This 3DAdvisors Report Covers:	
✓	**Insider Trading**: Insider Trading Behavior
	Accounting: Quality of Earnings Issues
✓	**Governance:** Corporate Governance Issues
✓	**Fundamentals:** Analysis of fundamentals

Risky Business: Sub-Prime Students in Weak Economy Apollo Group Inc. (NASDAQ:APOL)

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Business Description

Apollo Group Inc., through its subsidiaries, provides various educational programs and services at high school, college, and graduate levels. Its subsidiaries include University of Phoenix, Inc. (UPX), Institute for Professional Development, Inc. (IPD), The College for Financial Planning Institutes Corporation (CFP), Western International University, Inc. (WIU), and Insight Schools, Inc. (Insight). As of August 31, 2007, the company offered its educational programs and services at 102 campuses and 157 learning centers in 40 states and the District of Columbia; Puerto Rico; Alberta and British Columbia; Canada; Mexico; and the Netherlands. The Company was founded in 1973 and is headquartered in Phoenix, Arizona.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Services	**$56.95**	**$9.55B**	**3,393,890**
Industry:	52 Wk Range:	Trailing P/E:	Shrs Out:
Education & Training	**$42.59-$81.68**	**22.56**	**167.7M**
F/T Employees:	FYE:	Forward P/E:	Short % of Float:
36,292	**31-Aug**	**16.75**	**6.0%**

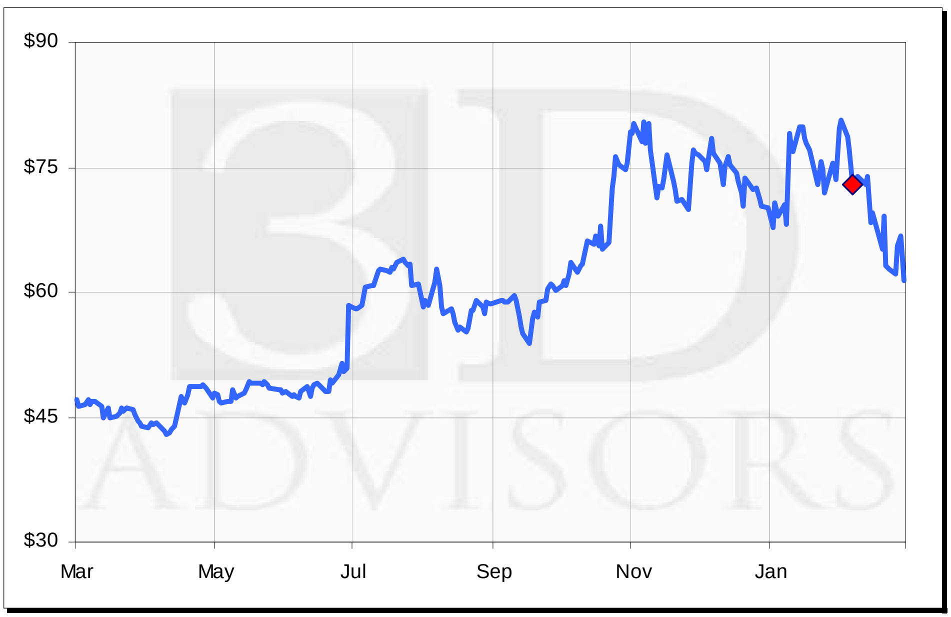
Summary of 3DAdvisors Findings for APOL

- **Fundamentals:** Risky students become riskier as economy slows
- **Fundamentals:** Looking for growth overseas will have its own challenges
- **Insider Trading:** Recent trading similar to behavior prior to 2005-06 price drop
- **Governance:** APOL in a class of its own with suspect governance practices
- **Governance:** Failure to disclose departure of former “named executive”
- **Fundamentals:** Insiders and investors still nervous about class-action verdict

Discussion of 3DAdvisors Findings for APOL

Apollo represented quite a conundrum to us due to the widespread knowledge in the financial community of the many issues surrounding the Company. It is never our intent to publish when we feel that the information we have in hand is widely known. Clearly, the multiple issues facing Apollo, not only on the legal front but also in the regulatory arena have been sliced and diced by many of our clients. The harsh implications of the persistent Qui Tam suit for instance, where whistle blower allegations of illegal compensation to recruiters and fraudulent federal student aid program claims have been well covered and the associated risks are presumably reflected in the current stock price. Ditto for the recent Class Action blow to the Company (Policemen's Annuity and Benefit Fund of Chicago) where a $280 million judgment has put it at risk of default of covenants in its credit facilities, a potential payment we must add for which the Company has made no allowances, just as it has failed to do in past legal battles.

