Section VII: No Weapons on Campus

No weapons are permitted on campus. The possession of guns, knives, electroshock devices (e.g. TASER) and other forms of weapons by employees, guests and students is prohibited on all premises, including all off-site class areas used for University purposes. Exceptions may be made for students and faculty members who are law enforcement officers *required to carry a weapon at all times, even off-duty and in plain clothes*. Students and faculty members who are law enforcement officers in plain clothes must contact the Campus Security Authority (CSA) prior to bringing a weapon on campus for further instructions.

Student requests must include a written verification letter from an authorized supervisor regarding the requirement to carry the weapon, even off-duty and in plain clothes, to the CSA. Verification letters must be provided on department letterhead, signed by an authorized supervisor or agent of the department, and must confirm that the student is in fact a law enforcement officer whose job requires carrying a weapon while off-duty and in plain clothes. The CSA will notify the student once the request is approved or denied. If the CSA denies the request or an individual does not actually need to carry the weapon at all times, the student may instead secure the weapon in his or her vehicle while on campus.

A ***faculty*** member who is an active duty law enforcement officer and requests to carry a weapon on campus must submit a written request to the CSA stating his or her name, place of work and the agency's information. The CSA will have the Security Operations Center (SOC) contact the agency for verification and document the findings. A faculty member who is an *inactive* law enforcement officer and requests to carry his or her weapon on campus will be denied. The CSA will notify the faculty member once the request to carry weapons on campus has been approved or denied.

Section VIII: Policies and Programs Concerning Alcohol and Other Drugs

University of Phoenix has adopted a "Zero-Tolerance" policy regarding the unlawful use, sale, possession or distribution of illegal drugs and alcohol. Misconduct violations relating to the Student, Faculty and/or Employee Codes of Conduct are subject to disciplinary sanctions.

The University has established specific courses of action regarding alcohol and drug abuse. *Consequences for inappropriate behavior can be severe.*

- Each year, all students, faculty and staff receive notification, to include the location, of University of Phoenix Policy Handbooks, and the University's Consumer Information Guide.

- Campus Safety Policies are available to all students, faculty and staff. Policies include alcohol and drug prevention information.

- Students, faculty and staff are encouraged to report instances of abuse:
    - Students can report to faculty members, the local Campus Security Authority (CSA), or on their end of course survey.
    - Faculty can report concerns through Academic Affairs, local CSA, or end of course surveys.
    - Staff, including faculty, can report issues to their immediate supervisors, by contacting Apollo Human Resources or via the Apollo Ethics Helpline.

- University of Phoenix supports alcohol and drug abuse prevention programs.

- Alcohol related advertising or promotions are not permitted on campus.

- The local CSA maintains a list of local treatment facilities. The CSA's contact information is communicated on posters in every classroom and throughout common areas of a ground campus.

- Employee benefits offer resources to assist with alcohol and drug addiction related issues.

8.1

Alcohol and Other Drugs Prevention and Counseling Services

Student Resources
The University also offers substance abuse and various counseling services to all currently enrolled students via the Life Resource Center, directly accessible from the student eCampus website under the **Program** tab in the *Services* section. The Life Resource Center offers services that are confidential, available 24 hours a day 7 days a week, accessible by calling (866)320-2817, and free to students.

Employee Resources

University of Phoenix provides an Employee Assistance Program (EAP) as an employee benefit. All employees have access to EAP regardless of if they obtain benefits through the company. Information about the program is available at all times through the MyHR site at https://myhr. This service provides referral services and treatment sessions as needed. Calls and online inquiries are tracked by category. Employees enrolled in health care plans can obtain additional substance abuse benefits, including outpatient and inpatient services.

National Resources

We encourage *anyone* dealing with substance abuse issues to contact the following national agencies for guidance and assistance in identifying a counseling, treatment, or rehabilitation program.

- **Al-Anon (888)425-2666**
- **American Council on Alcoholism (800)527-5344**
- **National Council on Alcoholism (800)NCA-Call (622-2255)**
- **National Institute on Drug Abuse Hotline (800)662-HELP (662-4357)**
- **National Institute on Drug Abuse Helpline (800)843-4971**
- **Alcohol Anonymous contact information can be found in local telephone directories.**

Every campus provides at least two annual safety education events. The first covers topics relevant to the safety of the campus community and its surrounding area. A second event includes awareness of sexual assaults. This program may involve how alcohol and other drug use may impact the risk of sexual assault.

8.2

Health Risks of Alcohol and Other Drugs

The health consequences of drugs and alcohol depend on the frequency, duration, and the intensity of use and can include both physical and psychological effects.

Overdose is a risk for all drugs. It can result in coma, convulsions, psychosis or death. Combinations of certain drugs, such as alcohol and barbiturates, can be lethal. The purity and strength of doses of illegal drugs are uncertain.

Continued use of substances can lead to tolerance (requiring more and more of a drug to get the same effect), dependence (physical or psychological need), or withdrawal (painful, difficult and dangerous symptoms when stopping the use of drugs).

Long-term use of drugs can lead to malnutrition, organ damage, and psychological problems. The risk of AIDS and other diseases increases if drugs are injected.

The consumption of alcohol or drugs when pregnant may cause abnormalities in babies. Fetal Alcohol Syndrome is the third leading cause of birth defects.

8.3

Physical and Psychological Dependence and Effects of Specific Drugs

DRUGS	PHYSICAL DEPENDENCE	PSYCHOLOGICAL DEPENDENCE	POSSIBLE EFFECTS
Opium, Morphine, Heroin, Hydro morphine, Merperdine/Pethidine Codeine Methadone Other Narcotics	High Moderate High High-Low	High Moderate High-Low High-Low	Euphoria, drowsiness, depression, constricted pupils, nausea
Chloral Hydrate/Other Depressants Barbiturates Benzodiazepines Methaqualone, Glutehimide	Moderate High-Mod Low High	Moderate High-Mod Low High	Slurred speech, disorientation, drunken behavior without odor of alcohol
Cocaine/Crack, Amphetamines, Phenmatrazine, Methylphenidate, Other Stimulants	Possible	High	Increased alertness, excitation, Increased pulse rate and blood pressure, insomnia, loss of appetite
LSD, Mescaline, Peyote, Other Hallucinogens Phencyclidine Phencyclidine Analogues	None Unknown Unknown	Unknown High Unknown	Illusions and hallucinations, poor perception of time and distance
Marijuana, Hashish, Hashish Oil Tetrahydrocannabis	Unknown	Moderate	Euphoria, relaxed inhibitions, increased appetite, disoriented behaviors.
Anabolic Steroids	Unknown	Unknown	Kidney and liver damage, heart failure
Alcohol	Moderate	High	Reduced coordination and alertness, large doses can

			cause unconsciousness, hypothermia, respiratory arrest, death.
Inhalants	Unknown	High	Nausea, damage to organs
Nicotine	High	High	Cancer
Caffeine	Unknown	High	Nausea, diarrhea, trebling

8.4

Standards of Conduct

The University's Codes of Conduct clearly state that the unlawful manufacture, sale, delivery, unauthorized possession, or use of any illicit drug is prohibited on property owned or otherwise controlled by the University. The University enforces a "Zero Tolerance" policy regarding underage drinking.

If any individual is apprehended for violating any alcohol or other drug related law while at a University location or activity, the University will fully cooperate with federal and state law enforcement agencies.

8.5

Sanctions the University Will Impose for Alcohol or Other Drugs Violations

The University abides by local, state and federal sanctions regarding unlawful possession of drugs and the unlawful consumption of alcohol. Any member of the University community found consuming or selling alcohol and other drugs on University property is subject to disciplinary action up to and including dismissal from the University, depending on the seriousness of the situation.

8.6

Federal Penalties and Sanctions for Illegal Trafficking and Possession of a Controlled Substance

These are Federal penalties and sanctions. Additional State penalties and sanctions may also apply.

FEDERAL DRUG TRAFFICKING PENALTIES

http://www.justice.gov/dea/agency/penalties.htm

DRUG/SCHEDULE	QUANTITY	PENALTIES	QUANTITY	PENALTIES
Cocaine (Schedule II)	500 - 4999 gms mixture	**First Offense**: Not less than 5 yrs, and not more than	5 kgs or more mixture	**First Offense**: Not less than 10 yrs, and not more than
Cocaine Base (Schedule II)	5-49 gms		50 gms or more	

	mixture	40 yrs. If death or serious injury, not less than 20 or more than life. Fine of not more than $2 million if an individual, $5 million if not an individual **Second Offense**: Not less than 10 yrs, and not more than life. If death or serious injury, life imprisonment. Fine of not more than $4 million if an individual, $10 million if not an individual	mixture	life. If death or serious injury, not less than 20 or more than life. Fine of not more than $4 million if an individual, $10 million if not an individual. **Second Offense**: Not less than 20 yrs, and not more than life. If death or serious injury, life imprisonment. Fine of not more than $8 million if an individual, $20 million if not an individual. **2 or More Prior Offenses:** Life imprisonment
Fentanyl (Schedule II)	40 - 399 gms mixture		400 gms or more mixture	
Fentanyl Analogue (Schedule I)	10 - 99 gms mixture		100 gms or more mixture	
Heroin (Schedule I)	100 - 999 gms mixture		1 kg or more mixture	
LSD (Schedule I)	1 - 9 gms mixture		10 gms or more mixture	
Methamphetamine (Schedule II)	5 - 49 gms pure or 50 - 499 gms mixture		50 gms or more pure or 500 gms or more mixture	
PCP (Schedule II)	10 - 99 gms pure or 100 - 999 gms mixture		100 gm or more pure or 1 kg or more mixture	
PENALTIES				
Other Schedule I & II drugs (and any drug product containing Gamma Hydroxybutyric Acid)	Any amount	**First Offense**: Not more that 20 yrs. If death or serious injury, not less than 20 yrs, or more than Life. Fine $1 million if an individual, $5 million if not an individual. **Second Offense**: Not more than 30 yrs. If death or serious injury, not less than life. Fine $2 million if an individual, $10 million if not an individual		
Flunitrazepam (Schedule IV)	1 gm or more			
Other Schedule III drugs	Any amount	**First Offense**: Not more than 5 years. Fine not more than $250,000 if an individual, $1 million if not an individual. **Second Offense**: Not more 10 yrs. Fine not more than $500,000 if an individual, $2 million if not an individual		
Flunitrazepam (Schedule IV)	30 to 999 mgs			
All other Schedule IV drugs	Any amount	**First Offense**: Not more than 3 years. Fine not more than $250,000 if an individual, $1 million if not an individual. **Second Offense**: Not more than 6 yrs. Fine not more than		
Flunitrazepam (Schedule IV)	Less than 30 mgs			

		$500,000 if an individual, $2 million if not an individual.
All Schedule V drugs	Any amount	**First Offense:** Not more than 1 yr. Fine not more than $100,000 if an individual, $250,000 if not an individual. **Second Offense**: Not more than 2 yrs. Fine not more than $200,000 if an individual, $500,000 if not an individual.

FEDERAL DRUG TRAFFICKING PENALTIES – Marijuana

http://www.justice.gov/dea/agency/penalties.htm

DRUG	QUANTITY	1st OFFENSE	2nd OFFENSE*
Marijuana	1,000 kg or more mixture; or 1,000 or more plants	• Not less than 10 years, not more than life • If death or serious injury, not less than 20 years, not more than life • Fine not more than $4 million if an individual, $10 million if other than an individual	• Not less than 20 years, not more than life • If death or serious injury, mandatory life • Fine not more than $8 million if an individual, $20 million if other than an individual
Marijuana	100 kg to 999 kg mixture; or 100 to 999 plants	• Not less than 5 years, not more than 40 years • If death or serous injury, not less than 20 years, not more than life • Fine not more than $2 million if an individual, $5 million if other than an individual	• Not less than 10 years, not more than life • If death or serious injury, mandatory life • Fine not more than $4 million if an individual, $10 million if other than an individual
Marijuana	more than 10 kgs hashish; 50 to 99 kg mixture more than 1 kg of hashish oil; 50 to 99 plants	• Not more than 20 years • If death or serious injury, not less than 20 years, not more than life • Fine $1 million if an individual, $5 million if other than an individual	• Not more than 30 years • If death or serious injury, mandatory life • Fine $2 million if an individual, $10 million if other than individual
Marijuana	1 to 49 plants; less than 50 kg mixture	• Not more than 5 years • Fine not more than $250,000, $1 million other than individual	• Not more than 10 years • Fine $500,000 if an individual, $2 million if other than individual
Hashish	10 kg or less		

Hashish Oil	1 kg or less		

*The minimum sentence for a violation after two or more prior convictions for a felony drug offense have become final is a mandatory term of life imprisonment without release and a fine up to $8 million if an individual and $20 million if other than an individual.

Section IX: Sexual Assault Policy and Prevention

University of Phoenix is committed to creating and maintaining a community in which students, faculty, and staff work in an atmosphere free from all forms of harassment, exploitation, intimidation or violence. The University regards all forms of or attempts at sexual assault or misconduct as serious offenses that may result in suspension, required withdrawal, or expulsion.

Every University campus has personal safety and assault prevention programs in place and follows established procedures for reporting violations of University policy. Local law enforcement personnel respond to calls and help victims get medical treatment.

Victims should immediately seek medical treatment and counseling. The Campus Security Authority (CSA) can help victims report incidents to law enforcement. They may also assist in contacting medical transportation and securing the scene for evidence collection. Also, the CSA can provide victims with information about counseling resources.

9.1

Definition of Sexual Misconduct

"Sexual misconduct" includes, but is not limited to sexual harassment, non-consensual sexual contact (or attempts to commit same), non-consensual sexual intercourse (or attempts to commit same), and/or sexual exploitation. (2011, National Center for Higher Education Management: Title IX Coordinator Certification & Training Course Materials).

9.2

Facts about Sexual Assault

Sexual assault can happen anywhere, at any time. According to the U.S. Department of Justice:

- Sexual assault occurs every two minutes in America.
- 60% of rapes are not reported to police.
- 38% of rapes are from a friend or acquaintance.
- 80% of victims are under age 30.

9.3

Reporting a Sexual Assault

The victim of sexual violence is encouraged to:

- Dial **9-1-1**.

- Report the incident to the police and pursue criminal charges.
- Seek medical treatment as soon as possible, including the collection and preservation of evidence that is crucial to pursuing criminal prosecution.
- Access the support services provided by the University.
- Report any incident occurring at or near a University of Phoenix location to the CSA.

9.4

Sex Discrimination, Sexual Harassment, and Sexual Violence (Title IX)

In accordance with federal law, including Title IX of the Education Amendments of 1972, University of Phoenix does not discriminate on the basis of sex in its education programs and activities.

Individuals with questions, concerns or a complaint related to sex discrimination, sexual harassment, or sexual violence may contact the University's Title IX Coordinator:

Camie Pratt, JD
Associate Vice President/Title IX Coordinator
University of Phoenix and Western International University
Office of Dispute Management
Mail Stop: CF-SX01
4025 S. Riverpoint Parkway
Phoenix, Arizona 85040
Phone: 602.557.3391
Fax: 602.308.7402
Email: TitleIX@phoenix.edu

9.5

Preservation of Evidence of a Sexual Assault

After a sexual assault, it is very important that the victim receive a medical examination. Trained medical personnel will conduct a physical exam of the victim, but only if the victim gives permission.

Preserving the evidence from the assault is important. Even if the victim does not wish to file a police report immediately or is certain he or she will not prosecute, preserving evidence allows the victim to change his or her mind later.

These actions help preserve evidence:

- Do not change clothes until you have received medical attention. If you do change, place clothing worn during the assault in a paper bag to take to the examination.
- Do not touch anything the suspect may have touched.
- Do not bathe or shower until you have received medical attention.
- Try to make mental notes of the incident.

Apollo Ethics and Compliance Department will review on an annual basis the preservation of evidence tips to ensure they meet the current needs of law enforcement and abilities of forensic science.

9.6

Surviving Sexual Assault

The University urges victims of sexual assault to seek counseling promptly.

The Life Resource Center (LRC), at (866)320-2817, offers free confidential services to students 24 hours a day, 7 days a week. Victims of sexual assault can also receive free, confidential 24-hour counseling by calling the HOTLINE NUMBER at **RAINN** (**R**ape **A**buse **I**ncest **N**ational **N**etwork): (800)656-HOPE (4673) extension #1. RAINN does not offer counseling by email. However, questions or comments may be sent to info@rainn.org. RAINN's Website is http://www.rainn.org.

University of Phoenix provides the Employee Assistance Program (EAP) as an employee benefit. All employees have access to EAP, whether or not they obtain benefits through the company. Information about the program is always available through the MyHR site at https://myhr. This program provides referral services and treatment sessions as needed. Calls and online inquiries are tracked by category. Employees enrolled in health care plans can obtain additional substance abuse benefits, including outpatient and inpatient services.

The CSA can provide additional referral resources within the local area.

9.7

Sanctions the University May Impose Following an Institutional Disciplinary Determination of Sex Discrimination, Sexual Harassment, or Sexual Violence

Sexual assaults or misconduct violates the standards of conduct expected of every member in the University community. Sexual assault is a criminal act, subject to criminal and civil penalties under state and federal law. In all cases, the University will cooperate with and support local, state and federal law enforcement. University disciplinary action may include suspension or expulsion.

9.8

Changing Academic Situation

The University of Phoenix campus can also assist the victim in changing an academic schedule or environment following an incident of sexual assault or misconduct.

9.9

Procedures for Campus Disciplinary Action in Cases of an Alleged Sex Offense

The accuser and the accused are entitled to the same opportunity to have others present during a disciplinary proceeding. The University may bar either party from having anyone present; however, a promising practice is to permit each party to have at least one comparable support person present.

Both parties must be informed of the outcome of any institutional disciplinary proceeding. The University will be responsible to document how each party is notified of the determination and ensure that the application is consistent and comparable for both parties. Ideally both parties should receive written notification of the determination at the same time.

9.10

Educational Programs - Sexual Assault Awareness

Every campus provides two annual safety education events. The first program will cover any topic relevant to the safety of that campus community and its surrounding area. A second program will include awareness of sexual assaults. This program may involve how alcohol and other drug use may impact the risk of sexual assault.

Section X: Sex Offender Registry

10.1

Sex Offender Registry

The University of Phoenix Sex Offender Registry provides a link to the public national websites at **http://www.sexoffender.com** and **http://nsopr.gov**. Convicted sex offenders enrolled or employed at the University must report their status to the local Campus Security Authority (CSA).

10.2

Reporting Convicted Sex Offenders

The Campus Sex Crimes Prevention Act (section 1601 of the Victims of Trafficking and Violence Protection Act of 2000-Pub. L. 106-386) provides minimum national standards for state sex offender registration and community notification programs. This act requires states to obtain information concerning registered sex offenders' enrollment or employment at institutions of higher education. Such information must be promptly made available to the CSA, AlliedBarton Security Services personnel, and any appropriate law enforcement agency having jurisdiction.

Section XI: University Enrollment and Employment

11.1

Enrollment

Like many institutions of higher learning, University of Phoenix has an open enrollment policy and does not discriminate based on an applicant's criminal convictions. By law, however, students must disclose criminal convictions when applying for Title IV Federal Financial Assistance.

11.1.1 Total Enrollment

Total enrollment for all University of Phoenix campuses including Online can be found at http://nces.ed.gov/collegenavigator/.

11.2

Student Housing

University of Phoenix does not provide student housing on any of its campuses or locations.

11.3

Employment

Staff and faculty members must pass a background investigation and have their criminal record checked before employment at University of Phoenix.

11.4

Student Organizations

University-approved student organizations are monitored and approved by their respective academic colleges or Academic Affairs. Apollo Legal Department provides guidance to those official organizations and honor societies in which the University approves. Sororities and fraternities, however, are not currently supported by the Apollo Group. **All meetings of student organizations must be held on University property and during hours when security personnel are present to monitor any safety or security issues.**

The **School of Business** has established a Chapter of Delta Mu Delta International Honor Society in Business, known as the Lambda Sigma Chapter. Campuses that are interested in establishing a local chapter at their campus are installed as a Lambda Sigma Co-Chapter, and must operate under the same bylaws regardless of location.

The **College of Criminal Justice and Security** has the Eta Theta Chapter of Alpha Phi Sigma the National Criminal Justice Honor Society, which has active and alumni student members at each campus where criminal justice and security degree programs are offered. The honor society is centrally managed by the Dean's Office, but each Campus College Chair (CCC) manages the local student populations, induction ceremonies and honor cord distribution for graduation. Any online student that is close to a local campus is encouraged to contact the CCC and is welcome at the local area campus if it offers the criminal justice or security programs. Information for the National Chapter of Alpha Phi Sigma and our University Chapter, Eta Theta is available at:
http://www.alphaphisigma.org
http://www.uopxetatheta.org

The **College of Social Sciences -** At the Phoenix campus, the Master of Science in Counseling program hosts a chapter of Chi Sigma Iota, the international counseling honor society. The Phoenix Chapter is named Psi Omega Pi. Only CACREP-accredited programs are eligible to host this honor society, therefore, it is a location-specific chapter membership.

Campuses interested in installing these organizations must contact University Central Administration Academic Affairs for information. Academic Affairs maintains the institutional handbook as well as listing of approved locations.

Section XII: Emergency Mass Notification

Apollo maintains emergency management policies, procedures and systems to protect lives and property, and to continue necessary critical functions and essential services.

An **emergency** is defined as a situation that poses an immediate threat to the health or safety of someone in the Apollo community at an Apollo site or that significantly disrupts Apollo programs and activities.

The Emergency Mass Notification (EMN) process includes emergency escalation procedures, mass notifications, and supporting systems. In an emergency, dangerous or otherwise high-risk situation at an Apollo site, these processes enable Apollo Group, University of Phoenix and other subsidiary educational institutions to contact or send notices, alerts or warnings "without delay" to students, faculty and staff, including those who are enrolled at Apollo institutions that receive Title IV funds.

12.1

Policy

Apollo has assigned responsibility for managing the EMN policy and procedures to the Apollo Ethics and Compliance Department (AEC). The review of emergency events and the related issuance of EMNs is the responsibility of the Apollo Core Crisis Management Team (ACCMT).

These notices and warnings are issued when the ACCMT confirms that there is a significant emergency or a dangerous situation involving an immediate threat to the health or safety of members of the Apollo community related to a company site. One such method of emergency communication is the Timely Warning Notification (TWN) discussed in **Section III**.

ACCMT may consist of members from various Apollo and campus entities as defined in the Apollo Crisis Management policy to include the Apollo Legal Department, Business Continuity and Crisis Management, Public Relations, Campus Management and Student Services Departments. ACCMT works closely with Apollo Corporate Global Security Unit (CGSU) and the Security Operations Center (SOC) before making final decisions regarding notices and warnings.

ACCMT will assign back-up individuals when appropriate. If an ACCMT meeting is called to review a significant emergency or dangerous situation, it typically convenes by teleconference using a line made available by the SOC.

12.2

Reporting Issues to the Apollo Core Crisis Management Team

Individuals should immediately call emergency **9-1-1** for police assistance if they believe the situation warrants it. In addition to **9-1-1** reports, incidents that may warrant contacting the Campus Security Authority (CSA) are those posing a serious or continuous health or safety threat to the Apollo or University community such as dangerous or otherwise high-risk situations at an Apollo site.

Report all potential emergencies posing an immediate threat to the Apollo community as follows:

- University of Phoenix students should contact their local CSA. Each Apollo and University site posts individual CSA contact information. A University of Phoenix CSA listing is also available online at http://www.phoenix.edu/about_us/campus_safety/campus_safety_contact_list.html.

- Other contacts include the front desk or AlliedBarton Security Services, where available.

- Staff and faculty on campus or at other Apollo locations may contact the SOC directly at (866)992-3301.

The SOC is responsible for maintaining copies and tracking all emergency notifications. CSAs must immediately report any issues they receive to the SOC which forwards them to ACCMT for immediate review.

The CSA also maintains a record of all EMNs, including EMN tests, in the private CSA Notebook.

12.3

Notifications and Warnings

As soon as the SOC receives notice of a significant emergency or dangerous situation involving an immediate threat to the health or safety of students, faculty and/or staff, it will immediately perform the following functions:

1. notify ACCMT of the reported issue;
2. contact a secondary source (i.e. Campus Director or CSA) to confirm that there is a significant emergency or dangerous situation;
3. recommend which Apollo Group or campus community segments should receive notifications; and
4. initiate the EMN system based on the direction of ACCMT.

ACCMT is responsible for reviewing issues on a case-by-case basis, considering factors such as:

- the nature of the situation,
- the continuing danger to the Apollo community,
- the notification's content,
- the possible risk of compromising law enforcement efforts, and
- those incidents that, in the judgment of ACCMT, warrant an EMN.

Notices sent as part of the EMN policy and procedures may include the following information:

- date and time of the notification and incident,

- the reason for the notification,
- the risk, threat, or emergency facing the Apollo community,
- the locations that may be affected (which could include targets),
- appropriate procedures, which may include:
    - evacuation,
    - lockdown or shelter in place,
- safety suggestions,
- location closing information,
- procedures to help to contain or protect against the problem,
- contact information for related questions or issues,
- resources such as telephone numbers, website and other sources for information regarding the incident, additional details and directives to preserve safety and security, maps or other useful attachments,
- computer prompted questions may be presented.

ACCMT will use their discretion to determine what information should be disclosed and whether the notice should be delayed or limited to certain segments of the Apollo community. ACCMT will make these determinations based on the nature of the issue, instructions from public safety officials, considering whether its release could compromise efforts to contain the emergency or the safety of the community.

In Illinois, with assistance from the local Illinois CSA, ACCMT will be responsible for communicating to the Illinois Emergency Management Agency (IEMA) with detailed contact information in the situation where an emergency occurs in that state. The IEMA can be reached at (217)782-2700 or http://www.state.il.us/iema.

All warnings, notifications and related communications must be approved by ACCMT. For the duration of the emergency, follow-up information will be provided to the Apollo community as warranted. When appropriate, the Apollo Public Relations department may relay further status information to Apollo or the larger community.

At the conclusion of an incident and when authorized by ACCMT, an "all clear" message will be sent to all recipients of previous alert messages.

Executive management, ACCMT members and the SOC will receive copies of all notifications and alerts. Those sent to executive management will be labeled as "informational only" unless the executive team is being asked to act or make decisions. The SOC will be responsible for maintaining copies and tracking all EMNs.

12.4

Notification Methods

ACCMT may activate all or individual elements of the EMN system. Depending on the nature of the incident, EMNs may be distributed by any of the following means by individuals authorized by ACCMT:

- **Technology alerts**
    - Text messaging
    - Recorded messages to phones or similar devices
    - E-mail notifications
    - Pagers
    - Fax
- **Visual alerts**
    - News releases
    - Posting electronic alerts on organizational home pages, message boards, websites and other sites where information will be likely to reach the Apollo community
    - Posting on entry doors, bulletin boards, or other accessible areas of Apollo sites affected by the situation
- **Person to person directives**
    - Door-to-door notifications
    - Direct phone calls
    - Phone trees
    - Other media releases

12.5

Maintenance of Emergency Contact Information

Students, faculty and staff are responsible for having current and accurate information on file with Apollo and its relevant subsidiaries to ensure they receive notifications from the EMN. Note that Apollo does not assume responsibility for incorrect contact information on file which may cause a notification not to be sent due to technical malfunctions, human or technical error, lost, delayed or garbled data or transmissions, omission, interruption, deletion, defect or failures of any telephone or computer line or network, costs, computer equipment, software or any other factors which may cause a lost notification.

Persons with disabilities and their managers, faculty or Disability Services Advisors (DSAs) are responsible for working together to ensure that a person nearby is assigned to provide assistance.

The IT Director, Software Support, is responsible for updating the EMN system from the relevant data sources on a regular basis.

12.6

Responsibility for Emergency Mass Notification Administration

AEC is responsible for maintaining policies and procedures related to the EMN processes. The EMN processes, policies and procedures include the following elements:

- Establishing and communicating processes to report potential issues to ACCMT for its review and consideration,

- Creating and implementing Apollo community training regarding the EMN process including:
    - determining how potential issues should be reported,
    - maintaining of emergency contact information,
    - appropriate response procedures when the EMN system is used,
    - developing and maintaining overlapping and redundant backup systems to support,
- Providing written procedures used by ACCMT to administer the EMN processes,
- Tracking and retention of all EMNs that are sent,
- Ensuring appropriate staff coverage and call trees to activate the EMNs,
- Overseeing periodic testing, at least annually, of EMN systems and processes, documenting the following:
    - Fire alarm tests, noting whether they were announced or unannounced,
    - Evacuation and lock-down systems,
    - Scheduled exercises to ensure students, faculty and staff are aware of the EMN process,
    - Description of the exercise, its date and time.

Related Links

U.S. Department of Homeland Security (http://www.dhs.gov)

National Weather Service (http://www.nws.noaa.gov)

American Red Cross (http://www.redcross.org)

Federal Emergency Management Agency (http://www.fema.gov)

Illinois Emergency Management Agency (http://www.state.il.us/iema)

Policy Exceptions

None

12.7

Monitoring and Enforcement

If any individual does not comply with this policy or if Apollo determines that any actions were inappropriate or inconsistent with the law, or any Apollo policy, standard, or guideline, Apollo may take action against a student, faculty, or staff. This can include termination and appropriate actions as described in the student, faculty and employee handbooks or similar governing guides.

If Apollo determines individuals are or have been engaged in criminal activity, Apollo may refer this matter to law enforcement and provide any related documentation to assist in prosecution.

