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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Apollo Group Incorporated second quarter fiscal 2008 earnings conference call. All lines are currently in a listen-only mode. Later we will conduct a question and answer session and introductions will follow at that time. Please refrain from entering into the queue until those instructions are given. (OPERATOR INSTRUCTIONS) This conference call is scheduled for one hour and is being recorded today, March 27, 2008, and may not be reproduced whole or in part without permission from the company. There will be a replay of this call made available through April 4th, 2008, beginning approximately two hours after we conclude today. The replay number is (800)642-1687, or (706)645-9291 internationally. The conference ID number for the replay is 38038119.

Additionally, this call will be broadcast over the internet and can be accessed via the company's website at www.apollogrp.edu. I would also like to remind everyone that the conferences may contain forward-looking statements with regard to the future performance of Apollo Group that may involve risks and uncertainties. Various factors could cause the actual results of the company to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the company's 10K report and subsequent 10Q report filed with the Securities and Exchange Commission. The company does not undertake any obligation to update anyone with regard to the forward-looking statements made during this conference call. I would now like to turn today's call over to Peter Sperling, Vice Chairman of Apollo Group. Mr. Sperling, please go ahead.

Peter Sperling *- Apollo Group, Inc. - Vice Chairman*

Thank you. Good afternoon, and thank you for joining us today to discuss our second quarter results. John is unavailable today and it's an honor to be opening the call in his absence. We again reported solid revenue and enrollment growth in the second quarter. During the quarter we achieved many important milestones and we were pleased to announce our first Apollo Global transaction, the acquisition of UNIACC in Chile. Despite the highs and lows of the industry over the past 30 years, the Apollo Group has been successful by providing a high quality educational experience that is convenient, accessible and relevant to our students and their employers. We continue to focus on providing real measurable value to our students, and believe that our programs, services and commitment to our students success will allow to us grow consistently in the long run.

On today's call Brian Mueller will update you on our second quarter operational progress and discuss our long-term strategic plan. Joe D'Amico will then review our financial results and Greg Cappelli will review our capital deployment priorities and provide an update on Apollo Global. Finally, we will open the call to your questions. With that, I will turn over the call to Brian. Brian?

Brian Mueller *- Apollo Group, Inc. - President*

Thank you, Peter. We are pleased with the top line results we generated in the second quarter. We achieved double-digit year-over-year revenue and enrollment growth for the fourth quarter in a row. Before I discuss the second quarter detail, I want to comment on two of many investments that were made in the first half of fiscal '08. The two investments negatively impacted our second quarter results, but we made these investments because we believe they will better position us to drive growth over the long term.

First, in advertising during the months of November, December and January, we were transitioning off of ad.com's platform and onto the Aptimus platform. Overall the transition went smoothly. However, for a period of time during the transition we were not able to manage the affiliate and search process as well as we can do currently. As a result we were not as aggressive in our spend and this negatively impacted our student starts. We now have better intelligence on lead sources, drive a more efficient process and we believe this will eventually lower student acquisition costs.

Second, over the last year an increasing percentage of leads have come from a less mature UOP markets particularly the northeast, the southeast and the midwest. We believe this is because of our increased physical presence in those markets over the last five years. As a result, we decided to further invest in this opportunity by pulling forward the hiring of enrollment counselors in those regions. These investments along with our investment in Insight schools and the increase in G&A due to our added personnel over the last year, account for the vast majority of our year over year decline in adjusted margin.

Now let me address the quarter in more detail. As many of you know the company has been intensely focused on student success and at keeping levels of retention and graduation rates high. We are approaching this from many angles including: programmatic expansion, curriculum improvements, instructional innovation, tutoring services and the service provided to students by all front line staff. Our efforts led us to ending the quarter with 330,200 students, which was a 10.7% increase over the second quarter of 2007. Undergraduate student enrollment including associate and bachelor students grew by more than 13% year over year to over 257,000 students. Masters enrollments grew by 1.4% to 67,000 students and our doctoral enrollments increased by 19.1% year over year. We saw the greatest improvement in retention at the associates level, our fastest growing segment, and we are working hard to drive improvements at all levels. New student starts were 65,000, which was a 6.2% increase versus a year ago.

As I said our acquisition of Aptimus and the transition of lead generation process to us has gone well. Their technology has been integrated with our systems, lead flow is flowing through these systems and the data we are gathering represents a significant improvement over where we were. The skill set of the team is a major asset. As we have become comfortable with managing the marketing affiliates and have gained the necessary intelligence, we have begun to increase our advertising spend. As a percent of revenue for the quarter, advertising was down slightly versus the second quarter of 2007. But we spent aggressively in February, especially the last two weeks of February, and will continue that spend at least through the third quarter. We now have the strong internal marketing platform and a sizeable spend in the marketplace which we intend to leverage to a greater extent in the future.

Additionally we are continuing our focus on branding and we are pleased with the results we have had on raising the awareness of the University of Phoenix and the quality of programs. In the second quarter net revenue increased approximately 14% year over year, again, well above our long-term target of mid-to-high single-digit growth. Excluding discounts and refunds our degree seeking growth revenue increased approximately 15%. We consider discounts to be another component of our retention focus. The increase in discounts primarily came from three areas. One, scholarships awarded to some bachelor students based on persistence and academic achievement. Two, grants awarded to associate grads matriculating into our baccalaureate program. And, third, continuing to give certain students who withdraw from a course for legitimate reasons a second chance at the course without charge. Given the improvement we are seeing in retention we believe these investments will pay off in increased revenues and profits long term.