Figure 1. APOL Daily Closing Price, 03/01/07 through 02/29/08. Red diamond is the date of the most recent 3DAdvisors, LLC report covering aggressive trading behavior at the Company. Source: Reuters and 3DAdvisors, LLC.



But the above issues are only two of a long list of current challenges facing the Company which are accompanied by a gamut of intriguing behaviors and fundamental issues that are of the sort that never fail to get our attention: poor governance practices (especially in the compensation area), controls and procedures issues, dependence on the struggling student loan market, various accounting behaviors related to declining earnings quality and, of course, an aggressive trading profile that we most recently covered in an Insider Research Bulletin on 02/06/08. And even though APOL shares have slid 22% since we covered the trading behavior in early February, and despite the numerous problems facing the Company that have received ample coverage, we feel there has not been enough focus on an important fundamental issue: that the Company has increasingly relied on riskier students in its Associate Degree programs for growth just as it appears the economy may be tipping towards a recession.

Fundamentals: Risky students become riskier as economy slows

APOL finds itself increasingly dependent upon the less credit worthy students in its Associates Degree programs just as the economy appears headed for a recession and consumer credit problems deepen. In this context, it's most interesting to note the progression of Apollo disclosures related to its two-year college, Axia College, since its incorporation into the Company's core University of Phoenix (UPX) flagship institution.

At the time of the early F/Y 2006 reorganization relating to Axia, the Company's reasoning for the move was to allow the faster growing junior college sibling to leverage the much larger University of Phoenix name, despite acknowledging there would be near-term pressure on UPX's margins (Axia per student tuition at the time was 20% less than UPX's bachelor candidates) and default rates. Though the Company was intent on positioning the move of Axia into UPX as a marketing and optimization move, we must note that, coincident with the announcement, Apollo had brought down its revenue guidance. From the Q106 conference call:

> **Todd Nelson, Apollo Group CEO:** As we looked at enrollment going forward, one of the questions we had is we wanted to take a look at the combined effect of this consolidation so, in our effort to do that and also to accommodate any issues that may come up during the transition of Axia into University of Phoenix, what we have as an internal goal for enrollment for the second quarter is 15% organic growth for University of Phoenix and Western International combined. We also feel this is a more reasonable target given the external issues that we're currently seeing.

We include this excerpt from former CEO Todd Nelson's prepared comments in Apollo's Q106 conference call as we find it quite telling. Not only was the Company telegraphing lower margins as a result of the addition of Axia College into the mix, he also went on to suggest the possibility that this trend may be more long-term than initial inferences by management. The move prompted plenty of probing questions to which, as opposed to highlighting now, we would summarize management's response in the following way: There had been a large number of dropouts in the Company's Bachelor programs, most of these being low credit hour students who "cannot afford these programs" and, now that the Company has become more aggressive with retention with tuition prices at the Axia College level (20% discount) they should stay enrolled and will be encouraged to continue on, after two years, to a traditional Bachelor's program.

In addition to the problems created by the student body at Axia College generating lower margins, they also tended to generate higher levels of bad A/Rs, a problem which the Company freely admitted but insisted was only short term in nature. From the Q106 conference call:

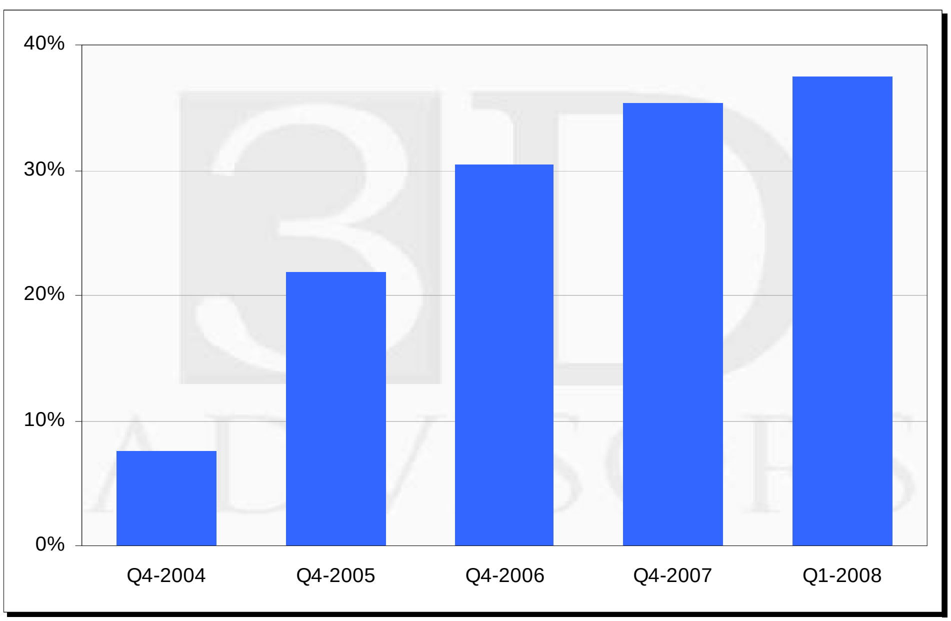
> **Kenda Gonzales, Apollo Group CFO:** And then bad debt, I think we talked about a little bit earlier. It does -- it is not something that will correct itself immediately. And we had indicated that on the last call that we expected it to run at higher levels at least through the first half of this year and potentially into the third quarter. So that is in our guidance that we have given to have that at the higher rate.

Clearly, The Street was worried about this, as Apollo shares began a long downtrend on the news, dropping over 50% in the ensuing twelve-month period. As we know, however, in recent years investor memories have been short and Apollo shares seemingly had no problem working their way back up to their 2005 highs. But it has become increasingly evident that those Axia-related problems partially responsible for Apollo's slide two years ago were not the short-term problem Company management and analysts had hoped. For instance, the higher default rate that was supposed to be a problem that was expected to last until only Q306 is ongoing in the Q108 conference call:

> **Joe D'Amico, Apollo Group CFO:** Bad debt expense for the first quarter of 2008 as a percentage of revenue was 4.2%, compared to 3.5% a year ago…Bad debt expense as a percentage of revenue increased over the prior year comparable quarter, primarily due to the continuing shift in our enrollment mix to a higher percentage of associate degree students when compared to prior periods. As we have said previously, bad debt is a cost of our business due to the relatively open enrollment policy that we maintain at the associates level.

Bad debt expense has almost doubled in the past three years since the initial inference that negative effects from Axia College would be short term, as the chart below on movement of Apollo's A/R Allowance confirms:

Figure 2. APOL Allowance for Bad A/R as a Percentage of Total A/R. Source: APOL SEC Filings.



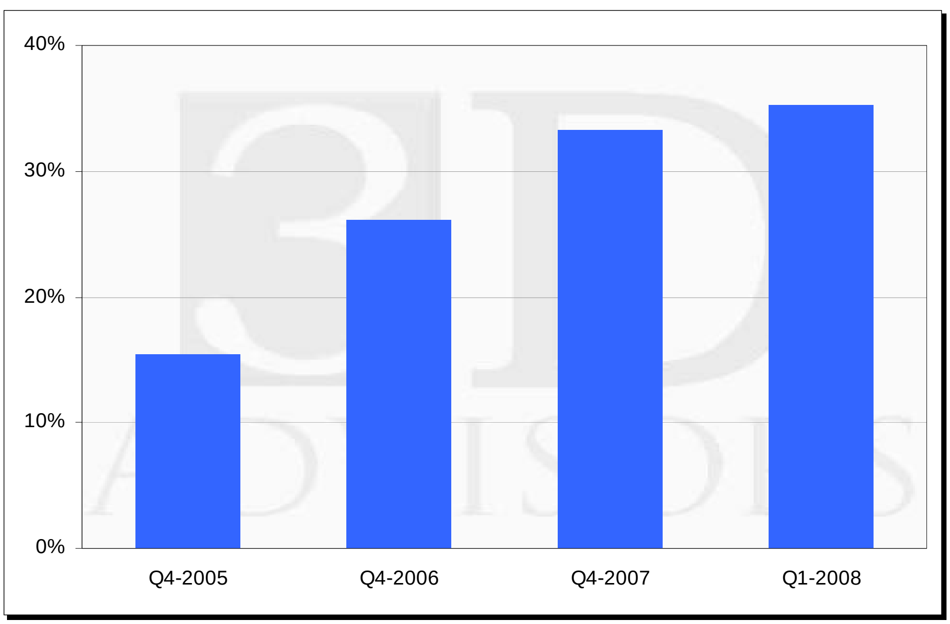
Coincident with the poor receivables problem, Axia's growing share of total revenue continues to weigh on Apollo's margins. The shift in mix has closely paralleled the growth in the allowance for bad A/Rs (see Figure 3 below).

