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For-Profit Higher Education: University of Phoenix

Since the 1970s, a bachelor's degree had become a more common requirement for employment in America's increasingly skill-based economy. While the U.S. college-age population increased by roughly 25 percent between 1970 and 2010, college enrollment grew by nearly 250 percent over the same period.[1] In January 2012, addressing students at the University of Michigan, President Obama indicated, "In the coming decade, 60 percent of new jobs will require more than a high school diploma. Higher education is not a luxury. It's an economic imperative that every family in America should be able to afford."[2]

One of the innovations that helped fulfill the growing demand for higher education was for-profit educational services companies. These companies primarily focused on employed learners who sought accredited degrees through programs that allowed flexibility around their work schedules. One of the most profitable companies in the for-profit education sector was Apollo Group, best known for its largest subsidiary, the University of Phoenix.

Apollo Group

Apollo Group was one of the world's largest private education providers, offering both online and on-campus programs at the undergraduate, master's, and doctoral levels.[3] Apollo operated educational institutions in the United States, the United Kingdom, Mexico, and Chile, but its U.S.-based

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[1] "Digest of Educational Statistics: 2011," National Center for Education Statistics, U.S. Department of Education, Tables 20 and 198, http://nces.ed.gov/programs/digest/d11/, accessed November 2012.

[2] "Remarks by the President on College Affordability, Ann Arbor, Michigan," The White House, Office of the Press Secretary, January 27, 2012, http://www.whitehouse.gov/the-press-office/2012/01/27/remarks-president-college-affordability-ann arbor-michigan, accessed November 2012.

[3] Apollo Group, Inc. Form 10-K for the period ending August 31, 2012, filed October 22, 2012, p. 4.

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subsidiary, the University of Phoenix, represented approximately 91 percent of the company's net revenue in fiscal year 2012.[4]

The founder of Apollo, John Sperling, was born in a log cabin in Missouri's Ozark Mountains. While Sperling struggled in school as a student, he developed a lifelong love for learning in the Marines where he spent his downtime delving into books about politics and history. He left the military in 1945, at the end of World War II, and eventually earned a Masters in English History from UC Berkeley, and a Ph. D in Economic History at King's College, England. [5]

Sperling was a tenured professor at San Jose State University in 1973 when he started the Institute for Professional Development, a non-traditional education program for working adults.[6] San Jose State rejected the program, leading Sperling to leave for the University of San Francisco where he designed a curriculum that catered to working learners such as policemen, nurses, and firefighters.[7] When his program at the University of San Francisco lost its accreditation (i.e., its ability to grant diplomas), Sperling moved to Arizona and founded the University of Phoenix in 1976.[8] Although considered by some to be an eccentric, Sperling became a billionaire due to Apollo's 1994 IPO and subsequent stock performance.[9]

By 2012, the University of Phoenix had grown to become the largest private university in the U.S., with an enrollment of over 350,000 students.[10] Over 67 percent of students attending the University of Phoenix in 2012 were women, and approximately 50 percent were minorities.[11] Apollo's business model relied on low costs and a predictable inflow of revenues. It kept costs low by employing part-time and adjunct faculty as instructors, providing classroom facilities but no student housing, and building a scalable online educational delivery system.

The cost of tuition of the schools operated by Apollo, however, remained relatively high when compared to other public colleges. For example, tuition cost for a Bachelor's of Science in Business at the University of Phoenix in Hohokam, AZ, was $74,575. The same degree at the University of Arizona cost $44,200. [12]

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[4] Ibid.

[5] "Founder of Apollo Group, 90, driven to excel," *The Arizona Republic*, September 24, 2011, http://www.azcentral.com/business/articles/20110924apollo-group-founder-john-sperling0925.html, accessed November 2012.

[6] Hoover's Corporate Profiles.

[7] Ibid.

[8] Ibid.

[9] "Aquafarms Cloning Aging Pot, Inside the very strange world of billionaire John Sperling," *Fortune*, April 29, 2002.

[10] Apollo Group, Inc. Form 10-K for the period ending August 31, 2012, filed October 22, 2012, p. 6.

[11] Ibid., p. 14.

[12] "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success," U.S. Senate Committee on Health, Education, Labor & Pensions, July 30, 2012, Appendix 14, http://www.help.senate.gov/imo/media/for_profit_report/Contents.pdf, accessed July 2013.

