

National Association of State Administrators and Supervisors of Private Schools

State Innovations Using Technology for Data Collection and Dissemination

April 25, 2007

Session Overview

- Setting the Context
 - Interest in Accountability / Outcomes
- Sharing the Data
 - Enhancing Transparency
- Collecting the Data
 - Administrative Efficiency
- Lessons Learned
 - Process Suggestions
- Project Rationale
 - Benefits for States / Schools / Students
- Questions and Answers

Setting the Context

- Future of Higher Education Commission
 - Transparency / Accountability
- Wall Street
 - Student Outcomes
- Wisconsin's Modernization Initiative
 - Changing the Regulatory Model

Future of Higher Ed Commission

“Because data systems are so limited and inadequate, it is hard for policymakers to obtain reliable information on students’ progress through the educational pipeline. This lack of useful data and accountability hinders policymakers and the public from making informed decisions and prevents higher education from demonstrating its contribution to the public good.”

“We believe that improved accountability is vital to ensuring the success of all the other reforms we propose. Colleges and universities must become more transparent about ...student success outcomes, and must willingly share this information with students and families.”

Wall Street's Interest

EQUITY RESEARCH
United States

November 2, 2006

APOL

\$35.90
12-Month Target:
\$40.00
Total Return To Target:
11.4%

Neutral

Market Cap. Volatility
\$6,390.2 MM High

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Changes at a glance

(Please see page 2 for additional detail)

Rating?	No		Yes	
Target Price?	No		Yes	
Maintain Neutral				
Revenue (MM)	Prev	Curr	P/E	
FY06	--	--	\$2,476.3	
FY07E	--	--	\$2,526.7	
EPS**	Prev	Curr	P/E	
FY06	no	no	\$2.49	13.4
FY07E	no	no	\$1.86	19.3
FY08E	no	no	\$1.99	18.0

* No Previous Values
** These estimates adjusted to account for SAS 123; Expiring of Employee Stock Options.

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Bank of America

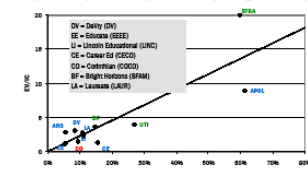
Education Services

Apollo Group, Inc.

Badgering Apollo on Its Retention Rates. UoP's Attrition in Wisconsin.

- Wisconsin's uniquely diligent data collection offered an opportunity to evaluate UoP's drop-out rates. We reviewed the publicly available enrollment data for two degree programs at UoP's Brookfield, WI campus (BS Business and the MBA).
- We previously published our contention that Apollo's graduation rate is significantly less than the 60% graduation rate that management had reported for years. We believe the graduation is closer to 35-40%, and we expect Apollo Group's graduation rate to deteriorate from levels that have been consistent with industry averages – below 50%. (See our note: 9/1/06 APOL: *Apollo Ad Campaign Has Likely Launched Axia Enrollment*).
- Due to the limited nature of the WI data, we focused on dropout rates. The findings were not inconsistent with our expectations. The analysis shows that roughly 50% of UoP students dropout. Associate degree (Axia-like) were not included in our analysis as the data was too limited in WI. We believe data from the Brookfield UoP campus is representative of UoP nationwide.
- Valuation and Target Price Analysis:** Our 12-month target price (\$40) will imply a forward multiple (17 that approximates the S&P's current forward multiple) on earnings as we balances above-market ROIC (62%) against decelerating growth, the overhang of downward revisions by Consensus, the likelihood of ending unit economics, the specter of ongoing legal and regulatory challenges and ROIC (incremental) that have been deteriorating since 3Q05 and are expected to continue to deteriorate.
- PORTFOLIO MANAGERS' SUMMARY: Page 3.**

Enterprise Value/Invested Capital vs. ROIC (Trailing 12 Months)



Note: FY's ROIC is 100% due to low working capital requirements. The string of academic periods above normalized to be collected before balance sheet cut-off dates, substantially varying IC.
Source: Company reports, Banc of America Securities LLC.

SunTrust Robinson HumphreySM

A Division of SunTrust Capital Markets, Inc.

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Apollo Group, Inc.