Citations

Higher Education and Opportunity Act of 2008-Public Law 110-315

Right to Know and Campus Security Act-20 U.S.C. § 1092*(f) et seq*

34 C.F.R. §668.46

Related Policies

University of Phoenix (UOPX) Campus Safety Policies, http://www.phoenix.edu/about_us/campus_safety.html

Western International University (West) Campus Safety Policies, http://www.west.edu/pdfs/West-Campus-Safety-Policies.pdf

Apollo Employee Handbook, https://myhr.apollogrp.edu/staff/emp_per_manual.pdf

12.8

Definitions

Apollo—Apollo Group Inc. and all of it US based subsidiaries.

Apollo site—

Any building, property, or portion thereof, owned or controlled by Apollo, and

Any building or property that is within or reasonably contiguous to the area identified above that is owned by Apollo but controlled by another person, is frequently used by the Apollo community, and supports Apollo business (such as a food or other retail vendor).

Apollo and Campus Community – Apollo students, faculty and staff. Apollo communities may include off-site locations under the control of Apollo and its subsidiaries.

Alert – A signal or messaging technique used to warn of danger or attack. A condition or period of heightened watchfulness or preparation for action.

Campus - is defined in 34 C.F.R. §668.46 as:

Any building or property owned or controlled by an institution within the same reasonably contiguous area and used by the institution in direct support of, or in a manner related to, the institution's educational purposes, including residence halls if applicable; and

Any building or property that is within or reasonably contiguous to the area identified above that is owned by the institution but controlled by another person, is frequently used by students, and supports institutional purposes (such as a food or other retail vendor).

Emergency – an event, expected or unexpected, that threatens lives, safety, property, or the environment and requires immediate (mandatory) action.

Dangerous Situation – a situation being managed by a public safety entity that can escalate into a condition that may threaten lives, safety, property, or the environment and may require immediate (mandatory) action (e.g. barricaded suspects within a contained police perimeter, release of localized hazardous materials that may require a building evacuation, structure fires requiring evacuation, suspicious devices that require a bomb squad response, etc.)

Notice or Warning – a notice or warning is issued when a condition or situation is "imminent" or confirmed “already occurring” (e.g., tornado warning, flash flood warning, severe storm warning). Action in response is discretionary.

State of Emergency - A state of emergency is a declaration that may suspend certain normal functions of the organization. In addition, a state of emergency would alert staff and students to alter their normal behaviors and to safeguard themselves accordingly.

Evacuate - to leave a room, building or campus in a timely and orderly manner.

Lockdown/Shelter-in-place - to secure an area by locking doors, windows, and barricading oneself to block entry to a room, building or campus. If a Lockdown is ordered, all persons should locate a safe room, assist others in moving to a safe room, lock door, close windows and shades, turn off lights, move away from door and windows, and remain quiet in a safe location until further instruction.

Test - Regularly scheduled drills, exercises, and appropriate follow-through activities, designed for assessment and evaluation of emergency plans, and capabilities. Tests may be announced or unannounced. The emergency response and evacuation procedures should be publicized and each test should be documented with a description of the exercise, the date, time, and whether it was announced or unannounced. The system should be exercised or used in conjunction with scheduled exercises to maintain awareness of the system by students, faculty, and staff.

Contacting the Campus Security Authority

University of Phoenix has a Campus Security Authority (CSA) assigned to each campus. Specific information can be located on the phoenix.edu Campus Safety Contact List page: http://www.phoenix.edu/about_us/campus_safety/campus_safety_contact_list.html.

Counseling and Assistance Resources

Sexual Assault Assistance Programs

Victims of sexual assault can also receive free, confidential 24-hour counseling by calling the HOTLINE NUMBER at **RAINN** (**R**ape **A**buse **I**ncest **N**ational **N**etwork): (800)656-HOPE (4673) extension #1. RAINN does not offer counseling by email. However, questions or comments may be sent to info@rainn.org. RAINN's Website is http://www.rainn.org.

Apollo Group Sponsored Student and Employee Assistance Programs

Student Resources
The University also offers substance abuse and various counseling services to all currently enrolled students via the Life Resource Center, directly accessible from the student eCampus website under the **Program** tab in the *Services* section. The Life Resource Center offers services that are confidential, available 24 hours a day 7 days a week, accessible by calling (866)320-2817, and free to students.

Employee Resources
University of Phoenix provides an Employee Assistance Program (EAP) as an employee benefit. All employees have access to EAP regardless of if they obtain benefits through the company. Information about the program is available at all times through the MyHR site at https://myhr. This service provides referral services and treatment sessions as needed. Calls and online inquiries are tracked by category. Employees enrolled in health care plans can obtain additional substance abuse benefits, including outpatient and inpatient services.

Alcohol and Other Drug Abuse Referral Services

We encourage *anyone* dealing with substance abuse issues to contact the following national agencies for guidance and assistance in identifying a counseling, treatment, or rehabilitation program.

- **Al-Anon (888)425-2666**
- **American Council on Alcoholism (800)527-5344**
- **National Council on Alcoholism (800)NCA-Call (622-2255)**

- **National Institute on Drug Abuse Hotline (800)662-HELP (662-4357)**
- **National Institute on Drug Abuse Helpline (800)843-4971**
- **Alcohol Anonymous contact information can be found in local telephone directories.**
- **Cocaine Hotline (800)COCAINE**
- **National Council on Alcoholism and Drug Dependence, Inc. (NCADD) (800)622-2255**

Suicide Referral Services

In addition to the Apollo Group sponsored Student and Employee Assistance Programs, the following are available for assistance to students and individuals contemplating suicide:

- **Jed Foundation www.jedfoundation.org**
- **National Suicide Prevention Lifeline 1-800-273-TALK (8255)**

The Campus Security Authority (CSA) can provide additional referral resources within the local area.

The Security Operations Center (SOC) provides faculty and staff support 24 hours a day and 7 days a week to report information at 866-992-3301. Students and other members of the campus community may also contact their local Silent Witness or Crime Stopper program to report information.

Victims seeking professional counseling will have their information kept in confidence. Even if a victim gives the professional counselor permission to release his or her identity, the counselor may only report the occurrence of the event itself to be included in the Annual Crime Statistics.

Contacting the Campus Safety Team

For further questions or help, please contact the Campus Safety Team:

Ethics and Compliance Services, Apollo Ethics & Compliance Department:

EthicsandComplianceServices@apollogrp.edu

Sr. Compliance Manager, Ethics and Compliance Services/Facilitations, Apollo Ethics & Compliance Department:

Stefani Rosenstein, Stefani.Rosenstein@apollogrp.edu (602) 557-3355

Corporate Counsel, Apollo Legal Department:

Anne Shousha, anne.shousha@apollogrp.edu (602) 557-1670

Your safety is of paramount importance. University of Phoenix urges students, faculty, and staff to report all crimes or threatening situations that occur on campus to your local and state police department and then to us. If *anything* makes you feel unsafe or threatened, **dial 9-1-1.**

Appendix of Acronyms

ACCMT - Apollo Core Crisis Management Team

AEC – Apollo Ethics and Compliance Department

AED – Automated External Defibrillator

CPR – Cardiopulmonary Resuscitation

CSA – Campus Security Authority

DSA – Disability Services Advisor

EAP – Employee Assistance Program

EMN – Emergency Mass Notification

RAINN – Rape Abuse Incest National Network

SOC – Security Operations Center

TWN – Timely Warning Notification

The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act or Clery Act is a federal statute codified at 20 U.S.C. § 1092(f), with implementing regulations in the U.S. Code of Federal Regulations at 34 C.F.R. 668.46. The Clery Act is a federal statute that requires colleges and universities that receive federal financial aid funding to compile crime statistics from their campuses and provide safety information. Compliance is enforced by the United States Department of Education, which can impose civil penalties, up to $27,500 per violation, against institutions for each infraction and can suspend institutions from participating in federal student financial aid programs.

Military Deployment Policies and Procedures

A. Students enrolled in a course at the time of deployment are eligible to receive excused absences in accordance with the excused absences policy. Campuses should use discretion and take such action only if the excused absences would benefit the student by allowing the student the opportunity to complete the course instead of being automatically dropped from the course for not meeting the University course attendance requirement.

Note: Points normally deducted for participation requirements when a student has an absence from class should not be deducted if the cause of the absence is military deployment.

B. If the student will be unable to complete the course due to military deployment, may drop from the course without financial penalty and a withdrawal "W" grade may be issued.

C. If the student would like an opportunity to complete the course while deployed, an incomplete "I" grade can be issued instead of a "W" grade. The "I" grade may be issued with an initial extension of six (6) weeks beyond the traditional five (5) week extension. The campus practice of requiring final grades to be lowered by one full letter grade as a result of the incomplete "I" grade shall be waived for deployed students.

Note: Additional incomplete extensions beyond the six (6) week period can be requested as needed and would be reviewed for approval by the campus Director of Academic Affairs.

Rationale: Additional time will allow the deployed student the opportunity to complete the course or receive a withdrawal "W" grade if circumstances do not allow the student to complete the course while deployed.

D. Students scheduled to be deployed for active military duty should be advised to contact their campus Financial Representative regarding the status of their account and/or financial aid.

Servicemember Readmission Policies and Procedures

A. Provided a student meets the readmission criteria, the University must promptly readmit the student to his/her program by assisting the student in enrolling in the next available class or classes in his/her program unless the student requests a later date of readmission or unusual circumstances require the University to admit the student at a later date. Unusual circumstances may include the length of any necessary retraining or intervening changes in the circumstances of the University.

B. When providing readmission to a servicemember, the University must readmit the servicemember with the same academic status as when the student was last admitted. This includes those students who were admitted but did not begin attendance because of service in the uniformed services. The student will be considered to be enrolled with the same academic status as long as the University admits the student:

1. To the same program to which he or she was last admitted or, if that program is no longer offered, the program that is most similar, unless the student requests or agrees to admission to a different program.

2. At the same enrollment status that the student last held, unless the student requests or agrees to admission at a different enrollment status.

3. With the same number of credit hours completed previously by the student, unless the student is readmitted to a different program or program version to which the completed credit hours are not transferable.

4. With the same academic standing (SAP) the student previously had.

5. If the student is readmitted to the same program, the student will be assessed the same tuition and fee charges for the first academic year of return that he/she would have been assessed during the academic year when the student left the university. For subsequent academic years, a student admitted to the same program will be charged no more than the institutional charges that other students in the program are assessed for that academic year.

6. If the student is admitted to a different program he/she will be charged no more than the institutional charges that other students in the program are assessed for that academic year.

C. If the student is not prepared to resume the program at the point where he/she left off, or will not be able to complete the program, the University will make reasonable efforts to help the student become prepared to enable the student to complete the program including, but not limited to, providing refresher courses at no extra cost and allowing the student to retake a pretest at no extra cost.

The University of Phoenix, Inc. and Subsidiaries

(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

Consolidated Financial Statements as of and for the
Years Ended August 31, 2011 and 2010, and
Independent Auditors' Reports

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
The University of Phoenix, Inc. and Subsidiaries
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of The University of Phoenix, Inc. (a wholly-owned subsidiary of Apollo Group, Inc.) and Subsidiaries (the "University") as of August 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of August 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared from the separate records maintained by the University and may not necessarily be indicative of the conditions that would have existed or the results of operations if the University had been operated as an unaffiliated company. As further described in Note 16, portions of certain expenses represent allocations made from Apollo Group, Inc.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of the University, taken as a whole. The accompanying Note 16 regarding the University's related party transactions and calculation of its Title IV 90/10 Rule for the year ended August 31, 2011, is required by the U.S. Department of Education and such information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

February 27, 2012

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	As of August 31, 2011	2010
ASSETS:		
Current assets		
Cash and cash equivalents	$ 165,708	$ 171,474
Restricted cash and cash equivalents	374,103	433,110
Accounts receivable, net	161,565	213,961
Deferred tax assets, current portion	57,753	89,096
Other current assets	15,423	12,315
Total current assets	774,552	919,956
Property and equipment, net	173,255	139,757
Restricted cash equivalents for collateralization of letter of credit	—	126,615
Goodwill	37,017	37,017
Intangible assets, net	150	1,050
Deferred tax assets, less current portion	40,569	43,898
Due from Parent	231,824	306,412
Other assets	1,002	1,518
Total assets	$ 1,258,369	$ 1,576,223
LIABILITIES AND SHAREHOLDER'S EQUITY:		
Current liabilities		
Current portion of long-term debt	$ 2,651	$ —
Accounts payable	5,648	23,076
Accrued liabilities	68,819	38,315
Student deposits	376,582	447,584
Deferred revenue	254,090	325,424
Other current liabilities	20,792	18,843
Total current liabilities	728,582	853,242
Long-term debt	11,112	—
Other long-term liabilities	86,604	69,091
Total liabilities	826,298	922,333
Commitments and contingencies		
Shareholder's equity		
Common stock, $0.10 stated value — 200,000 shares authorized; 122,500 shares issued and 95,500 shares outstanding as of August 31, 2011 and 2010	12	12
Additional paid-in capital	59,492	59,492
Treasury stock, at cost, 27,000 shares as of August 31, 2011 and 2010	(206)	(206)
Retained earnings	372,766	595,281
Accumulated other comprehensive income (loss)	7	(689)
Total shareholder's equity	432,071	653,890
Total liabilities and shareholder's equity	$ 1,258,369	$ 1,576,223

The accompanying notes are an integral part of these consolidated financial statements.

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

CONSOLIDATED STATEMENTS OF INCOME

($ in thousands)	Year Ended August 31, 2011	2010
Net revenue	$ 4,322,670	$ 4,498,325
Costs and expenses:		
Instructional and student advisory	1,497,028	1,460,767
Marketing	580,459	555,460
Admissions advisory	393,741	446,205
General and administrative	259,183	209,036
Provision for uncollectible accounts receivable	175,388	278,284
Depreciation and amortization	123,490	100,937
Restructuring and other charges	22,913	—
Total costs and expenses	3,052,202	3,050,689
Operating income	1,270,468	1,447,636
Interest income	883	1,104
Other, net	(1,156)	(1,029)
Income before income taxes	1,270,195	1,447,711
Provision for income taxes	(492,710)	(563,074)
Net income	$ 777,485	$ 884,637

The accompanying notes are an integral part of these consolidated financial statements.

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)	Year Ended August 31, 2011	2010
Net income	$ 777,485	$ 884,637
Other comprehensive income (net of tax):		
Currency translation gain	696	377
Comprehensive income	$ 778,181	$ 885,014

The accompanying notes are an integral part of these consolidated financial statements.

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
(In thousands, except share data)	Shares	Stated Value		Shares	Cost			
Balance as of August 31, 2009	122,500	$ 12	$ 59,492	27,000	$ (206)	$ 1,410,644	$ (1,066)	$ 1,468,876
Net income	—	—	—	—	—	884,637	—	884,637
Dividend to Parent	—	—	—	—	—	(1,700,000)	—	(1,700,000)
Currency translation adjustment, net of tax	—	—	—	—	—	—	377	377
Balance as of August 31, 2010[(1)]	122,500	$ 12	$ 59,492	27,000	$ (206)	$ 595,281	$ (689)	$ 653,890
Net income	—	—	—	—	—	777,485	—	777,485
Dividend to Parent	—	—	—	—	—	(1,000,000)	—	(1,000,000)
Currency translation adjustment, net of tax	—	—	—	—	—	—	696	696
Balance as of August 31, 2011[(1)]	122,500	$ 12	$ 59,492	27,000	$ (206)	$ 372,766	$ 7	$ 432,071

[(1)] As of August 31, 2010, accumulated other comprehensive loss consists of $1.1 million of foreign currency losses, net of $0.4 million of tax. Accumulated other comprehensive income and the associated tax effect as of August 31, 2011 were not significant.

The accompanying notes are an integral part of these consolidated financial statements.

THE UNIVERSITY OF PHOENIX, INC. AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of Apollo Group, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	Year Ended August 31, 2011	Year Ended August 31, 2010
Cash flows provided by (used in) operating activities:		
Net income	$ 777,485	$ 884,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,681	50,770
Amortization of lease incentives	(11,993)	(12,004)
Amortization of deferred gains on sale-leasebacks	(1,619)	(1,651)
Share-based compensation	25,216	22,491
Non-cash foreign currency loss, net	1,120	964
Provision for uncollectible accounts receivable	175,388	278,284
Restructuring and other charges	22,913	—
Deferred income taxes	34,214	(8,399)
Changes in assets and liabilities:		
Restricted cash and cash equivalents	59,007	(13,322)
Accounts receivable	(122,990)	(266,521)
Other assets	(2,567)	421
Accounts payable and accrued liabilities	9,215	(78,928)
Deferred revenue	(71,334)	49,276
Student deposits	(71,002)	10,568
Other liabilities	(3,922)	2,348
Net cash provided by operating activities	872,812	918,934
Cash flows provided by (used in) investing activities:		
Additions to property and equipment	(53,801)	(37,792)
Collateralization of letter of credit	126,615	(126,615)
Net cash provided by (used in) investing activities	72,814	(164,407)
Cash flows provided by (used in) financing activities:		
Payments on borrowings	(537)	—
Net cash transferred to Parent	(950,827)	(728,480)
Net cash used in financing activities	(951,364)	(728,480)
Exchange rate effect on cash and cash equivalents	(28)	(86)
Net (decrease) increase in cash and cash equivalents	(5,766)	25,961
Cash and cash equivalents, beginning of year	171,474	145,513
Cash and cash equivalents, end of year	$ 165,708	$ 171,474
Supplemental disclosure of non-cash information		
Dividends to Parent	$ 1,000,000	$ 1,700,000
Credits received for tenant improvements	$ 19,191	$ 13,277
Capital lease additions	$ 14,300	$ —

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Nature of Operations

The University of Phoenix, Inc. and subsidiaries (the “University,” “we,” “us,” or “our”) has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools since 1978 and holds other programmatic accreditations. The next comprehensive evaluation visit by the Higher Learning Commission is scheduled for March 2012. The Higher Learning Commission is located at 230 South LaSalle Street, Suite 7-500, Chicago, Illinois 60604-1411, (312) 263-0456. The University offers associate’s, bachelor’s, master’s and doctoral degrees in a variety of program areas. The University offers its educational programs worldwide through its online education delivery system and at its campus locations and learning centers. The University’s online programs are designed to provide uniformity with the University’s on-campus programs, which enhances the University’s ability to expand into new markets while maintaining academic quality. The University is a wholly-owned subsidiary of Apollo Group, Inc. (the “Parent” or “Apollo”).

On September 12, 2011, Apollo acquired all of the outstanding stock of Carnegie Learning, Inc. (“Carnegie Learning”), a publisher of research-based math curricula and adaptive learning software for a cash purchase price of $75.0 million. In a separate transaction completed on September 12, 2011, Apollo acquired related technology from Carnegie Mellon University for $21.5 million, payable over a 10-year period. The acquisitions allow Apollo to accelerate its efforts to incorporate adaptive learning into its academic platform and to provide tools to help raise student achievement in mathematics. Apollo believes this will provide strategic synergies including cost savings benefits attributable to improved student retention and graduation rates at the University, and the assembled workforce.

The University’s fiscal year is from September 1 to August 31. Unless otherwise noted, references to the years 2011 and 2010 relate to the fiscal years ended August 31, 2011, and 2010, respectively.

Note 2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements, and information and note disclosures included in these financial statements, are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements, in the opinion of management, contain all adjustments necessary to fairly present the financial condition, results of operations and cash flows for the periods presented. Additionally, we believe that the disclosures made are adequate to make the information presented not misleading. Refer to Note 16, Supplemental Information, for discussion of the allocation of certain costs to the University from the Parent.

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. See “Due from Parent” below for discussion of transactions between the University and the Parent.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition

Our educational programs are designed to range in length from one-day seminars to degree programs lasting up to four years. Students in the University 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. Students generally fund their education through loans and/or grants under U.S. federal financial aid programs established by Title IV of the Higher Education Act and regulations promulgated thereunder ("Title IV"), 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. 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 costs. Total employee tuition benefits were $96.0 million and $99.6 million for fiscal years 2011 and 2010, respectively.

The following describes the components of our net revenue, which are generally consistent on a percentage basis for all periods presented:

- *Tuition and educational services revenue* represents approximately 94% of our gross consolidated revenue before discounts, and encompasses both online and on-campus classroom-based learning. Tuition revenue is recognized pro rata over the period of instruction as services are delivered to students.

- *Educational materials revenue* represents approximately 6% of our gross consolidated revenue before discounts, and 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.

- *Other revenue* represents less than 1% of our gross consolidated revenue before discounts. 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* represent approximately 5% of our gross consolidated revenue. 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.

Students who attend 60% or less of a course are eligible for a refund for the portion of the course they did not attend. Refunds result in a reduction in deferred revenue during the period that a student drops or withdraws from a class because associated tuition revenue is recognized pro rata over the period of instruction as the services are delivered. This refund policy applies to students in most, but not all states, as some states require different policies.

Generally, net revenue varies from period to period based on several factors, including the aggregate number of students attending classes, the number of classes held during the period and the tuition price per credit.

Sales tax collected from students is excluded from net revenue. Collected but unremitted sales tax is included as a liability in our Consolidated Balance Sheets and is not material to our consolidated financial statements.

Allowance for Doubtful Accounts

We reduce accounts receivable by an allowance for amounts that we expect to become uncollectible in the future. Estimates are used in determining the allowance for doubtful accounts and are based on historical collection experience and current trends. In determining these amounts, we consider and evaluate the historical write-offs of our receivables. We monitor our collections and write-off experience to assess whether adjustments are necessary.

When a student with Title IV loans withdraws, Title IV rules determine if we are required to return a portion of Title IV funds to the lender. We are then entitled to collect these funds from the students, but collection rates for these types of receivables is significantly lower than our collection rates for receivables for students who remain in our educational programs.

We routinely evaluate our estimation methodology for adequacy and modify it as necessary. In doing so, our objective is to cause our allowance for doubtful accounts to reflect the amount of receivables that will become uncollectible by considering our most recent collections experience, changes in trends and other relevant facts. In doing so, we believe our allowance for doubtful accounts reflects the most recent collections experience and is responsive to changes in trends. Our accounts receivable are written off once the account is deemed to be uncollectible, which typically occurs after outside collection agencies have pursued collection for approximately six months. Refer to Note 5, Accounts Receivable, Net.

Cash and Cash Equivalents

We participate in the cash management system of the Parent. As a result, a substantial portion of cash related to the University's operations is deposited in or paid from the Parent's operating cash accounts and recorded by the University through the Due from Parent account. Therefore, the Consolidated Balance Sheets and Consolidated Statements of Cash Flows reflect smaller cash balances than if the University received and disbursed all cash in and out of its own accounts.

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents primarily include money market funds and bank overnight deposits which are all placed with high-credit-quality financial institutions in the U.S. Only a negligible portion of these deposits are insured by the Federal Deposit Insurance Corporation. We have not experienced any losses on our cash and cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents primarily represents funds held for students for unbilled educational services that were received from Title IV financial aid programs. As a trustee of these Title IV financial aid funds, we are required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the U.S. Department of Education. Restricted cash and cash equivalents are excluded from cash and cash equivalents in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows. Our restricted cash and cash equivalents are primarily held in money market funds.

Property and Equipment, Net

Property and equipment is recorded at cost less accumulated depreciation. Property and equipment under capital leases, and the related obligation, is recorded at an amount equal to the present value of future minimum lease payments. Furniture, equipment, and software, including internally developed software, are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Capital leases, leasehold improvements and tenant improvement allowances are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets. Construction in progress, excluding software, is recorded at cost until the corresponding asset is placed into service and depreciation begins. Software is recorded at cost and is amortized once the related asset is ready for its intended use. Maintenance and repairs are expensed as incurred. Additionally, $69.8 million and $50.2 million of depreciation expense for certain fixed assets owned by Apollo was allocated to the University in fiscal years 2011 and 2010, respectively. This allocated depreciation is included in "Depreciation and amortization" in our Consolidated Statements of Income, and in "Net cash transferred to Parent" on our Consolidated Statements of Cash Flows. We cash settle this depreciation allocation consistent with other allocated expenses from the Parent because we consider the charge analogous to rent or a fee for use of the associated assets. Refer to "Due from Parent" in this Note.

We capitalize certain internal software development costs consisting primarily of the direct labor associated with creating the internally developed software. Capitalized costs are amortized using the straight-line method over the estimated lives of the software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (certain costs capitalized, certain costs expensed as incurred), and the post-implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding, installation of hardware, and testing. We capitalize costs incurred during the application development phase of the project as permitted. Refer to Note 7, Property and Equipment, Net.

Due from Parent

The caption "Due from Parent" reflects the net balance of transactions between the University and the Parent, which primarily includes cash management activities described under "Cash and Cash Equivalents" in this Note, centralized accounts payable processing, centralized processing of certain accruals including advertising, dividends to Parent, as described in Note 12, Shareholder's Equity, and the allocation of expenses from the Parent. The allocation of expenses includes certain operating costs and expenses incurred by the Parent including depreciation expense for certain fixed assets owned by Apollo (refer to Note 16, Supplemental Information), and the allocation of certain income tax related amounts (refer to "Income Taxes" in this Note). The Parent regularly settles the balance it owes us principally through payment of these costs and expenses on our behalf, which are then allocated to us through the "Due from Parent" account.

The Due from Parent amount is non-interest bearing and has no fixed term. As of August 31, 2011, 11.0 million shares of the Parent's treasury stock have been used to collateralize the amount Due from Parent. The closing price of the Parent's common stock on August 31, 2011 was $46.83.

Goodwill and Intangible Assets

- *Goodwill* — Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. We assess goodwill at least annually for impairment or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the University below its carrying amount.

  We perform our annual goodwill impairment test on May 31. We test for goodwill impairment by applying a two-step test. In the first step, we compare the fair value of the University to the carrying value of its net assets. If the fair value of the University exceeds the carrying value of the net assets of the University, goodwill is not impaired and no further testing is required. If the carrying value of the net assets of the University exceeds the fair value of the University, we perform a second step which involves using a hypothetical purchase price allocation to determine the implied fair value of the goodwill and compare it to the carrying value of the goodwill. An impairment loss is recognized to the extent the implied fair value of the goodwill is less than the carrying amount of the goodwill. As discussed in "Recent Accounting Pronouncements" below, effective September 1, 2011, we early adopted Accounting Standards Update ("ASU") No. 2011-08, "*Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*," which allows, but does not require, us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test discussed above.

- *Finite-Lived Intangible Assets* — Finite-lived intangible assets that are acquired in business combinations are recorded at fair market value on their acquisition date and are amortized on either a straight-line basis or using an accelerated method to reflect the pattern in which the economic benefits of the asset are consumed.

Other Long-Lived Asset Impairments

We evaluate the carrying amount of our major other long-lived assets, including property and equipment and finite-lived intangible assets, whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Excluding the impairment charges discussed in Note 4, Restructuring and Other Charges, we did not recognize any impairment charges for our other long-lived assets during fiscal years 2011 and 2010. At August 31, 2011, we believe the carrying amounts of our remaining other long-lived assets are fully recoverable and no impairment exists.

Share-Based Compensation

The Parent measures and recognizes compensation expense for all share-based awards issued to faculty, employees and directors based on estimated fair values of the share awards on the date of grant. The Parent records compensation expense, net of forfeitures, for all share-based awards over the requisite service period using the straight-line method for awards with only a service condition, and the graded vesting attribution method for awards with service and performance conditions.

The Parent calculates the fair value of share-based awards on the date of grant. For stock options, the Parent typically uses the Black-Scholes-Merton option pricing model to estimate fair value. The Black-Scholes-Merton option pricing model requires the Parent to estimate key assumptions such as expected term, volatility, risk-free interest rates and dividend yield to determine the fair value of stock options, based on both historical information and judgment regarding market factors and trends. The expected term of options represents the period of time that the options granted are expected to be outstanding. Prior to fiscal year 2011, the Parent generally used the simplified mid-point method to estimate the expected term of stock options based on the Parent's determination that the terms and exercise behavior of its stock options had changed significantly in recent periods, causing historical exercise data to not be reflective of the Parent's expectations of future exercise behavior. The simplified method uses the mid-point between the vesting and contractual terms of the stock options. During fiscal year 2011, the Parent estimated the expected term of its stock options granted based primarily on the vesting period of the awards and historical exercise behavior, which did not result in a significant change in the Parent's expected term assumption compared to prior years.

For share-based awards with performance conditions, the Parent measures the fair value of such awards as of the date of grant and amortizes the share-based compensation expense for the estimate of the number of shares expected to vest. The Parent's estimate of the number of shares that will vest is based on its determination of the probable outcome of the performance condition, which requires considerable judgment. The Parent records a cumulative adjustment to share-based compensation expense in periods there is a change in the estimate of the number of shares expected to vest. Additionally, the Parent ultimately adjusts the expense recognized to reflect the actual vested shares following the resolution of the performance conditions.

The Parent estimates expected forfeitures of share-based awards at the grant date and recognizes compensation cost only for those awards expected to vest. The Parent estimates its forfeiture rate based on several factors including historical forfeiture activity, expected future employee turnover, and other qualitative factors. The Parent ultimately adjusts this forfeiture assumption to actual forfeitures. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the requisite service period. Rather, different forfeiture assumptions only impact the timing of expense recognition over the requisite service period. If the actual forfeitures differ from management estimates, additional adjustments to compensation expense are recorded.