I will now turn to the cost side of the business and discuss some of the major items impacting our results. Our adjusted operating margin which excludes special items was 15.7% for the second quarter versus 18% on a comparable basis a year ago. As I mentioned at the beginning of the call this due to ongoing investments we are making in our business, which we believe are necessary to support our strategic growth initiatives and a continued demand for high quality accessible education. Instructional costs and services as a percent of revenue declined 1.2 percentage points to 47.2%. The majority of this improvement came from leveraging the cost benefits of a greater percentage of our students choosing to attend classes online. We also benefited from better pricing with certain suppliers as a result of renegotiated contracts.

Offsetting the gains were an increase in bad debt expense, which Joe will discuss in a few minutes, as well as investments that we are making in academics and operations. Specifically we are investing in three areas. One, we are building out additional resource centers across the country as a result of a very successful pilot in Plano, Texas. The Plano resource center was opened last May and has been extremely successful in generating both improved conversion rates of prospective students as well as better retention from existing students. It also provides better educational support for both campus and online students in the area. We expect to have approximately 25 resource centers opened by the end of the year.

Second, we have been rapidly expanding Insight schools, which includes hiring additional personnel. We are very excited about the opportunity in the high school market and very pleased with the advancements made by Insight since we acquired the company in 2006. We reported to you in January that Insight was approved in five states and operating in three of them. Since then we have been approved in two additional states, Idaho and Kansas, which brings our total to seven. Additionally we opened a school in Oregon, so we are currently operating in four states. We are targeting several other states and continue to believe we are on track to be approved in a total of 10 states by this fall.

Third, we continue to invest in various student retention pilot programs. Selling and promotional expense as a percentage of revenue increased 170 basis points to 29.1%. This is not a number we would be satisfied with long term. But as I mentioned earlier we are making investments in Aptimus and in sales and marketing which we believe will ultimately allow to us bring down our student acquisition cost. Additionally, as I mentioned, we continue to hire enrollment counselors in the second quarter as our regional directors saw unmet demand. We believe we can supply the leads necessary to support this growth, and while we know there is a ramp-up period for new enrollment counselors we believe the investment is essential in order to capitalize on demand and drive enrollment growth for the long term. We are also adding personnel at Aptimus to support our strategic marketing plans. This is a primary reason for the increase in the other sales and promotional costs.

Our student acquisition costs per start increased about 10% to $2,700 as compared to $2,500 a year ago and $2,300 last quarter. For purposes of this calculation we have included enrollment counselor compensation and related expenses as well as advertising. We have excluded the other selling and promotion line from this calculation as those expenses include Aptimus and other costs that are in support of our overall marketing function but not the direct purchasing of leads. The increase is primarily the result of the increase in number of enrollment counselors. Advertising costs per start on a quarterly basis is up only very slightly.

Finally general and administrative costs as a percent of revenue, excluding special items which Joe will address in detail, increased 170 basis points to 7.9% versus the second quarter of a year ago. Similar to the last couple of quarters this increase is due to the investments we made over the last year in IT, as well as our financial, legal and corporate development teams. In summary we have one of the most robust systems for delivery of education in the industry, which includes: technology, curriculum development, learning assessment, instruction, marketing and support, as well as campuses in 39 states. Because we are focused on the long-term success of our business, we plan to leverage our academic system both domestically and internationally and apply it across a variety of student demographics and geographic locations, including globally, which Greg will discuss in a moment. It's important to note that we are willing to make these investments because we continue to be very opportunistic about the opportunity that exists in the education market both here and abroad. Over the long-term we believe we will generate increasing value for all of our stakeholders, our students, employees and our shareholders. With that, I will turn the call over to Joe.

Joe D'Amico - *Apollo Group, Inc. - EVP, CFO, Treasurer*

Thank you, Brian. Today I'd like to cover three areas. First, the securities litigation matter and the accrual we recorded in the second quarter. Second, our financial results. And then third I'll touch briefly on the status of student lending which remains stable for us.

With respect to the securities class action litigation, as previously reported a jury returned a verdict in favor of the plaintiffs for up to $5.55 for each share of common stock in the class suit. On February 13th, we filed motions asking the Federal District Court in Arizona to set aside, reverse, or modify this verdict. We have requested oral arguments, but a hearing date has not yet been set. If our motions are denied, we intend to pursue any and all remedies that are available, including appealing the judgment. Also on February 13th, the court granted our motion to stay execution of the judgment provided that we post a bond in the amount of $95 million by February 19, which we have done. The cash required to collateralize the bond is included on our balance sheet as a long-term asset. Additionally while the actual amount of damages is unknown, for financial reporting purposes, we have made an estimate based on input from a third party specialist. Our estimate including anticipated legal costs for the post-trial motions is in the range of $121 million to $216 million.

In the second quarter we accrued $168 million, which is the midpoint of that range. This non-cash charge is recorded as a separate line item on our income statement and is included in other long-term liabilities on the balance sheet. The tax effects have been recorded as a long-term deferred tax asset. While we have made our best estimate of the potential damages the ultimate liability is not known and may be outside the range. It is important to note however that we do not believe the ultimate liability will have a material adverse effect on our ongoing business operations and cash flows.