Apollo maintains that even though its younger Associate's Degree candidates are more prone to dropping out and defaulting on their loans, the Company expects a growing number of them to go on to enroll in traditional baccalaureate programs, eventually reversing initial negative trends. When analysts tried to get at this in the recent Q108 conference call, asking the Company to reveal the transitional mix from

Associate’s Degrees to Baccalaureate programs, **Brian Mueller**, Apollo Group President dodged the question:

> **Analyst:** I'm hoping to understand a bit more about the pattern of Axia graduates transferring into University of Phoenix or finishing up their bachelor's degree program at Phoenix, particularly in light of the decline in bachelor's starts. Can you give us an update on what you're seeing for Axia graduation rates and the transfer rate for the bachelor's program and then maybe talk a bit about the level of discounts or scholarships that you're expecting for those people who are transferring in?
>
> **Brian Mueller, Apollo Group President:** Okay. Yes, there's a number of points there. One, the -- we're not giving any color on the number of -- or the percent of students that are transferring from Axia to University of Phoenix and completing at University of Phoenix. We gave some initial information about that but it's -- we consider it proprietary and very competitive and we don't want to release that. Second point though is that it's easy for you to probably do some modeling around the number of students, the volume of students that are graduating -- that are going to Axia, therefore the volume of students that are graduating is getting bigger. That pool of people who can potentially transfer into our bachelor's program is growing month over month which is a very good thing from our standpoint.

Figure 3. APOL Percentage of Revenue Attributable to Associates Degrees. Source: APOL SEC Filings.



When the question was asked, in different form, by another analyst again, the evasion was quite evident:

> **Analyst:** If I could actually just follow-up on that question and I appreciate that you don't want to give us specifics on the numbers. But can you just at least tell us directionally if you're seeing improvement in the percentage of students that are continuing? I assume you're seeing better retention numbers, you talked about, but

> are you seeing a greater interest in those students wanting to go on to get a bachelor's or are most of them satisfied at this point with associates? And then as I think, again, a follow-up, when should -- should we expect the bachelor's to reaccelerate for all of this to come through before the end of fiscal '08 or is this going to be a fiscal '09 phenomenon where we should start to really see an acceleration in the bachelor's portion of it?
>
> **Brian Mueller, Apollo Group President:** We don't know for sure about that because the numbers are impacted by what new students are doing and at any given quarter, new students are 20% of our total student body. So it's a difficult question to answer. There's a lot of moving parts there. What I will tell you is that from a business model perspective, I'll say two things. Number one, as compared to what students are experiencing in community college programs, our graduation and transfer rates are very good. Very strong. So we think we're doing a very good job from the standpoint of servicing the needs of those students as they relate to what's going on in the rest of the industry.
>
> Secondly, from a business model standpoint, it's very, very -- it's working very well. Our revenues are increasing. Our margins are increasing. And so what the result -- and we'll continue to work at it. We'll work at that as hard as anything that we're working at. But in terms of its impact on our business results, they're very good.