Federal Student Financial Aid Programs

In addition to for-profit educational services companies, increased college enrollment was facilitated, at least in part, by the U.S. government's decision to support various grant, loan, and work-study programs to help students pay for tuition and other education-related expenses. These programs were administered by the Department of Education under legislative authority provided by Title IV of the 1965 Higher Education Act.[13]

The Department of Education was created in 1867 with the primary role of collecting information on schools to help establish effective school systems.[14] Federal aid to higher education began in 1890 with the passage of the Second Morrill Act.[15] The end of World War II, however, led to a significant expansion of federal support in this area. The 1944 "GI Bill" authorized the Department of Education to provide financial assistance that would ultimately send almost 8 million World War II veterans to college.[16] In the years that followed, additional federal student financial aid programs were established, such as Stafford Loans and Pell Grants.

As the U.S. government became more actively involved in helping students pay for higher education, it established regulations to ensure that loans made to students were likely to be repaid. Specifically, any educational institution with a two-year cohort default rate greater than or equal to 40 percent in any given year or greater than or equal to 25 percent for three consecutive years would be ineligible to participate in Title IV programs.[17,18]

In addition to addressing concerns about student loan defaults, federal regulations also explicitly targeted for-profit educational services companies, focusing on their sources of revenue. For-profit educational services companies had been increasingly successful over time in securing a disproportionate share of federal funding for higher education. While for-profit schools accounted for only 10 percent of higher-education students during the 2009–2010 school year, they received 25 percent of available funding from the Department of Education.[19] (See **Exhibit 1** for the top 10 for-profit recipients of Title IV funding during the 2010–11 school year.)

Funding from the Department of Education was limited to certain eligible institutions. One of the regulations in this area was the 90/10 rule, which stated that any for-profit educational institution would be ineligible to participate in Title IV programs, if for two consecutive fiscal years it derived

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13 Federal Student Aid website, http://studentaid.ed.gov/about, accessed November 2012.

14 U.S. Department of Education website, http://www2.ed.gov/about/overview/fed/role.html, accessed November 2012.

15 Ibid.

16 Ibid.

17 A *cohort* is the group of students that enters into student-loan repayment during a federal fiscal year (ending September 30). Apollo Group, Inc. Form 10-K for the period ending August 31, 2012, filed October 22, 2012, p. 22.

18 Ibid., p. 23.

19 "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success," U.S. Senate Committee on Health, Education, Labor & Pensions, July 30, 2012, pp. 2 and 17, http://www.help.senate.gov/imo/media/for_profit_report/Contents.pdf, accessed November 2012.

more than 90 percent of its cash-basis revenue for eligible tuition and fees from Title IV programs.[20,21] (**Exhibit 2** provides historical information on 90/10 percentages for the University of Phoenix.)

Accounting for Bad Debts

Students at the University of Phoenix were typically billed on a course-by-course basis when they first attended a session. At the time of billing, Apollo established a receivable account and a matching deferred-revenue account. Revenue was recognized on a straight-line basis over the length of the applicable course, which is generally 5 to 9 weeks, and deferred revenue was likewise reduced. Students who withdrew from a course were entitled to a partial refund, generally based on the portion of the course they did not attend. Refunds were recorded as a reduction in deferred revenue during the period that a student withdrew from a class.

Students tended to finance their education through some combination of Title IV funding, state financial aid, military benefits, tuition assistance from employers, and personal means. Like other educational institutions, the University of Phoenix had no control over the amount of Title IV funding awarded to their students and billed the Department of Education directly so that receivables' collectibility was virtually certain. On the other hand, when students paid personally, there was a possibility that receivables would not be collectible.

To account for the issue of uncollectible receivables, Apollo reduced its receivables, as they were generated, by setting up allowances for amounts expected to become uncollectible. These estimates were based on historical collection experience, current trends, and other relevant factors. For example, the company increased its allowance for doubtful accounts after a student withdrew from an educational program. When an actual write-off occurred, the receivable was removed from the balance sheet, and the allowance for doubtful accounts was correspondingly decreased. (**See Exhibit 3** for Apollo's fiscal year 2012 balance sheet and income statement, and **Exhibit 4** for historical information on Apollo revenues, receivables, allowances for receivables expected to become uncollectible, provisions incurred in different periods for potentially uncollectible receivables, and write-offs as they took place.)