Certain of the University's employees, including faculty members, receive share-based awards related to the Parent's Class A common stock. Expense related to share-based compensation for the University's employees is allocated from the Parent with a corresponding change in the amount Due from Parent. As such, share-based compensation related to share-based awards issued by the Parent does not affect the University's additional paid-in capital. Additionally, we do not present excess tax benefits attributable to such share-based awards on our Consolidated Statements of Cash Flows. In accordance with the Parent's allocation policy (refer to Note 16, Supplemental Information), share-based compensation expense related to the Parent's management and administrative employees is not allocated to its subsidiaries.

The table below outlines share-based compensation expense allocated by the Parent to the University for the fiscal years 2011 and 2010:

	Year Ended August 31,	
($ in thousands)	**2011**	**2010**
Instructional and student advisory	$ 22,163	$ 19,997
Marketing	981	966
Admissions advisory	2,072	1,528
Share-based compensation expense included in operating expenses	$ 25,216	$ 22,491

Income Taxes

The University is included in the consolidated federal income tax return of the Parent. State taxes are paid based upon apportioned taxable income or loss of the Parent and its subsidiaries, with the exception of certain state taxes, which are based upon an apportionment of the University's taxable income or loss.

The consolidated income tax provision is allocated by the Parent based on the income or loss before income taxes of each separate entity and includes certain amounts related to permanent and temporary differences of the University. This allocation estimates the approximate amount that would have been calculated on a separate entity basis, except that net operating losses and other tax attributes are characterized as realized by the subsidiary when these attributes are utilized in the consolidated tax return of the Parent. Income tax payments are made by the Parent and the University's tax liabilities are generally settled through the Due from Parent account. As such, the University generally does not report any income taxes payable.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized.

The determination of the Parent's uncertain tax positions requires it to make significant judgments. The Parent evaluates and accounts for uncertain tax positions using a two-step approach. Recognition (step one) occurs when the Parent concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Derecognition of a tax position that was previously recognized would occur when the Parent subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. The Parent does not use a valuation allowance as a substitute for derecognition of tax positions. As of August 31, 2011, the Parent had total uncertain tax benefits, excluding interest and penalties, of $25.8 million. The Parent has not allocated any of its uncertain tax benefits to the University.

Refer to Note 11, Income Taxes.

Leases

We lease our administrative and educational facilities and we enter into various other lease agreements in conducting our business. At the inception of each lease, we evaluate the lease agreement to determine whether the lease is an operating or capital lease. Additionally, most of our lease agreements contain renewal options, tenant improvement allowances, rent holidays, and/or rent escalation clauses. When such items are included in a lease agreement, we record a deferred rent asset or liability in our Consolidated Balance Sheets and record the rent expense evenly over the term of the lease. Leasehold improvements are reflected under investing activities as additions to property and equipment in our Consolidated Statements of Cash Flows. Credits received against rent for tenant improvement allowances are reflected as a component of non-cash investing activities in our Consolidated Statements of Cash Flows. Lease terms generally range from five to ten years with one to two renewal options for extended terms. For leases with renewal options, we record rent expense and amortize the leasehold improvements on a straight-line basis over the initial non-cancelable lease term (in instances where the lease term is shorter than the economic life of the asset) unless we intend to exercise the renewal option. Refer to Note 14, Commitments and Contingencies.

We are also required to make additional payments under lease terms for taxes, insurance, and other operating expenses incurred during the lease period, which are expensed as incurred. Rental deposits are provided for lease agreements that specify payments in advance or deposits held in security that are refundable, less any damages at lease end.

Marketing Costs

We expense marketing costs, the substantial majority of which includes advertising, as incurred.

Foreign Currency Translation

We use the U.S. dollar as our reporting currency. The functional currency of our entities operating outside the United States is the currency of the primary economic environment in which the entity primarily generates and expends cash, which is generally the local currency. The assets and liabilities of these operations are translated to U.S. dollars using exchange rates in effect at the balance sheet dates. Income and expense items are translated monthly at the average exchange rate for that period. The resulting translation adjustments and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are included in shareholder’s equity as a component of accumulated other comprehensive income (loss). We report gains and losses from foreign exchange rate changes related to intercompany receivables and payables that are not of a long-term investment nature, as well as gains and losses from foreign currency transactions, in other, net in our Consolidated Statements of Income. These items amounted to a net loss of $1.1 million and $1.0 million in fiscal years 2011 and 2010, respectively.

Fair Value

The carrying amount of certain assets and liabilities reported in our Consolidated Balance Sheets, including accounts receivable and accounts payable, approximate fair value because of the short-term nature of these financial instruments.

For fair value measurements of assets and liabilities that are recognized or disclosed at fair value, we consider fair value to be an exit price, which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We use valuation techniques to determine fair value consistent with either the market approach, income approach and/or cost approach, and we prioritize the inputs used in our valuation techniques using the following three-tier fair value hierarchy:

- Level 1 — Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;
- Level 2 — Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

We categorize each of our fair value measurements for disclosure purposes in one of the above three levels based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value, our valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. We use prices and inputs that are current as of the measurement date, including during periods of market volatility. Therefore, classification of inputs within the hierarchy may change from period to period depending upon the observability of those prices and inputs. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value for certain assets and liabilities and their placement within the fair value hierarchy. Refer to Note 8, Fair Value Measurements.

Loss Contingencies

Apollo and the University are subject to various claims and contingencies which are in the scope of ordinary and routine litigation incidental to our business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. When Apollo or the University becomes aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, Apollo or the University records a liability for the loss. The liability recorded includes probable and estimable legal costs incurred to date and future legal costs to the point in the legal matter where Apollo or the University believes a conclusion to the matter will be reached. If the loss is not probable or the amount of the loss cannot be reasonably estimated, Apollo or the University discloses the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. For matters where no loss contingency is recorded, Apollo and the University's policy is to expense legal fees as incurred. The assessment of the likelihood of a potential loss and the estimation of the amount of a loss are subjective and require judgment. Refer to Note 14, Commitments and Contingencies.

Restructuring and Other Charges

Restructuring and other charges are comprised principally of employee severance and other fringe benefit costs, non-cancelable lease obligations, and other related costs, including asset impairments. Our employee severance costs are expensed on the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period. For our non-cancelable lease obligations, we record the obligation upon the later of when we terminate the contract in accordance with the contract terms or when we cease using the right conveyed by the contract. We recognize these costs at fair value in the period the liability is incurred. Generally, for restructuring charges that have future payments that extend beyond one year, we record the net present value of the estimated future cash payments and then accrete the discount to restructuring and other charges over the term of the remaining payments. The estimate of our restructuring charges is based on the best information available at the time we record the obligation. Accordingly, any adjustments to previously recorded charges resulting from a change to the estimated liability are recognized in the period the change occurs. Refer to Note 4, Restructuring and Other Charges.

Recent Accounting Pronouncements

Issued Accounting Changes

On September 15, 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-08, "*Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*" ("ASU 2011-08"), which simplifies how an entity tests goodwill for impairment. The standard permits an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Accordingly, an entity will no longer be required to calculate the fair value of a reporting unit in the step one test unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted ASU 2011-08 on September 1, 2011 for our fiscal year 2012 goodwill impairment test. We do not believe the adoption of ASU 2011-08 will have material impact on our financial condition or results of operations.

Future Accounting Changes

The FASB and the International Accounting Standards Board ("IASB") are working on joint convergence projects to address accounting differences between GAAP and International Financial Reporting Standards ("IFRS") in order to support their commitment to achieve a single set of high-quality global accounting standards. Some of the most significant projects on the FASB and IASB's agenda include accounting for leases, revenue recognition and financial instruments, among other items. Both the FASB and IASB have issued final guidance for certain accounting topics and are currently redeliberating guidance in other areas. The converged guidance that the FASB has already issued addressing fair value measurements and the statement of other comprehensive income is not expected to have a material impact on our financial condition, results of operations, or disclosures. While we anticipate the lease accounting and revenue recognition proposals will have the most impact on us, the FASB's standard-setting process is ongoing and until new standards have been finalized and issued, we cannot determine the impact on our financial condition, results of operations, or disclosures that may result from any such future changes.

Concurrent with these convergence projects, the Securities and Exchange Commission is considering incorporating IFRS into the U.S. financial reporting system. At this time, the method and timing of potential conversion to IFRS is uncertain and cannot be determined until final conversion requirements are mandated. The potential preparation of our financial statements in accordance with IFRS could have a material impact on our financial condition, results of operations, and disclosures.

Note 3. Changes in Presentation

Operating Expenses

In executing our strategy, we have recently implemented and are continuing to implement a number of important changes and initiatives to transition our business to more effectively support our students and improve their educational outcomes. One of our most significant initiatives is to better align our admissions personnel with our students' success. Effective September 1, 2010, we eliminated enrollment factors in evaluating the performance and any related compensation adjustments for our admissions personnel. This represents a significant change as admissions personnel have been transitioned to more of an advisory function for prospective students during the admissions process, which includes potential students that do not matriculate into one of our educational programs.

Based on our business transition, we evaluated the presentation of our operating expenses and determined that additional disaggregation will provide more meaningful information and increased transparency of our operations. The following details the additional disaggregation and a description of the costs included in our operating expense categories, a significant component of which represents costs allocated from the Parent (refer to Note 16, Supplemental Information):

- ***Instructional and student advisory*** **—** We previously reported our provision for uncollectible accounts receivable and a portion of our depreciation and amortization in "instructional costs and services" on our Consolidated Statements of Income. We have disaggregated and are presenting separately our provision for uncollectible accounts receivable and depreciation and amortization, which are discussed in more detail below. Effective during fiscal year 2011, we have renamed the remaining costs "instructional and student advisory." This category primarily consists of costs related to the delivery and administration of our educational programs and include costs related to faculty, student advisory and administrative compensation, classroom and administration lease expenses (including facilities that are shared and support both instructional and admissions functions), financial aid processing costs, costs related to the development of our educational programs and other related costs. Tuition costs for all employees and their eligible family members are recorded as an expense within instructional and student advisory.

- ***Admissions advisory*** — We previously reported costs related to our admissions advisory personnel in "selling and promotional" on our Consolidated Statements of Income. Effective during fiscal year 2011, we began separately stating such costs on our Consolidated Statements of Income as "admissions advisory." Based on the strategic initiative discussed above, we believe the disaggregation of admissions personnel costs better represents our admissions advisory function and provides a more transparent view of our operations. The substantial majority of costs included in this disaggregated presentation consist of compensation for admissions personnel. The category also includes other costs directly related to admissions advisory functions.

- ***Marketing*** — The costs associated with admissions personnel represented a significant portion of our previously reported "selling and promotional" expense. As discussed above, we began presenting such costs separately on our Consolidated Statements of Income. Considering the substantial majority of the remaining costs represent advertising and other marketing activities, we believe the disaggregation of our marketing costs provides additional transparency. Specifically, effective during fiscal year 2011, we have renamed the remaining costs "marketing," which were previously referred to as "selling and promotional." The substantial majority of costs included in the disaggregated presentation of marketing consist of advertising expenses, compensation for marketing personnel, and production of marketing materials. The category also includes other costs directly related to marketing functions.

- ***General and administrative*** — Excluding the change in presentation related to the disaggregation of depreciation and amortization discussed below, there are no additional changes to our presentation of general and administrative expense. Substantially all of the costs included in general and administrative consist of costs allocated from Apollo, including corporate compensation, occupancy costs, legal and professional fees, and other related costs.

- ***Provision for uncollectible accounts receivable*** — We previously reported our provision for uncollectible accounts receivable in "instructional costs and services" on our Consolidated Statements of Income. We believe the disaggregated presentation of our provision for uncollectible accounts receivable is meaningful and provides a more transparent view of our operations.

- ***Depreciation and amortization*** — We previously reported depreciation and amortization in a combination of all of our operating expense categories on our Consolidated Statements of Income. The assets associated with our depreciation and amortization often possess characteristics that can be associated with multiple operating expense categories. We expect this trend to continue as we implement various strategic initiatives that enhance our operational efficiencies as well as improve the student experience. Accordingly, we believe the disaggregated presentation of our depreciation and amortization provides a more transparent view of our operations.

We have changed our presentation of operating expenses for fiscal year 2010 to conform to the above disaggregation and revisions to our presentation. There were no changes to total operating expenses or operating income as a result of these changes in presentation. The following table presents our operating expenses as previously reported and as changed on our Consolidated Statements of Income for the fiscal year ended August 31, 2010:

	Year Ended August 31, 2010	
($ in thousands)	**As Reported**	**As Changed**
Instructional and student advisory	$ 1,806,712	$ 1,460,767
Marketing	1,022,107	555,460
Admissions advisory	—	446,205
General and administrative	221,870	209,036
Provision for uncollectible accounts receivable	—	278,284
Depreciation and amortization	—	100,937
Total costs and expenses	$ 3,050,689	$ 3,050,689

Restricted Cash and Cash Equivalents

Effective during fiscal year 2011, we changed our presentation of changes in restricted cash and cash equivalents related to financial aid program funds to cash flows from operating activities on our Consolidated Statements of Cash Flows. We previously presented such changes as cash flows from investing activities. Our restricted cash and cash equivalents primarily represents funds held for students for unbilled educational services that were received from Title IV financial aid programs. When we receive such funds, they are recorded as restricted cash on our balance sheet with an offsetting liability recorded as student deposits. These restricted funds are a core activity of our operations and, accordingly, we believe presentation of changes in such funds as an operating activity more appropriately reflects the nature of the restricted cash. Additionally, we believe that including both changes in the restricted cash asset and the student deposit liability within operating activities provides better transparency. We have changed our presentation on our Consolidated Statements of Cash Flows for fiscal year 2010 to conform to our current presentation. The changes have no other impact on our financial position and results of operations.

The following table presents our cash flows as previously reported and as changed for the fiscal year ended August 31, 2010:

	Year Ended August 31, 2010	
($ in thousands)	**As Reported**	**As Changed**
Cash flows provided by (used in) operating activities:		
Restricted cash and cash equivalents	$ —	$ (13,322)
Net cash provided by operating activities	$ 932,256	$ 918,934
Cash flows provided by (used in) investing activities:		
Collateralization of letter of credit[1]	$ (139,937)	$ (126,615)
Net cash used in investing activities	$ (177,729)	$ (164,407)

[1] Following the change in presentation discussed above, the remaining change in restricted cash and cash equivalents in fiscal year 2010 represents funds used to collateralize a letter of credit. We have continued to present this change as an investing activity based on the nature of the restricted cash; however, we have renamed the remaining change, "Collateralization of letter of credit." Refer to Note 6, Restricted Cash Equivalents for Collateralization of Letter of Credit.

Note 4. Restructuring and Other Charges

As discussed in Note 3, Changes in Presentation, we have recently implemented a number of important operational changes and initiatives to transition our business to more effectively support our students and improve their educational outcomes. As part of this transition, we implemented a strategic reduction in force and a real estate rationalization plan in fiscal year 2011. These initiatives, which are discussed further below, were designed to streamline our operations and better align our operations with our business strategy, refined business model and outlook. The following table details the charges incurred in fiscal year 2011 associated with these initiatives, which are presented in restructuring and other charges on our Consolidated Statements of Income:

($ in thousands)	**Charge for Year Ended August 31, 2011**
Real estate rationalization — Lease obligation costs, net	$ 17,802
Real estate rationalization — Asset impairments	1,265
Reduction in force — Severance and other benefits	3,846
Restructuring and other charges	$ 22,913

Real Estate Rationalization

During fiscal year 2011, we initiated a plan to rationalize our real estate portfolio in Phoenix, Arizona through space consolidation and reorganization. The plan consists of abandoning all, or a portion of, four leased facilities, all of which are classified as operating leases. As of August 31, 2011, we were not using one of the facilities and we determined will no longer derive a future economic benefit from the facility. Accordingly, we accrued $17.8 million in other liabilities on our Consolidated Balance Sheets representing the fair value of our future contractual lease obligation under the respective operating lease. We measured the lease obligation at fair value using a discounted cash flow approach encompassing significant unobservable inputs. The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining term of the lease, partially offset by estimated future sublease rental income, which involves significant judgment. Our estimate of the amount and timing of sublease rental income considered current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the facility. This estimate will be subject to adjustment as market conditions change or as new information becomes available, including the execution of sublease agreements. We also wrote-off $1.3 million of certain assets at the facility for which we do not expect a future economic benefit. We expect to abandon the remaining three facilities in fiscal year 2012 and incur additional charges associated with initially recognizing the net lease obligations and other costs. The majority of these charges will be recorded on the respective cease-use dates for each facility.

Reduction in Force

We implemented a strategic reduction in force at the University in fiscal year 2011 that eliminated approximately 700 full-time positions, principally among admissions personnel. In connection with this reduction in force, we incurred a $3.8 million charge consisting of severance and other fringe benefit costs. This charge was paid in fiscal year 2011.

Note 5. Accounts Receivable, Net

Accounts receivable, net consist of the following as of August 31:

($ in thousands)	**2011**	**2010**
Student accounts receivable	$ 274,608	$ 374,230
Less allowance for doubtful accounts	(118,010)	(187,502)
Net student accounts receivable	156,598	186,728
Other receivables	4,967	27,233
Total accounts receivable, net	$ 161,565	$ 213,961

Student accounts receivable is composed primarily of amounts due related to tuition. 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 decrease in other receivables is primarily due to recording in-transit financial aid funding in accounts receivable as of August 31, 2010 with an offsetting liability recorded as student deposits.

For discussion of our accounting policy related to allowance for doubtful accounts, refer to Note 2, Significant Accounting Policies. The following table summarizes the activity in allowance for doubtful accounts for fiscal years 2011 and 2010:

	Year Ended August 31,	
($ in thousands)	**2011**	**2010**
Beginning allowance for doubtful accounts	$ 187,502	$ 103,970
Provision for uncollectible accounts receivable	175,388	278,284
Write-offs, net of recoveries	(244,880)	(194,752)
Ending allowance for doubtful accounts	$ 118,010	$ 187,502

Note 6. Restricted Cash Equivalents for Collateralization of Letter of Credit

During fiscal year 2010, we posted a letter of credit of approximately $126 million in favor of the U.S. Department of Education as required in connection with a program review of the University by the Department. The long-term restricted cash equivalents at August 31, 2010 represents funds used to collateralize this letter of credit. During fiscal year 2011, the Department released the letter of credit and, accordingly, the associated funds used as collateral have been returned to us. Refer to Note 15, Regulatory Matters.

Note 7. Property and Equipment, Net

Property and equipment, net consist of the following as of August 31:

($ in thousands)	2011	2010
Leasehold improvements (includes tenant improvement allowances)	$ 242,872	$ 211,985
Furniture and equipment[1]	218,002	194,649
Software	6,736	5,849
Internally developed software	3,057	3,072
Construction in progress	8,882	3,055
Gross property and equipment	479,549	418,610
Less accumulated depreciation and amortization	(306,294)	(278,853)
Property and equipment, net	$ 173,255	$ 139,757

[1] Furniture and equipment includes $14.2 million of capital lease assets as of August 31, 2011. Capital lease assets were not significant as of August 31, 2010.

Depreciation and amortization expense associated with the above assets was $52.8 million and $49.9 million for fiscal years 2011 and 2010, respectively. The substantial majority of the remaining amount included in "Depreciation and amortization" in our Consolidated Statements of Income for fiscal years 2011 and 2010, respectively, represents allocated depreciation for certain fixed assets owned by Apollo. Refer to Note 16, Supplemental Information. We also wrote-off $1.3 million of certain assets during fiscal year 2011 in conjunction with our real estate rationalization plan. Refer to Note 4, Restructuring and Other Charges.

Note 8. Fair Value Measurements

Assets measured at fair value on a recurring basis consist of the following as of August 31, 2011:

		Fair Value Measurements at Reporting Date Using		
($ in thousands)	August 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents (including restricted cash equivalents):				
Money market funds	$ 530,621	$ 530,621	$ —	$ —
Total assets at fair value on a recurring basis:	$ 530,621	$ 530,621	$ —	$ —

Assets measured at fair value on a recurring basis consist of the following as of August 31, 2010:

		Fair Value Measurements at Reporting Date Using		
($ in thousands)	August 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents (including restricted cash equivalents):				
Money market funds	$ 726,334	$ 726,334	$ —	$ —
Total assets at fair value on a recurring basis:	$ 726,334	$ 726,334	$ —	$ —

We measure our money market funds included in cash and restricted cash equivalents on a recurring basis at fair value. Our money market funds are classified within Level 1 and were valued primarily using real-time quotes for transactions in active exchange markets involving identical assets. We did not change our valuation techniques associated with recurring fair value measurements from prior periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liabilities measured at fair value on a nonrecurring basis during fiscal year 2011 consist of the following:

($ in thousands)	Fair Value at Measurement Date	Fair Value Measurements at Measurement Date Using: Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Losses for Year Ended August 31, 2011
Liabilities:					
Other liabilities					
Restructuring obligation	$ 17,802	$ —	$ —	$ 17,802	$ (17,802)
Total liabilities at fair value on a nonrecurring basis	$ 17,802	$ —	$ —	$ 17,802	$ (17,802)

During fiscal year 2011, we recorded a $17.8 million liability associated with our real estate rationalization plan. We measured the liability at fair value using Level 3 inputs included in the valuation method. Refer to Note 4, Restructuring and Other Charges.

Note 9. Accrued Liabilities

Accrued liabilities consist of the following as of August 31:

($ in thousands)	2011	2010
Salaries, wages and benefits	$ 22,588	$ 20,841
Student refunds, grants and scholarships	17,217	9,619
Other accrued liabilities	29,014	7,855
Total accrued liabilities	$ 68,819	$ 38,315

Salaries, wages and benefits represent amounts due to employees, faculty and third parties for salaries, bonuses, vacation pay and health insurance. Student refunds, grants and scholarships represent amounts due to students for tuition refunds, federal and state grants payable, scholarships, and other related items. Other accrued liabilities primarily includes costs for curriculum materials, accrued professional obligations, accrued advertising and sales and business taxes.

Note 10. Other Liabilities

Other liabilities consist of the following as of August 31:

($ in thousands)	2011	2010
Deferred rent and other lease incentives	$ 73,851	$ 66,456
Restructuring obligation	17,802	—
Deferred gains on sale-leasebacks	3,942	5,561
Other	11,801	15,917
Total other liabilities	107,396	87,934
Less current portion	(20,792)	(18,843)
Total other long-term liabilities	$ 86,604	$ 69,091

Deferred rent represents the difference between the cash rental payments and the straight-line recognition of the expense over the term of the leases. Other lease incentives represent amounts included in lease agreements and are amortized on a straight-line basis over the term of the leases. Deferred gains on sale-leasebacks are deferred and recognized over the respective lease terms. The restructuring obligation relates to our real estate rationalization plan. Refer to Note 4, Restructuring and Other Charges.

Note 11. Income Taxes

Income tax expense (benefit) consists of the following for fiscal years 2011 and 2010:

($ in thousands)	Year Ended August 31, 2011	2010
Current:		
Federal	$ 393,907	$ 480,224
State and other	64,589	91,249
Total current	458,496	571,473
Deferred:		
Federal	27,400	(7,566)
State and other	6,814	(833)
Total deferred	34,214	(8,399)
Total provision for income taxes	$ 492,710	$ 563,074

Our effective tax rate was 38.8% and 38.9% for fiscal years 2011 and 2010, respectively. For both fiscal years, the difference between the statutory U.S. federal income tax rate of 35.0% and our effective tax rate was principally due to state income taxes.

Deferred tax assets and liabilities result primarily from temporary differences in book versus tax basis accounting. Deferred tax assets and liabilities consist of the following as of August 31:

($ in thousands)	2011	2010
Deferred tax assets:		
Allowance for doubtful accounts	$ 43,107	$ 71,244
Share-based compensation	23,968	20,880
Deferred rent and tenant improvement allowances	26,301	23,963
Other	23,574	24,535
Deferred tax assets	116,950	140,622
Deferred tax liabilities:		
Fixed assets	18,628	7,628
Deferred tax liabilities	18,628	7,628
Net deferred income taxes	$ 98,322	$ 132,994

In light of our history of profitable operations, we have concluded that it is more likely than not that we will ultimately realize the full benefit of our deferred tax assets. Accordingly, we have not recorded a valuation allowance for our net deferred tax assets.

As of August 31, 2011, the Parent had total uncertain tax benefits, excluding interest and penalties, of $25.8 million. The Parent has not allocated any of its uncertain tax benefits to the University. Refer to Note 2, Significant Accounting Policies.

The Parent's U.S. federal tax years and various state tax years from 2006 remain subject to income tax examinations by tax authorities. In addition, tax years from 2006 related to foreign taxing jurisdictions of certain of the Parent's subsidiaries remain subject to examination. Apollo's U.S. federal income tax returns for fiscal years 2006 through 2010 are currently under review by the Internal Revenue Service, and the Parent is subject to numerous ongoing audits by federal, state, local and foreign tax authorities. Although the Parent believes that its tax accruals are reasonable, the final determination of tax audits in the U.S. or abroad and any related litigation could be materially different from our historical income tax provisions and accruals.

Note 12. Shareholder's Equity

Dividends to Parent

The University's Board of Directors declared dividends of $1.0 billion and $1.7 billion to the Parent for fiscal years 2011 and 2010, respectively. The dividends decreased retained earnings and the amount Due from Parent.

Note 13. Debt

The University's debt as of August 31, 2011 represents capital lease obligations. See Note 14 , Commitments and Contingencies.

Apollo had $599.0 million in outstanding debt as of August 31, 2011, which included $493.3 million in borrowings on its syndicated unsecured $500 million credit agreement ("Bank Facility"), which will expire on January 4, 2013, and other debt at its subsidiaries. Apollo repaid the entire amount borrowed on its Bank Facility in fiscal year 2012. Apollo was in compliance with its debt covenants at August 31, 2011.

Note 14. Commitments and Contingencies

Guarantees

Apollo has agreed to indemnify its officers and directors for certain events or occurrences. The maximum potential amount of future payments Apollo could be required to make under these indemnification agreements is unlimited; however, Apollo has director and officer liability insurance policies that mitigate its exposure and enables it to recover a portion of any future amounts paid. Based on the significant uncertainty associated with Apollo's pending as well as possible future litigation, settlements and other proceedings relative to Apollo's insurance policy coverage, the fair value of these indemnification agreements, if any, cannot be estimated.

Lease Commitments

The following is a schedule of future minimum commitments for capital and operating leases as of August 31, 2011:

($ in thousands)	Capital Leases	Operating Leases
2012	$ 3,491	$ 110,441
2013	3,508	105,893
2014	3,301	97,855
2015	2,986	89,058
2016	2,043	71,169
Thereafter	11	118,853
Total future minimum lease obligation(1), (2)	$ 15,340	$ 593,269
Less: imputed interest on capital leases	(1,577)	
Net present value of lease obligations	$ 13,763	

(1) The total future minimum lease obligation excludes non-cancelable sublease rental income of $0.8 million.
(2) During fiscal year 2011, we initiated a plan to rationalize our real estate portfolio in Phoenix, Arizona through space consolidation and reorganization. The total future minimum operating lease obligation includes $43.8 million of future contractual lease payments associated with a facility for which we no longer expect to receive a future economic benefit as of August 31, 2011. The total future minimum operating lease obligation also includes $34.7 million of future contractual lease payments associated with three facilities that we expect to abandon in fiscal year 2012. See Note 4, Restructuring and Other Charges.

As of August 31, 2011, the Parent had an additional $611.2 million in future minimum lease commitments, and $87.0 million of future minimum lease payments associated with a building for which Apollo has executed a lease agreement, but did not have the right to control the property as of August 31, 2011.

Rent expense was $146.7 million and $130.4 million for fiscal years 2011 and 2010, respectively.

The Parent has entered into sale-leaseback agreements related to properties that it currently uses to support its operations. From these agreements, the Parent received approximately $200.9 million in cash for the properties, which generated a combined gain of approximately $41.7 million that is being deferred over the respective lease terms. We recognized total gains associated with sale-leasebacks of $1.6 million and $1.7 million in fiscal years 2011 and 2010, respectively, in the Consolidated Statements of Income, representing the portion of the gain related to the University. The total deferred gain included in other liabilities in the Consolidated Balance Sheets was $3.9 million and $5.6 million as of August 31, 2011 and 2010, respectively.

Naming Rights to Glendale, Arizona Sports Complex

In September 2006, Apollo entered into a Naming and Sponsorship Rights Agreement with New Cardinals Stadium, L.L.C. and B&B Holdings, Inc. doing business as the Arizona Cardinals, third parties unrelated to Apollo, for naming and sponsorship rights on a stadium in Glendale, Arizona, which is home to the Arizona Cardinals team in the National Football League. The agreement includes naming, sponsorship, signage, advertising and other promotional rights and benefits. The initial agreement term is in effect until 2026 with options to extend. Pursuant to the agreement, Apollo was required to pay a total of $5.8 million for the 2006 contract year, which is increased 3% per year until 2026. As of August 31, 2011, Apollo’s remaining contractual obligation pursuant to this agreement is $122.3 million. Other payments apply if certain events occur, such as if the Cardinals play in the Super Bowl or if all of the Cardinals’ regular season home games are sold-out.

Surety Bonds

As part of the Parent’s normal operations, its insurers issue surety bonds for Apollo and/or its subsidiaries, as applicable, that are required by various states where it operates. Apollo and/or its subsidiaries are obligated to reimburse its insurers for any surety bonds that are paid by the insurers. As of August 31, 2011, the total face amount of these surety bonds was approximately $55.7 million.