When a third analyst, however, came at the question from a new angle, the answer was infinitely more revealing:

> **Analyst:** Wonder if I could circle back from a different angle from the Axia matriculation question or idea here. Maybe it would be helpful to get a better sense, at least I know it would be helpful for me to get a better sense of what the Axia students actually look like relative to UOP students…
>
> **Brian Mueller, Apollo Group President:** Okay. Yes, from a demographic standpoint, our University of Phoenix students are 33 to 34 years old; they're about 60% male and about 40% female. Our Axia College students are 28 to 29 years old; they're 70% to 72% female, 28 to 30% male…

So finally, we see that there are still much different demographics between Axia College, with a student body that is 71% female, and UPX, with a student body that is only 40% female, suggesting that students transferring between Axia and UPX have yet to have much of an impact on the female/male ratio at UPX, despite the Company's hopes.

<u>Fundamentals: Looking for growth overseas will have its own challenges</u>

With Associate Degree programs being the fastest growing component of Apollo's business, the Company finds itself looking towards international programs in order to return to its growth patterns of yesterday. We found it quite telling that, even back in the Q106 conference call, then-Company CEO Todd Nelson had acknowledged Apollo's slowing growth and its hopes for international: "Obviously the growth rate is slowing. But as we have seen with Axia, it's like being in the middle of a game and needing to call an audible."

So if Axia caused an audible, it would seem that International has caused a new offensive strategy altogether. Such a strategy will be far more complex than Apollo's U.S. model where 89% of its revenues come from Stafford loans to students. These Stafford loans are not available to international students who must rely on the opportunities/constraints existing within their own countries.

According to the Company press releases, Apollo Global, a new venture formed with partner Carlyle Group, was "being established for the purpose of pursuing investments in the International Education Service's Sector." Apollo will commit just over $800 million and will own 80.1% of the joint venture while Carlyle will commit $199 million and will own the remaining 19.9%. The Board of Apollo Global will consist of seven members, two of which will be appointed by Carlyle. "Investments by Apollo Global will likely include a range of structures including minority investments, 50/50 partnerships and controlling acquisitions." APOL has not yet provided any of the committed capital but says that they will do so as investment opportunities arise. When asked whether the $800 million was a capital commitment for the next three to five years, **Gregory W. Cappelli** (head of Apollo Global) stated that, "it is something that we felt appropriate to put on the table initially. So we can't sit here today and tell you how long it is going to take us to go through that capital." Apollo Global's first acquisition, announced February 20th, was a private arts and communications university in Chile for $40 million.

Insider Trading: Recent trading similar to behavior prior to 2005-06 price drop

Our interest in Apollo insider behavior dates back to 2005 when we picked up a series of interesting actions by Executive Chairman/Founder **John Sperling** and his son, Executive V.P., Vice Chairman **Peter Sperling** who were both in the process of hedging their sizeable positions by entering into large forward sale contracts. A bit later, the formerly aggressive insider sales subsided for a lengthy period as Apollo shares declined throughout 2005 and even 2006 after the Company's many legal problems, particularly the two mentioned above, intensified. Hidden from most investors, however, was the fact that both Sperlings had been surreptitiously accelerating their forward sale use into declining prices during that very timeframe, an action that we reported on in a series of reports (see Figure 4 below). Needless to say, this type of behavior is extremely rare and obviously very aggressive. (For more information on forward sales contracts and why they can sometimes be very important indicative behavior, see our special reports on 11/03/04 and 02/09/05. If searching from our web site, use the ticker symbol SRPT.)

The behavior of the Sperlings and other insiders during this period is worth revisiting as all the problems then emerging did little to restrain Apollo insiders from selling shares as their stealthy trading behavior continued right up to the Company's option backdating investigation of 2006. Although the SEC had begun probing backdating as early as 2005, it was not until a June 2006 Lehman Brothers report implicating Apollo that the State of New York and SEC initiated their own investigations into the Company's option granting practices. It does not seem a coincidence that while regulators were on the prowl, John and Peter Sperling entered into their largest forward sale contracts on record (April 2006) just before the news broke. A lengthy investigation and restatement period prohibited insiders from trading until July 2007. Immediately after the blackout was lifted, however, the Sperlings collectively sold forward yet another 2.5 million shares which we covered in a report on 07/20/07.

Figure 4. APOL Daily Closing Price, 01/02/04 through 03/03/08. Red diamonds are the dates of earlier 3DAdvisors reports (Special Report: 02/09/05; Research Notes: 01/10/06, 01/23/06, 04/28/06 and 07/20/07; Insider Research Bulletin: 02/06/08). Source: Reuters and 3DAdvisors, LLC.