Signs of Trouble

In the wake of the 2007–2009 financial crisis, many began to question the value of higher education. Skyrocketing tuition had grown by almost five times the rate of inflation since 1983 and had resulted in students taking on ever more debt.[22] Toward the end of 2012, student-loan debt in the U.S. approached $1 trillion dollars.[23] At the same time, diminished job prospects due to relatively weak economic conditions caused student-loan delinquencies to rise, with student loans accounting for a higher percentage of household debt over 90 days past due than credit cards, mortgages, auto

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[20] An institution that derives more than 90% of its cash basis revenue from Title IV programs for any single fiscal year will be automatically placed on provisional certification for two fiscal years and will be subject to possible additional sanctions determined to be appropriate under the circumstances by the U.S. Department of Education.

[21] Apollo Group, Inc. Form 10-K for the period ending August 31, 2012, filed October 22, 2012, p. 21.

[22] "Higher education: Not what it used to be," Economist.com, December 1, 2012, http://www.economist.com/news/united-states/21567373-american-universities-represent-declining-value-money-their-students-not-what-it, accessed November 2012.

[23] "Federal Student Lending Swells," *The Wall Street Journal*, November 28, 2012, p. A1.

loans, and home-equity loans.[24] While many blamed the financial crisis for high student-loan default rates, others pointed to another culprit: for-profit higher education.

Differences in student outcomes had emerged between for-profit and not-for-profit schools. The three-year student-loan default rate for the 2008–2009 cohort of students was 8 percent at private not-for-profit schools and 11 percent at public not-for-profit schools, but it was 23 percent at for-profit schools.[25] Of students who enrolled in for-profit schools in 2008-2009, 54 percent left without a degree or certificate by mid-2010.[26] The rates of loan defaults by students were closely related to the number of students leaving the institution with no degrees. (**See Exhibit 5** for historical information on two- and three-year student-loan default rates for the University of Phoenix.)

The Department of Education tracked the number of students who defaulted on their student loan, i.e., the student failed to make payments within 3 years of entering repayment, which usually begun 6 months after leaving the program. Schools were encouraged to institute various default management programs for students by The Department of Education. Apollo Inc., like many other institutions, contracted with the General Revenue Corporation (GRC) to "cure" students who were approaching defaults.[27] Internal documents of Apollo indicated that nearly all cures were accomplished by putting students into temporary deferments or forbearances.[28] The additional interest accrued during the forbearance period was added to the principal loan balance.

Statistics like these helped corroborate stories of aggressive marketing tactics and deficient curricula that had dogged the for-profit higher-education industry for years. They also reinforced the negative reputation of for-profit educational services companies. Upon the release of a 2012 U.S. Senate report on the findings of a two-year investigation into the for-profit higher-education industry, Senator Tom Harkin (D-IA) commented, "In this report, you will find overwhelming documentation of overpriced tuition, predatory recruiting practices, sky-high dropout rates, billions of taxpayer dollars spent on aggressive marketing and advertising, and companies gaming regulations to maximize profits. These practices are not the exception—they are the norm; they are systemic throughout the industry, with very few exceptions."[29]

For-profit educational services companies had long been a darling of Wall Street analysts, who pointed to factors such as robust growth, a strong business model with great margins, and solid balance-sheet metrics in their "buy" ratings. However, all of this began to change in 2009 as bad press and regulatory scrutiny took their toll, souring market participants on for-profit educational services companies. A Piper Jaffray analyst summed up the diminished industry prospects: "The education

[24] Ibid.

[25] "First Official Three-Year Student Loan Default Rates Published," U.S. Department of Education, September 28, 2012, http://www.ed.gov/news/press-releases/first-official-three-year-student-loan-default-rates-published, accessed November 2012.

[26] "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success," U.S. Senate Committee on Health, Education, Labor & Pensions, July 30, 2012, p. 5, http://www.help.senate.gov/imo/media/for_profit_report/Contents.pdf, accessed November 2012.

[27] Ibid. p. 289.

[28] Ibid. p. 289.