Contingencies Related to Litigation and Other Proceedings

The following is a description of pending litigation, settlements, and other proceedings that fall outside the scope of ordinary and routine litigation incidental to Apollo and/or the University’s business. Although the University has not been named in certain of the matters discussed below, a material adverse outcome affecting the Parent could also impact the University.

Securities Class Action (Policeman’s Annuity and Benefit Fund of Chicago)

In January 2008, a jury returned an adverse verdict against Apollo and two remaining individual co-defendants in a securities class action lawsuit entitled, *In re Apollo Group, Inc. Securities Litigation*, Case No. CV04-2147-PHX-JAT, filed in the U.S. District Court for the District of Arizona, relating to alleged false and misleading statements in connection with defendants’ failure to publicly disclose the contents of a preliminary U.S. Department of Education program review report. After various post-trial challenges, the case was returned to the trial court in March 2011 to administer the shareholder claims process. In September 2011, Apollo entered into an agreement in principle with the plaintiffs to settle the litigation for $145.0 million, which was preliminarily approved by the Court on November 28, 2011. Based on the terms of the Court’s preliminary approval, Apollo placed $145.0 million into a common fund account on December 5, 2011. As of August 31, 2011, Apollo’s remaining accrual of $161.2 million represents the $145.0 million settlement, an estimate of the disputed amount Apollo may be required to reimburse its insurance carriers for defense costs advanced to Apollo, and estimated future legal costs. The settlement agreement is subject to final approval by the Court, which Apollo expects to occur during fiscal year 2012.

Securities Class Action (Apollo Institutional Investors Group)

On August 13, 2010, a securities class action complaint was filed in the U.S. District Court for the District of Arizona by Douglas N. Gaer naming Apollo, John G. Sperling, Gregory W. Cappelli, Charles B. Edelstein, Joseph L. D’Amico, Brian L. Swartz and Gregory J. Iverson as defendants for allegedly making false and misleading statements regarding Apollo’s business practices and prospects for growth. That complaint asserted a putative class period stemming from December 7, 2009 to August 3, 2010. A substantially similar complaint was also filed in the same Court by John T. Fitch on September 23, 2010 making similar allegations against the same defendants for the same purported class period. Finally, on October 4, 2010, another purported securities class action complaint was filed in the same Court by Robert Roth against the same defendants as well as Brian Mueller, Terri C. Bishop and Peter V. Sperling based upon the same general set of allegations, but with a defined class period of February 12, 2007 to August 3, 2010. The complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. On October 15, 2010, three additional parties filed motions to consolidate the related actions and be appointed the lead plaintiff.

On November 23, 2010, the Fitch and Roth actions were consolidated with Gaer and the Court appointed the "Apollo Institutional Investors Group" consisting of the Oregon Public Employees Retirement Fund, the Mineworkers' Pension Scheme, and Amalgamated Bank as lead plaintiffs. The case is now entitled, *In re Apollo Group, Inc. Securities Litigation*, Lead Case Number CV-10-1735-PHX-JAT. On February 18, 2011, the lead plaintiffs filed a consolidated complaint naming Apollo, John G. Sperling, Peter V. Sperling, Joseph L. D'Amico, Gregory W. Cappelli, Charles B. Edelstein, Brian L. Swartz, Brian E. Mueller, Gregory J. Iverson, and William J. Pepicello as defendants. The consolidated complaint asserts a putative class period of May 21, 2007 to October 13, 2010. On April 19, 2011, Apollo filed a motion to dismiss and oral argument on the motion was held before the Court on October 17, 2011. On October 27, 2011, the Court granted Apollo's motion to dismiss and granted plaintiffs leave to amend. On December 6, 2011, the lead plaintiffs filed an Amended Consolidated Class Action Complaint, which alleges similar claims against the same defendants. Apollo filed a motion to dismiss Amended Consolidated Class Action Complaint on January 9, 2012.

Discovery in this case has not yet begun. Apollo anticipates that the plaintiffs will seek substantial damages, including damages representing the aggregate investment losses attributable to the alleged false and misleading statements by all shareholders who purchased shares during the 29-month putative class period and still held those shares on October 13, 2010. Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available at present, Apollo cannot reasonably estimate a range of loss for this action and, accordingly, Apollo has not accrued any liability associated with this action.

Securities Class Action (Teamsters Local 617 Pensions and Welfare Funds)

On November 2, 2006, the Teamsters Local 617 Pension and Welfare Funds filed a class action complaint purporting to represent a class of shareholders who purchased Apollo's stock between November 28, 2001 and October 18, 2006. The complaint, filed in the U.S. District Court for the District of Arizona, is entitled *Teamsters Local 617 Pension & Welfare Funds v. Apollo Group, Inc. et al.*, Case Number 06-cv-02674-RCB, and alleges that Apollo and certain of Apollo's current and former directors and officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by purportedly making misrepresentations concerning Apollo's stock option granting policies and practices and related accounting. The defendants are Apollo Group, Inc., J. Jorge Klor de Alva, Daniel E. Bachus, John M. Blair, Dino J. DeConcini, Kenda B. Gonzales, Hedy F. Govenar, Brian E. Mueller, Todd S. Nelson, Laura Palmer Noone, John R. Norton III, John G. Sperling and Peter V. Sperling. On September 11, 2007, the Court appointed The Pension Trust Fund for Operating Engineers as lead plaintiff. Lead plaintiff filed an amended complaint on November 23, 2007, asserting the same legal claims as the original complaint and adding claims for violations of Section 20A of the Securities Exchange Act of 1934 and allegations of breach of fiduciary duties and civil conspiracy.

On January 22, 2008, all defendants filed motions to dismiss. On March 31, 2009, the Court dismissed the case with prejudice as to Daniel Bachus, Hedy Govenar, Brian E. Mueller, Dino J. DeConcini, and Laura Palmer Noone. The Court also dismissed the case as to John Sperling and Peter Sperling, but granted plaintiffs leave to file an amended complaint against them. Finally, the Court dismissed all of plaintiffs' claims concerning misconduct before November 2001 and all of the state law claims for conspiracy and breach of fiduciary duty. On April 30, 2009, plaintiffs filed their Second Amended Complaint, which alleges similar claims for alleged securities fraud against the same defendants. On June 15, 2009, all defendants filed another motion to dismiss the Second Amended Complaint. On February 22, 2010, the Court partially granted the plaintiffs' motion for reconsideration, but withheld a final determination on the individual defendants pending the Court's ruling on the motion to dismiss the Second Amended Complaint.

On March 31, 2011, the U.S. District Court for the District of Arizona dismissed the case with prejudice and entered judgment in Apollo's favor. Plaintiffs filed a motion for reconsideration of this ruling and, if that is not successful, plaintiffs have indicated they will appeal the ruling. The outcome of this legal proceeding is uncertain at this point. Based on the information available at present, Apollo cannot reasonably estimate a range of loss for this action and, accordingly, has not accrued any liability associated with this action.

Incentive Compensation False Claims Act Lawsuit

On May 25, 2011, the University was notified that a *qui tam* complaint had been filed against it in the U.S. District Court, Eastern District of California, by private relators under the Federal False Claims Act and California False Claims Act, entitled *USA and State of California ex rel. Hoggett and Good v. University of Phoenix, et al*, Case Number 2:10-CV-02478-MCE-KJN. When the federal government declines to intervene in a qui tam action, as it has done in this case, the relators may elect to pursue the litigation on behalf of the federal government and, if successful, they are entitled to receive a portion of the federal government's recovery.

The complaint alleges, among other things, that the University has violated the Federal False Claims Act since December 12, 2009 and the California False Claims Act for the preceding ten years by falsely certifying to the U.S. Department of Education and the State of California that the University was in compliance with various regulations that require compliance with federal rules regarding the payment of incentive compensation to admissions personnel, in connection with the University's participation in student financial aid programs. In addition to injunctive relief and fines, the relators seek significant damages on behalf of the Department of Education and the State of California, including all student financial aid disbursed by the Department to the University's students since December 2009 and by the State of California to the University's students during the preceding ten years. On July 12, 2011, the University filed a motion to dismiss and on August 30, 2011, relators filed a motion to file a Second Amended Complaint. On November 2, 2011, the University filed a motion to dismiss the relators Second Amended Complaint, which is currently pending before the Court.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

Patent Infringement Litigation

On March 3, 2008, Digital-Vending Services International Inc. filed a complaint against the University and Apollo Group Inc., as well as Capella Education Company, Laureate Education Inc., and Walden University Inc. in the U.S. District Court for the Eastern District of Texas, since transferred on plaintiff's motion to the Eastern District of Virginia. The case is entitled, *Digital Vending Services International, LLC vs. The University of Phoenix, et al*, Case Number 2:09cv555 (JBF-TEM). The complaint alleges that Apollo and the other defendants have infringed and are infringing various patents relating to managing courseware in a shared use operating environment and seeks injunctive relief and monetary damages. Apollo filed an answer to the complaint on May 27, 2008, in which Apollo denied that Digital-Vending Services International's patents were duly and lawfully issued, and asserted defenses of non-infringement and patent invalidity, among others. Apollo also asserted a counterclaim seeking a declaratory judgment that the patents are invalid, unenforceable, and not infringed by Apollo.

On March 18, 2010, Apollo filed its opening claim construction brief and on June 10, 2010, the Court issued its claim construction ruling. Discovery is now concluded and Apollo filed a motion for summary judgment on August 13, 2010. A hearing on Apollo's motion for summary judgment was held on November 12, 2010, and on January 7, 2011, the Court granted Apollo's motion for summary judgment and dismissed the case with prejudice, citing plaintiff's failure to point to admissible evidence that could support a finding of infringement.

Plaintiff filed a Notice of Appeal on February 4, 2011 and their opening brief on April 18, 2011. Apollo filed its response brief on May 27, 2011. Oral argument was held on December 5, 2011. The outcome of this legal proceeding is uncertain at this point. During fiscal year 2011, we accrued an immaterial amount which reflects our settlement offer in connection with this action.

Sabol Wage and Hour Class Action

On July 31, 2009, several former employees filed an action in Federal District Court in Philadelphia alleging wage and hour claims under the Fair Labor Standards Act for failure to pay overtime and other violations, entitled, *Sabol, et al. v. Apollo Group, Inc., et al*, Case Number 2:09-cv-03439-JCJ. In January 2011, the parties agreed to settle the case for an immaterial amount, which was accrued in our financial statements during fiscal year 2011. The agreement, in which Apollo does not admit liability, was approved by the Court on June 28, 2011 and the case was dismissed with prejudice on September 26, 2011.

Adoma Wage and Hour Class Action

On January 8, 2010, Diane Adoma filed an action in United States District Court, Eastern District of California alleging wage and hour claims under the Fair Labor Standards Act and California law for failure to pay overtime and other violations, entitled *Adoma et al. v. University of Phoenix, et al,* Case Number 2:10-cv-04134-JCJ. On March 5, 2010, Apollo filed a motion to dismiss, or in the alternative to stay or transfer, the case based on the previously filed Sabol and Juric actions. On May 3, 2010, the Court denied the motion to dismiss and/or transfer. On April 12, 2010, plaintiff filed her motion for conditional collective action certification. The Court denied class certification under the Fair Labor Standards Act and transferred these claims to the District Court in Pennsylvania. On August 31, 2010, the U.S. District Court in California granted plaintiff's motion for class action certification of the California claims. On September 14, 2010, Apollo filed a petition for permission to appeal the class certification order with the Ninth Circuit, which was denied on November 3, 2010. There are approximately 1,500 current and former employees in the class.

In August 2011, the parties agreed to settle the case for an immaterial amount, which was accrued in our financial statements during fiscal year 2011. The agreement, in which Apollo does not admit any liability, is subject to pending approval by the Court.

Shareholder Derivative Actions and Demand Letters

On November 12, 2010 and December 8, 2010, Apollo received separate demands on behalf of two different shareholders to investigate, address and commence proceedings against each of its directors and certain of its officers for violation of any applicable laws, including in connection with the subject matter of the report of the Government Accountability Office prepared for the U.S. Senate in August 2010, Apollo's withdrawal of the outlook it previously provided for its fiscal year 2011, the investigation into possible unfair and deceptive trade practices associated with certain alleged practices of the University by the State of Florida Office of the Attorney General in Fort Lauderdale, Florida, the participation by the State of Oregon Office of the Attorney General in the Securities Class Action (Apollo Institutional Investors Group), and the informal inquiry by the Enforcement Division of the Securities and Exchange Commission commenced in October 2009. On September 8, 2011, Apollo received an additional shareholder demand letter from Darlene Smith, who is already pursuing one of the two previously filed shareholder derivative actions against Apollo management. In this letter, Ms. Smith requests that Apollo pursue a contribution action against Todd Nelson and Kenda Gonzales based on the jury verdict in the Policeman's Annuity and Benefit Fund of Chicago Securities Class Action described above. The demands are a condition precedent under applicable Arizona law to the filing of a derivative lawsuit on behalf of Apollo Group seeking damages from directors and officers for breach of fiduciary duty. The following two lawsuits have commenced to date in connection with these demands:

- *Himmel Derivative Action*. On March 24, 2011, a shareholder derivative complaint was filed in the Superior Court for the State of Arizona, Maricopa County by Daniel Himmel, one of the foregoing shareholders who previously made a demand for investigation. In the complaint, the plaintiff asserts a derivative claim on Apollo's behalf against certain of its current and former officers and directors for breach of fiduciary duty, waste of corporate assets, and unjust enrichment. The complaint alleges that the individual defendants made improper statements and engaged in improper business practices that caused Apollo's stock price to drop, led to securities class actions against Apollo, and enhanced regulation and scrutiny by various government entities and regulators. The case is entitled, *Himmel v. Bishop, et al*, Case Number CV2011-005604. Pursuant to a stipulation between all parties, on August 31, 2011, the Court ordered this action stayed during the pendency of the underlying Apollo Group Institutional Investors Securities Class Action.

- *Smith Derivative Action*. On April 12, 2011, a shareholder derivative complaint was filed in the U.S. District Court for the District of Arizona by Darlene Smith, one of the foregoing shareholders who previously made a demand for investigation. In the complaint, the plaintiff asserts a derivative claim on Apollo's behalf against certain of its current and former officers and directors for violations of federal securities laws, state law claims for breaches of fiduciary duty, abuse of control, gross mismanagement, unjust enrichment, corporate waste, and insider trading. The case is entitled, *Smith v. Sperling, et al,* Case Number CV-11-0722-PHX-PGR. On February 3, 2012, Defendants filed a motion to dismiss the case, which is currently pending with the Court.

K.K. Modi Investment and Financial Services Pvt. Ltd.

On November 8, 2010, a suit was filed by K.K. Modi Investment and Financial Services Pvt. Ltd. ("Modi") in the High Court of Delhi at New Delhi against defendants Apollo Group, Inc., Western International University, Inc., University of Phoenix, Inc., Apollo Global, Inc., Modi Apollo International Group Pvt. Ltd., Apollo International, Inc., John G. Sperling, Peter V. Sperling and Jorge Klor De Alva, seeking to permanently enjoin the defendants from making investments in the education industry in the Indian market in breach of an exclusivity and noncompete provision which plaintiff alleges is applicable to Apollo Group and its subsidiaries. The case is entitled, *K.K. Modi Investment and Financial Services Pvt. Ltd. v. Apollo International, et. al*. On December 14, 2010, the Court declined to enter an injunction, but the matter is set for a further hearing on March 6, 2012. Apollo believes that the relevant exclusivity and noncompete provision is inapplicable to Apollo and its affiliates and Apollo has moved to dismiss this action. If plaintiff ultimately obtains the requested injunctive relief, Apollo's ability to conduct business in India, including through its joint venture with HT Media Limited, may be adversely affected. It is also possible that in the future K.K. Modi may seek to expand existing litigation in India or commence litigation in the U.S. in which it may assert a significant damage claim against Apollo.

Other

Apollo and the University are subject to various claims and contingencies in the ordinary course of business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. Apollo and the University do not believe any of these are material for separate disclosure.

Other Matters

Attorney General Investigations

During fiscal year 2011, the University received notices from the Attorney General Offices in three states that they were investigating business practices at the University, as described below. Apollo believes there may be an informal coalition of states considering investigatory or other inquires into recruiting practices and the financing of education at proprietary educational institutions, which may or may not include these three states.

- *State of Florida.* On October 22, 2010, the University received notice that the State of Florida Office of the Attorney General in Fort Lauderdale, Florida had commenced an investigation into possible unfair and deceptive trade practices associated with certain alleged practices of the University. The notice included a subpoena to produce documents and detailed information for the time period of January 1, 2006 to the present about a broad spectrum of the University's business. We are cooperating with the investigation, but have also filed a suit to quash or limit the subpoena and to protect information sought that constitutes propriety or trade secret information. We cannot predict the eventual scope, duration or outcome of the investigation at this time.f

- *State of Massachusetts.* On May 13, 2011, the University received a Civil Investigative Demand from the State of Massachusetts Office of the Attorney General. The Demand relates to an investigation of possible unfair or deceptive methods, acts, or practices by for-profit educational institutions in connection with the recruitment of students and the financing of education. The Demand requires us to produce documents and detailed information and to give testimony regarding a broad spectrum of the University's business for the time period of January 1, 2002 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

- *State of Delaware.* On August 3, 2011, the University received a subpoena from the Attorney General of the State of Delaware to produce detailed information regarding the University's students residing in Delaware. The time period covered by the subpoena is January 1, 2006 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

Securities and Exchange Commission Informal Inquiry

During October 2009, Apollo received notification from the Enforcement Division of the Securities and Exchange Commission indicating that they had commenced an informal inquiry into Apollo's revenue recognition practices. The Securities and Exchange Commission has requested various information and documents from Apollo and/or Apollo's auditors, including information regarding Apollo's revenue recognition practices, Apollo's policies and practices relating to student refunds, the return of Title IV funds to lenders and bad debt reserves, Apollo's insider trading policies and procedures, a chronology of the internal processing and availability of information about the U.S. Department of Education program review of the University commenced in early 2009, certain information relating to non-Title IV revenue sources and other matters. Based on these requests, the eventual scope, duration and outcome of the inquiry cannot be predicted at this time. Apollo is cooperating fully with the Securities and Exchange Commission in connection with the inquiry.

Note 15. Regulatory Matters

Student Financial Aid

All U.S. federal financial aid programs are established by Title IV of the Higher Education Act and regulations promulgated thereunder. In August 2008, the Higher Education Act was reauthorized through September 30, 2013 by the Higher Education Opportunity Act. The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program. Changes to the Higher Education Act are likely to result from subsequent reauthorizations, and the scope and substance of any such changes cannot be predicted.

The Higher Education Opportunity Act specifies the manner in which the U.S. Department of Education reviews institutions for eligibility and certification to participate in Title IV programs. Every educational institution involved in Title IV programs must be certified to participate and is required to periodically renew this certification.

The University was recertified in November 2009 and entered into a new Title IV Program Participation Agreement which expires December 31, 2012.

Concentration of Revenue Source

We collected the substantial majority of our fiscal year 2011 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans and Pell Grants. See further discussion at “90/10 Rule” below and Note 16, Supplemental Information.

Rulemaking Initiative

In October 2010 and June 2011, the U.S. Department of Education promulagated new rules related to Title IV program integrity issues and foreign school issues. The most significant of these rules for our business are the following:

- Modification of the standards relating to the payment of incentive compensation to employees involved in student recruitment and enrollment;
- Implementation of standards for state authorization of institutions of higher education, which require us to seek and obtain specific regulatory approval by June 30, 2012, or to seek a further annual waiver from the Department through June 30, 2013 to operate in California, Colorado, Hawaii and New Mexico. If we are unable to operate in California in a manner that would preserve Title IV eligibility for our students, our business would be materially and adversely impacted;
- Adoption of a definition of “gainful employment” for purposes of the requirement of Title IV student financial aid that a program of study offered by a proprietary institution prepare students for gainful employment in a recognized occupation; and
- Expansion of the definition of misrepresentation, relating to the Department’s authority to suspend or terminate an institution’s participation in Title IV programs if the institution engages in substantial misrepresentation about the nature of its educational program, its financial charges, or the employability of its graduates, and expansion of the sanctions that the Department may impose for engaging in a substantial misrepresentation.

Except for the gainful employment metrics discussed below, most of the rules were effective July 1, 2011.

On June 13, 2011, the Department published final regulations, effective July 1, 2012, on the metrics for determining whether an academic program prepares students for gainful employment. The regulations establish three annual, program-level metrics: debt repayment rate, debt-to-discretionary income ratio, and debt-to-total earnings ratio. If an academic program fails all three metrics in a year, the institution must disclose the amount by which the program missed the minimum acceptable performance and the institution's plan to improve the program. If an academic program fails all three metrics in two out of three years, the institution must inform students in the failing program that their debts may be unaffordable and the program may lose eligibility, and must describe for students their available transfer options. If an academic program fails all three metrics in three out of four years, the academic program would become ineligible to participate in federal student financial aid programs for at least three years. We believe substantially all of our academic programs currently prepare students for gainful employment measured in the manner set forth in the final gainful employment regulations for purposes of continued eligibility to participate in federal student financial aid programs.

U.S. Congressional Hearings and Financial Aid Funding

In recent years, there has been increased focus by members of the U.S. Congress on the role that proprietary educational institutions play in higher education. In June 2010, the U.S. Senate Committee on Health, Education, Labor and Pensions ("HELP Committee") held the first in a series of hearings to examine the proprietary education sector. At a subsequent hearing in August 2010, the Government Accountability Office ("GAO") presented a report of its review of various aspects of the proprietary sector, including recruitment practices and the degree to which proprietary institutions' revenue is composed of Title IV funding. Following the August hearing, Sen. Tom Harkin, the Chairman of the HELP Committee, requested a broad range of detailed information from 30 proprietary institutions, including the University and other subsidiaries of Apollo. We have been and intend to continue being responsive to the requests of the HELP Committee. Sen. Harkin has held subsequent hearings and roundtable discussions, and more are expected to be held in the future. On September 22, 2011, Sen. Tom Carper, the Chairman of the Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, held a hearing on "Improving Educational Outcomes for Our Military and Veterans," focusing on the quality of education for the military and veterans population and the treatment of such funding for purposes of the 90/10 Rule calculation that, if enacted, would adversely impact our 90/10 Rule percentage. Sen. Carper suggested a follow-up roundtable discussion. In addition, other Congressional hearings or roundtable discussions are expected to be held regarding various aspects of the education industry that may result in regulatory changes that affect our business.

As Congress addresses the historic U.S. budget deficit, financial aid programs are a potential target for reduction. Any action by Congress that significantly reduces Title IV program funding, whether through across-the-board funding reductions, sequestration or otherwise, or materially impacts the eligibility for us or our students to participate in Title IV programs would have a material adverse effect on our enrollment, financial condition, results of operations and cash flows. In addition to possible reductions in federal student financial aid, economic uncertainty over recent years has reduced the availability of state-funded student financial aid as many states face historic budget shortfalls. These reductions may reduce our enrollment and, to the extent that Title IV funds replace any state funding sources for our students, may adversely impact our 90/10 Rule percentage, which is discussed below.

90/10 Rule

Refer to Note 16, Supplemental Information.

Student Loan Cohort Default Rates

To remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The currently applicable cohort default rate for each cohort is the percentage of the students in the cohort who default on their student loans prior to the end of the following federal fiscal year, which represents a two-year measuring period. Under current regulations, an educational institution will lose its eligibility to participate in Title IV programs if its two-year measuring period student loan cohort default rate equals or exceeds 25% for three consecutive cohort years, or 40% for any given year. If our student loan default rates approach these limits, we may be required to increase efforts and resources dedicated to improving these default rates.

The 2009 cohort default rate for the University was 18.8%, which represents the most recent available two-year cohort default rates. We believe our cohort default rate has been increasing over the past several years due to the challenging economic climate, the growth in our associate's degree student population and changes in the manner in which student loans are serviced. Although we expect that the challenging economic environment will continue to put pressure on our student borrowers, we believe that our ongoing efforts to shift our student mix to a higher proportion of bachelor and graduate level students, the full implementation of our University Orientation program in November 2010 and our investment in student protection initiatives and repayment management services will help to stabilize and over time favorably impact our rates.

Higher Learning Commission

In August 2010, the University received a letter from the HLC requiring the University to provide certain information and evidence of compliance with HLC accreditation standards. The letter related to the August 2010 report published by the GAO of its undercover investigation into the enrollment and recruiting practices of a number of proprietary institutions of higher education, including the University. We submitted the response to HLC in September 2010 and subsequently responded to further requests for information. In July 2011, HLC informed the University that the Special Committee formed to review this matter had completed its work, concluding that based on its limited review, it found no apparent evidence of systematic misrepresentations to students or that the University's procedures in the areas of recruiting, financial aid and admissions are significantly inadequate or inappropriate. These were the areas on which HLC's review was focused. HLC also stated that there remain significant questions and areas that the University should work on improving. HLC indicated that these areas of concern will be reviewed at its next previously scheduled comprehensive evaluation visit in March 2012.

U.S. Department of Education Program Reviews

The U.S. Department of Education periodically reviews institutions participating in Title IV programs for compliance with applicable standards and regulations. In December 2010, the Department commenced a program review of policies, procedures and practices of the University relevant to participation in Title IV programs, including specific procedures relating to distance education. The review covered federal financial aid years 2009 - 2010 and 2010 - 2011 through October 31, 2010. In February 2011, the University received an Expedited Final Program Review Determination Letter from the Department. There were no significant adverse findings in the program review. The Department concluded that the University has initiated or completed acceptable corrective actions in respect of each compliance item identified in the review and each finding has been closed. No economic or other sanctions were imposed.

During fiscal year 2011, the Department released our $126 million letter of credit previously posted in connection with our February 2009 program review.

Note 16. Supplemental Information

90/10 Rule

The University collected the substantial majority of its fiscal year 2011 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans and Pell Grants. One requirement of the Higher Education Act, as reauthorized, commonly referred to as the "90/10 Rule," provides that a proprietary institution will be ineligible to participate in Title IV programs if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue, as defined in the rule, from Title IV programs. An institution that exceeds this limit 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. While the Department has broad discretion to impose additional sanctions on such an institution, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. The Department could specify a wide range of additional conditions as a part of the provisional certification and the institution's continued participation in Title IV programs. These conditions may include, among other things, restrictions on the total amount of Title IV program funds that may be distributed to students attending the institution; restrictions on programmatic and geographic expansion; requirements to obtain and post letters of credit; and additional reporting requirements to include additional interim financial reporting. Should an institution be subject to such provisional certification at the time that its program participation agreement expired, the effect on recertification of the institution or continued eligibility to participate in Title IV programs pending recertification is uncertain.

The University's 90/10 Rule percentage for fiscal year 2011 was 86%, which represented a 200 basis point decrease compared to fiscal year 2010. We believe the decrease is primarily attributable to the reduction in the proportion of our students who are enrolled in our associate's degree programs, which historically have had a higher percentage of Title IV funds applied to eligible tuition and fees. We have also implemented in recent years various measures intended to reduce the percentage of the University's cash basis revenue attributable to Title IV funds, including emphasizing employer-paid and other direct-pay education programs, encouraging students to carefully evaluate the amount of necessary Title IV borrowing, and continued focus on professional development and continuing education programs. Although we believe these measures will favorably impact the 90/10 Rule percentage, they have had only limited impact to date. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students.

The 90/10 Rule percentage for the University remains near 90% and could exceed 90% in the future depending on the degree to which our various initiatives are effective, the impact of future changes in our enrollment mix, and regulatory and other factors outside our control, including any reduction in government tuition assistance for military personnel, including veterans, or changes in the treatment of such funding for purposes of the 90/10 Rule calculation.

Any necessary further efforts to reduce the 90/10 Rule percentage for the University, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures which reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. In addition, we may be required to make structural changes to our business in the future in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make more difficult our ability to comply with other important regulatory requirements, such as the cohort default rate regulations, which is discussed in Note 15, Regulatory Matters.

For the year ended August 31, 2011, the University's 90/10 Rule cash basis revenue test percentage was computed as follows:

	($ in thousands)	Amount Disbursed[1]	Adjusted Amount[1]
	Adjusted student Title IV revenue		
7	Subsidized loans	$ 1,642,501	$ 1,543,377
8	Unsubsidized loans up to pre-Ensuring Continued Access to Student Loans Act ("ECASLA") loan limits	2,313,593	1,936,438
9	Federal Pell Grants	1,230,906	1,182,022
10	Federal Supplemental Educational Opportunity Grant ("FSEOG") (subject to matching reduction)	3,400	3,159
11	Federal work study applied to tuition and fees (subject to matching reduction)	—	—
	PLUS loans	52,279	48,557
	All other Title IV loans and grants (ACG, TEACH, SMART, and Perkins)	14,611	14,462
17	**Student Title IV revenue**		4,728,015
18	**Revenue adjustment[2]**		(1,266,756)
19	**Adjusted student Title IV revenue**		$ 3,461,259
	Student non-Title IV revenue		
2	Grant funds for the student from non-Federal public agencies or private sources independent of the institution	$ 59,889	
3	Funds provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low-income individuals	—	
4	Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	—	
5	Institutional scholarships disbursed to the student	—	
13	Amount of unsubsidized loans over the pre-ECASLA loan limit	—	
14	Student payments	473,409	
20	**Student non-Title IV revenue**	$ 533,298	
	Eligible revenue from other sources		
21	Activities conducted by the institution that are necessary for education and training	$ —	
22	Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs	25,701	
23	The net present value of institutional loans disbursed to students	—	
24	**Eligible revenue from other sources**	$ 25,701	
	Numerator: Adjusted student Title IV revenue	**$ 3,461,259**	
	Denominator: Adjusted student Title IV revenue + Student non-Title IV revenue + Eligible revenue from other sources	**$ 4,020,258**	
	90/10 calculation	**86%**	

[1] The "disbursed" column is the gross Title IV amounts, and the "adjusted" column is net of the Title IV returns to lender.
[2] The revenue adjustment includes returns to students (excess funds or managing funds) and all cash basis adjustments and other adjustments required by the 90/10 Rule.