Considering the regulatory and governance issues that have dogged this Company, and after nearly the entire executive management team has been replaced (with the exception of the Sperlings, of course), we would have anticipated a radical reformation of Apollo's corporate culture, especially as it pertains to insider trading behavior. But with the Sperlings still at the top, it is becoming increasingly apparent that little has changed and that the new executives have adopted some of the same questionable trading practices as their predecessors. Most recently, between October 26th and January 16th, thirteen insiders, including the majority of Section 16 filers with stock at their disposal, sold a total of 1,627,607 shares. This does not even include the 1 million shares delivered by Peter Sperling since October under expiring forward sale contracts. The group move, along with the heavy volume, is certainly notable and has a very familiar feel to similar past behavior that immediately preceded significant price volatility. We covered this action in our most recent report on 02/06/08.

Of the 1.6 million shares sold since October, 1.05 million came out during a three day period between January 14th and January 16th, the very day the verdict was read in the class-action lawsuit that stemmed from the 2004 recruiting scandal in which shareholders were awarded up to $280 million. A coincidence? Maybe, but just three trading sessions later, Sallie Mae sent a letter to Corinthian Colleges (NASDAQ: COCO) notifying them that it would stop providing loans to sub-prime borrowers. While Corinthian has the most exposure to students requiring such loans, the ramifications resonated throughout the industry as all for-profit educators traded down on the news, including Apollo's 6% setback. It has been widely expected that Sallie Mae would take this step and due to Apollo's close relationship with the nation's largest student loan provider, it raises our antennae as to just how fortuitous these sales were. Although 'insider trading' has never been a focus of the SEC's numerous Apollo investigations over the years, there very well might be grounds for them to take a closer look. Here are some examples why:

We performed an analysis of Apollo insiders' historical option-related selling and found that of the 120 transactions since 2005, only once did an insider monetize an option for less than a 40% pre-tax profit. That sale was the result of former Chief Information Officer **Robert Carroll** acting on his options before they were forfeited due to his resignation. During the January 14th to January 16th round of sales there were three executives who 'skimmed' multiple option series with at least seven years remaining before expiration for profits ranging from 6% to 11%. It seems as though they anticipated an event that could drag down the shares, which in turn would leave these high-priced options under water. Of course, they would have indeed been underwater by now given the stock's recent slide. One such executive, Chief Communication Officer **Terri Bishop**, a veteran named executive officer, cleared out her entire position, including vested options and her last remaining common stock. We would think, based on the scope of Bishop's duties and past involvement with other suits brought against the Company (she is often quoted in related press releases), that she would have a finger on the pulse of the recent class-action trial. We expand on the details of Bishop's trades along with those of her peers below.

Recently, Apollo's management team has taken a number of steps to downplay both the impact of the class-action verdict along with the potential ramifications of Sallie Mae's decision to stop providing loans to a specific category of students (keep in mind the Company's increasing reliance on higher risk Associate Degree students). Based on their trading behavior leading up to and during the course of these events, we suspect there is more disquiet within the executive office than they currently want the investment community to believe. For us to ignore the history of this group, even though many of the current players were not involved in past transgressions, would be a gross underestimation of the influence and control of the Sperling family. In short, despite many new faces, not a whole lot appears to have changed at APOL, and it would be foolish to ignore the strong signals being sent by the recent trading behavior.

Here is a re-cap of the trading behavior we first covered in early February:

- **Peter Sperling (48)** – Senior V.P., Vice Chairman. Peter Sperling has not been an active open market seller since before the recruiting practices scandal. Instead, he typically used an assortment of forward sale contracts to monetize more than 5 million shares, including the 1 million pledged to an undisclosed third party in July. His activity over the past three months is not only unusual in the context of his historical trading behavior, but reminds us of his most aggressive profit taking that occurred in the months leading up to the 2004 setbacks. Sperling sold 500,000 shares this past October after the Company released FYQ4 earnings, just days before delivering 203,000 shares in settlement of a November 2004 forward sale contract. He then delivered another 500,000 shares on January 2nd which was stipulated under another forward sale, which he followed up by selling 290,000 shares on January 15th and January 16th (the eve of the class-action jury verdict). If we discount the 3 million shares he currently has tied up in six open forward sale contracts, along with the 1.7 million shares pledged as collateral for a bank loan, then

the stock disposed since October accounted for 25% of his actionable position. We should point out that these large sales came just before he settled another 244,000 shares on January 31st and is scheduled to deliver 1 million more in April. Although his ownership is still substantial, his selling has taken a more aggressive pace than in recent years.