Now let me turn to second quarter results. We reported strong revenue in enrollment growth in the second quarter as Brian has indicated. And we continue to invest in key areas that we believe are critical to maximizing long-term shareholder value. For the second quarter consolidated net revenues for Apollo Group were $694 million, a 13.9% increase over the second quarter of fiscal 2007. Discounts as a percentage of gross revenues were 6% compared to the year ago percentage of 4.7%. However, these percentages are not comparable.

As we pointed out last quarter, we did not make the reclass in 2007 for certain discounts that are included in bad debt -- on the bad debt expense line. On a comparable basis discounts as a percentage of gross revenue increased 40 basis points to 6.0% from 5.6% a year ago for the reasons Brian discussed. Student starts for the second quarter increased 6.2%. We reported starts growth for last quarter of 7.8%. However, they were actually 9.9%. We note this for your information so that when we report next year we report against a corrected number.

Now for the second quarter of fiscal 2008. We reported a net loss of $32 million or $0.19 per share, compared to net income of $60.3 million or $0.35 a share in the second quarter a year ago. Before giving effect to the litigation charge in the second quarter of fiscal 2008 and to special items of $5.7 million a one time share-based compensation charge of $12.1 million in the second quarter of fiscal 2007, net income was $70.3 million, or $0.41 per diluted share in the second quarter of fiscal '08, essentially flat with the net income of $71.2 million, or $0.41 per diluted share a year ago.

Now let me discuss the detailed cost items. Structural costs and services increased 11.3% year over year to approximately $328 million. As a percentage of revenue instructional costs and services decline to 47.2% versus 48.4% in the prior quarter. As Brian mentioned the decline was a result of continued leverage of our space as well as savings from better pricing and certain renegotiated contracts. We are pleased with the progress to date and our aforementioned efforts to reduce our supplier expenses, the savings will help fund some of the investments that Brian discussed earlier. These decreases were partially offset by an increase in financial aid processing cost which is mainly due to increased processing volume as a higher percent of our students applied for financial aid.

Bad debt expense for the second quarter of 2008 as a percentage of revenue was 3.8%, compared to 4.3% a year ago. Adjusting for the impact of bad debt and discount reclass that we discussed last quarter, bad debt expense as a percentage of revenue would have been 3.5% a year ago. This 30 basis point increase in bad debt as a percentage of revenue versus a year ago on a comparable basis is primarily due to the continuing shift in our enrollment mix to a higher percentage of associate degree students when compared to prior periods. Importantly including the reclass, our bad debt expense as a percentage of revenue declined 40 basis points from the first quarter of 2008 and 60 basis points from the fourth quarter of fiscal 2007. We remain hopeful that our efforts to manage our bad debt levels will continue to pay off as we continue to execute our plan of improving student retention particularly in our associate degree programs and improving our front end collection processes.

Selling and promotional expenses increased 20.9% versus a year ago to approximately $202 million. As a percentage of revenue, selling and promotional expenses increased to 29.1% versus 27.4% in the prior year quarter. This increase was primarily the result of increases in marketing, which Brian discussed earlier. Excluding special items G&A expenses were $55 million or 7.9% of revenue in the second quarter as compared to $38 million or 6.2% of revenue in the second quarter a year ago. This increase as a percentage of revenue is primarily attributable to increases in salary and related payroll costs due to higher employee headcount. Total share-based compensation expense in the second quarter was approximately $20 million, up $5 million versus the first quarter. This increase was due to the triggering of accelerated vesting of the June 2006 management grant and the cost of our annual faculty grant which took place during the second quarter. As a result we now expect share-based comp for the year to be closer to $65 million.

During the second quarter on a GAAP basis we reported a negative operating margin of 8.5%. However, excluding the litigation charge we generated an operating margin of 15.7%. This compares to a margin of 18% in the second quarter a year ago excluding special items. Excluding special items and total share-based compensation expense, our adjusted operating margin was 18.6% versus 19.6% in the second quarters of fiscal 2008 and 2007 respectively. Our reported loss in the second quarter resulted in our recognizing a tax benefit at a lower rate of 37.3%. However our effective tax rate for the first six months of fiscal 2008 increased to 39.3% from 38.9% in the first quarter. This increase was primarily due to us shifting a portion of our cash from nontaxable investments to taxable investments. As a result we expect the 2008 full year tax rate to be closer to the six-month rate of 39.3%.

Turning to the balance sheet and our cash flows, our cash and marketable securities excluding restricted cash totaled approximately $537 million at February 29, 2008, as compared to $393 million at August 31, 2007. Included in this total are $97 million in auction rate securities, all of which were held due to failed auctions. As of March 24, we liquidated approximately $12 million of the $97 million. Substantially, all of our auction rate securities are in high quality municipal rate securities, preferred stock and other tax exempt bonds, and there have been no defaults in the underlying securities. For the immediate future given the uncertainties in the global credit and capital markets we are investing in more conservative investments and are not reinvesting in the ARS market. Given the lower yields and declining interest rate environment we will likely generate a lower yield on our cash investments until the market stabilizes.