[29] "Harkin: Report Reveals Troubling Realities of For-Profit Schools," U.S. Senate Committee on Health, Education, Labor & Pensions, July 30, 2012, http://www.help.senate.gov/newsroom/press/release/?id=45c8ca2a-b290-47ab-b452-74d6e6bdb9dd, accessed November 2012.

stocks will likely remain range-bound until: (1) earnings estimates are reset to more realistic levels, (2) growth expectations are dialed back, and (3) regulatory clarity is achieved."[30] And hedge fund manager Steven Eisman of FrontPoint Partners, famed for shorting securitized subprime mortgages, described the for-profit higher education industry as being "as socially destructive and morally bankrupt as the subprime mortgage industry."[31]

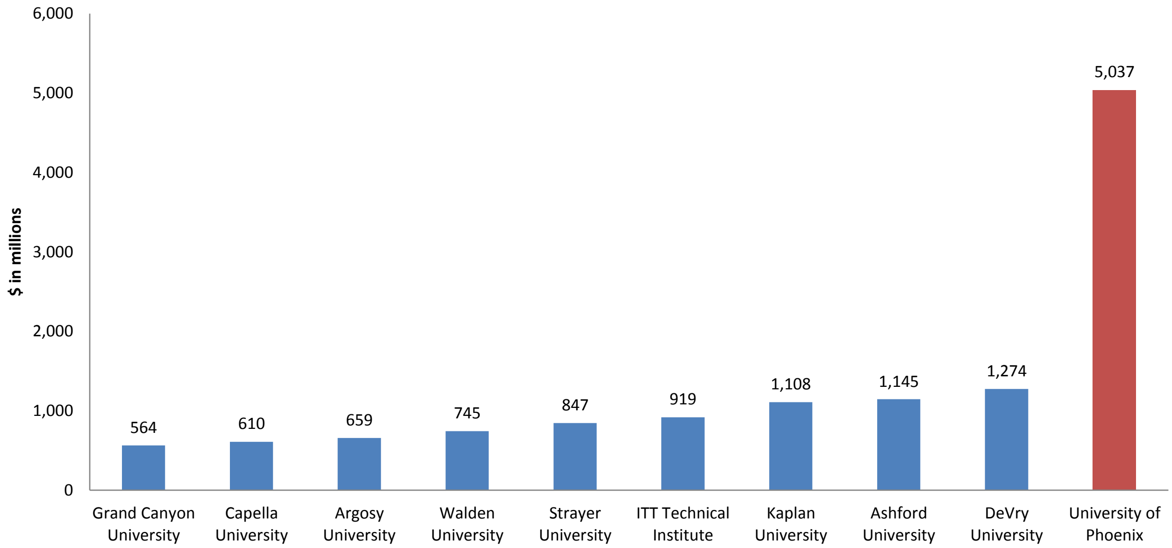
The stock price of Apollo reflected the changing fortunes of the for-profit higher-education industry (see **Exhibit 6** for the stock prices of Apollo between 2000 and 2012). The company's stock price increased by a dramatic 866 percent between 2000 and January 2009, but declined by 76 percent from January 2009 through 2012. In 2010, the Senate Committee on Health, Education, Labor, and Pensions conducted a 2 year investigation on 30 for-profit colleges in the U.S. For Apollo Inc., the report concluded the following:

> When the University of Phoenix was started in 1976, it pioneered an entirely new model of learning. That model revolutionized thinking about how to provide opportunities for higher education to underserved and non-traditional students … However, at least during the period analyzed, the company did not appear to be fully meeting that goal.

[30] "Apollo Group, Inc.: Resetting The Bar," Piper Jaffray, October 14, 2010, p. 1.