- **John Sperling (87)*** – Founder and Executive Chairman. Although his chronic profit taking between 1996 and 2003 makes it unrealistic to characterize him as a proficient seller, his behavior both before and after the Company's troubles are a testament to his intent and guile. Sperling sold 500,000 shares between October 2003 and January 2004, right around the time the recruiter pay practice issues surfaced. Once all eyes were on the Company, he began subtly monetizing his position at successively lower prices with forward sale contracts, including one before and another just after the SEC's option backdating investigation was opened in July 2006. As APOL shares traded to new highs this year, Sperling resurfaced on the open market for the first time in three years, selling 685,000 shares between January 14th and January 16th. He still has 2.1 million shares tied up in yet-to-be-settled forward sales. Although the sales covered less than 5% of his total ownership, we are drawn to the fact that he has surfaced along with the rest of this group in this large round of selling.

- **Terri Bishop (54)*** – Senior V.P., Chief Communication Officer. With the exception of a brief one-year stint elsewhere, Bishop has been with Apollo for the last 25 years and in her current position, overseeing public and government relations, since 1999. Despite the long tenure, she only became a Section 16 filer in June 2006, yet her recent trades require little historical perspective. On January 14th Bishop **cleared out her entire position**. Not only did she monetize all vested options from six different series, none of which was set to expire any earlier than January 2012, but she has liquidated her entire common position as well. Included in the option series exercised were two that yielded just a 6% profit and were not scheduled to expire until August 2014 and November 2015. Had she not exercised those options, they would now be under water. Ms. Bishop will have 41,000 options vest in the second half of 2008.

- **William Pepicello (58)** – President of University of Phoenix. Pepicello took over the helm of University of Phoenix in September 2006 after serving in different positions at the Company's flagship program for ten years. On January 14th he surfaced with his first trade, a 6,250 share sale, but do not discount the trade's size. Despite holding lower priced vested options, Pepicello cleared out a series that yielded a pre-tax profit of 9%, well below the average spread on insider option-related sales. A looming expiration of the options was not one of the motivations for him to act, as they were not set to expire until August 2014. It would seem that like Bishop, he was willing to collect even a small profit rather than take the chance further volatility left them underwater, which of course they would now be. In total, **the shares sold in January accounted for 30% of his actionable position**, although he will have another 28,000 options become actionable this year.

* Indicates individual was a "named executive" in the Company's most recent proxy.

Governance: APOL in a class of its own with suspect governance practices

With all of the Company's issues that have been squarely a result of management misconduct, we are very surprised to find there has been a specious shift in the Company's compensation policy, which of course, favorably benefits the executives. After a major overhaul of the Compensation Committee in 2006, which involved the resignation of the two lone Committee members during the backdating period, the first order of business for the new Committee members was to redefine the peer benchmark group used to determine executive pay levels. It was decided that it was no longer reasonable to measure compensation against its own industry peers, a group of seven for-profit education firms, and a list was put together of companies that were…

> **…similarly-sized, highly-successful service-based businesses whose executives possessed: sophisticated brand management experience; significant marketing/advertising experience (including the use of the Internet); experience with large employee populations; Internet related content and transaction experience; nationwide retail presence; and consumer, rather than business, service experience.**[1]

The twelve companies that will now be used for Apollo's executive pay benchmarking are:

Autodesk, Inc.	Intuit, Inc.
E*Trade Financial Corp.	Laboratory Corp. of America Holdings
Expedia, Inc.	Sabre Holdings Corp.
Expeditors Int'l of Washington, Inc.	TD Ameritrade Holding Corp.
Fiserv, Inc.	The E.W. Scripps Co.
International Game Technology	The Washington Post Co.