Related Party Transactions

Allocation of Expenses from the Parent

The accompanying consolidated financial statements reflect the application of the Parent's expense allocation policies. The Parent generally evaluates performance based on profit by subsidiary. This measure of profit includes certain of the Parent's costs and expenses that are allocated to subsidiaries, which are discussed in further detail below. At the discretion of the Parent, certain corporate costs are not allocated to the subsidiaries due to their designation as special charges because of their infrequency of occurrence, and/or the determination that the allocation of these costs to the subsidiaries will not result in an appropriate measure of the subsidiaries' results. These costs include, but are not limited to, such items as unscheduled or significant corporate management bonuses, unusual severance pay of corporate personnel and share-based compensation expense attributed to corporate management and administrative employees.

Expenses allocated from the Parent and the respective methods of allocation consist of the following:

- *Share-based compensation expense* of $25.2 million and $22.5 million in fiscal years 2011 and 2010, respectively. These amounts represent the portion of the Parent's share-based compensation expense for the University's employees that receive share-based awards of the Parent's Class A common stock. Refer to Note 2, Significant Accounting Policies.

- *Depreciation expense* of $69.8 million and $50.2 million in fiscal years 2011 and 2010, respectively. These amounts represent a portion of the Parent's depreciation expense for certain fixed assets owned by the Parent that were used by the University with the respective amounts based on the University's relative usage.

- *Other operating expenses* allocated to the University include, but are not limited to, expenses associated with administrative functions, marketing functions, information systems, executive management and financial aid processing fees. These expenses are allocated based on the University's net revenue as compared to the net revenue of the Parent's other subsidiaries that receive allocated expenses. The following details these expenses for the University during fiscal years 2011 and 2010:

	Year Ended August 31,	
($ in thousands)	**2011**	**2010**
Instructional and student advisory	$ 248,811	$ 205,930
Marketing	47,601	42,346
General and administrative	255,174	207,257
Total	$ 551,586	$ 455,533

- *Income taxes* represent the portion of the Parent's income taxes based on the income or loss before income taxes of the University and includes certain amounts related to permanent and temporary differences assigned based on relative tax attribute ownership. Refer to Note 2, Significant Accounting Policies.

Governmental Advocates, Inc.

Effective July 1, 1989, the Parent entered into an agreement with Governmental Advocates, Inc. to provide consulting services to the Parent with respect to matters concerning legislation, regulations, public policy, electoral politics, and any other topics of concern to the Parent relating to state government in the state of California. Hedy F. Govenar, who served as a director of the University during fiscal year 2011, is the founder and Chairwoman of Governmental Advocates, Inc. Pursuant to the agreement, the Parent paid consulting fees to Governmental Advocates, Inc. of $0.1 million in fiscal years 2011 and 2010, while Ms. Govenar served as a director of the University.

Earth Day Network

The Parent has provided grants directly or through University of Phoenix Foundation, a non-profit entity affiliated with the University, to Earth Day Network of less than $0.1 million and $0.5 million in fiscal years 2011 and 2010, respectively. Art Edelstein, the Director of Development of Earth Day Network, is the brother of Mr. Charles B. Edelstein, the Parent's Co-Chief Executive Officer.

Bond & Company, Inc.

The Parent entered into an agreement with Bond & Company, Inc. to provide lobbyist services to the Parent that included strategic advice on matters concerning legislation, regulations, public policy, electoral politics and any other topics of concern to the Parent. Richard Bond, who served as a director of the University during fiscal year 2011, is the chairman of Bond &

Company, Inc. Pursuant to this agreement, the Parent paid fees to Bond & Company, Inc. of $0.1 million and $0.2 million in fiscal years 2011 and 2010, respectively, while Mr. Bond served as a director of the University.

Western International University, Inc. Sublease

The University entered into a sublease with Western International University, Inc., a wholly-owned subsidiary of Apollo Global, Inc., to lease space in Warrenville, Illinois for the period from June 2010 to November 2015. Apollo owns a controlling interest in Apollo Global, Inc. Payments from this entity during fiscal years 2011 and 2010 were less than $0.1 million.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors and Shareholder of
The University of Phoenix, Inc. and Subsidiaries
Phoenix, Arizona

We have audited the consolidated financial statements of University of Phoenix, Inc. and Subsidiaries (a wholly-owned subsidiary of Apollo Group, Inc.) (the "University"), as of and for the year ended August 31, 2011, and have issued our report thereon dated February 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance self-disclosed by management that is required to be reported under *Government Auditing Standards*, which is described in a separate report entitled *Compliance Attestation Examination of Title IV Student Financial Assistance Programs for the Fiscal Year Ended August 31, 2011*.

The University's responses to the findings self-disclosed by management are described in the separate report entitled *Compliance Attestation Examination of Title IV Student Financial Assistance Programs for the Fiscal Year Ended August 31, 2011*. We did not audit the University's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, others within the University and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 27, 2012

APOLLO GROUP INC (APOL)

10-K
Annual report pursuant to section 13 and 15(d)
Filed on 10/22/2012
Filed Period 08/31/2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: August 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from [ ] to [ ]

Commission file number: 0-25232

APOLLO GROUP, INC.

(Exact name of registrant as specified in its charter)

ARIZONA	**86-0419443**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

4025 S. RIVERPOINT PARKWAY, PHOENIX, ARIZONA 85040

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (480) 966-5394

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	**(Name of Each Exchange on Which Registered)**
Apollo Group, Inc. Class A common stock, no par value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☑ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

No shares of Apollo Group, Inc. Class B common stock, its voting stock, are held by non-affiliates. The holders of Apollo Group, Inc. Class A common stock are not entitled to any voting rights. The aggregate market value of Apollo Group Class A common stock held by non-affiliates as of February 29, 2012 (last business day of the registrant's most recently completed second fiscal quarter), was approximately $4.6 billion.

The number of shares outstanding for each of the registrant's classes of common stock as of October 12, 2012 is as follows:

Apollo Group, Inc. Class A common stock, no par value	111,933,000 Shares
Apollo Group, Inc. Class B common stock, no par value	475,000 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Information Statement for the 2013 Annual Meeting of Class B Shareholders (Part III)

APOLLO GROUP, INC. AND SUBSIDIARIES

FORM 10-K

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact may be forward-looking statements. Such forward-looking statements include, among others, those statements regarding future events and future results of Apollo Group, Inc. (the "Company," "Apollo Group," "Apollo," "APOL," "we," "us" or "our") that are based on current expectations, estimates, forecasts, and the beliefs and assumptions of us and our management, and speak only as of the date made and are not guarantees of future performance or results. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "believe," "expect," "anticipate," "estimate," "plan," "predict," "target," "potential," "continue," "objectives," or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Such statements should be viewed with caution. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include but are not limited to:

- *changes in regulation of the U.S. education industry and eligibility of proprietary schools to participate in U.S. federal student financial aid programs, including the factors discussed in Item 1, Business, under "Accreditation and Jurisdictional Authorizations," "Financial Aid Programs," and "Regulatory Environment;"*
- *each of the factors discussed in Item 1A, Risk Factors; and*
- *those factors set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The cautionary statements referred to above also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements, for any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

Part I

Item 1 – *Business*

Overview

Apollo Group, Inc. ("the Company," "Apollo Group," "Apollo," "APOL," "we," "us" or "our") is one of the world's largest private education providers and has been an educational provider for approximately 40 years. We offer innovative and distinctive educational programs and services both online and on-campus at the undergraduate, master's and doctoral levels principally through the following wholly-owned educational subsidiaries:

- The University of Phoenix, Inc. ("University of Phoenix");
- Institute for Professional Development ("IPD"); and
- The College for Financial Planning Institutes Corporation ("CFFP").

On September 12, 2011, we acquired all of the outstanding stock of Carnegie Learning, Inc. ("Carnegie Learning"), a publisher of research-based math curricula and adaptive learning software. The acquisition allows us to accelerate our efforts to incorporate adaptive learning into our academic platform and to provide tools which we believe will help raise student achievement levels, and support improved retention and graduation rates at University of Phoenix. Refer to Note 5, Acquisitions, in Item 8, *Financial Statements and Supplementary Data*. In addition, we are developing a business, Apollo Education Services, through which we intend to begin providing a variety of educational delivery services to other higher education institutions.

In addition to these wholly-owned educational subsidiaries, we formed a joint venture with The Carlyle Group ("Carlyle") in October 2007, called Apollo Global, Inc. ("Apollo Global"), to pursue investments primarily in the international education services industry. As of August 31, 2012, Apollo Group and Carlyle owned 85.6% and 14.4%, respectively. We offer educational programs and services through the following wholly-owned subsidiaries of Apollo Global:

- BPP Holdings Limited ("BPP") in the United Kingdom ("U.K.");
- Western International University, Inc. ("Western International University") in the U.S.;
- Universidad Latinoamericana ("ULA") in Mexico; and
- Universidad de Artes, Ciencias y Comunicación ("UNIACC") in Chile.

On December 3, 2011, Apollo Global entered into an agreement with HT Media Limited, an Indian media company, to participate in a start-up, 50:50 joint venture intended to develop and provide educational services and programs in India. HT Media Limited, which is based in New Delhi, India, publishes the *Hindustan Times*, *Hindustan* and *Mint* newspapers, among other business activities.

Subsequent to August 31, 2012, we purchased Carlyle's remaining ownership interest in Apollo Global for $42.5 million cash, plus a contingent payment based on a portion of Apollo Global's operating results through the fiscal years ending August 31, 2017. This transaction will be accounted for as an equity transaction resulting in the removal of Carlyle's noncontrolling interest from our Consolidated Balance Sheets.

Our educational institutions are as follows:

University of Phoenix. University of Phoenix has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools since 1978 and holds other programmatic accreditations. University of Phoenix offers associate's, bachelor's, master's and doctoral degrees in a variety of program areas. University of Phoenix offers its educational programs worldwide through its online education delivery system and at its campus locations and learning centers throughout the United States, including the Commonwealth of Puerto Rico. University of Phoenix's online programs are designed to provide consistency with University of Phoenix's on-campus programs, which enhances University of Phoenix's ability to expand into new markets while maintaining academic quality. University of Phoenix represented 91% of our total consolidated net revenue and more than 100% of our operating income in fiscal year 2012.

IPD. IPD 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, student admissions services, accounting and administrative services.

CFFP. CFFP has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools since 1994. CFFP provides financial services education programs, including a Master of Science in three majors, and certification programs in retirement, asset management and other financial planning areas. CFFP offers these programs online.

BPP. BPP is headquartered in London, England and offers professional training through schools located in the U.K., a European network of BPP offices and the sale of books and other publications globally. BPP University College, comprised of BPP Law School and BPP Business School, is the first proprietary institution to have been granted degree awarding powers in the United Kingdom and in July 2010 became the first private institution since 1976 to be awarded the title of "University College" by the U.K. During the fourth quarter of fiscal year 2012, BPP completed the sale of its subsidiary, Mander Portman Woodward ("MPW"), a U.K.-based secondary education institution, for £54.8 million (equivalent to $85.3 million as of the date of sale). Refer to Note 4, Discontinued Operations, in Item 8, *Financial Statements and Supplementary Data*.

Western International University. Western International University has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools since 1984. Western International University offers associate's, bachelor's and master's degrees in a variety of program areas as well as certificate programs. Western International University offers its undergraduate program courses at its Arizona campus locations and online at Western International University Interactive Online.

ULA. ULA carries authorization from Mexico's Ministry of Public Education (Secretaría de Educación Publica), from the National Autonomous University of Mexico (Universidad Nacional Autónoma de México) for its high school and undergraduate psychology and law programs and by the Ministry of Education of the State of Morelos (Secretaría de Educación del Estado de Morelos) for its medicine and nutrition programs. ULA offers degree programs at its five campuses throughout Mexico.

UNIACC. UNIACC is an arts and communications university which offers bachelor's and master's degree programs at campuses in Chile and online.

Net Revenue

The following table presents net revenue for fiscal years 2012, 2011 and 2010 for each of our reportable segments:

	Year Ended August 31,		
($ in thousands)	**2012**	**2011**	**2010**
University of Phoenix	$ 3,882,980	$ 4,322,670	$ 4,498,325
Apollo Global	295,027	298,008	310,790
Other	75,330	90,371	97,498
Net revenue	$ 4,253,337	$ 4,711,049	$ 4,906,613

Refer to Note 18, Segment Reporting, in Item 8, *Financial Statements and Supplementary Data,* for the segment and related geographic information required by Items 101(b) and 101(d) of Regulation S-K, which information is incorporated by this reference.

Our operations are generally subject to seasonal trends. We experience, and expect to continue to experience, fluctuations in our results of operations as a result of seasonal variations in the level of our institutions' enrollments. Although University of Phoenix enrolls students throughout the year, its net revenue is generally lower in our second fiscal quarter (December through February) than the other quarters due to holiday breaks.

University of Phoenix Enrollment

The following table details University of Phoenix enrollment for the indicated periods:

	Average Degreed Enrollment[1]			Aggregate New Degreed Enrollment[1], [5]		
	Year Ended August 31,			Year Ended August 31,		
(Rounded to the nearest hundred)	2012[2]	2011[3]	2010[4]	2012	2011	2010
Associate's	119,900	163,500	204,200	88,100	90,500	187,700
Bachelor's	179,200	186,000	178,500	93,700	94,900	131,300
Master's	50,600	61,700	70,800	32,000	33,600	49,300
Doctoral	7,200	7,500	7,400	2,900	2,900	3,400
Total	356,900	418,700	460,900	216,700	221,900	371,700

(1) Refer to *Students* below for a description of the manner in which we calculate Degreed Enrollment and New Degreed Enrollment.

(2) Represents the average of Degreed Enrollment for the quarters ended August 31, 2011, November 30, 2011, February 29, 2012, May 31, 2012 and August 31, 2012.

(3) Represents the average of Degreed Enrollment for the quarters ended August 31, 2010, November 30, 2010, February 28, 2011, May 31, 2011 and August 31, 2011.

(4) Represents the average of Degreed Enrollment for the quarters ended August 31, 2009, November 30, 2009, February 28, 2010, May 31, 2010 and August 31, 2010.

(5) Aggregate New Degreed Enrollment represents the sum of the four quarters New Degreed Enrollment in the respective fiscal years.

General

We incorporated in Arizona in 1981 and maintain our principal executive offices at 4025 S. Riverpoint Parkway, Phoenix, Arizona 85040. Our telephone number is (480) 966-5394. Our website addresses are as follows:

• Apollo Group:	*www.apollogrp.edu*	• Apollo Global:	*www.apolloglobal.us*
• University of Phoenix:	*www.phoenix.edu*	• BPP:	*www.bpp.com*
• IPD:	*www.ipd.org*	• Western International University:	*www.west.edu*
• CFFP:	*www.cffp.edu*	• ULA:	*www.ula.edu.mx*
• Carnegie Learning:	*www.carnegielearning.com*	• UNIACC:	*www.uniacc.cl*

Our fiscal year is from September 1 to August 31. Unless otherwise stated, references to the years 2012, 2011, 2010, 2009 and 2008 relate to fiscal years 2012, 2011, 2010, 2009 and 2008, respectively.

Strategy

Our goal is to strengthen our position as a leading provider of high quality accessible education. Our principal focus is to provide innovative, high quality and impactful educational products and services in order for our students to maximize the benefit from their educational investment. We also look to engage our employer partners by developing programs that prepare our graduates with the skills and competencies employers need. We believe that providing a superior student experience, positioning our students to attain desired academic and life outcomes, and building strong employer connections are keys to building value for our shareholders. We intend to pursue our goal in a manner that is consistent with our core organizational values: have a passion for learning; embrace innovation; improve society; act with integrity; treat others as we would like to be treated; and empower excellence. These values provide the foundation for everything we do as a business.

The key themes of our strategic plan are as follows:

- *Build on and strengthen University of Phoenix* . We are actively focused on creating a connection between education and careers, building academic quality and enhancing our student support services to help improve our students' long-term success and outcomes, all of which are intended to differentiate University of Phoenix. To enhance our value proposition for students, we are further aligning our educational offerings with the learning outcomes students need to succeed in today's and tomorrow's workplace and with the skills required by today's employers.
- *Identify attractive opportunities that leverage our core expertise* . We are pursuing opportunities to utilize our core expertise and organizational capabilities, both domestically and internationally. We are actively pursuing quality opportunities to acquire or develop institutions of higher learning through Apollo Global and to provide educational services to other higher education institutions through our Apollo Education Services business.

To implement our strategy, we are working on a number of important initiatives including:

- Upgrading our learning and data platforms to better support student learning;
- Creating, acquiring, developing and implementing improved learning and support methods across our institutions;
- Streamlining core processes to more efficiently deliver critical services;
- Connecting education to careers by providing students with a course of study relevant to local employers; and
- Forming educational partnerships with various corporations to provide programs specifically selected for their employees.

Industry Background

Domestic Postsecondary Education

The non-traditional education sector is a significant and growing component of the domestic postsecondary degree-granting education industry, which was estimated to be a $460 billion industry in 2010, according to the Digest of Education Statistics published in 2012 by the U.S. Department of Education's National Center for Education Statistics (the "NCES"). According to the National Postsecondary Student Aid Study published in 2000 by the NCES, 73% of undergraduates in 1999-2000 were in some way non-traditional (defined as a student who delays enrollment, attends part-time, works full-time, is financially independent for purposes of financial aid eligibility, has dependents other than a spouse, is a single parent, or does not have a high school diploma). We believe that the proportion of today's students who are non-traditional remains approximately the same. The non-traditional students typically are looking to improve their skills and enhance their earnings potential within the context of their careers. We believe that the demand for non-traditional education will continue to increase, due to the increasingly knowledge-based economy in the U.S.

Many non-traditional students, who we also refer to as working learners, seek accredited degree programs that provide flexibility to accommodate the fixed schedules and time commitments associated with their professional and personal obligations. The education formats offered by our institutions enable working learners to attend classes and complete coursework on a more flexible schedule than many traditional universities offer.

Although an increasing proportion of colleges and universities are addressing the needs of working learners as discussed in *Competition* below, many traditional universities and institutions face the following challenges in effectively addressing the needs of working learners:

- Traditional universities and colleges were designed to fulfill the educational needs of full-time students aged 18 to 24, and that industry sector remains the primary focus of these universities and institutions. This focus has resulted in a capital-intensive teaching/learning model that often is characterized by:
  - a high percentage of full-time, tenured faculty;
  - physical classrooms, library facilities and related full-time staff;
  - dormitories, student unions, and other significant physical assets to support the needs of full-time students; and
  - an emphasis on research and related laboratories, staff, and other facilities.
- The majority of accredited colleges and universities continue to provide the bulk of their educational programming on an agrarian calendar with time off for traditional breaks. The traditional academic year runs from September to mid-December and from mid-January to May. As a result, many full-time faculty members only teach during that limited period of time. While this structure may serve the needs of full-time students, it limits the educational opportunity for working learners who must delay their education for up to four months during these traditional breaks.
- Traditional universities and colleges may also be limited in their ability to provide the necessary student services applicable to working learners.

International Education

We believe that private education is playing an important role in advancing the development of education, specifically higher education and lifelong learning, in many countries around the world. In addition, we believe that postsecondary education outside of the U.S. is experiencing governmental funding constraints that create opportunities for a broader private sector role.

We believe that the following key trends are driving the growth in private education worldwide:

- unmet demand for education;
- insufficient public funding to meet demand for education;
- shortcomings in the quality of higher education offerings, resulting in the rise of supplemental training to meet industry demands in the developing world;
- worldwide appreciation of the importance that knowledge plays in economic progress; and
- increased availability and role of technology in education, broadening the accessibility and reach of education.

Our Programs

Our approximately 40 years as a provider of education enables us to provide students with quality education and responsive customer service at the undergraduate, master's and doctoral levels. Our institutions have gained expertise in designing curriculum, recruiting and training faculty, monitoring academic quality, and providing a high level of support services to students. Our institutions offer the following:

- **Accredited Degree Programs.** University of Phoenix, Western International University and CFFP are accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools. BPP's University College has been granted degree-awarding powers by the United Kingdom's Privy Council. Additionally, certain of our academic programs are accredited on a programmatic basis by appropriate accrediting entities. Refer to *Accreditation and Jurisdictional Authorizations* below.

- **Professional Examinations Training and Professional Development.** BPP provides training and published materials for qualifications in accountancy (including tax), financial services, actuarial science, and insolvency. BPP also provides professional development through continuing education training and supplemental skills courses to post-qualification markets in finance, law, and general management. University of Phoenix and certain of our other institutions, including CFFP, also provide professional development education.

- **Benefits to Employers.** We work closely with businesses and governmental agencies to meet their specific educational needs and have the ability to modify our existing programs or, in some cases, develop customized programs. University of Phoenix has formed educational partnerships with various corporations to provide programs specifically selected for their employees. In addition, our faculty members are often practitioners and employers who emphasize the skills desired by employers. We also conduct focus groups with business professionals, students and faculty members who provide feedback on the relevancy of course work. Our objective is to gain insight from these groups so that we can develop new courses and offer relevant subject matter that reflect the changing needs of the marketplace and prepare our students for today's and tomorrow's workplace. In addition, our flexible class schedules benefit employers by minimizing conflicts with employee work schedules.

Teaching Model and Degree Programs and Services

Domestic Postsecondary

Teaching Model

The teaching/learning models used by University of Phoenix were designed specifically to meet the educational needs of working learners, who seek accessibility, curriculum consistency, time and cost-effectiveness, and learning that has immediate application to the workplace. The models are structured to enable students who are employed full-time or have other commitments to earn their degrees and still meet their personal and professional responsibilities. Our focus on working, non-traditional, non-residential students minimizes the need for capital-intensive facilities and services like dormitories, student unions, food service, personal counseling, health care, sports and entertainment.

University of Phoenix has campus locations and learning centers throughout the United States, including the Commonwealth of Puerto Rico, and offers many students the flexibility to attend both on-campus and online classes. University of Phoenix online classes employ a proprietary online learning system. All classes are small and have mandatory participation requirements for both the faculty and the students. Each class is instructionally designed so that students have learning outcomes that are consistent with the outcomes of their on-campus counterparts. All online class materials are delivered electronically.

Components of our teaching/learning models at University of Phoenix for both online and on-campus classes include:

- **Curriculum.** Faculty content experts design the curriculum for our programs at our domestic postsecondary institutions. This enables us to offer current and relevant standardized programs to our students. The curricula are designed to integrate academic theory and professional practice and their application to the workplace, and to provide for the achievement of specified educational outcomes that are based on input from faculty, students and employers. We are in the process of incorporating adaptive learning into our curricula to offer an individualized approach to learning.

- **Faculty.** Substantially all University of Phoenix faculty possess either a master's or doctoral degree. Faculty members typically have many years of experience in the field in which they instruct, and most teach on an adjunct basis. Our institutions have well-developed methods for hiring and training faculty, which include peer reviews of newly hired instructors by other members of the faculty, training in student instruction and grading, and teaching mentorships with more experienced faculty members. With courses designed to facilitate the application of knowledge and skills to the workplace, faculty members are able to share their professional knowledge and skills with the students.

- **Accessibility.** Many of our academic programs may be accessed through a variety of delivery modes (electronically delivered, campus-based or a blend of both), which make our educational programs accessible, regardless of where the students work and live.

- **Class Schedule and Active Learning Environment.** Courses are designed to encourage and facilitate collaboration among students and interaction with the instructor. The curriculum requires a high level of student participation for purposes of enhancing learning and increasing the student's ability to work as part of a team. University of Phoenix students (other than associate's degree students) are enrolled in five-to-eight week courses year round and complete classes sequentially, rather than concurrently. This permits students to focus their attention and resources on one subject at a time and creates a better balance between learning and ongoing personal and professional responsibilities. In addition to attending class, University of Phoenix students (other than associate's degree students) meet weekly (online or in-person) as part of a three-to-five person learning team. Learning team sessions are an integral part of each University of Phoenix course to facilitate in-depth collaborative learning. Members work together to complete assigned group projects and develop communication and teamwork skills.

  Our associate's degree students attend nine week courses, offered in complementary pairs, year-round. Students and instructors interact electronically and non-simultaneously, resulting in increased access for students by allowing them to control the time and place of their participation.

- **Student Education Services.** The following services are available to students and faculty, as applicable:

  - Electronic and other learning resources for their information and research needs;
  - Tutoring;
  - Centers for Math and Writing Excellence;
  - Adaptive learning tools;
  - Student workshops;
  - Career resources; and
  - PhoenixConnect, the University's proprietary social media network, is used to support students in their academic programs. Each college has an online community manager who provides oversight and guidance with respect to college-related conversations in the network.

  We are actively working on major learning platform enhancements designed to deliver highly personalized learning to students, ease the administrative burden on faculty, improve overall student and faculty experiences, and lead to better educational outcomes. In addition, we are focused on adapting our existing services and developing new services, such as diagnostic tools and individual learning plans, to specifically assist students who have limited or no higher education experience or otherwise may be unprepared to succeed in our academic programs.

- **Academic Quality.** University of Phoenix has an academic quality assessment plan that measures whether the institution meets its mission and purposes. A major component of this plan is the assessment of student learning. To assess student learning, University of Phoenix measures whether graduates meet its programmatic and learning goals. The measurement is composed of the following four ongoing and iterative steps:

  - preparing an annual assessment plan for academic programs;
  - preparing an annual assessment result report for academic programs, based on student learning outcomes;
  - implementing improvements based on assessment results; and
  - monitoring effectiveness of implemented improvements.

By achieving programmatic competencies, University of Phoenix graduates are expected to become proficient in the following areas:

- critical thinking and problem solving;
- collaboration;
- information utilization;
- communication; and
- professional competence and values.

We have developed an assessment matrix which outlines specific learning outcomes to measure whether students are meeting University of Phoenix learning goals. Multiple methods have been identified to assess each outcome.

In February 2012, University of Phoenix published its fourth Academic Annual Report, which we believe provides a transparent assessment of how well University of Phoenix is serving its students' needs, and which reflects its commitment to continuous improvement. The Academic Annual Report is available on the University of Phoenix website at www.phoenix.edu.

Degree Programs and Services

University of Phoenix offers degrees in the following program areas:

Associate's	Bachelor's	Master's	Doctoral
• Arts and Sciences	• Arts and Sciences		
• Business and Management	• Business and Management	• Business and Management	• Business and Management
• Criminal Justice and Security	• Criminal Justice and Security	• Criminal Justice and Security	
• Education	• Education	• Education	• Education
• Health Care	• Health Care	• Health Care	• Health Care
• Human Services	• Human Services	• Human Services	
	• Nursing	• Nursing	• Nursing
• Psychology	• Psychology	• Psychology	• Psychology
• Technology	• Technology	• Technology	• Technology

University of Phoenix and certain of our other institutions, including CFFP, also provide professional development education.

International

Teaching Model

Our international operations include full-time, part-time and distance learning courses for professional examination preparation, professional development training and various degree/certificate/diploma programs. Instructional models include face-to-face, online and blended learning (simultaneous and non-simultaneous) methodologies. Our international operations faculty members consist of both full-time and part-time professors and our recruitment standards and processes are appropriate for the respective markets in which we operate.

Degree Programs and Services

Our international operations offer bachelor's, master's and doctoral degrees in a variety of degree programs and related areas of specialization, including degrees from BPP University College, which is comprised of BPP Law School and BPP Business School. Additionally, we offer training and published materials for qualifications in specific markets for accountancy (including tax), financial services, actuarial science, insolvency, human resources, marketing, management and law. We also provide professional development through continuing education training and supplemental skills courses primarily in the legal and finance industries.

Our international institutions typically follow a course development process in which faculty members who are subject matter experts work with instructional designers to develop curriculum materials based on learning objectives provided by school academic officers. Curricula are tailored to the relevant standards applicable in each local market within which we operate.

Admissions Standards

Domestic Postsecondary

Undergraduate. To gain admission to undergraduate programs at University of Phoenix, students must have a high school diploma or a Certificate of General Educational Development, commonly referred to as GED, and satisfy employment requirements, if applicable, for their field of study. Applicants whose native language is not English must take and pass the Test of English as a Foreign Language, Test of English for International Communication or the Berlitz® Online English Proficiency Exam. Non-U.S. citizens attending a campus located in the U.S. are required to hold an approved visa or to have been granted permanent residency. Additional requirements may apply to individual programs or to students who are attending a specific campus. Students already in undergraduate programs at other schools may petition to be admitted to University of Phoenix on a provisional status if they do not meet certain criteria. Some programs have work requirements (e.g., nursing) such that students must have a certain amount of experience in given areas in order to be admitted. These work requirements vary by program, and not all programs have them.