During the quarter we generated approximately $102 million of cash flow from operations which was reduced by $32 million of capital expenditures and by $95 million due to the bond we posted. Of the capital expenditures approximately $2.5 million represents the continued build out of our new corporate headquarters building in Phoenix, which is now complete. As we recently corrected and clarified, the company has provided an option to a third party to purchase our headquarters building for $170 million. In March, we granted that party an extension until May 1st of this year to exercise its option and close on the transaction. At this time we do not know whether the third party will exercise its option, however, we hold a deposit of $9 million in connection with the option. Should the third party decide not to exercise its option, we plan to market the buildings to other parties.

Gross student receivables were $243 million at February 29, 2008, compared to $282 million at August 31, 2007. Net receivables were $160 million at February 29, 2008, compared to $191 million at August 31, 2007. Our allowances for doubtful accounts declined to $93 million at February 29, 2008, from $100 million at August 31, 2007, but increased from $76 million in the second quarter of 2007. Our day sales outstanding declined to 30 days from 37 days in the second quarter a year ago, and declined from 38 days as of August 31, 2007.

The improvement in DSOs since year end is attributable to three factors. First, we made improvements in our processing time for receipt of student aid. Second, we wrote off approximately $38 million in uncollectible accounts receivable during the quarter. The write off of these previously fully reserved receivables impacts our DSOs, as our DSOs are calculated on our gross student accounts receivable balance. Third, the seasonality we experienced in our second quarter also contributed to the decrease and, as a result, our DSO may increase in the third quarter.

In summary our total allowance continues to exceed all receivables greater than 90 days old. Deferred revenue increased $7 million from the year end to $174 million, an increase by $28 million from a year ago, which is seasonal in nature and consistent with our enrollment and revenue growth. Student deposits increased $60 million to $388 million as of February 29, 2008, which is consistent with our increase in restricted cash.

Finally, turning to student lending. We are pleased to announce that effective February 29th, we added Banc of America as our fifth preferred lender. Granting of title four loans by all of our preferred lenders continues to occur without interruption. In addition in the second quarter revenues derived from private loans represented approximately 3% to 4% of the University of Phoenix and WIU revenue, down slightly but generally consistent with past quarters. While approval rates for these loans have declined somewhat due to lenders tightening their credit standards we have not yet experienced any significant impact on our students ability to obtain financial aid. In general we continue to believe that the student loan market will remain competitive, that our students will have quality choices to meet their educational financing needs. Additionally we continue to explore ways to assist students who are persisting in their pursuit of a degree. With that I will turn the call over to Greg.

Greg Cappelli *- Apollo Global - Chairman*

Okay, thanks, Joe. I'll be relatively brief here in wrapping up my portion of the call and then we will open it to questions. Brian talked about a number of things we are doing throughout Apollo Group from an investment standpoint. Clearly there's a lot of activity on this front going on now, and I just want to briefly review our foundation for future growth. That includes our sound mission statement, a strategic plan focused on long-term value creation, our availability and uses of both financial and human capital and our financial discipline. I'm not going to read our mission statement, but the message is basically that nothing to us is more valuable than the quality of our students educational experience at our schools and we realize that over time our returns cannot be any higher than those of our students.

Second, our internal strategic plan has focused on long-term value creation despite how it might impact our near-term results. Quarters are important, we understand this. We need to stay focused on achieving our long-term goals for all of our stakeholders and we will do that. Then the question becomes, do we have access to enough financial capital to accomplish our financial goals? As Joe discussed, we have got a strong balance sheet with significant liquidity. Additionally we continue to generate positive cash flow and we have an untapped line of credit totaling $500 million and no long-term debt. If needed we also have the ability to tap the financial markets for additional debt or equity.

Next, can we put this capital to work in areas that meet our return requirements? We think the answer to that is yes. Our first priority here is our high return core domestic business, where we are investing in numerous areas including: our new resource centers around the country, new programs, retention across the board, technology and service, just to name a few. We are also investing in Aptimus and with every day that goes by we get more excited about the returns we think are possible from this relatively recent acquisition. Insight schools is another which is growing nicely and is another area of investment for us, and last but not least we are investing in Apollo Global.

On that note during the second quarter we did announce our first Global transaction, the acquisition of Chilean-based UNIACC. We are working diligently to identify opportunities that will create long-term value here and we think UNIACC coupled with Chile's stable economic environment, strong student enrollment trends and openness to foreign investment are an excellent fit. We paid about $50 million for UNIACC which includes a four-year earn out and this completely met our valuation and return requirements at Global. UNIACC's program generate tuition revenue in line or about in line with our programs at the University of Phoenix. Our international team is seeking out opportunities around the globe. And currently there's no shortage of investment ideas for us to evaluate. With respect to human capital, perhaps the most important of all for us, over the last year we've invested fairly significantly in people as we've strengthened our financial, legal, corporate development, strategy and communication teams. We've added talent and marketing as well, and continue to strengthen our Apollo Global team. Most recently we hired a new Executive Vice President of Apollo Global, who has significant international experience both inside and outside of the post-secondary education industry.

Finally, financial discipline is extremely important to us. We are focused on long-term value creation as I said before. We utilized consistent criteria to evaluate our proposed uses of capital, and we have a proprietary cash flow evaluation model that allows us to assess capital efficiency and the impact on our operating profit growth. UNIACC was a good example for us applying this discipline. We'll continue to evaluate all our capital needs carefully going forward, and if we don't have operational uses for our capital we will of course consider additional share repurchases. That said during the second quarter we didn't repurchase any of our class A stock. In summary, for all of us in management we would just like to reiterate that we are excited about the opportunity in the education market and are optimistic about the outlook for Apollo Group. We remain comfortable in our ability to achieve our long-term financial goals of mid-to-high single-digit revenue growth and low double-digit operating profit and free cash flow growth in our domestic core business, and we are working hard to achieve these results. With that, I'll turn the call back to the operator so we can take your questions.