We assume it is pretty self-explanatory, judging by the list of names above, why this resolution is unsettling. Apollo is now the lone education company that exclusively uses a non-industry peer group for establishing executive comp. One of the many things that struck us is that not one company in the education industry has a chief executive that ranks in Forbes' 2007 list of the top 500 highest compensated, including Apollo. Of the twelve companies that make up the new benchmarking peer group, ten have a chief exec on Forbes' list, including three in the top 100. Because of Apollo's 'controlled company' status, Chairman Sperling and "other senior executives" are permitted to sit in on Compensation Committee meetings, which would otherwise be strictly prohibited under NASDAQ and SEC listing requirements for non-controlled companies. While the Company has taken steps to clean up a number of governance and compensation

[1] The bolded passage and the table below come from the Company's most recent Proxy, filed on 01/25/08, page 20.

weaknesses, this shows it still elects to take advantage of certain non-shareholder friendly liberties afforded by its controlled status. Here are some interesting compensation disclosures that have surfaced since the new Committee was introduced:

- The annual bonus program is subject to the approval of Class B shareholders (John and Peter Sperling). Named officers will receive 50%, 100% or 200% of their target bonus if fiscal 2008 revenues increase 6%, 9% or 12% over 2007. On a four year basis, Apollo has an average revenue increase of 20%. The profit component of the bonus will be a little more difficult to attain, but for the most part the bar is not set very high.

- With the exception of Chairman Sperling, no other executive had an employment agreement until the 2007 hiring of EVP **William Cappelli** and CFO **Joseph D'Amico**. Cappelli, formerly a research analyst with Credit Suisse with no prior corporate management experience, was given a four-year employment agreement with a base salary of $500,000 (equal to CEO Mueller), 1 million stock options, and restricted stock valued at $5 million to compensate him for "forfeited compensation opportunities at his former employer". D'Amico was provided a similar agreement, including the same $500,000 base, a guaranteed bonus of $700,000, plus 500,000 stock options and 60,000 restricted shares. These are by far the most generous new-hire packages we have seen for a non-CEO officer in the Company's history.

- As a result of the new peer benchmarking group, equity compensation was increased across the board for incumbent officers. Chairman Sperling's award increased from 100,000 options in 2006 to a total of 384,000 options and restricted shares in 2007. Similarly, CEO Mueller jumped from 240,000 options in 2006 to 768,000 options and shares in 2007. Even CCO Bishop's equity was raised by 40% year-over-year.

<u>Governance: Failure to disclose departure of former "named executive"</u>

Management turnover continues at Apollo with the latest apparent defection of Chief Administrative Officer **John Kline** to Nelnet Inc. (NYSE:NNI), a provider of education planning and financing to students, families, and schools in the United States. Kline, an Apollo named executive in the Company's 2006 SEC Form 10-K, had been with the Company prior to 1996 and had served three years (1996 – 1998) as Sr. V.P., Operations and Finance of UPX online. We say "apparent defection" since Apollo has not disclosed his departure, a disclosure that would normally be required and made in an SEC Form 8-K if he were still in fact a "named executive". Kline surfaced as a new officer (Executive Director) at NNI on 02/25/08 after he filed a Form 3 (Initial Statement of Beneficial Ownership of Securities) raising our antennae that he has, in fact, defected.

<u>Fundamentals: Insiders and market still nervous about class-action verdict</u>

Very telling to us was an SEC Form 8-K filed by Apollo on February 21st, initially to highlight the fact that the Company had staved off default of its loan covenants by posting a $95 million bond in connection with its stay of the enforcement of the $280 million judgment in the class action suit earlier referenced in this report. The 8-K went to great lengths to assure investors that the many risks facing the company were manageable. Apollo's CFO, Joseph D'Amico led off with the following: "In light of the recent scrutiny of the student loan industry and current events in our business, we would like to assure investors of our financial stability, and to affirm that our students are not experiencing any interruptions in receiving the federal funding needed to support their education". The release went on to give further liquidity assurances and hand holding to the effect that the Company's exposure to the now-notorious auction rate security auction was just $107 million.

The Company's attempts at placating investors went over like the proverbial "lead balloon" as Apollo shares promptly slid 10% immediately after its publication and have yet to recover.