - Analyst

Thank you.

Operator

Your next question is a follow-up from Andrew Fones with UBS.

Andrew Fones - UBS - Analyst

Thank you. On a different topic, you mentioned the adjustment that you thought was appropriate approximately for the additional starts period in the fourth quarter. Fourteen versus 13 starts, that would be an 8% increase, but you thought that the reduction would be less than that. I was just wondering how you calculate that and whether it has anything to do with where the actual Monday falls within the quarter. If there is a Monday right at the end of the quarter, then you collected everyone that was interested or just how you think about that. Thanks.

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

Andrew, just to be clear, you're referring to the growth in new enrollments versus the high teens number that Chas referred to. Correct?

Andrew Fones - UBS - Analyst

That is right.

Brian Swartz - Apollo Group - CFO

As you mentioned, there is 14 Mondays in the quarter when there is traditionally 13. You can't exactly do a pro rata adjustment for the 14th Monday because you're talking about people, right? Students that start -- either start a course or they don't start a course, you can't do a pro rata. We have done some internal measurements of what it would look like had we had 13 Mondays. And we, as Chas mentioned, believe that number is in the high teens, but you can't just slice a person into seven parts and adjust accordingly.

Andrew Fones - UBS - Analyst

Okay. That would be high teens relative to the 20%. More -- maybe 3% or 4% reduction, maybe something more along those lines?

Oct 27, 2009 / 09:00PM GMT, APOL - Q4 2009 Apollo Group Earnings Conference Call

Greg Cappelli - Apollo Group - Co-CEO, Chairman - Apollo Global

It was relative to the 23% just to be clear.

Andrew Fones - UBS - Analyst

Okay, okay. But you said it only impacts the associate students?

Brian Swartz - Apollo Group - CFO

Correct because the -- as I mentioned in my comments, all of this only impacts our online operations. For our operations on campus, the night of attendance -- it either happens on a Monday, Tuesday, Wednesday or Thursday nights when students show up to class. In our online environment, all of the Associates classes start on a Monday and all of the non Associate online courses start on a Tuesday. In this particular quarter, we had 14 Mondays versus the typical 13 so in this quarter, it only impacted the Associate students.

Andrew Fones - UBS - Analyst

Okay. Thanks. It sounds like you probably are closer to that 8% pro rata, but thanks for that. Thanks for the clarification.

Brian Swartz - Apollo Group - CFO

Thank you.

Operator

Ladies and gentlemen, we have reached the end of our allotted time today. I would like to turn the call back to Chas Edelstein for closing comments.

Chas Edelstein - Apollo Group - Co-CEO, Director

We very much appreciate you being with us today and look forward to future conversations. Thanks very much.

Operator

Ladies and gentlemen, this does conclude today's conference. You may now all disconnect.

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