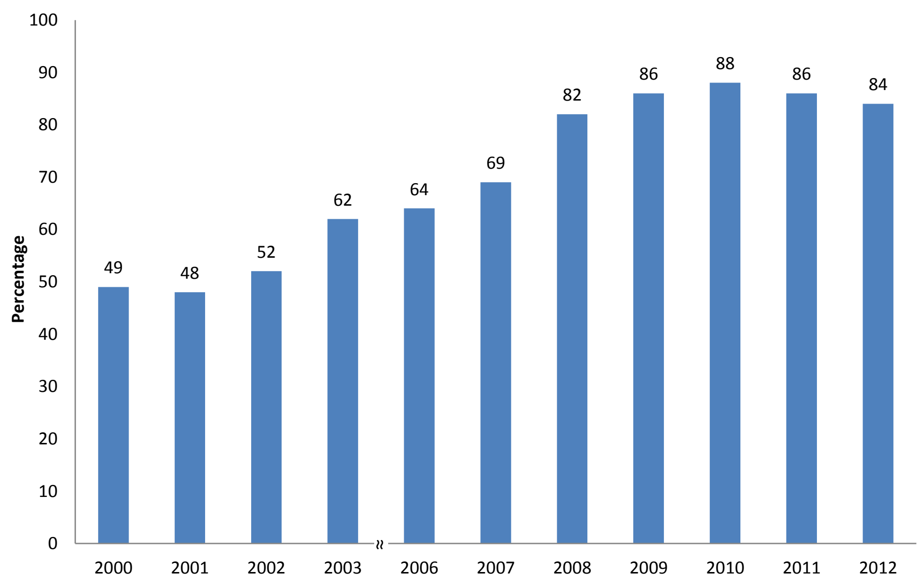
[31] "For Profit Education: Subprime goes to College," Steven Eisman of FrontPoint Partners, Ira Sohn Conference presentation, May 26, 2010.

Exhibit 1 Top 10 For-Profit Recipients of Title IV Funding during 2010–2011 School Year



Source: Federal Student Aid website, http://studentaid.ed.gov/about/data-center/school/proprietary, accessed November 2012.

Exhibit 2 FY 2000–2012 University of Phoenix Percentage of Cash Basis Revenue from Title IV



Sources: Apollo Group, Inc. Form 10-Ks for the period ending August 31, 2000 through August 31, 2012. Apollo Group reported that the 2004 and 2005 percentages were less than 90% but did not provide specific figures.

Exhibit 3 FY 2012 Apollo Group Balance Sheet and Income Statement

APOLLO GROUP, INC. AND SUBSIDIARIES: CONSOLIDATED BALANCE SHEETS

	As of August 31,	
(In thousands)	**2012**	**2011**
ASSETS:		
Current assets		
Cash and cash equivalents	1,276,375	1,571,664
Restricted cash and cash equivalents	318,334	379,407
Accounts receivable, net	198,279	215,567
Prepaid taxes	26,341	35,629
Deferred tax assets, current portion	69,052	124,137
Other current assets	49,609	44,382
Total current assets	**1,937,990**	**2,370,786**
Property and equipment, net	571,629	553,027
Marketable securities	5,946	5,946
Goodwill	103,345	133,297
Intangible assets, net	149,034	121,117
Deferred tax assets, less current portion	77,628	70,949
Other assets	22,750	14,584
Total assets	**2,868,322**	**3,269,706**
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities		
Short-term borrowings and current portion of long-term debt	638,588	419,318
Accounts payable	74,872	69,551
Student deposits	362,143	424,045
Deferred revenue	254,555	293,436
Accrued and other current liabilities	324,881	448,937
Total current liabilities	**1,655,039**	**1,655,287**
Long-term debt	81,323	179,691
Deferred tax liabilities	15,881	26,400
Other long-term liabilities	191,756	164,339
Total liabilities	**1,943,999**	**2,025,717**
Commitments and contingencies		
Shareholders' equity		
Preferred stock, no par value, 1,000 shares authorized; none issued	–	–
Apollo Group Class A nonvoting common stock, no par value, 400,000 shares authorized; 188,007 issued as of August 31, 2012 and 2011, and 111,768 and 130,004 outstanding as of August 31, 2012 and 2011, respectively	103	103
Apollo Group Class B voting common stock, no par value, 3,000 shares authorized; 475 issued and outstanding as of August 31, 2012 and 2011	1	1
Additional paid-in capital	93,770	68,724
Apollo Group Class A treasury stock, at cost, 76,239 and 58,003 shares as of August 31, 2012 and 2011, respectively	(3,878,612)	(3,125,175)
Retained earnings	4,743,150	4,320,472
Accumulated other comprehensive loss	(30,034)	(23,761)
Total Apollo shareholders' equity	928,378	1,240,364
Noncontrolling (deficit) interests	(4,055)	3,625
Total equity	**924,323**	**1,243,989**
Total liabilities and shareholders' equity	**2,868,322**	**3,269,706**