QUESTION AND ANSWER

Operator

Thank you. Ladies and gentlemen, at this time we will be opening the call up for the question and answer session. Each caller will be limited to one question. (OPERATOR INSTRUCTIONS) One moment please for the first question. Our first question is from the line of Brandon Dobell with William Blair. Brandon Dobell, your line is now open.

Brandon Dobell - ***William Blair & Company - Analyst***

Hi. Thanks a lot. I'd like to focus on kind of two related points. One would be what we saw in kind of revenue per student and retention within the bachelor segment and your comments about discounts related to the programs. Last quarter you talked about piloting maybe some discounts with the eye towards maybe thinking about bachelors tuition in line with title four. Have you changed your thought process there? Should we think about any of the marketing initiatives that are more focused on affordability within bachelors? Just trying to get around what the bachelors strategy might be going forward from a start perspective?

Brian Mueller *- Apollo Group, Inc. - President*

Let's start with that last one. We have a couple of pilots going on with regard to bachelors students who are over the loan limit from the standpoint of their tuition, and we are watching whether a grant that we give them at the end of their loan period both increases conversion rates on the front end and increases retention rates on the back end. And if we see positive results like we saw when we lowered tuition for Axia students then we will expand that projects out. We wouldn't do anything from that standpoint that would obviously lower overall tuition levels or decrease our level of profitability. So if we get increased conversion rates and we get increased retention rates, then we'll continue the pilot and expand them out. So we are experimenting with that. And then your first question was around --

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Brandon Dobell *- William Blair & Company - Analyst*

Just trying to gauge in terms of spending on the selling promotion line of enrollment counselors, in new markets and things like that. I want to do understand how the spending initiatives are going to relate to bachelor starts, it sounds like you are going to keep focusing on marketing UOP instead of separating out Axia versus UOP, I guess I'm trying to gauge when you could start to see the impact from extra marketing spend? It's all focused on UOP, maybe some retention initiatives or start initiatives, how should we think about the impact on starts from both the cost sites as well as the strategic initiatives on the top line?

Brian Mueller *- Apollo Group, Inc. - President*

Okay. We are in a position that is a little bit similar to the one we were in a year ago, with this exception. As we move into December and into January and transition from ad.com to Aptimus we experience a period of time where we weren't getting the same look into what was going on from a search standpoint and from a management of affiliates standpoint, we weren't getting the same look into it as we were with ad.com. And so we took a step back from the standpoint of our spend. Once that transition was more fully completed and we had a better feel for where we were, we felt really confident about really ramping that spend up and we did significantly in February especially the last few weeks of February. We are off to a very good start in March. Obviously what we need to do now is keep that start going through the months of April and May.

With regards to the enrollment counselors there has been a steady change in the segmentation of our leads and as we build more campuses in the midwest, southeast and northeast, we are getting an increasing percentage of our leads coming from those regions. That's shifting -- causing to us want to shift the balance of our enrollment counselors out to those regions. That is something that we decided to do at the end of the first quarter and into the second quarter. We significantly ramped up those people in anticipation that we could generate and provide them with the leads necessary to, over the course of the next 24 months or so, increase our market share in those areas.

Greg Cappelli *- Apollo Global - Chairman*

The question we had to ask ourselves, Brandon, was do we make that investment now or over a period of time, depending on what we think the yields and results would be, and we obviously made the decision to make the investment now.

Operator

Our next question is from the line of Sarah Gubins with Merrill Lynch.

Sarah Gubins *- Merrill Lynch - Analyst*

Hi. Thank you. In terms of student starts given the interruption because of the transition to Aptimus last quarter, are you now at a point where that's fully integrated and you are actually starting to see student start growth ramp back up, or should it take another quarter or two before we start to see that?

Brian Mueller - *Apollo Group, Inc. - President*

The things have improved significantly from an Aptimus standpoint. We really like what's happening in March. Obvious what will we have to do now is continue that into April and May and we believe that's happened, that's going to happen, but obviously we have to prove it. But as far as managing the affiliates, we think we are on an equal basis, an equivalent basis as to where we were when we left ad.com. From the standpoint of our ability to manage search, we think we are quite a bit better. And we had some positive results from that in the month of March. What we have to do now is continue that through the months of April and May.

Operator

Our next question is from the line of Mark Marostica with Piper Jaffray.

Tobias Levkovich - *Piper Jaffray & Co. - Analyst*

[Levkovich] for Marostica. Could you quantify better how the investments you are making in selling and promotional as well as G&A carry into the next couple of quarters? And specifically how we should look at modeling those two line items.

Brian Mueller - *Apollo Group, Inc. - President*

We in the latter part of the first quarter and into the second quarter hired upwards of about 550 enrollment counselors in those areas where, number one, the population base is strongest which is in the northeast, southeast and midwest, and we are starting to get some traction. And so that was a significant investment that we made there. We know exactly how many enrollment counselors we need to have based on the new student enrollment numbers that we are going to need to achieve next fiscal year, and so we'll need to add another couple hundred. But based upon those numbers it's obvious we've made the majority of that investment at this point. We decided to push it forward because of what we think long term could happen in those areas. And from a G&A standpoint, we expect that that should stay fairly flat from this quarter to the next on a dollar basis.