In addition to the above requirements, we require substantially all prospective University of Phoenix associate's and bachelor's students with fewer than 24 incoming credits to participate in University Orientation. This program is a free, three-week orientation designed to help inexperienced prospective students better understand the time commitments and rigors of higher education prior to enrollment. Students practice using the University of Phoenix learning system, learn techniques to be successful in college, and identify useful university services and resources.

Master's. To gain admission to master's programs at University of Phoenix, students must have an undergraduate degree from a regionally or nationally accredited college or university, satisfy the minimum grade point average requirement, and have relevant work experience, if applicable for their field of study. Applicants whose native language is not English must take and pass the Test of English as a Foreign Language, Test of English for International Communication or the Berlitz® Online English Proficiency Exam. Non-U.S. citizens attending a campus located in the U.S. are required to hold an approved visa or have been granted permanent residency. Additional requirements may apply to individual programs or to students who are attending a specific campus.

Doctoral. To gain admission to doctoral programs at University of Phoenix, students must generally have a master's degree from a regionally accredited college or university, satisfy the minimum grade point average requirement, satisfy employment requirements as appropriate to the program applied for and have membership in a research library. Applicants whose native language is not English must take and pass the Test of English as a Foreign Language, Test of English for International Communication or the Berlitz® Online English Proficiency Exam.

The admission requirements for our other domestic institutions are similar to those detailed above and may vary depending on the respective program.

International

In general, postsecondary students in our international institutions must have obtained a high school or equivalent diploma from an approved school. Other requirements apply for graduate and other programs. Admissions requirements for our international institutions are appropriate for the respective markets in which we operate.

Students

University of Phoenix Degreed Enrollment

University of Phoenix Degreed Enrollment for a quarter is composed of:

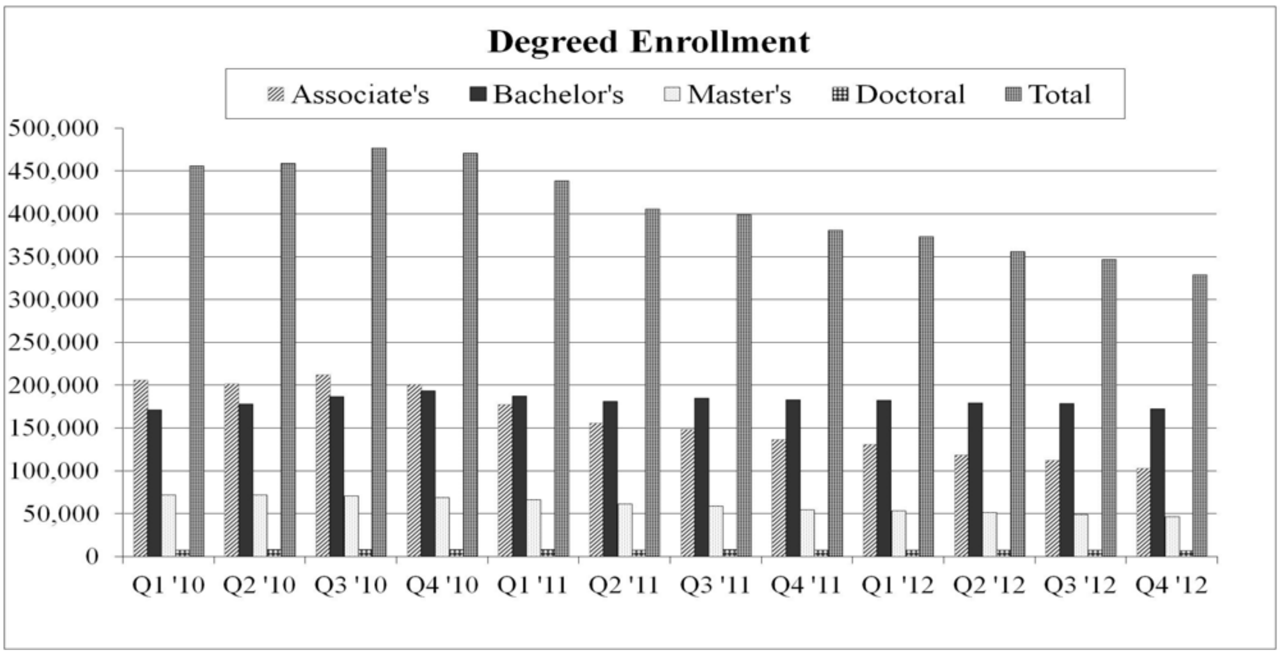
- students enrolled in a University of Phoenix degree program who attended a credit bearing course during the quarter and had not graduated as of the end of the quarter;
- students who previously graduated from one degree program and started a new degree program in the quarter (for example, a graduate of the associate's degree program returns for a bachelor's degree or a bachelor's degree graduate returns for a master's degree); and
- students participating in certain certificate programs of at least 18 credits with some course applicability into a related degree program.

The following table details University of Phoenix Degreed Enrollment by degree type and as a percentage of total for the indicated periods:

(Rounded to the nearest hundred)

Quarter:	Associate's		Bachelor's		Master's		Doctoral		Total
Q1 2010	205,400	45.1%	171,000	37.5%	71,900	15.8%	7,300	1.6%	455,600
Q2 2010	201,300	43.9%	178,000	38.8%	71,800	15.7%	7,500	1.6%	458,600
Q3 2010	212,100	44.5%	186,400	39.1%	70,400	14.8%	7,600	1.6%	476,500
Q4 2010	200,800	42.7%	193,600	41.1%	68,700	14.6%	7,700	1.6%	470,800
Q1 2011	177,200	40.4%	187,300	42.8%	66,000	15.1%	7,600	1.7%	438,100
Q2 2011	155,500	38.4%	181,200	44.7%	61,200	15.1%	7,400	1.8%	405,300
Q3 2011	147,900	37.1%	184,500	46.3%	58,500	14.7%	7,500	1.9%	398,400
Q4 2011	136,300	35.8%	183,100	48.1%	54,000	14.2%	7,400	1.9%	380,800
Q1 2012	130,300	34.9%	182,500	48.9%	52,900	14.2%	7,400	2.0%	373,100
Q2 2012	118,100	33.2%	179,400	50.4%	51,000	14.3%	7,300	2.1%	355,800
Q3 2012	112,100	32.4%	178,300	51.5%	48,900	14.1%	7,000	2.0%	346,300
Q4 2012	102,600	31.2%	172,600	52.6%	46,400	14.1%	6,800	2.1%	328,400

The following chart details quarterly Degreed Enrollment by degree type for the respective periods:



University of Phoenix New Degreed Enrollment

University of Phoenix New Degreed Enrollment for each quarter is composed of:

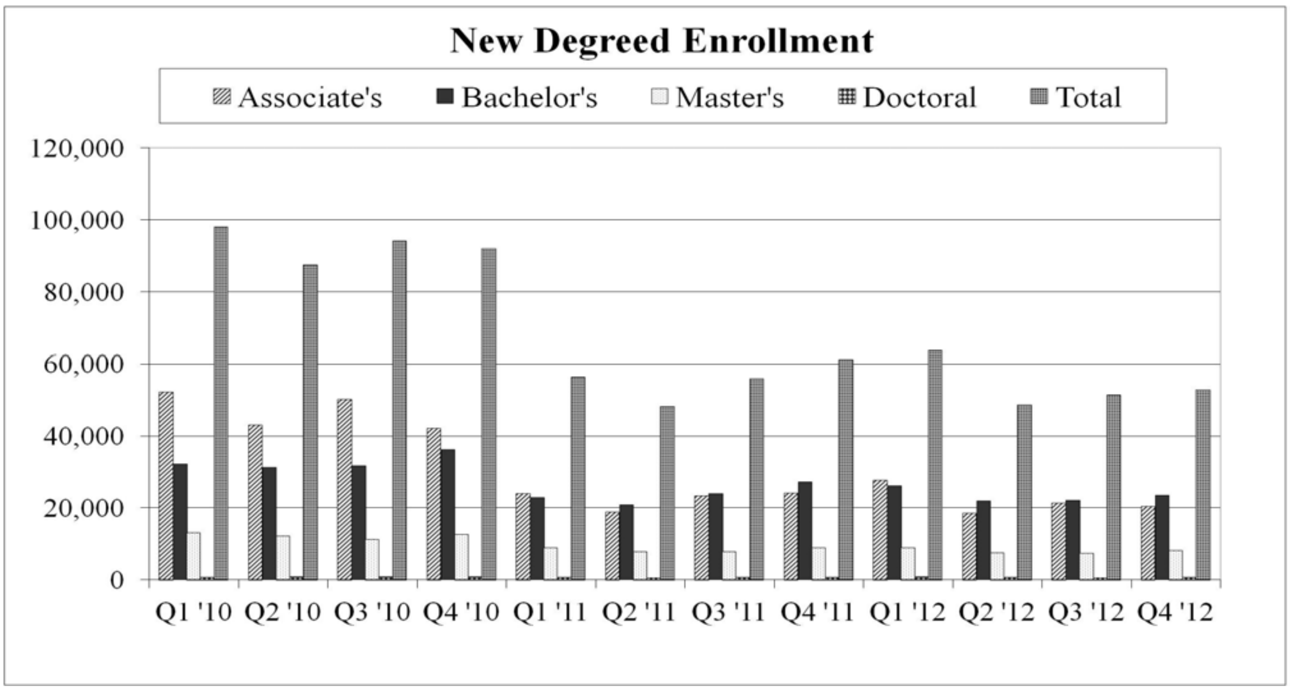
- new students and students who have been out of attendance for more than 12 months who enroll in a University of Phoenix degree program and start a credit bearing course in the quarter;
- students who have previously graduated from a degree program and start a new degree program in the quarter; and
- students who commence participation in certain certificate programs of at least 18 credits with some course applicability into a related degree program.

The following table details University of Phoenix New Degreed Enrollment by degree type and as a percentage of total for the indicated periods:

(Rounded to the nearest hundred)

Quarter:	Associate's		Bachelor's		Master's		Doctoral		Total
Q1 2010	52,200	53.2%	32,100	32.7%	13,100	13.4%	700	0.7%	98,100
Q2 2010	43,100	49.3%	31,300	35.8%	12,200	13.9%	900	1.0%	87,500
Q3 2010	50,200	53.3%	31,700	33.7%	11,300	12.0%	900	1.0%	94,100
Q4 2010	42,200	45.9%	36,200	39.3%	12,700	13.8%	900	1.0%	92,000
Q1 2011	24,000	42.5%	22,800	40.3%	8,900	15.8%	800	1.4%	56,500
Q2 2011	18,900	39.2%	20,900	43.4%	7,800	16.2%	600	1.2%	48,200
Q3 2011	23,400	41.8%	24,000	42.9%	7,900	14.1%	700	1.2%	56,000
Q4 2011	24,200	39.5%	27,200	44.5%	9,000	14.7%	800	1.3%	61,200
Q1 2012	27,800	43.6%	26,100	41.0%	8,900	14.0%	900	1.4%	63,700
Q2 2012	18,500	38.0%	22,000	45.2%	7,500	15.4%	700	1.4%	48,700
Q3 2012	21,400	41.5%	22,100	42.9%	7,400	14.4%	600	1.2%	51,500
Q4 2012	20,400	38.7%	23,500	44.5%	8,200	15.5%	700	1.3%	52,800

The following chart details quarterly New Degreed Enrollment by degree type for the respective periods:



University of Phoenix Student Demographics

We have a diverse student population. The following tables provide the demographic characteristics of the students attending University of Phoenix courses in fiscal years 2012, 2011 and 2010:

Gender[1]	2012	2011	2010
Female	67.2%	67.7%	67.7%
Male	32.8%	32.3%	32.3%
	100.0%	**100.0%**	**100.0%**

Race/Ethnicity[2]	2012	2011	2010
African-American	28.8%	28.0%	28.1%
Asian/Pacific Islander	3.2%	3.2%	3.3%
Caucasian	48.7%	50.7%	51.9%
Hispanic	13.3%	12.4%	11.6%
Native American/Alaskan	1.2%	1.2%	1.2%
Other/Unknown	4.8%	4.5%	3.9%
	100.0%	**100.0%**	**100.0%**

Age[1]	2012	2011	2010
22 and under	12.3%	12.3%	12.1%
23 to 29	31.9%	32.0%	32.6%
30 to 39	32.9%	32.8%	32.7%
40 to 49	16.5%	16.4%	16.2%
50 and over	6.4%	6.5%	6.4%
	100.0%	**100.0%**	**100.0%**

(1) Based on students included in aggregate New Degreed Enrollment, which represents the sum of the four quarters New Degreed Enrollment in the respective fiscal years.

(2) Based on voluntary reporting by students included in New Degreed Enrollment. For 2012, 2011 and 2010, 71%, 68% and 66%, respectively, of the students attending University of Phoenix courses provided this information.

Marketing

While there is intense demand by working learners for a quality education, not everyone realizes that there is an option to get a degree while maintaining a job, a family and other life responsibilities. We engage in a broad range of advertising and marketing activities to educate potential students about our teaching/learning model and programs, including but not limited to online, broadcast, outdoor, print and direct mail. We are focused on enhancing our brand perception and utilizing our different communication channels to attract students who are more likely to persist in our programs. We are realigning our marketing efforts to better educate students about the options they have in higher learning and convey our value proposition and offerings to connect education to careers.

Brand

Brand advertising is intended to increase potential students’ understanding of our academic quality, 21st century innovative postsecondary education, commitment to service, academic outcomes and academic community achievements. Our brand is advertised primarily through national and regional broadcast, radio and print media. Brand advertising also serves to expand the addressable market and establish brand recognition and familiarity with our schools, colleges and programs on both a national and a local basis.

Internet

Many prospective students identify their education opportunities online through search engines, information and social network sites, various education portals on the Internet and school-specific sites such as our own phoenix.edu. We advertise on the Internet using search engine keywords, banners, and custom advertising placements on targeted sites, such as education portals, career sites, and industry-specific websites. We reduced our use of third-party operated sites and increased our use of branded media channels because we believe this approach will help us to better identify students who are more likely to persist in our educational programs. Our website, phoenix.edu, provides prospective students with relevant information about University of Phoenix and will continue to evolve with in-depth programmatic and education to careers content.

We intend to continue to employ the unique qualities of the Internet and its emerging technologies to enhance our brand among prospective students, and to improve our ability to deliver relevant messages to satisfy prospective students' specific needs and requirements. New media technologies that we have begun to use to communicate with our current and prospective students include online social networks, mobile phone applications and emerging video advertising.

Sponsorships, Corporate Social Responsibility and Other

We build our presence in communities through sponsorships, advertising and event marketing to support specific activities, including local and national career events, academic lecture series, workshops and symposiums on various current topics of interest and through our corporate social responsibility outreach program. In addition, we utilize direct mail to expand our local presence by targeting individuals in specific career fields in which we offer programs and degrees.

Relationships with Employers and Community Colleges

We work closely with businesses and governmental agencies to meet their specific educational needs and have the ability to modify our existing programs or, in some cases, develop customized programs. These programs can be offered on-site at the employers' offices or at select military bases.

Our Workforce Solutions team is responsible for establishing relationships with employers and community colleges that we believe will lead to increased enrollment from those sources.

- University of Phoenix has formed educational partnerships with various corporations to provide programs specifically selected for their employees.

- The University of Phoenix Community College Center of Excellence partners with community colleges across the U.S. to connect associate's degree student graduates at community colleges with University of Phoenix bachelor's degree programs. The Center of Excellence works with community colleges to, where possible, connect education to careers by providing students with a course of study relevant to local employers.

BPP enrolls the majority of its students through relationships with employers.

The Phoenix Prep Center

The Phoenix Prep Center serves prospective students by providing online tools, information, and resources that answer key questions and concerns for prospective students, including tests to assess a potential student's academic abilities and readiness to pursue higher education, a tuition calculator and information on careers.

Competition

Domestic Postsecondary

The higher education industry is highly fragmented with no single private or public institution enjoying a significant market share. We compete primarily with traditional public and private two-year and four-year degree-granting regionally accredited colleges and universities, other proprietary degree-granting regionally accredited schools and alternatives to higher education. In addition, we face competition from various emerging nontraditional, credit-bearing and noncredit-bearing education programs, provided by both proprietary and not-for-profit providers, including massive open online courses offered worldwide without charge by traditional educational institutions and other direct-to-consumer education services. Some of our competitors have greater financial and nonfinancial resources than we have and are able to offer programs similar to ours at a lower tuition level for a variety of reasons, including the availability of direct and indirect government subsidies, government and foundation grants, large endowments, tax-deductible contributions and other financial resources not available to proprietary institutions, or by providing fewer student services or larger class sizes.

An increasing number of traditional colleges and universities and community colleges are offering distance learning and other online education programs, including programs that are geared towards the needs of working learners. This trend has been accelerated by private companies that provide and/or manage online learning platforms for traditional colleges and community colleges. As the proportion of traditional colleges providing alternative learning modalities increases, we will face increasing competition for students from traditional colleges, including colleges with well-established reputations for excellence. As the online and distance learning segment of the postsecondary education market matures, we believe that the intensity of the competition we face will continue to increase.

We believe that the primary factors on which we compete are the following:

- active and relevant curriculum development that considers the needs of employers;
- career assessment and planning;
- connecting career opportunities at America's leading companies to our students and alumni;
- relationships with community colleges;
- the ability to provide flexible and convenient access to programs and classes;
- the variety of geographic locations of campuses;
- reliable and high-quality products and services;
- comprehensive student support services;
- differentiation of student services such as University Orientation and academic social networking;
- breadth of programs offered;
- the time necessary to earn a degree;
- qualified and experienced faculty;
- reputation of the institution and its programs; and
- size of alumni network.

In our offerings of non-degree programs, we compete with a variety of business and information technology providers, primarily those in the proprietary training sector. Many of these competitors have significantly more market share in given geographical regions and longer-term relationships with key employers of potential students.

International

Competitive factors for our international schools vary by country and generally include the following:

- breadth of programs offered;
- active and relevant curriculum development that considers the needs of employers; and
- reputation of programs and classes.

Employees

We believe that our employee relations are satisfactory. As of August 31, 2012 , we had the following employees:

	Non-Faculty		
	Full-Time	**Part-Time**	**Faculty[(1), (2)]**
University of Phoenix[(2)]	12,441	44	29,579
Apollo Global	1,811	167	2,462
Other	3,409	15	64
Total	17,661	226	32,105

(1) Most of our faculty members are adjunct, part-time faculty. Also includes 620 employees included in Non-Faculty who serve in both roles.

(2) University of Phoenix faculty includes those faculty who have taught in the last twelve months and are also eligible to be scheduled to teach future courses.

Subsequent to August 31, 2012, we adopted a plan to execute a strategic reduction in workforce. Refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Accreditation and Jurisdictional Authorizations

Domestic Postsecondary

Accreditation

University of Phoenix is regionally accredited, which provides the following:

- recognition and acceptance by employers, other higher education institutions and governmental entities of the degrees and credits earned by students;
- qualification to participate in Title IV programs (in combination with state higher education operating and degree granting authority); and
- qualification for authority to operate in certain states.

Regional accreditation is accepted nationally as the basis for the recognition of earned credit and degrees for academic purposes, employment, professional licensure and, in some states, authorization to operate as a degree-granting institution.

Under the terms of a reciprocity agreement among the six regional accrediting associations, including the Higher Learning Commission ("HLC") of the North Central Association of Colleges and Schools, which is the regional accreditor of University of Phoenix, representatives of each region in which a regionally accredited institution operates may participate in the evaluations for reaffirmation of accreditation of that institution by its accreditor.

In August 2010, HLC required University of Phoenix to provide certain information and evidence of compliance with HLC accreditation standards. This followed the August 2010 report published by the U.S. Government Accountability Office of its undercover investigation into the enrollment and recruiting practices of a number of proprietary institutions of higher education, including University of Phoenix. In July 2011, the Special Committee formed to review this matter completed its work, concluding that based on its limited review, it found no apparent evidence of systematic misrepresentations to students or that University of Phoenix's procedures in the areas of recruiting, financial aid and admissions were significantly inadequate or inappropriate. HLC also stated that there remained significant questions and areas that University of Phoenix should work on improving. HLC is reviewing these areas of concern as part of its previously scheduled comprehensive reaffirmation evaluation visit, which began in March 2012.

In September 2012, HLC required University of Phoenix to provide a response to data submitted on University of Phoenix's 2012 Institutional Annual Report. HLC reviews data from all of its accredited and candidate for accreditation member institutions. HLC identified three non-financial indicators for which it sought additional information:

- Increase or decrease in full-time faculty of 25% or more from the prior year's report;
- Ratio of undergraduate full-time equivalent students to undergraduate full-time equivalent faculty of greater than 35 in the period reported; and
- Three-year student loan default rate of 25% or more.

University of Phoenix expects to respond to HLC in late October 2012. HLC has indicated that it will assign several members of the current team reviewing University of Phoenix's reaffirmation to evaluate University of Phoenix's response to the report, and that their evaluation will become an appendix to the review team's report on University of Phoenix's reaffirmation.

Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – If we fail to maintain our institutional accreditation or if our institutional accrediting body loses recognition by the U.S. Department of Education, we could lose our ability to participate in Title IV programs, which would materially and adversely affect our business*.

Accreditation information for University of Phoenix and applicable programs is described in the chart below:

Institution/Program	Accrediting Body (Year Accredited)	Status
University of Phoenix	– The Higher Learning Commission of the North Central Association of Colleges and Schools (1978, reaffirmed in 1982, 1987, 1992, 1997, and 2002)	– Comprehensive evaluation visit by The Higher Learning Commission began in March 2012 - Refer to further discussion above
– Business programs	– Association of Collegiate Business Schools and Programs (2007)	– Reaffirmation visit expected in 2017
– Bachelor of Science in Nursing	– Commission on Collegiate Nursing Education (2005) – Previously accredited by National League for Nursing Accrediting Commission from 1989 to 2005	– Reaffirmation visit expected in 2020
– Master of Science in Nursing	– Commission on Collegiate Nursing Education (2005) – Previously accredited by National League for Nursing Accrediting Commission from 1996 to 2005	– Reaffirmation visit expected in 2020
– Master of Counseling in Clinical Mental Health (Phoenix and Tucson, Arizona campuses)	– Council for Accreditation of Counseling and Related Educational Programs (2012)	– Reaffirmation visit expected in 2017 or 2018
– Master of Counseling in Mental Health Counseling (Salt Lake City, Utah campus)	– Council for Accreditation of Counseling and Related Educational Programs (2001, reaffirmed in 2010, and in 2012)	– Reaffirmation visit expected in 2015 or 2016
– Master of Arts in Education with options in Elementary Teacher Education and Secondary Teacher Education	– Teacher Education Accreditation Council (reaffirmed in 2007)	– Reaffirmation due in 2013

Our other domestic institutions maintain the requisite accreditations for their respective operations.

Jurisdictional Authorizations

In addition to accreditation by independent accrediting bodies, our schools must be authorized to operate by the appropriate regulatory authorities in many of the jurisdictions in which they operate.

In the U.S., institutions that participate in Title IV programs must be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence. Prior to July 1, 2011, such authorization was not specifically required for the institution's students to become eligible for Title IV programs if the institution was exempt from such regulatory authorization, usually based on recognized accreditation. University of Phoenix is specifically authorized to operate and has a physical presence in 37 states, the Commonwealth of Puerto Rico and the District of Columbia. In an additional three states, including California, University of Phoenix has a physical presence and is qualified to operate through June 30, 2013 without specific state regulatory approval due to available state exemptions and annual waivers from the U.S. Department of Education.

All regionally accredited institutions, including University of Phoenix, are required to be evaluated separately for authorization to operate in the Commonwealth of Puerto Rico. University of Phoenix has obtained authorization from the Puerto Rico Commission on Higher Education, and that authorization remains in effect.

Some states assert authority to regulate all degree-granting institutions if their educational programs are available to their residents, whether or not the institutions maintain a physical presence within those states. University of Phoenix and Western International University have obtained licensure in states which require such licensure and where students are enrolled.

Our other domestic institutions maintain the requisite authorizations in the jurisdictions in which they operate.

International

Our international schools must be authorized by the relevant regulatory authorities under applicable local law, which in some cases requires accreditation, as described in the chart below:

School	Accrediting Body	Operational Authority
BPP	– BPP Professional Education and BPP University College of Professional Studies operate under a number of professional body accreditations to offer training towards professional body certifications – BPP has additional accreditations by country and/or program as necessary	– The Privy Council for the United Kingdom has designated BPP University College of Professional Studies Limited as an awarding body for qualifications (including degrees) in the United Kingdom. This designation will be reviewed in November 2012. – BPP University College of Professional Studies' reauthorization will be due when its current authority expires in August 2013
WIU	– The Higher Learning Commission of the North Central Association of Colleges and Schools since 1984 – Reaffirmation visit commenced in May 2012 and remains pending.	– Arizona State Board for Private Postsecondary Education
ULA	– Federation of Private Mexican Institutions of Higher Education (Federación de Instituciones Mexicanas Particulares de Educación Superior)	– Mexico's Ministry of Public Education (Secretaria de Educación Pública) – Ministry of Education of the State of Morelos (Secretaria de Educación del Estado de Morelos) – National Autonomous University of Mexico (Universidad Nacional Autónoma de México)
UNIACC[(1)]	– Council for Higher Education (Consejo Superior de Educación)	– Chilean Ministry of Education (Ministerio de Educación de Chile)

(1) Prior to November 2011, UNIACC was accredited by the National Accreditation Commission of Chile. In November 2011, the National Accreditation Commission elected not to renew the accreditation, which therefore lapsed. UNIACC's appeal of this decision was denied in July 2012. The loss of accreditation from the National Accreditation Commission does not impact UNIACC's ability to operate or confer degrees and does not directly affect UNIACC's programmatic accreditations. However, this institutional accreditation is necessary for new UNIACC students to participate in government loan programs and for existing students to begin to participate in such programs for the first time. We expect to pursue re-accreditation with the National Accreditation Commission in fiscal year 2014 when regulations permit.

Financial Aid Programs

Domestic Postsecondary

The principal source of federal student financial aid in the U.S. is Title IV of the Higher Education Act, as it is amended and reauthorized from time to time, and the related regulations adopted by the U.S. Department of Education. We refer to the financial aid programs under this Act as "Title IV" programs. Currently, the Higher Education Act is reauthorized through September 30, 2013. Financial aid under Title IV is awarded annually to eligible students. Some Title IV programs award financial aid on the basis of financial need, generally defined as the difference between the cost of attending an educational institution and the amount the student and/or the student's family, as the case may be, can reasonably be expected to contribute to that cost. The amount of financial aid awarded to a student each academic year is based on many factors, including, but not limited to, program of study, grade level, Title IV annual loan limits, and financial need. We have substantially no control over the amount of Title IV student loans or grants sought by or awarded to our students. All recipients of Title IV program funds must maintain satisfactory academic progress within the guidelines published by the U.S. Department of Education to remain eligible. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – Action by the U.S. Congress to revise the laws governing the federal student financial aid programs or reduce funding for those programs, including changes applicable only to proprietary educational institutions, could reduce our enrollment and increase our costs of operation*.

In addition to Title IV student financial aid, qualifying U.S. active military and veterans and their family members are eligible for federal student aid from various Department of Defense programs, including under the Post-9/11 GI Bill. We refer to the financial aid programs administered by the Department of Defense as “Military Benefit” programs.

We collected the substantial majority of our fiscal year 2012 total consolidated net revenue from receipt of Title IV financial aid program funds, principally from federal student loans and Pell Grants. University of Phoenix represented 91% of our fiscal year 2012 total consolidated net revenue and University of Phoenix generated 84% of its cash basis revenue for eligible tuition and fees during fiscal year 2012 from the receipt of Title IV financial aid program funds, as calculated under the *90/10 Rule* described below.

Student loans currently are the most significant component of Title IV financial aid and are administered through the Federal Direct Loan Program. Annual and aggregate loan limits apply based on the student’s grade level and other factors. Currently, the maximum annual loan amounts range from $3,500 to $12,500 for undergraduate students and $20,500 for graduate students. There are two types of federal student loans: subsidized loans, which are based on the statutory calculation of student need, and unsubsidized loans, which are not based on student need. Neither type of student loan is based on creditworthiness. Students are not responsible for interest on subsidized loans while enrolled in school. Effective for loans first disbursed on or after July 1, 2012, graduate and professional students are no longer eligible for subsidized loans. Students are responsible for the interest on unsubsidized loans while enrolled in school, but have the option to defer payment while enrolled. Repayment on federal student loans begins six months after the date the student ceases to be enrolled. The loans are repayable over the course of 10 years and, in some cases, longer. During fiscal year 2012 , student loans (both subsidized and unsubsidized) represented approximately 77% of the gross Title IV funds received by University of Phoenix.

Federal Pell Grants are awarded based on need and only to undergraduate students who have not earned a bachelor’s or professional degree. Unlike loans, Pell Grants do not have to be repaid. During fiscal year 2012, Pell Grants represented approximately 23% of the gross Title IV funds received by University of Phoenix. The eligibility for and maximum amount of Pell Grants have increased over recent years. Since the 2006-2007 award year, the maximum annual Pell Grant award has increased from $4,050 to $5,550 for the 2012-2013 award year. Because the federal Pell Grant program is one of the largest non-defense discretionary spending programs in the federal budget, it is a target for reduction as Congress addresses the U.S. budget deficits. A reduction in the maximum annual Pell Grant amount or changes in eligibility could neg atively impact enrollment and could result in increased student borrowing, which would make it more difficult for us to comply with other important regulatory requirements such as maintaining student loan cohort default rates below specified levels. Effective July 1, 2012, the duration of eligibility for Pell Grants was reduced from 18 to 12 semesters or the equivalent. This revised eligibility would not have had a material effect on the total Pell Grants disbursed to our students during fiscal year 2012 and is expected to have minimal impact for our business.