Exhibit 3 (continued)

APOLLO GROUP, INC. AND SUBSIDIARIES: CONSOLIDATED STATEMENTS OF INCOME

	Year Ended August 31,		
(In thousands, except per share data)	2012	2011	2010
Net revenue	4,253,337	4,711,049	4,906,613
Costs and expenses:			
Instructional and student advisory	1,800,569	1,759,986	1,720,059
Marketing	663,442	654,399	622,848
Admissions advisory	383,935	415,386	466,358
General and administrative	344,300	355,548	301,116
Depreciation and amortization	177,804	157,686	142,337
Provision for uncollectible accounts receivable	146,742	181,297	282,628
Restructuring and other charges	38,695	22,913	–
Goodwill and other intangibles impairment	16,788	219,927	184,570
Litigation charge (credit), net	4,725	(11,951)	177,982
Total costs and expenses	3,577,000	3,755,191	3,897,898
Operating income	676,337	955,858	1,008,715
Interest income	1,187	2,884	2,920
Interest expense	(11,745)	(8,931)	(11,864)
Other, net	476	(1,588)	(685)
Income from continuing operations before taxes	666,255	948,223	999,086
Provision for income taxes	(283,072)	(419,136)	(463,619)
Income from continuing operations	383,183	529,087	535,467
Income from discontinued operations, net of tax	33,823	6,709	(13,886)
Net income	417,006	535,796	521,581
Net loss attributable to noncontrolling interests	5,672	36,631	31,421
Net income attributable to Apollo	422,678	572,427	553,002
Earnings (loss) per share – Basic:			
Continuing operations attributable to Apollo	3.24	4.01	3.73
Discontinued operations attributable to Apollo	0.24	0.04	(0.09)
Basic income per share attributable to Apollo	3.48	4.05	3.64
Earnings (loss) per share – Diluted:			
Continuing operations attributable to Apollo	3.22	4.00	3.71
Discontinued operations attributable to Apollo	0.23	0.04	(0.09)
Diluted income per share attributable to Apollo	3.45	4.04	3.62
Basic weighted average shares outstanding	121,607	141,269	151,955
Diluted weighted average shares outstanding	122,357	141,750	152,906

Exhibit 3 (continued)

Note 6. Accounts Receivable, net as of August 31:

($ in thousands)	2012	2011
Student accounts receivable	$ 287,619	$ 324,324
Less allowance for doubtful accounts	(107,230)	(128,897)
Net student accounts receivable	180,389	195,427
Other receivables	17,890	20,140
Total accounts receivable, net	**198,279**	**215,567**

Student accounts receivable is composed primarily of amounts due related to tuition and educational services. Our student receivables are not collateralized; however, credit risk is reduced as the amount owed by any individual student is small relative to the total student receivables and the customer base is geographically diverse. The following table summarizes the activity in allowance for doubtful accounts for the fiscal years 2012, 2011 and 2010:

	Year Ended August 31,		
($ in thousands)	2012	2011	2010
Beginning allowance for doubtful accounts	$ 128,897	192,857	110,420
Provision for uncollectible accounts receivable	146,742	181,297	282,628
Write-offs, net of recoveries	(168,409)	(245,257)	(200,191)
Ending allowance for doubtful accounts	$ 107,230	128,897	192,857

Note: Critical Accounting Policies and Estimates

Revenue recognition

Our educational programs, primarily composed of University of Phoenix programs, are designed to range in length from one-day seminars to degree programs lasting up to four years. Students in University of Phoenix degree programs generally enroll in a program of study encompassing a series of five- to nine-week courses taken consecutively over the length of the program. Generally, students are billed on a course-by-course basis when the student first attends a session, resulting in the recording of a receivable from the student and deferred revenue in the amount of the billing. University of Phoenix students generally fund their education through loans and/or grants from U.S. federal financial aid programs established by Title IV of the Higher Education Act and regulations promulgated thereunder ("Title IV"), military benefit programs, tuition assistance from their employers, or personal funds.