Operator

Our next question is from the line of Gary Bisbee with Lehman Brothers.

Gary Bisbee - *Lehman Brothers - Analyst*

Hi, guys, good afternoon. I guess I'll follow up on that question. On the selling and promotional expense, I guess a two parter, you said that you ramped back up the advertising expense late in the quarter, I guess late in February. Could you give us a ballpark sense how much growth year-over-year? And then second part is I just want to understand of the other selling and promotional expense increase, was there any one time -- material one-time costs associated with the transition to doing the marketing in house, or is most of this bodies that you are going to have that cost on an ongoing basis? Thanks.

Brian Mueller - *Apollo Group, Inc. - President*

First question is of February we spent about 25% over in February where we as compared to where we spent in February a year before. So that's significant. In terms of the other question which was -- besides Aptimus?

Joe D'Amico - *Apollo Group, Inc. - EVP, CFO, Treasurer*

Well, there's some carry-over cost because we had ad.com fees included in that quarter as well. We didn't transition fully off of ad.com until close to the end of January. I think it was like the third or fourth week of January where that transition took final affect.

Brian Mueller - *Apollo Group, Inc. - President*

So there was really some double expending there which it did impact us, but it was -- given the nature of how big that transition was, we thought it was the right thing to do.

Operator

Our next question is from the line of Jerry Herman with Stifel Nicolaus.

Jerry Herman - ***Stifel Nicolaus - Analyst***

Thanks, good afternoon, everybody. Brian, obviously a topic of the day is selling and promotion, so I will stick with that one. The percentage was I think the highest on record, and I wanted to understand where you guys are in the transition away from ad.com. You guys spent a lot of money with them last year. Where is that -- where are those dollars being redeployed, is question A? Where do you guys stand with monster.com? And what -- the -- moving to the enrollment rep line item, that line item was up 20% year-over-year and the headcount looks to be up about 10%, so maybe you can spend some time with that. And then finally, just can you comment on lead generation, especially in the context of the 6% start growth? And, again, finally, I notice that you didn't mention enrollment growth in your long-term targets. And has that at all changed? Sorry that's so wordy.

Brian Mueller - ***Apollo Group, Inc. - President***

The ad -- let's talk about ad.com first. That transition from ad.com over to Aptimus, they are -- managing the affiliates is a focus, but the biggest focus reason we are putting the most money and tend to make the most progress is in search. We have very skilled individuals there. Our ability is to work a little bit more directly with large players like Google and Yahoo! around search gives us an advantage, and so that is part of that strategy in terms of moving away from ad.com. There is a lot of potential in search and we think that we can make significant improvements there. Those leads are of a higher quality. They tend to convert at a higher rate and so that's a focus.

As far as Monster, we continue to work with Monster. We had a meeting with them about a month ago. It's going okay. I would say it's probably flat in terms of that productivity year-over-year and we challenged them to do some things to make that better. We'll see what they come up with. Then there was a question about enrollment -- yes, the headcount, the total expenditure there from wages and salary standpoint is, you're right, 20% some, 21.3%, I don't have that broken out in terms of how much of that is new counselors versus how much of that is increased amounts of money for existing counselors based upon their productivity. The biggest part of it is the hiring of additional 550 plus new enrollment counselors.

In terms of enrollment as far as strategic plan is concerned, we said, yes, revenue for high single, high mid or mid to high single digits prospective at 6.2% I would tell you that as we think about it today that's not enough new enrollments to get high single-digit or low double-digit revenue growth. I believe that we have to do better than that and we are going to target high single digits in terms of new enrollment growth in the future. That's the reason we made the investment in Aptimus. That's the reason we are making the investment in these enrollment counselors because we would like to target and be able to get in that high single-digit new enrollment growth in that category.

Joe D'Amico - ***Apollo Group, Inc. – EVP, CFO, Treasurer***

Also the total enrollment is up double digits for the quarter.

Brian Mueller - ***Apollo Group, Inc. - President***

It is and we continue to make gains from retention standpoints, which is supporting the fact that we were down to 6.2% from a new enrollment standpoint. Based upon what we did in March and believing that we can continue that we believe it is realistic to think that we can get back to 8% to 10% in a new enrollment category, and that's what we are striving -- that's what we are spending and striving to do.

Operator

Our next question in line is from Jeff Lee with Signal Hill.

Jeff Lee - ***Signal Hill - Analyst***

Hi, good afternoon. I'm looking for more color on Aptimus. Just whatever you can pride, maybe what the costs of Aptimus are, or is Aptimus earning outside revenue to offset those costs? And then just lastly how do you evaluate the return on the investment of Aptimus versus ad.com?

Brian Mueller - ***Apollo Group, Inc. - President***

Well, from, there is some revenue that comes from outside the EDU space to help offset the cost, but it's not significant and it's not a focus of ours. Ultimately what we now hope to do with Aptimus is to be able to create an environment that gives us a far greater look into the intelligence behind what affiliates are doing for us, a far better look into what we can do from a search standpoint an opportunity to potentially in both of those areas go a little bit more direct to the major players like Google and Yahoo! and Microsoft, even players like My Space, for example, eliminate the middle-man where it's appropriate.