Rating: **Neutral** Price Target: **NA**
Estimate Bias: **Neutral** Risk Rank: **High**

APOL: February Quarter Earnings Preview


Summary

- Apollo should report second fiscal (February) quarter results in the near term (no date has been scheduled). Our EPS estimate of \$0.46 compares to the Street mean of \$0.47, while our revenue forecast of \$604 million, up 6% year over year, is just ahead of the average estimate of \$598 million.
- Early feedback from sector due diligence calls suggests a steady environment in the first calendar quarter; student inquiry volume appears to be up while conversion rates have been relatively stable. We understand that APOL continues to refine its marketing practices, but have not heard of any material changes in start activity.
- As it should once again represent an incremental drag on retention, we believe. In our quarterly retention model (Figure 1), the benefit of students transferring from Axia to University of Phoenix is more than offset by increasing graduations, which have been minimal heretofore. Thus, the company appears to get no net benefit from the greater longevity of the Axia/UoP student, at least for the next few quarters.
- Per our 3/16 note, Apollo faces a similar challenge within UoP itself, where graduations should continue to outpace total population growth. Now, rising associate's graduations – which were flat at roughly 900 at the online campus last year – should further restrain growth. A final data point regarding retention comes from APOL's Wisconsin campus, where that state's unique reporting requirements reveal an uptick in drops/withdrawals at this single location, from 31% in fiscal 2005 to 35% in fiscal 2006, per recently-published data.
- We look for total population growth of 6% in 2Q07, consistent with our target for revenue expansion. Given management's ongoing redefinition of population numbers, we believe revenue changes are probably the best reflection of student counts. We forecast an EBIT margin of 20.5%, down 450 bps. Given the recent volatility within APOL's operations, along with the current retention impediments, we maintain our Neutral rating.

Fundamentals	FYE - Aug	2006	2007E	2008E			
Price (Apr 02, 2007)	\$43.90	EPS	Actual	Old	New	Old	New
52-Week Range	\$56.30-\$33.33	1Q	\$0.73A	\$0.66A	\$0.66A	NA	NA
Mkt. Cap. (ml)	\$7,440.6	2Q	\$0.46A	\$0.45E	\$0.45E	NA	NA
Shares Out. (ml)	174.5	3Q	\$0.77A	\$0.75E	\$0.75E	NA	NA
Roat (ml)	145.5	4Q	\$0.54A	\$0.53E	\$0.53E	NA	NA
Avg Daily Trading Vol. (000)	2027	Year	\$2.49A	\$2.40E	\$2.40E	NA	NA
Book Value/Share	\$4.45	P/E	17.6x		18.2x		NA
Dividend/Yield	\$0.00/Nil	EV/EBITDA	9.3x		9.8x		NA
ROE	57.5%	Revenue (mil)	\$2,474.3	\$2,623.9	\$2,623.9	NA	NA
Cash & Equiv. (ml)	\$478.00	Operating Margin	28.2%	25.1%	25.1%	NA	NA
Debt/Cap.	112%	Mean EPS	\$2.49	\$2.45	\$2.45	\$2.49	\$2.69
Est. 5-Year EPS Growth	15%	Short Interest (000)				2007	2008
Convertible	No	3/07	8512		02/07/07	\$2.40	
Major Index Membership		2/07	6970		10/18/06	\$2.35	
		1/07	7209		06/09/06	\$2.61	
		12/06	8499				

PLEASE SEE IMPORTANT DISCLOSURES STARTING ON PAGE 2

EAB Modernization Initiative

- Compliance Only  Institutional Effectiveness
- Promote quality, organizational accountability and continuous improvement for schools, as well as EAB.
- Outcomes are at Core of Accountability

Sharing the Data

- What Data is Shared
 - School Information
 - Name, Contacts, Description, Accreditation, Locations
 - Financial Information
 - Financial Aid, Default Rate, Lenders
 - Program Information
 - Name, Length, Student Outcomes
 - Student/Faculty
 - Gender / Age / FT-PT Status / Complaints / Debt
- How is Data Shared (to whom)
 - Annual Directory
 - Website (real-time)

Collecting the Data

- Annual School Renewal Process
 - Old Process
 - Paper Forms
 - EAB Data Entry
 - New Process
 - Web-based Forms
 - School Data Entry
 - Staff Review & Approval
- Electronic Reporting by Schools
- Approval of Data by Staff

Lessons Learned

- Use of System
 - Easy to Use for Schools & Staff
- Communication
 - Keep Schools Informed / Training
- Data Validation
 - Required Reporting / Formatting
- Audit Tracking
 - Knowing who Makes Changes (and when)
- Data Migration
 - Interface with Database / Timing
- System Security
 - Internal & External Access to Data
- Testing and Debugging
 - Design in Sufficient Time
- Cost
 - Staffing (in-house vs. contracting)

Project Rationale

- Good for States
 - Administrative Efficiency
 - School Improvement
- Good for Schools
 - Administrative Efficiency
 - Transparency/Accountability
- Good for Students
 - Decision-making Information

Questions and Answers