Net revenue consists principally of tuition and fees associated with different educational programs as well as related educational resources such as access to online materials, books, and study texts. Net revenue is shown net of discounts. Tuition benefits for our employees and their eligible dependents are included in net revenue and instructional and student advisory expenses. The following table presents the components of our net revenue, and each component as a percentage of total net revenue, for the fiscal years 2012, 2011 and 2010:

	Year Ended August 31,					
($ in thousands)	2012		2011		2010	
Tuition and educational services revenue	$ 4,124,629	97 %	$ 4,549,010	96 %	$ 4,738,712	96 %
Educational materials revenue	294,499	7 %	320,780	7 %	324,951	7 %
Services revenue	56,981	1 %	76,500	2 %	84,185	2 %
Other revenue	33,192	1 %	23,139	— %	22,414	— %
Gross revenue	4,509,301	106 %	4,969,429	105 %	5,170,262	105 %
Less: Discounts	(255,964)	(6)%	(258,380)	(5)%	(263,649)	(5)%
Net revenue	$ 4,253,337	100 %	$ 4,711,049	100 %	$ 4,906,613	100 %

Tuition and educational services revenue encompasses both online and on-campus classroom-based learning. For our University of Phoenix operations, tuition revenue is recognized over the period of instruction as services are delivered to students. For our Apollo Global operations, tuition revenue is generally recognized over the length of the course and/or program, which may vary depending on the program structure.

Educational materials revenue relates to online course materials delivered to students over the period of instruction. Revenue associated with these materials is recognized pro rata over the period of the related course to correspond with delivery of the materials to students. Educational materials revenue also includes the sale of various books, study texts, course notes, and CDs for which we recognize revenue when the materials have been delivered to and accepted by students or other customers.

Services revenue represents net revenue generated by IPD, which provides program development, administration and management consulting services to private colleges and universities ("IPD Client Institutions") to establish or expand their programs for working learners. These services typically include degree program design, curriculum development, market research, certain student admissions services, accounting, and administrative services. Prior to July 1, 2011, IPD was typically paid a portion of the tuition revenue generated from these programs, and the portion of service revenue to which IPD was entitled under the terms of the contract was recognized as the services were provided. As a result of U.S. Department of Education regulations that became effective on July 1, 2011, IPD's revenue is generated based on fixed fee contracts with IPD Client Institutions and is recognized on a straight line basis over the term of the contract as the services are provided. The term for these fixed fee contracts range from one to five years with provisions for renewal thereafter.

Other revenue consists of the fees students pay when submitting an enrollment application, which, along with the related application costs associated with processing the applications, are deferred and recognized over the average length of time a student remains enrolled in a program of study. Other revenue also includes non-tuition generating revenues, such as renting classroom space and other student support services. Revenue from these sources is recognized as the services are provided.

Discounts reflect reductions in charges for tuition or other fees from our standard rates and include military, corporate, and other employer discounts, along with institutional scholarships, grants and promotions.

Sources: Apollo Group, Inc. Form 10-K for the period ending August 31, 2012, filed October 22, 2012, pp. 61-62, pp. 88-89 & p. 106.

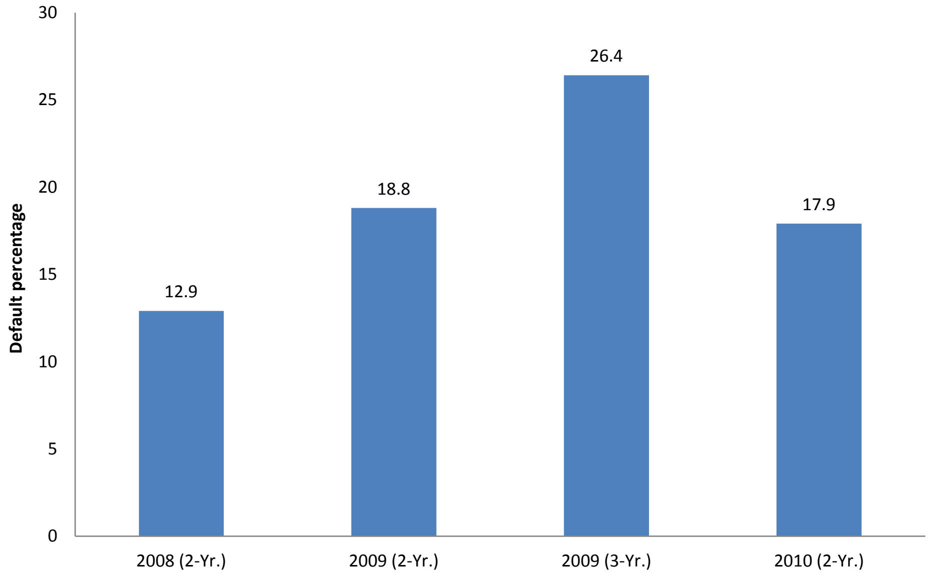
Exhibit 4 FY 2000–2010 Apollo Group Selected Financial Data (in thousands USD)