And if that -- we've got a major spend in the marketplace. Without that major spend, those kind of things wouldn't be possible. But with the spend that we have and given their expertise, their capability, their technology, long term we hope to make some significant gains. The one thing that just has to happen in this industry is cost per acquisition has to go down. And we think we are in a very favoring ever favorable place in terms of both resources and spend to over the long term make that happen and we are very, very intent on doing that.

Operator

Our next question is from the line of Kevin Doherty with Banc of America.

Kevin Doherty - ***Banc of America Securities - Analyst***

Great, thanks. I just have a follow up to an earlier question about tuition pricing. I guess as we think about the sensitivity for the students that are coming out of Axia and going to be moving in a bachelor program, they are obviously facing a pretty sizeable step up in tuition, totally expose themselves to student loans or private loans. How do you guys thinking about that? And maybe considering that the real value proposition is probably once you get that bachelor degree, what are some of the reasons that the students when they are not finishing Axia, what's the real reason there, maybe what you are doing to address some of those conversion rates? Thank you.

Brian Mueller - ***Apollo Group, Inc. - President***

Well, in terms of tuition rates, the students understand the value of earning a baccalaureate degree, it's very important to them. They know what kind of impact it has on their career. It's not a matter of them wanting to spend the money. It's a matter of them being able to borrow the money in realistic terms, meaning title four, to be able to do that. And as you know our students at Axia level are under title four loan limits, our students at the masters and doctorate loan level are way under title four loan limits. Our students at the baccalaureate level, some are, some aren't.

And so how we work with those students who are not under title four loan limits in order for to us make it affordable for them, realistic for them, that's the kind of thing we are doing from a pilot standpoint to figure out how to maximize our opportunity in that area. I think that we are probably as well positioned from that standpoint as any of the institutions in the private for profit publicly traded space, and we'll continue to experiment around what we can do from a grant perspective based upon students retention, based upon student academic achievements, those kind of things. As we've talked about many times, the gain is about retention. It's about student success. It's about student achievement, and it's about increasing those levels of retention, and pricing is related to that.

Operator

Our next question is from the line of Corey Greendale with Financial -- or First Analysis.

Corey Greendale - ***First Analysis Securities - Analyst***

Hi, good afternoon. Two questions first of all just want to do follow up on your answer to Gary's question, when you said that ad spend was up 25% in the months of February, just wanted to verify that you did ramp that up toward the back half, that's only a partial month impact to the ramp, so we could actually see higher year over year growth in the next quarter? And secondly, can you quantify at all or help us understand what the costs involved in opening the resource centers will be, and what the timing is of those costs?

Brian Mueller *- Apollo Group, Inc. - President*

Yes, first one it was -- we were up 25% in the month of February and that was back loaded towards the end. And so, we were in a position at that we thought we had a better control over how we were managing the affiliates. We knew and learned more about search so we were confident that that spend would yield results. And so we are watching that very closely. And if we get the results in, if we finish up March and start off April the way we started off March, we will keep spending at those levels giving the look and intelligence that we have currently. Obviously that's not guaranteed. But we are confident about the marketplace and what we can do. So we will see how that goes. That was the first question.

The second question was around --

Greg Cappelli *- Apollo Global - Chairman*

On the resource centers.

Brian Mueller *- Apollo Group, Inc. - President*

Yes, the resource centers. It all depends, it's a mixed bag. Some of those, of those 25, some of those are places that we are putting a resource center where we would have normally put a small learning center. And so the money we spent inside of that in terms of what we offer the students will be slightly more than just putting in some administrative space in some classrooms, but not a significant amount more. Some of those 25 are actually us taking current space that is classroom space that is no longer necessary because increasingly people are going online, but we are taking that space and we are turning that into that Plano, Texas, kind of format. And so there is some cost there, but it's not significant.

Greg Cappelli *- Apollo Global - Chairman*

Yes, Corey, these are pretty insignificant costs even a new facility would be probably under a million significantly less for a retrofit and that would be capitalized and amortized over four, five years.

Operator

Our next question is from the line of Jeff Silber with BMO Capital Markets.

Jeff Silber *- BMO Capital Markets - Analyst*

Thanks so much. Got a question on starts, and it's a two-part question. In looking at the bachelor starts on a year-over-year basis, the decline in the second quarter was a little bit worse than the decline in the first quarter. If I remember correctly in the first quarter you talked about some of these lower quality starts had you a year ago which folks should have been shifted in Axia, but they weren't. Did that continue in this quarter? Should we expect that to continue going forward? That's part one. And then part two, you had this restatement or additional starts in the first quarter that weren't on the initial press release. Can you just give us a little bit more color, why they weren't on the initial press release last quarter? Thanks.

Brian Mueller *- Apollo Group, Inc. - President*

On the first question, the answer is no. That's not what's causing that. What's causing that is that an increasingly high percentage of -- well all of our enrollment counselors now have the ability to put a student online or in Axia College or grounds campus. And as ground campus counselors get more comfortable, understand a little bit more of putting students into online or Axia if that makes them -- if that's what they want you are going to see that percentage change. So, for example, a year ago even that would have been counselors who were working with the students who had 30 college credits that may have been most comfortable directing that person into a ground campus.