The remaining funding for tuition and other fees paid by our students primarily consists of state-funded student financial aid, tuition assistance from employers and personal funds. Economic uncertainty over recent years has reduced the availability of state-funded student financial aid as many states grapple with historic budget shortfalls.

In California, the state in which we conduct the most business by revenue, University of Phoenix students received approximately $21 million of Cal Grants in fiscal year 2012. Effective July 1, 2012, only schools with a g raduation rate of at least 30% and a three-year federal student loan cohort default rate below 15.5% are eligible to participate in the Cal Grant program. As a result, new University of Phoenix students are no longer eligible for Cal Grants and continuing students will be eligible for only one additional year, and the maximum award for these students has been reduced by 20%. This change and other changes in state-funded student financial aid could result in increased student borrowing, decreased enrollment and adverse impacts on our *90/10 Rule* percentage described below.

International

Government financial aid funding for students enrolled in our international institutions has not been widely available historically.

Regulatory Environment

Domestic Postsecondary

Our domestic postsecondary institutions are subject to extensive federal and state regulations. The Higher Education Act, as reauthorized, and the related U.S. Department of Education regulations govern all higher education institutions participating in Title IV financial aid programs, and provide for a regulatory triad by mandating specific regulatory responsibilities for each of the following:

- the accrediting agencies recognized by the U.S. Department of Education;
- the federal government through the U.S. Department of Education; and
- state higher education regulatory bodies.

To be eligible to participate in Title IV programs, a postsecondary institution must be accredited by an accrediting body recognized by the U.S. Department of Education, must comply with the Higher Education Act, as reauthorized, and all applicable regulations thereunder, and must be authorized to operate by the appropriate regulatory authority in each state where the institution maintains a physical presence. We have summarized below recent material activity in the regulatory environment affecting our business and the most significant regulatory requirements applicable to our domestic postsecondary operations.

Changes in or new interpretations of applicable laws, rules, or regulations could have a material adverse effect on our eligibility to participate in Title IV programs, accreditation, authorization to operate in various states, permissible activities, and operating costs. The failure to maintain or renew any required regulatory approvals, accreditation, or state authorizations could have a material adverse effect on us. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate*.

90/10 Rule. University of Phoenix and Western International University, and all other proprietary institutions of higher education, are subject to the so-called "90/10 Rule" under the Higher Education Act, as reauthorized. Under this rule, a proprietary institution will be ineligible to participate in Title IV programs if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue, as defined in the rule, from Title IV programs. 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. While the Department has broad discretion to impose additional sanctions on such an institution, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. For example, the Department could impose conditions in the provisional certification such as:

- restrictions on the total amount of Title IV program funds that may be disbursed to students;
- restrictions on programmatic and geographic expansion;
- requirements to obtain and post letters of credit;
- additional reporting requirements such as interim financial reporting; or
- any other conditions deemed appropriate by the Department.

In addition, if an institution is subject to a provisional certification at the time that its current program participation agreement expired, the effect on recertification of the institution or continued eligibility in Title IV programs pending recertification is uncertain.

An institution that derives more than 90% of its cash-basis revenue from Title IV programs for two consecutive fiscal years will be ineligible to participate in Title IV programs for at least two fiscal years. If an institution is determined to be ineligible to participate in Title IV programs due to the 90/10 Rule, any disbursements of Title IV program funds made while ineligible must be repaid to the Department.

The following table details the 90/10 Rule percentages for University of Phoenix and Western International University for fiscal years 2012, 2011 and 2010:

	90/10 Rule Percentages for Fiscal Years Ended August 31,		
	2012	**2011[1]**	**2010[1]**
University of Phoenix	84%	86%	88%
Western International University	68%	66%	62%

(1) Calculated excluding the temporary relief from the impact of loan limit increases, which was allowable for amounts received and applied to eligible charges between July 1, 2008 and June 30, 2011 that were attributable to the increased annual loan limits.

Although the University of Phoenix 90/10 Rule percentage for fiscal year 2012 has decreased from fiscal years 2011 and 2010, the 90/10 Rule percentage for University of Phoenix has increased materially over the years prior to fiscal year 2010. This prior increase was primarily attributable to the increase in student loan limits affected by the Ensuring Continued Access to Student Loans Act of 2008 and expanded eligibility for and increases in the maximum amount of Pell Grants.

We believe the decrease in the University of Phoenix 90/10 Rule percentage in fiscal year 2012 compared to fiscal years 2011 and 2010 is primarily attributable to the reduction in the proportion of our students who are enrolled in our associate's degree programs, which historically have had a higher percentage of Title IV funds applied to eligible tuition and fees, and emphasizing employer-paid and other direct-pay education programs. We have also implemented in recent years various other measures intended to reduce the percentage of University of Phoenix's cash basis revenue attributable to Title IV funds, including encouraging students to carefully evaluate the amount of necessary Title IV borrowing and continued focus on professional development and continuing education programs. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students.

Based on recent trends, we do not expect the 90/10 Rule percentage for University of Phoenix to exceed 90% for fiscal year 2013. However, the 90/10 Rule percentage for University of Phoenix remains near 90% and could exceed 90% in the future depending on the degree to which our various initiatives are effective, the impact of future changes in our enrollment mix, and regulatory and other factors outside our control, including any reduction in Military Benefit programs or changes in the treatment of such funding for purposes of the 90/10 Rule calculation.

Various legislative proposals have been introduced in Congress that would heighten the requirements of the 90/10 Rule. For example, in January 2012, the Protecting Our Students and Taxpayers Act was introduced in the U.S. Senate and, if adopted, would reduce the 90% maximum under the rule to the pre-1998 level of 85%, cause tuition derived from Military Benefit programs to be included in the 85% portion under the rule instead of the 10% portion as is the case today, and impose Title IV ineligibility after one year of noncompliance rather than two. If these or other proposals are adopted as proposed, University of Phoenix may be required to increase efforts and resources dedicated to reducing the percentage of cash basis revenue attributable to Title IV funds, which could materially and adversely affect our business. In addition, the ineligibility of University of Phoenix students for Cal Grants in California as discussed in *Financial Aid Programs* above, and reductions in other state-funded student financial aid programs could adversely impact our compliance with the 90/10 rule, because tuition revenue derived from such programs is included in the 10% portion of the rule calculation.

Any necessary further efforts to reduce the 90/10 Rule percentage for University of Phoenix, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures which reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. In addition, we may be required to make structural changes to our business in the future in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make it more difficult to comply with other important regulatory requirements, such as the cohort default rate regulations, which are discussed below.

Cohort Default Rates. To remain eligible to participate in Title IV programs, educational institutions must maintain student loan cohort default rates below specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The currently applicable cohort default rate for each cohort is the percentage of the students in the cohort who default on their student loans prior to the end of the following federal fiscal year, which represents a two-year measuring period. The cohort default rates are published by the U.S. Department of Education approximately 12 months after the end of the measuring period. Thus, in September 2012 the Department published the two-year cohort default rates for the 2010 cohort, which measured the percentage of students who first entered into repayment during the year ended September 30, 2010 and defaulted prior to September 30, 2011. As discussed below, the measurement period for the cohort default rate has been increased to three years starting with the 2009 cohort and both three-year and two-year cohort default rates will be published each September until the 2011 three-year cohort default rate is published in September 2014.

If an educational institution’s two-year cohort default rate exceeds 10% for any one of the three preceding years, it must delay for 30 days the release of the first disbursement of U.S. federal student loan proceeds to first time borrowers enrolled in the first year of an undergraduate program. University of Phoenix and Western International University implemented a 30-day delay for such disbursements a few years ago. If an institution’s two-year cohort default rate equals or exceeds 25% for three consecutive years or 40% for any given year, it will be ineligible to participate in Title IV programs.

The two-year cohort default rates for University of Phoenix, Western International University and for all proprietary postsecondary institutions for the federal fiscal years 2010, 2009 and 2008 were as follows:

	Two-Year Cohort Default Rates for Cohort Years Ended September 30,		
	2010	**2009**	**2008**
University of Phoenix[1]	17.9%	18.8%	12.9%
Western International University[1]	7.7%	9.3%	10.7%
All proprietary postsecondary institutions[1]	12.9%	15.0%	11.6%

[1] Based on information published by the U.S. Department of Education.

Although the University of Phoenix 2010 two-year cohort default rate decreased compared to the previous year, University of Phoenix cohort default rates have increased materially over the prior several years. We believe the increases over the prior several years are due to the challenging economic climate, the growth in our associate’s degree student population and changes in the manner in which student loans are serviced.

While we expect that the challenging economic environment will continue to put pressure on our student borrowers, we believe that our ongoing efforts to shift our student mix to a higher proportion of bachelor's and graduate level students, the full implementation of our University Orientation program in November 2010 and our investment in student protection initiatives and repayment management services will continue to stabilize and over time favorably impact our rates. As part of our repayment management initiatives, effective with the 2009 cohort, we engaged third party service providers to assist our students who are at risk of default. These service providers contact students and offer assistance, which includes providing students with specific loan repayment information such as repayment options and loan servicer contact information, and they attempt to transfer these students to the relevant loan servicer to resolve their delinquency. In addition, we are intensely focused on student retention and enrolling students who have a reasonable chance to succeed in our programs, in part because the rate of default is higher among students who do not complete their degree program compared to students who graduate. Based on the available preliminary data, we do not expect the University of Phoenix or Western International University 2011 two-year cohort default rates to equal or exceed 25%.

In July 2010, the Federal Family Education Loan Program (FFELP), under which private lenders originated and serviced federally guaranteed student loans, was eliminated and all subsequent federal student loans were issued through the Federal Direct Loan Program under which the federal government lends directly to students. We believe this has adversely impacted loan repayment rates and our cohort default rates, because among other things, the federal government is less effective in promoting timely repayment of federal student loans than the private lenders were under the FFELP.

If our student loan default rates approach the limits detailed above, we may be required to increase our efforts and resources dedicated to improving these default rates. In addition, because there is a lag between the funding of a student loan and a default thereunder, many of the borrowers who are in default or at risk of default are former students with whom we may have only limited contact. Accordingly, there can be no assurance that we would be able to effectively improve our default rates or improve them in a timely manner to meet the requirements for continued participation in Title IV funding if we experience a substantial increase in our student loan default rates.

The cohort default rate requirements were modified by the Higher Education Opportunity Act enacted in August 2008 to increase by one year the measuring period for each cohort. The Department began publishing the official three-year cohort default rates with the publication of the 2009 cohort default rate in September 2012 and the Department will publish the three-year cohort default rates in addition to the two-year rates until the phase-in of the three-year measurement period is complete. If an institution's three-year cohort default rate equals or exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate. We believe that our current repayment management efforts meet these requirements. If an institution's three-year cohort default rates for the 2009 and 2010 cohorts equals or exceeds 30%, the institution may be subject to provisional certification imposing various additional requirements for participation in Title IV programs.

Beginning with the three-year cohort default rate for the 2011 cohort published in September 2014, only the three-year rates will be applied for purposes of measuring compliance with the requirements, as follows:

- *Annual test*. If the three-year cohort default rate for any given year equals or exceeds 40%, the institution will cease to be eligible to participate in Title IV programs; and
- *Three consecutive years test*. If the institution's three-year cohort default rate equals or exceeds 30% for three consecutive years, beginning with the 2009 cohort, the institution will cease to be eligible to participate in Title IV programs.

The consequences applicable to two-year cohort default rates will continue to apply through 2013 for the fiscal 2011 cohort.

Set forth below is the official three-year cohort default rate for University of Phoenix, Western International University and all propriety postsecondary institutions for the 2009 cohort, as well as the informational, "trial" three-year rates previously published by the Department for the 2008 and 2007 cohorts:

	Three-Year Cohort Default Rates for Cohort Years Ended September 30,		
	2009	**2008**[2]	**2007**[2]
University of Phoenix[1]	26.4%	21.1%	15.9%
Western International University[1]	13.7%	16.3%	26.5%
All proprietary postsecondary institutions[1]	22.7%	22.4%	21.2%

(1) Based on information published by the U.S. Department of Education.

(2) Trial rates published by the Department for informational purposes only.

U.S. Department of Education Rulemaking. In October 2010 and June 2011, the U.S. Department of Education promulgated new rules related to Title IV program integrity issues. The most significant of these rules for our business are the following:

- Modification of the standards relating to the prohibition on payment of incentive compensation to employees involved in student recruitment and enrollment;
- Implementation of standards for state authorization of institutions of higher education;
- Adoption of a definition of “gainful employment” for purposes of the requirement of Title IV student financial aid that a program of study offered by a proprietary institution prepare students for gainful employment in a recognized occupation; and
- Expansion of the definition of misrepresentation, relating to the Department’s authority to suspend or terminate an institution’s participation in Title IV programs if the institution engages in substantial misrepresentation about the nature of its educational program, its financial charges, or the employability of its graduates, and expansion of the sanctions that the Department may impose for engaging in a substantial misrepresentation.

Most of the rules were effective in July 2011. In June 2012, the U.S. District Court for the District of Columbia vacated rules requiring state authorization of distance education programs where an institution does not have a physical presence in a state, as well as enforcement by the Secretary of Education of violations of the expanded rules regarding misrepresentation. This ruling was upheld on appeal. The rules regarding the metrics for determining whether an academic program prepares students for gainful employment were also vacated by the U.S. District Court for the District of Columbia in June 2012, as discussed further below.

In May 2011, the Department announced its intention to establish additional negotiated rulemaking committees to prepare proposed regulations under the Higher Education Act. In January 2012, two negotiation teams began their work on regulations relating to teacher preparation and student loan issues. These negotiations concluded in April 2012, and under the rulemaking protocol, the Department must issue a Notice of Proposed Rulemaking for public comment before promulgating final regulations on these issues. We expect the Department will issue notices of proposed rulemaking which, among other things, address modifications to student loan repayment plans and procedures, as well as new regulations defining high quality teacher preparation programs for determining the academic program’s eligibility to participate in Title IV programs. More information can be found at http://www2.ed.gov/policy/highered/reg/hearulemaking/2011/index.html.

In May 2012, the Department announced its intention to establish a negotiated rulemaking committee to prepare proposed regulations under the Higher Education Act designed to prevent fraud and otherwise ensure proper use of Title IV program funds, especially within the context of current technologies. In particular, the Department intends that the regulations will address the use of debit cards and other banking mechanisms for disbursing federal student aid, improve and streamline the campus-based aid programs, and further help institutions prevent fraudulent student activity. Public hearings were held in May 2012 and the Department anticipates committee negotiations will begin in late 2012. More information can be found at http://www2.ed.gov/policy/highered/reg/hearulemaking/2012/index.html.

Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – Rulemaking by the U.S. Department of Education could materially and adversely affect our business.*

Incentive Compensation . The incentive compensation regulations, effective July 1, 2011, removed certain “safe harbors” that had previously defined the limits of the prohibition on the payment of any incentive compensation to persons involved in enrollment and financial aid functions. These regulations also on their face prohibit any revenue sharing arrangements between education services providers, such as our IPD business, and institutions that participate in Title IV programs. The Department clarified the scope of these regulations in a Dear Colleague letter dated March 17, 2011, in which among other things the Department indicated that these revenue sharing arrangements would be permissible, but only if the services provider is not an affiliate of an institution that participates in Title IV programs. We believe that IPD was one of only two such service providers, and we have had to restructure the commercial arrangements between IPD and its client educational institutions, which has adversely impacted IPD’s business.

Our Apollo Education Services business, which we are currently developing, is expected to offer a range of services similar to IPD and, like IPD, is unable to structure commercial arrangements with its prospective client educational institutions on a revenue sharing basis, as is customary in the industry. We believe that this type of commercial arrangement is critical to the success of Apollo Education Services and our inability to offer it is a significant competitive disadvantage. Unless the Department favorably clarifies its interpretive position on this issue, the interpretation is reversed through judicial action or Congress addresses the problem through legislation, we will not be able to fully develop our Apollo Education Services business.

State Authorization. In the U.S., institutions that participate in Title IV programs must be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence. Prior to July 1, 2011, such authorization was not specifically required for the institution’s students to become eligible for Title IV programs if the institution was exempt from such regulatory authorization, usually based on recognized accreditation. University of Phoenix is specifically authorized to operate and has a physical presence in 37 states, the Commonwealth of Puerto Rico and the District of Columbia. In an additional three states, including California, University of Phoenix has a physical presence and is qualified to operate through June 30, 2013 without specific state regulatory approval due to available state exemptions and annual waivers from the U.S. Department of Education.

Under the new program integrity rules adopted by the Department effective July 1, 2011, we are required to obtain specific regulatory approval by June 30, 2013, or to seek a further waiver from the Department to operate in California, Hawaii and New Mexico. The current regulations do not provide for any such waivers after June 30, 2013. Each of these states now must adopt additional statutes or regulations in order to comply with the new regulations adopted by the Department in order for us and other institutions to remain eligible for Title IV funds in respect of operations within the states. We have no assurance that these states will be willing or able to adopt such additional statutes or regulations or that we will be able to complete the approval process in those states in order to obtain specific state regulatory approval. In order to obtain annual waivers that could allow us to operate without specific state approval through July 1, 2013, University of Phoenix must have a supporting letter from each such state and file a request for an annual waiver to be considered by the U.S. Department of Education. We have obtained such supporting letters in each of the three states noted above and have filed a request for an annual waiver through July 1, 2013 with the Department. The U.S. Department of Education has advised us that if University of Phoenix has such supporting letters, no specific approval of the annual waiver from the Department is required, and that the Department will not require additional approvals through June 30, 2013.

Gainful Employment. Under the Higher Education Act, as reauthorized, proprietary schools are eligible to participate in Title IV programs only in respect of educational programs that lead to “gainful employment in a recognized occupation.” Historically, this concept has not been defined in detailed regulations. On October 29, 2010 and June 13, 2011, the Department published final regulations on gainful employment.

The final gainful employment rules defined – for the first time – the standards to measure “preparation for gainful employment in a recognized occupation.” The rules established three annual standards related to student loan borrowing by which gainful employment was to be measured for each academic program of study: (i) percentage of the program’s former students who entered repayment during the cohort period and are current in their student loan repayment, (ii) ratio of discretionary income to total student loan debt for the program’s completers and (iii) ratio of actual earnings to total student loan debt for the program’s completers. As adopted, the rules provided that an academic program that passed any one standard for a given year would be considered to be providing training leading to gainful employment. If an academic program failed all three metrics for a given year, the institution would be required to disclose the failure to existing and prospective students including the amount by which the program did not meet the minimum standards and describe the program’s plan for improvement. After two failures within three years, the institution would be required to inform students in the failing program that their debts may be unaffordable, that the program may lose eligibility, and what transfer options exist. After three failures within four years, the academic program would lose eligibility to participate in Title IV programs for at least three years.

In addition, the rules as adopted required institutions to notify the Department at least 90 days before the commencement of new educational programs leading to gainful employment in recognized occupations, and in some cases, would require that the Department approve the program.

These rules were vacated by the U.S. District Court for the District of Columbia on June 30, 2012. The court also vacated the rules requiring reporting to the Department of information about students who complete a program leading to gainful employment in a recognized occupation, including the amount of debt incurred under private loans or institutional finance plans, matriculation information, and end of year enrollment information. On July 30, 2012, the Department filed a motion asking the court to reinstate the requirement that institutions report information about student loan-repayment rates and debt-to-income ratios.

The Court did not vacate the portion of the rules requiring proprietary postsecondary institutions to provide prospective students with each eligible program’s recognized occupations, cost, completion rate, job placement rate, and median loan debt of program completers beginning July 1, 2011. Those disclosures and the requirements for reporting information relating to our programs to the Department and to our students have increased our administrative burdens. These reporting requirements could impact student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting educational institutions, it could adversely impact demand for our programs.

Eligibility and Certification Procedures. The Higher Education Act, as reauthorized, specifies the manner in which the U.S. Department of Education reviews institutions for eligibility and certification to participate in Title IV programs. Every educational institution involved in Title IV programs must be certified to participate and is required to periodically renew this certification. University of Phoenix was recertified in November 2009 and entered into a new Title IV Program Participation Agreement which expires on December 31, 2012. University of Phoenix has submitted necessary documentation for recertification. In the event that the U.S. Department of Education does not complete University of Phoenix's recertification process and issue a new Program Participation Agreement on or before December 31, 2012, it is anticipated that University of Phoenix's eligibility will continue on a month-to-month basis until the Department issues its decision on the application. We have no reason to believe that our application will not be renewed in due course, although it would not be unusual for University of Phoenix to be continued on a month-to-month basis until the Department completes its review. Western International University was recertified in May 2010 and entered into a new Title IV Program Participation Agreement which expires on September 30, 2014.

U.S. Department of Education Program Reviews. The U.S. Department of Education periodically reviews institutions participating in Title IV programs for compliance with applicable standards and regulations. In July 2012, the Department commenced a program review of University of Phoenix's compliance with requirements to verify student supplied information and report to the Department appropriate verification status codes relating to Title IV programs in which the University of Phoenix participates. The review covered federal financial aid years 2010–2011 and 2011–2012 through June 26, 2012. In July 2012, University of Phoenix received an Expedited Final Program Review Determination Letter from the Department. There were no findings in the program review.

Office of the Inspector General of the U.S. Department of Education ("OIG"). In October 2011, the OIG notified us that it was conducting a nationwide audit of the Department's program requirements, guidance, and monitoring of institutions of higher education offering distance education. In connection with the OIG's audit of the Department, the OIG examined a sample of University of Phoenix students who enrolled during the period from July 1, 2010 to June 30, 2011. The OIG subsequently notified University of Phoenix that in the course of this review it identified certain conditions that the OIG believes are Title IV compliance exceptions at University of Phoenix. Although University of Phoenix is not the direct subject of the OIG's audit of the Department, the OIG has asked University of Phoenix to respond so that it may consider University of Phoenix's views in formulating its audit report of the Department. These exceptions relate principally to the calculation of the amount of Title IV funds returned after student withdrawals and the process for confirming student eligibility prior to disbursement of Title IV funds.

Administrative Capability. The Higher Education Act, as reauthorized, directs the U.S. Department of Education to assess the administrative capability of each institution to participate in Title IV programs. The failure of an institution to satisfy any of the criteria used to assess administrative capability may cause the Department to determine that the institution lacks administrative capability and, therefore, subject the institution to additional scrutiny or deny eligibility for Title IV programs. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – A failure to demonstrate "administrative capability" or "financial responsibility" may result in the loss of eligibility to participate in Title IV programs, which would materially and adversely affect our business.*

Standards of Financial Responsibility. Pursuant to the Title IV regulations, each eligible higher education institution must satisfy a measure of financial responsibility that is based on a weighted average of three annual tests which assess the financial condition of the institution. The three tests measure primary reserve, equity, and net income ratios. The Primary Reserve Ratio is a measure of an institution's financial viability and liquidity. The Equity Ratio is a measure of an institution's capital resources and its ability to borrow. The Net Income Ratio is a measure of an institution's profitability. These tests provide three individual scores which are converted into a single composite score. The maximum composite score is 3.0. If the institution achieves a composite score of at least 1.5, it is considered financially responsible. A composite score from 1.0 to 1.4 is also considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years, subject to additional monitoring and other consequences. If an institution does not achieve a composite score of at least 1.0, it can be transferred from the "advance" system of payment of Title IV funds to cash monitoring status or to the "reimbursement" system of payment, under which the institution must disburse its own funds to students and document the students' eligibility for Title IV program funds before receiving such funds from the U.S. Department of Education. The fiscal year 2012 composite scores for Apollo Group, University of Phoenix and Western International University were 2.4, 2.9 and 1.8, respectively. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – A failure to demonstrate "administrative capability" or "financial responsibility" may result in the loss of eligibility to participate in Title IV programs, which would materially and adversely affect our business.*

Limits on Title IV Program Funds. The Title IV regulations place restrictions on the types of programs offered and the amount of Title IV program funds that a student is eligible to receive in any one academic year. Only certain types of educational programs offered by an institution qualify for Title IV program funds. For students enrolled in qualified programs, the Title IV regulations place limits on the amount of Title IV program funds that a student is eligible to receive in any one academic year, as defined by the U.S. Department of Education. An academic year must consist of at least 30 weeks of instructional time and a minimum of 24 credits. Most of University of Phoenix's and Western International University's degree programs meet the academic year minimum definition of 30 weeks of instructional time and 24 credits. Substantially all of University of Phoenix's degree programs qualify for Title IV program funds. The programs that do not qualify for Title IV program funds consist primarily of corporate training programs and certain certificate and continuing professional education programs. The tuition for these programs is often paid by employers.

Restricted Cash. The U.S. Department of Education places restrictions on Title IV financial aid program funds held for students for unbilled educational services. As a trustee of these Title IV financial aid funds, we are required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the U.S. Department of Education. These funds are included in restricted cash and cash equivalents in our Consolidated Balance Sheets in Item 8, *Financial Statements and Supplementary Data* .

Branching and Classroom Locations. The Title IV regulations contain specific requirements governing the establishment of new main campuses, branch campuses and classroom locations at which the eligible institution offers, or could offer, 50% or more of an educational program. In addition to classrooms at campuses and learning centers, locations affected by these requirements include the business facilities of client companies, military bases and conference facilities used by University of Phoenix and Western International University. The U.S. Department of Education requires that the institution notify the U.S. Department of Education of each location offering 50% or more of an educational program prior to disbursing Title IV program funds to students at that location. University of Phoenix and Western International University have procedures in place to ensure timely notification and acquisition of all necessary location approvals prior to disbursing Title IV funds to students attending any new location. In addition, The Higher Learning Commission requires that each new campus or learning center of University of Phoenix or Western International University be approved before offering instruction. States in which the two universities operate have varying requirements for approval of branch and classroom locations.

There are also certain regulatory requirements associated with closing locations. Subsequent to August 31, 2012, we adopted a plan to realign University of Phoenix's ground locations throughout the U.S., pursuant to which we will close a substantial number of locations. Refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Change of Ownership or Control. A change of ownership or control, depending on the type of change, may have significant regulatory consequences for University of Phoenix, Western International University and CFFP. Such a change of ownership or control could require recertification by the U.S. Department of Education, reauthorization by state licensing agencies, and the reevaluation of accreditation by The Higher Learning Commission.

If we experience a change of ownership and control sufficient to require us to file a Form 8-K with the Securities and Exchange Commission, or there is a change in the identity of a controlling shareholder of Apollo Group, then University of Phoenix and Western International University may cease to be eligible to participate in Title IV programs until recertified by the Department. Under some circumstances, the Department may continue an institution's participation in Title IV programs on a provisional basis pending completion of the change in ownership approval process. In addition, some states in which University of Phoenix, Western International University or CFFP are licensed require approval (in some cases, advance approval) of changes in ownership or control in order to remain authorized to operate in those states.

Moreover, University of Phoenix, Western International University and CFFP are required to report any material change in stock ownership to their principal accrediting body, The Higher Learning Commission, and to obtain approval prior to undergoing any transaction that affects, or may affect, corporate control or governance at the institution. In the event of a material change in ownership, The Higher Learning Commission may undertake an evaluation of the effect of the change on the continuing operations of University of Phoenix, Western International University and CFFP. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Control Over Our Voting Stock – If regulators do not approve or delay their approval of transactions involving a change of control of our company, our state licenses, accreditation, and ability to participate in Title IV programs and state grant programs may be impaired, which could materially and adversely affect our business.*

Executive Order on Military and Veterans Benefits Programs. On April 27, 2012, President Obama issued an executive order regarding the establishment of principles for educational institutions receiving funding from federal military and veterans educational benefits programs, including those provided by the Post-9/11 Veterans Educational Assistance Act of 2008, as amended (the "Post-9/11 GI Bill") and the Department of Defense Tuition Assistance Program. The executive order requires the Departments of Defense, Veterans Affairs and Education to establish and implement "Principles of Excellence" to apply to educational institutions receiving such funding. The goals of the Principles are broadly stated in the order and relate to disclosures of costs and amounts of costs covered by federal educational benefits, marketing standards, state authorization, accreditation approvals, standard institutional refund policies, educational plans and academic and financial advising. Various implementation mechanisms are included and the Secretaries of Defense and Veterans Affairs, in consultation with the Secretary of Education and the Director of the Consumer Financial Protection Bureau, submitted a plan to strengthen enforcement and compliance in July 2012. These Principles could increase the cost of delivering educational services to our military and veteran students. Refer to Part I, Item 1A, *Risk Factors – Risks Related to the Highly Regulated Industry in Which We Operate – Action by the U.S. Congress to revise the laws governing the federal student financial aid programs or reduce* *funding for those programs, including changes applicable only to proprietary educational institutions, could reduce our enrollment and increase our costs of operation.*

New U.S. Department of Education Reporting and Disclosure Requirements. The Higher Education Opportunity Act includes various provisions aimed at the rising cost of postsecondary education and other efforts for more transparency. Beginning in July 2011, the U.S. Department of Education began publishing national lists annually disclosing the top five percent in each of nine institutional categories with the highest college costs and largest percentage cost increases. Institutions published on such lists may receive negative media attention that may cause some prospective students to choose educational alternatives. University of Phoenix and Western International University were not on the lists in July 2011 or July 2012.