Fiscal year ended August 31,	Net revenue	Accounts receivable, net
2010	4,906,613	264,377
2009	3,974,202	298,270
2008	3,140,931	221,919
2007	2,723,793	190,912
2006	2,477,533	160,583
2005	2,251,114	172,602
2004	1,800,047	133,617
2003	1,338,982	115,552
2002	1,007,936	94,706
2001	769,474	92,179
2000	609,997	78,933

Fiscal year ended August 31,	Allowance for doubtful accounts beg. balance	Provision for uncollectible accounts receivable	Write-offs	Allowance for doubtful accounts end. balance
2010	110,420	282,628	(200,191)	192,857
2009	78,362	152,490	(120,432)	110,420
2008	99,818	104,201	(125,657)	78,362
2007	65,184	120,614	(85,980)	99,818
2006	45,785	101,038	(81,639)	65,184
2005	23,909	57,113	(35,237)	45,785
2004	19,057	30,981	(26,129)	23,909
2003	12,107	24,346	(17,396)	19,057
2002	8,075	20,380	(16,348)	12,107
2001	7,880	12,393	(12,198)	8,075
2000	9,644	7,785	(9,549)	7,880

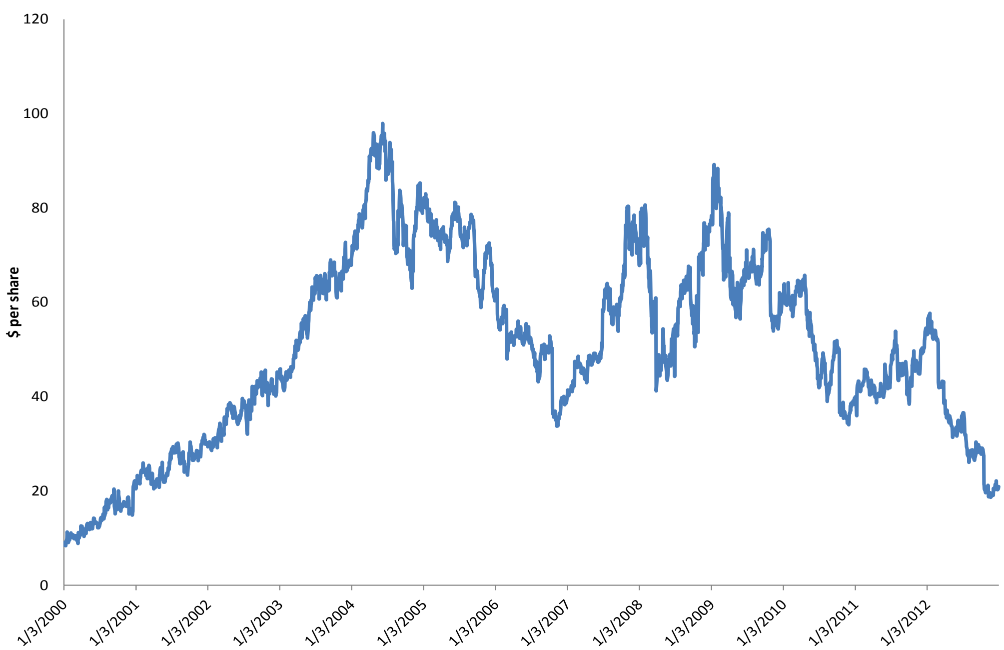
Sources: Apollo Group, Inc. Form 10-K for the periods ending August 31, 2000 through August 31, 2012.

Exhibit 5 2008—2010 University of Phoenix Cohort Student-Loan Default Rates



Source: Federal Student Aid website, http://studentaid.ed.gov/about/data-center/student/default, accessed November 2012.

Exhibit 6 2000–2012 Stock Prices of Apollo Group



Source: Center for Research in Security Prices. Stock prices are split-adjusted.