Today they are going to give more options and a higher percentage of those students will say, you know what, if Axia is online I will go that way, do my associates degree first, and so the change is just because, it's a reclassification or it's a different classification. A 30 credit hour student a year ago may have gone into a baccalaureate program on the ground campus and be classified that way. That same student today may go into Axia college and be classified as an Axia College student. It's the same student, but there's a reclassification going on which kind of changes those percentages. But from the standpoint of who the students are there's no real difference. And I will let Joe talk about the reporting of the --

Joe D'Amico - ***Apollo Group, Inc. - EVP, CFO, Treasurer***

The first quarter starts, yes. Just a little more color on that, that was essentially a coding error on our part. The principal issue was people moving from the bachelors, or from the Axia program to the bachelor program. And that was about 1,100 students, it wasn't a big amount. And then 200 were masters for a program that we didn't have coded as a new masters program, so it got overlooked or skipped. It's something that we've corrected and we just want to make sure we've got the right numbers for to us compare to and for you all to compare to going forward.

Operator

Our next question is from the line of Amy [Ruderman] with Oppenheimer.

Amy Ruderman - ***Oppenheimer & Co. - Analyst***

Hi, good afternoon. Can you let us know of the $1 billion that you've spent -- the $1 billion that you have proposed for international, how much have you spent so far, what percentage of your current revenue is international? And how fast is that growing and what percentage of the mix would you like that to be in two to three years? Thank you.

Greg Cappelli - ***Apollo Global - Chairman***

I can't answer all those questions, but I can tell you that the first answer is zero because we haven't yet closed UNIACC, although we do expect that to happen shortly and that's a $50 million transaction. Then of course there will be some operating expenses out of Global that will be shared 80/20 with our partner, Carlisle, that we'll start to, once those get big enough, classify as well.

And the second part of your question I think was the mix in terms of international students, and we haven't given out the count of University of Phoenix International students at this point, but it's pretty small as you can imagine in terms of the total of 330,000 some students.

Brian Mueller - ***Apollo Group, Inc. - President***

I know it's important to note along those lines that we have opportunities from an acquisition standpoint both domestically and internationally. And we need to establish ourselves from an international standpoint and are doing that. But we'll balance our use of capital around what will return the greatest value to shareholders. And so we will continue to look at that on a go forward basis based upon what returns the greatest value.

Operator

Our next question is from the line of Brandon Dobell with William Blair.

Brandon Dobell - ***William Blair & Company - Analyst***

I had a quick follow up for you. if you look at the -- at least as how we calculate the in Axia retention, is that more a function of students taking more consecutive classes, or are you finding people taking two courses at once versus one historically? Just trying to frame out what is going right for you within that metric.

Brian Mueller - ***Apollo Group, Inc. - President***

No. It is students persisting for longer periods of time. 90% plus of our students at Axia are taking two courses at a time. The course durations are nine weeks, a greater than 90% take two courses at a time. That was how the structure was built. I will tell you that -- so, the increase is really students persisting longer. The other thing that we are happy with is that there is some gain in the graduation rates of Axia College students, but -- we are getting some feedback from the operator, I think. Can you eliminate that feedback?

Operator

Yes, sir, one moment, please.

Brian Mueller - ***Apollo Group, Inc. - President***

Hello? I assume we are back?

Operator

Yes, the feedback has been removed.

Brian Mueller - ***Apollo Group, Inc. - President***

Okay, thank you very much. Now let me think about what -- oh, the thing that we are happy with and we are aren't giving these numbers out, but the number of students who graduate from Axia College who are transferring into the University of Phoenix in the bachelors program is growing and fairly significantly. And we are happy with that and are going to continue to work very hard at that.

Operator

Our next question is from the line of Sarah Gubins with Merrill Lynch.

Sarah Gubins - ***Merrill Lynch - Analyst***

I can't have a call on education these days without at least asking a question on lending. On the federal lending side, are you thinking at all about transferring over to the direct lending program or at least signed up for it? And have the banks that you are working with given you any assurances that they intend to remain in the federal lending program?

Joe D'Amico - ***Apollo Group, Inc. - EVP, CFO, Treasurer***

Sarah, yes, the answer is we are looking at back ups, exploring that with respect to going direct. That we don't see as a -- anything that's imminent or, quite frankly, I'm not sure how workable it will be for all educational institutions, but certainly one of our size would require substantial change on the part of the way the government does that. And I think they're -- I understand some of the lenders are having conversations with the government around that. We get assurances all the time about the institutions maintaining or continuing in the business, and so we are -- given that we are the largest customer of all of these institutions I think that we'll be the last one affected by these institutions dropping customers or ultimately getting out of the business. We actually help them with respect to whatever profitability exists, they certainly get it on our account because it's so efficient. So they view us as an integral part of their being in the business, quite frankly.

Operator

Our next question is from the line of Gary Bisbee with Lehman Brothers.

Gary Bisbee - ***Lehman Brothers - Analyst***

Yes. Hi. Is that 1,100 adjustment in starts for bachelors, is that all the kids who went from Axia to Phoenix, or is that somehow -- there was some issue that only part of them got coded incorrectly?

Joe D'Amico - ***Apollo Group, Inc. - EVP, CFO, Treasurer***

The answer is that I don't think that's all of them and it was just a portion that were coded incorrectly. And we are not giving out what those numbers are anyway. You've got at least some visibility into it because certainly that was all of the transfers that we overlooked were graduates from the Axia program, but not necessarily all of them.

Operator

We appear to have reached the allotted time for today's conference call. This concludes today's conference. Thank you for your participation.