International

Governmental regulations in foreign countries significantly affect our international operations. New or revised interpretations of regulatory requirements could have a material adverse effect on us. Changes in existing or new interpretations of applicable laws, rules, or regulations in the foreign jurisdictions in which we operate could have a material adverse effect on our accreditation, authorization to operate, permissible activities, and costs of doing business outside of the U.S. The failure to maintain or renew any required regulatory approvals, accreditation or state authorizations could have a material adverse effect on our international operations.

Other Matters

We file annual, quarterly and current reports with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for information on the Public Reference Room. The Securities and Exchange Commission maintains a website that contains annual, quarterly and current reports that issuers file electronically with the Securities and Exchange Commission. The Securities and Exchange Commission's website is www.sec.gov.

Our website address is www.apollogrp.edu. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Information Statements on Schedule 14C, Forms 3, 4, and 5 filed on behalf of directors and executive officers, and all amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

Item 1A – *Risk Factors*

You should carefully consider the risks and uncertainties described below and all other information contained in this Annual Report on Form 10-K. In order to help assess the major risks in our business, we have identified many, but not all, of these risks. Due to the scope of our operations, a wide range of factors could materially affect future developments and performance.

If any of the following risks are realized, our business, financial condition, cash flows or results of operations could be materially and adversely affected, and as a result, the trading price of our Class A common stock could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Annual Report, including Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 8, *Financial Statements and Supplementary Data*, including the related *Notes to Consolidated Financial Statements*.

Risks Related to the Control Over Our Voting Stock

Our Class A common stock has no voting rights. Our Executive Chairman and Vice Chairman of the Board control 100% of our voting stock and control substantially all actions requiring the vote or consent of our shareholders, which may have an adverse effect on the trading price of our Class A common stock and may discourage a takeover.

All of the Apollo Group Class B common stock, our only class of voting stock, is controlled by Dr. John G. Sperling, our founder and the Executive Chairman of our Board of Directors, and his son, Mr. Peter V. Sperling, the Vice Chairman of our board of directors. Specifically, approximately 51% of our Class B common stock is owned by a revocable grantor trust, of which Dr. Sperling is the sole trustee (the "JGS Trust"). During his lifetime, Dr. Sperling has the power to remove or replace all trustees of the JGS Trust and to direct the disposition of the Class B common stock held by the trust, including upon his death, subject to certain limitations, including the limitations on transfers set forth in the Shareholders Agreement, as amended, among the Class B shareholders and us. The remainder of our Class B common stock is owned by Mr. Sperling, also through a revocable grantor trust.

Accordingly, Dr. Sperling and Mr. Sperling together control the election of all members of our board of directors and substantially all other actions requiring a vote of our shareholders, except in certain limited circumstances. Holders of our outstanding Class A common stock do not have the right to vote for the election of directors or for substantially any other action requiring a vote of shareholders.

Upon Dr. Sperling's death or incapacity, the JGS Trust will become irrevocable and Mr. Sperling, Ms. Terri Bishop and Ms. Darby Shupp, who are members of our board of directors, will automatically be appointed as successor trustees, unless such event occurs prior to March 24, 2013, in which case Ms. Shupp will instead be appointed as a trustee on such later date. Following Dr. Sperling's death, the trustees of the JGS Trust shall have the sole power to appoint successor and additional trustees.

The control of a majority of our voting stock by Dr. Sperling makes it impossible for a third party to acquire voting control of us without Dr. Sperling's consent. After Dr. Sperling's death, it will be impossible for a third party to acquire voting control of us without the approval of a majority of the trustees of the JGS Trust.

No assurances can be given that the Apollo Group Class B shareholders, or the trustees of the JGS Trust, will exercise their control of Apollo Group in the same manner that a majority of the outstanding Class A shareholders would if they were entitled to vote on actions currently reserved exclusively for our Class B shareholders.

We are a " Controlled Company" under the NASDAQ Listing Rules and therefore are exempt from certain corporate governance requirements, which could reduce the influence of independent directors on our management and strategic direction.

We are a "Controlled Company" as defined in Rule 5615(c)(1) of the NASDAQ Listing Rules, because more than 50% of the voting power of our outstanding stock is controlled by Dr. John G. Sperling. As a consequence, we are exempt from certain requirements of NASDAQ Listing Rule 5605, including that:

- our Board be composed of a majority of Independent Directors (as defined in NASDAQ Listing Rule 5605(a)(2));
- the compensation of our officers be determined by a majority of the independent directors or a compensation committee composed solely of independent directors; and
- nominations to the Board of Directors be made by a majority of the independent directors or a nominations committee composed solely of independent directors.

However, NASDAQ Listing Rule 5605(b)(2) does require that our independent directors have regularly scheduled meetings at which only independent directors are present ("executive sessions"). In addition, Internal Revenue Code Section 162(m) requires that a compensation committee of outside directors (within the meaning of Section 162(m)) approve stock option grants to executive officers in order for us to be able to claim deductions for the compensation expense attributable to such stock options. Notwithstanding the foregoing exemptions, we do have a majority of independent directors on our Board of Directors and we do have an Audit Committee, a Compensation Committee and a Nominating and Governance Committee composed entirely of independent directors.

The charters for the Compensation Committee, Audit Committee and Nominating and Governance Committee have been adopted by the Board of Directors and are available on our website, www.apollogrp.edu. These charters provide, among other items, that each member must be independent as such term is defined by the rules of the NASDAQ Stock Market LLC and the Securities and Exchange Commission.

If in the future our Board of Directors elects to rely on the exemptions permitted by the NASDAQ Listing Rules and reduce the number or proportion of independent directors on our Board and its key committees, the influence of independent directors on our management and strategy would be reduced and the influence of the holders of our Class B voting common stock on our management and strategy would increase.

If regulators do not approve or delay their approval of transactions involving a change of control of our company, our state licenses, accreditation, and ability to participate in Title IV programs and state grant programs may be impaired, which could materially and adversely affect our business.

A change of ownership or control of Apollo Group, depending on the type of change, may have significant regulatory consequences for University of Phoenix and Western International University. Such a change of ownership or control could require recertification by the U.S. Department of Education, reauthorization by state licensing agencies, and the reevaluation of accreditation by The Higher Learning Commission of the North Central Association of Colleges and Schools. If we experience a change of ownership and control sufficient to require us to file a Form 8-K with the Securities and Exchange Commission, or there is a change in the identity of a controlling shareholder of Apollo Group, then University of Phoenix and Western International University may cease to be eligible to participate in Title IV programs until recertified by the Department. There can be no assurances that such recertification would be obtained on a timely basis. Under some circumstances, the Department may continue an institution's participation in Title IV programs on a provisional basis pending completion of the change in ownership approval process. Continued participation in Title IV programs is critical to our business. Any disruption in our eligibility to participate in Title IV programs would materially and adversely impact our business, financial condition, results of operations and cash flows.

In addition, some states in which University of Phoenix, Western International University or CFFP are licensed require approval (in some cases, advance approval) of changes in ownership or control in order to remain authorized to operate in those states, and participation in grant programs in some states may be interrupted or otherwise affected by a change in ownership or control.

Moreover, University of Phoenix, Western International University and CFFP would be required to report any material change in stock ownership to their principal accrediting body, The Higher Learning Commission, and would be required to obtain approval prior to undergoing any transaction that affects, or may affect, corporate control or governance at the institution. In the event of a material change in the ownership of Apollo Group Class B common stock, The Higher Learning Commission may undertake an evaluation of the effect of the change on the continuing operations of University of Phoenix, Western International University and CFFP for purposes of determining if continued accreditation is appropriate. If the Commission determines that the change is such that prior approval by the Commission was required, but was not obtained, the Commission's policies require it to consider withdrawal of accreditation. If accreditation by the Higher Learning Commission is suspended or withdrawn, University of Phoenix, Western International University and CFFP would not be eligible to participate in Title IV programs until the accreditation is reinstated by the Commission or is obtained from another appropriate accrediting body. There is no assurance that reinstatement of accreditation could be obtained on a timely basis, if at all, and accreditation from a different qualified accrediting authority, if available, would require a significant amount of time. Any material disruption in accreditation would materially and adversely impact our business, financial condition, results of operations and cash flows.

All of the Apollo Group Class B common stock, our only class of voting stock, is controlled by Dr. John G. Sperling, the Executive Chairman of our Board of Directors, and his son, Mr. Peter V. Sperling, the Vice Chairman of our Board of Directors. Specifically, approximately 51% of our Class B common stock is owned by a revocable grantor trust (the "JGS Trust"), of which Dr. Sperling is the sole trustee. We cannot prevent a change of ownership or control that would arise from a transfer of voting stock by Dr. Sperling, Mr. Sperling or the JGS Trust, including a transfer that may occur or be deemed to occur upon the death of one or both of Dr. Sperling or Mr. Sperling or a transfer effected through an amendment of the JGS Trust.

Risks Related to the Highly Regulated Industry in Which We Operate

If we fail to comply with the extensive regulatory requirements for our business, we could face significant monetary liabilities, fines and penalties, including loss of access to U.S. federal student loans and grants for our students.

We are subject to extensive U.S. federal and state regulation as a provider of postsecondary education. The principal federal regulatory regime is established under the Higher Education Act of 1965, as it is amended and reauthorized from time to time, and the regulations promulgated under the Act by the U.S. Department of Education. Among other matters, these regulations govern the participation by University of Phoenix and Western International University in federal student financial aid programs under Title IV of the Higher Education Act ("Title IV"), which is the principal source of funding for students at these universities. We collected the substantial majority of our fiscal year 2012 total consolidated net revenue from receipt of Title IV financial aid program funds.

The Higher Education Act, as reauthorized, mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the U.S. Department of Education; (2) independent accrediting agencies recognized by the Department of Education; and (3) state higher education regulatory bodies.

The applicable regulatory requirements cover virtually all phases of our U.S. operations, including educational program offerings, branching and classroom locations, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, maintenance of restricted cash, acquisitions or openings of new schools, commencement of new educational programs and changes in our corporate structure and ownership.

The applicable regulations, standards and policies of the various regulatory agencies frequently change and often are subject to interpretative challenges, particularly where they are crafted for traditional, academic term-based schools rather than our non-term and innovative academic delivery model. Changes in, or new interpretations of, applicable laws, regulations, standards or policies could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV programs, costs of doing business and our ability to implement beneficial changes in our academic or business model. We cannot predict how the requirements administered by these agencies will be applied or interpreted in the future, or whether our schools will be able to comply with any future changes in these requirements.

If we are found to have violated any applicable regulations, standards or policies, we may be subject to the following sanctions imposed by any one or more of the relevant regulatory agencies:

- monetary fines or penalties;
- limitation or termination of our operations or ability to grant degrees, diplomas and certificates;
- restriction or revocation of our accreditation, licensure or other operating authority;
- limitation, suspension or termination of our eligibility to participate in Title IV programs or state financial aid programs;
- repayment of funds received under Title IV programs or state financial aid programs;
- requirement to post a letter of credit with the U.S. Department of Education;
- requirement of heightened cash monitoring by the U.S. Department of Education;
- transfer from the U.S. Department of Education's advance system of receiving Title IV program funds to its reimbursement system, under which a school must disburse its own funds to students and document the students' eligibility for Title IV program funds before receiving such funds from the Department;
- other civil or criminal penalties; and/or
- other forms of censure.

In connection with past U.S. Department of Education program reviews we have paid monetary penalties in various amounts, and in June 2010 we were required to post a $126 million letter of credit with the Department, which was released in fiscal year 2011.

In addition, in some circumstances of noncompliance or alleged noncompliance, we may be subject to *qui tam* lawsuits under the Federal False Claims Act or various, similar state false claim statutes. In these actions, private plaintiffs seek to enforce remedies under the Act on behalf of the U.S. federal government and, if successful, are entitled to recover their costs and to receive a portion of any amounts recovered by the U.S. federal government in the lawsuit. These lawsuits can be prosecuted by a private plaintiff, even if the Department does not agree with plaintiff's theory of liability. In 2009, we settled a *qui tam* lawsuit relating to alleged payment of incentive compensation to our enrollment counselors for a total payment of $80.5 million, and we currently are subject to a another *qui tam* lawsuit alleging payment of improper incentive compensation in subsequent periods. For more information about the pending *qui tam* case, Refer to Note 16 , Commitments and Contingencies , in Part II, Item 8, *Financial Statements and Supplementary Data* .

In October 2011, the Office of the Inspector General of the U.S. Department of Education ("OIG") notified us that it was conducting a nationwide audit of the Department's program requirements, guidance, and monitoring of institutions of higher education offering distance education. In connection with the OIG's audit of the Department, the OIG examined a sample of University of Phoenix students who enrolled during the period from July 1, 2010 to June 30, 2011. The OIG subsequently notified University of Phoenix that in the course of this review it identified certain conditions that the OIG believes are Title IV compliance exceptions at University of Phoenix. Although University of Phoenix is not the direct subject of the OIG's audit of the Department, the OIG has asked University of Phoenix to respond so that it may consider University of Phoenix's views in formulating its audit report of the Department. These exceptions relate principally to the calculation of the amount of Title IV funds returned after student withdrawals and the process for confirming student eligibility prior to disbursement of Title IV funds. For more information about this audit, refer to Note 16 , Commitments and Contingencies , in Part II, Item 8, *Financial Statements and Supplementary Data.*

Any of the penalties, injunctions, restrictions, lawsuits or other forms of censure listed above could have a material adverse effect on our business, financial condition, results of operations and cash flows. If we lose our Title IV eligibility, we would experience a dramatic decline in revenue and we would be unable to continue our business as it currently is conducted.

University of Phoenix's certification to participate in Title IV programs expires in December 2012. If University of Phoenix is not recertified to participate in Title IV programs by the U.S. Department of Education, the University of Phoenix would not be eligible to participate in Title IV programs and we could not conduct our business as it is currently conducted.

University of Phoenix and Western International University are certified by the U.S. Department of Education to participate in Title IV programs. University of Phoenix was recertified in November 2009 and its current certification expires in December 2012. Western International University was recertified in May 2010 and its current certification expires in September 2014.

Generally, the recertification process includes a review by the Department of the institution's educational programs and locations, administrative capability, financial responsibility, and other oversight categories. The Department could limit, suspend or terminate an institution's participation in Title IV programs for violations of the Higher Education Act, as reauthorized, or Title IV regulations.

Continued Title IV eligibility is critical to the operation of our business. If University of Phoenix becomes ineligible to participate in Title IV federal student financial aid programs, we could not conduct our business as it is currently conducted and it would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Action by the U.S. Congress to revise the laws governing the federal student financial aid programs or reduce funding for these programs, including changes applicable only to proprietary educational institutions, could reduce our enrollment and increase our costs of operation.

The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program. In 2008, the Higher Education Act was reauthorized through September 30, 2013 by the Higher Education Opportunity Act. Changes to the Higher Education Act, including changes in eligibility and funding for Title IV programs, are likely to occur in subsequent reauthorizations, but we cannot predict the scope or substance of any such changes.

In April 2011, Congress permanently eliminated year-round Pell Grant awards beginning with the 2011-2012 award year as part of the fiscal year 2011 Continuing Resolution spending bill. This change, which did not reduce the maximum annual grant level, did not have a material impact on our business. However, because the Pell Grant program is one of the largest non-defense discretionary spending programs in the federal budget, it is a target for reduction as Congress addresses the unprecedented U.S. budget deficit. A reduction in the maximum annual Pell Grant amount or changes in eligibility could result in increased student borrowing, which would make more difficult our ability to comply with other important regulatory requirements, such as the cohort default rate regulations, which are discussed below, and could negatively impact enrollment.

In addition to Congress's focus on the federal government's funding challenges, in recent years, there has been increased focus by Congress on the role that proprietary educational institutions play in higher education. In June 2010, the Education and Labor Committee of the U.S. House of Representatives held a hearing to examine the manner in which accrediting agencies review higher education institutions' policies on credit hours and program length. This followed a report from the Office of the Inspector General of the U.S. Department of Education in December 2009 criticizing the accreditation of a proprietary school by a regional accrediting body and requesting that the Department review the appropriateness of its recognition of the accrediting body. Also in June 2010, the U.S. Senate Committee on Health, Education, Labor and Pensions ("HELP Committee") held the first in a series of hearings to examine the proprietary education sector. At a subsequent hearing in August 2010, the Government Accountability Office ("GAO") presented a report of its review of various aspects of the proprietary sector, including recruitment practices and the degree to which proprietary institutions' revenue is composed of Title IV funding. Following this hearing, Sen. Tom Harkin, the Chairman of the HELP Committee, requested a broad range of detailed information from 30 proprietary institutions, including University of Phoenix. In September 2010, the HELP Committee held a third hearing and Sen. Harkin's staff released its initial report entitled, "The Return on the Federal Investment in For-Profit Education: Debt Without a Diploma." After additional hearings and roundtable discussions and review of the information provided by proprietary institutions, Senator Harkin's staff released its final report in July 2012 entitled, "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success." The final report was not adopted by the full committee and the minority committee staff criticized it for relying on discredited sources and refusing to examine similar concerns in the non-profit education sector. Nonetheless, the report may be influential as Congress begins the process of reauthorizing the Higher Education Act, which currently expires in September 2013. The report advocates significant changes in the requirements governing participation by for profit educational institutions in Title IV student financial aid programs, including the following:

- Tie access to federal aid to meeting minimum student outcome thresholds;
- Prohibit institutions from funding marketing, advertising and recruiting activities with federal financial aid dollars;
- Improve cohort default rate tracking by expanding the default reporting rate period beyond 3 years;
- Require that proprietary colleges receive at least 15 percent of revenues from sources other than federal funds; and
- Use criteria beyond accreditation and state authorization for determining institutions' access to federal financial aid.

In addition, other Congressional hearings and roundtable discussions may be held regarding various aspects of the education industry that may affect our business. We cannot predict what legislation, if any, may emanate from these Congressional committee hearings or what impact any such legislation might have on the proprietary education sector and our business in particular.

The confluence of the increasing scrutiny in Congress of the proprietary education sector and the unprecedented federal budget deficits increases the likelihood of legislation that will adversely impact our business. Any action by Congress that significantly reduces Title IV program funding, whether through across-the-board funding reductions, sequestration or otherwise, or materially impacts the eligibility of our institutions or students to participate in Title IV programs would have a material adverse effect on our enrollment, financial condition, results of operations and cash flows. Congressional action also could require us to modify our practices in ways that increase our administrative costs and reduce our operating income.

If Congress reduced the amount of available Title IV program funding, we would attempt to arrange for alternative sources of financial aid for our students, which may include lending funds directly to our students, but private sources would not be able to provide as much funding to our students or on terms comparable to Title IV. In addition, private funding sources could require us to guarantee all or part of this assistance and we might incur other additional costs. For these reasons, private, alternative sources of student financial aid would only partly offset, if at all, the impact on our business of reduced Title IV program funding, and would not be a practical alternative in the case of a significant reduction in Title IV financial aid.

If we fail to maintain our institutional accreditation or if our institutional accrediting body loses recognition by the U.S. Department of Education, we could lose our ability to participate in Title IV programs, which would materially and adversely affect our business.

University of Phoenix and Western International University are institutionally accredited by The Higher Learning Commission ("HLC") of the North Central Association of Colleges and Schools, one of the six regional accrediting agencies recognized by the U.S. Department of Education. Accreditation by an accrediting agency recognized by the Department is required in order for an institution to become and remain eligible to participate in Title IV programs.

If the Department ceased to recognize HLC for any reason, University of Phoenix and Western International University would not be eligible to participate in Title IV programs beginning 18 months after the date such recognition ceased unless HLC was again recognized or our institutions were accredited by another accrediting body recognized by the Department. In December 2009, the Office of Inspector General of the Department ("OIG") requested that the Department review the appropriateness of the Department's recognition of HLC as an accrediting body, following the OIG's unfavorable review of HLC's initial accreditation of a non-traditional, proprietary postsecondary educational institution.

Regardless of any outcome from the Department's review of HLC, the focus by the OIG and the Department on the process pursuant to which HLC accredited a non-traditional, proprietary postsecondary educational institution may make the accreditation review process more challenging for University of Phoenix and Western International University when they undergo their HLC reaffirmation reviews in the future or in connection with programmatic or location expansion.

In addition, in August 2010, University of Phoenix received a letter from HLC requiring University of Phoenix to provide certain information and evidence of compliance with HLC accreditation standards. The letter related to the August 2010 report published by the U.S. Government Accountability Office ("GAO") of its undercover investigation into the enrollment and recruiting practices of a number of proprietary institutions of higher education, including University of Phoenix. The letter required that University of Phoenix submit a report to HLC addressing the specific GAO allegations regarding University of Phoenix and any remedial measures being undertaken in response to the GAO report. In addition, the report was required to include (i) evidence demonstrating that University of Phoenix, on a university-wide basis, currently is meeting and in the future will meet the HLC Criteria for Accreditation relating to operating with integrity and compliance with all state and federal laws, (ii) evidence that University of Phoenix has adequate systems in place which currently and in the future will assure appropriate control of all employees engaged in the recruiting, marketing or admissions process, (iii) evidence demonstrating that Apollo Group is not encouraging inappropriate behavior on the part of recruiters and is taking steps to encourage appropriate behavior, and (iv) detailed information about University of Phoenix policies, procedures and practices relating to marketing, recruiting, admissions and other related matters. University of Phoenix submitted its response to the HLC in September 2010.

In July 2011, HLC informed University of Phoenix that the special committee formed to review this matter had completed its work, concluding that based on its limited review, it found no apparent evidence of systematic misrepresentations to students or that University of Phoenix's procedures in the areas of recruiting, financial aid and admissions were significantly inadequate or inappropriate.

HLC also stated that there remained significant questions as well as areas that University of Phoenix should work on improving. HLC indicated that these would be reviewed by the comprehensive evaluation team at its previously scheduled visit beginning in March 2012, which was its next comprehensive evaluation visit for reaffirmation. These questions relate to student loans in collection and the minimization of student loan defaults; the offering of limited career services, particularly in relation to University of Phoenix's associate's degree programs; timing of prospective student access to financial aid advisors during the recruiting process; academic qualifications of admissions personnel and financial aid advisors; the hiring and evaluation of financial aid officers; retention of students, including the relationship of remediation to retention; and the role of the University of Phoenix First Year Sequence, or curriculum, in relation to University of Phoenix's transfer policy and impacts on student retention. The HLC's reaffirmation evaluation of University of Phoenix began in March 2012, as scheduled, and is on-going at this time. HLC has indicated that it expects the evaluation to be complete during 2013. We cannot predict whether, and if so, to what extent, our on-going reengineering of our business processes to optimize our business and reduce costs, as discussed below, might have on the reaffirmation evaluation.

The loss of accreditation for any reason would, among other things, render our schools and programs ineligible to participate in Title IV programs, affect our authorization to operate and to grant degrees in certain states and decrease student demand. If University of Phoenix became ineligible to participate in Title IV programs, we could not conduct our business as it is currently conducted and it would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Rulemaking by the U.S. Department of Education could materially and adversely affect our business.

The U.S. Department of Education has promulgated a substantial number of new regulations in the past three years that impact our business, including the following:

- Effective during 2010:
  - Regulations relating to institutional eligibility under the Higher Education Act and the Secretary's recognition of accrediting agencies; and
  - Regulations regarding institution and lender requirements relating to education loans under the Higher Education Act.
- Effective during 2011:
  - Regulations removing certain "safe harbors" that previously defined the limits of the prohibition on the payment of incentive compensation to persons involved in enrollment and financial functions, and regulations prohibiting revenue sharing arrangements between education services providers and institutions that participate in Title IV programs;
  - Regulations requiring institutions that participate in Title IV programs to be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence;
  - Regulations defining for the first time the standards to measure "preparation for gainful employment," instituting consequences of failing the standards, and requiring reporting of certain data to the Department of Education (such regulations were vacated by the U.S. District Court for the District of Columbia in 2012); and
  - Regulations expanding the definition of misrepresentation and the sanctions that the Department may impose for engaging in a substantial misrepresentation (such regulations were partially remanded and vacated in 2012).
- Effective during 2012:
  - Regulations requiring certain disclosures to students related to gainful employment.

These regulations have increased our operating cost and in some cases required us to change the manner in which we operate our business. New or amended regulations in the future, particularly regulations focused on the proprietary sector, could further negatively impact our business.

Our schools and programs would lose their eligibility to participate in federal student financial aid programs if the percentage of our revenues derived from those programs is too high, in which event we could not conduct our business as it is currently conducted.

University of Phoenix and Western International University, and all other proprietary institutions of higher education, are subject to the so-called "90/10 Rule" under the Higher Education Act, as reauthorized. Under this rule, a proprietary institution will be ineligible to participate in Title IV programs if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue, as defined in the rule, from Title IV programs. 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. While the Department has broad discretion to impose additional sanctions on such an institution, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. For example, the Department could impose conditions in the provisional certification such as:

- restrictions on the total amount of Title IV program funds that may be disbursed to students;
- restrictions on programmatic and geographic expansion;
- requirements to obtain and post letters of credit;
- additional reporting requirements such as interim financial reporting; or
- any other conditions deemed appropriate by the Department.

In addition, if an institution is subject to a provisional certification at the time that its current program participation agreement expired, the effect on recertification of the institution or continued eligibility in Title IV programs pending recertification is uncertain.

An institution that derives more than 90% of its cash-basis revenue from Title IV programs for two consecutive fiscal years will be ineligible to participate in Title IV programs for at least two fiscal years. If an institution is determined to be ineligible to participate in Title IV programs due to the 90/10 Rule, any disbursements of Title IV program funds made while ineligible must be repaid to the Department.

The following table details the 90/10 Rule percentages for University of Phoenix and Western International University for fiscal years 2012, 2011 and 2010:

	90/10 Rule Percentages for Fiscal Years Ended August 31,		
	2012	2011[(1)]	2010[(1)]
University of Phoenix	84%	86%	88%
Western International University	68%	66%	62%

[(1)] Calculated excluding the temporary relief from the impact of loan limit increases, which was allowable for amounts received and applied to eligible charges between July 1, 2008 and June 30, 2011 that were attributable to the increased annual loan limits.

Although the University of Phoenix 90/10 Rule percentage for fiscal year 2012 has decreased from fiscal years 2011 and 2010, the 90/10 Rule percentage for University of Phoenix has increased materially over the years prior to fiscal year 2010. This prior increase was primarily attributable to the increase in student loan limits affected by the Ensuring Continued Access to Student Loans Act of 2008 and expanded eligibility for and increases in the maximum amount of Pell Grants.

We believe the decrease in the University of Phoenix 90/10 Rule percentage in fiscal year 2012 compared to fiscal years 2011 and 2010 is primarily attributable to the reduction in the proportion of our students who are enrolled in our associate's degree programs, which historically have had a higher percentage of Title IV funds applied to eligible tuition and fees, and emphasizing employer-paid and other direct-pay education programs. We have also implemented in recent years various other measures intended to reduce the percentage of University of Phoenix's cash basis revenue attributable to Title IV funds, including encouraging students to carefully evaluate the amount of necessary Title IV borrowing and continued focus on professional development and continuing education programs. We have substantially no control over the amount of Title IV student loans and grants sought by or awarded to our students.

Based on recent trends, we do not expect the 90/10 Rule percentage for University of Phoenix to exceed 90% for fiscal year 2013. However, the 90/10 Rule percentage for University of Phoenix remains near 90% and could exceed 90% in the future depending on the degree to which our various initiatives are effective, the impact of future changes in our enrollment mix, and regulatory and other factors outside our control, including any reduction in Military Benefit programs or changes in the treatment of such funding for purposes of the 90/10 Rule calculation.

Various legislative proposals have been introduced in Congress that would heighten the requirements of the 90/10 Rule. For example, in January 2012, the Protecting Our Students and Taxpayers Act was introduced in the U.S. Senate and, if adopted, would reduce the 90% maximum under the rule to the pre-1998 level of 85%, cause tuition derived from Military Benefit programs to be included in the 85% portion under the rule instead of the 10% portion as is the case today, and impose Title IV ineligibility after one year of noncompliance rather than two. If these or other proposals are adopted as proposed, University of Phoenix may be required to increase efforts and resources dedicated to reducing the percentage of cash basis revenue attributable to Title IV funds, which could materially and adversely affect our business. In addition, the ineligibility of University of Phoenix students for Cal Grants in California as discussed in a separate risk factor below, and reductions in other state-funded student financial aid programs could adversely impact our compliance with the 90/10 rule, because tuition revenue derived from such programs is included in the 10% portion of the rule calculation.

Any necessary further efforts to reduce the 90/10 Rule percentage for University of Phoenix, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures which reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. In addition, we may be required to make structural changes to our business in the future in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business, financial condition, results of operations and cash flows. Furthermore, these required changes could make it more difficult to comply with other important regulatory requirements, such as the cohort default rate regulations, which are discussed below.

An increase in our student loan default rates could result in the loss of eligibility to participate in Title IV programs, which would materially and adversely affect our business.

To remain eligible to participate in Title IV programs, educational institutions must maintain student loan cohort default rates below specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30). The currently applicable cohort default rate for each cohort is the percentage of the students in the cohort who default on their student loans prior to the end of the following federal fiscal year, which represents a two-year measuring period. The cohort default rates are published by the U.S. Department of Education approximately 12 months after the end of the measuring period. Thus, in September 2012 the Department published the two-year cohort default rates for the 2010 cohort, which measured the percentage of students who first entered into repayment during the year ended September 30, 2010 and defaulted prior to September 30, 2011. As discussed below, the measurement period for the cohort default rate has