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Conference Call Transcript

APOL - Q3 2008 Apollo Group Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Apollo Group Inc. third-quarter fiscal 2008 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will follow at that time. Please refrain from entering into the queue until those instructions are given. (OPERATOR INSTRUCTIONS). This conference call is being recorded today, July 1st, 2008, and may not be reproduced in whole or in part without permission from the Company.

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There will be a replay of this call available through July 11th, 2008, beginning approximately two hours after we conclude today. The replay number is 800-642-1687, or 706-645-9291 internationally. The conference ID for the replay is 46892453.

Additionally, this call will be broadcast over the Internet and can be accessed via the Company's web site at www.apollogrp.edu.

I would now like to turn the call over to Allyson Pooley, Vice President, Investor Relations, of Apollo Group. Ms. Pooley, please go ahead.

Allyson Pooley - Apollo Group - IR

Thank you. Good afternoon and thank you for joining us today. Speaking on today's call are Dr. John Sperling, acting Executive Chairman; Joe D'Amico, President, CFO and Treasurer; and Greg Cappelli, Executive Vice President, Global Strategy, and Assistant to the Chairman. Additionally, Brian Swartz, our Chief Accounting Officer, will be available during the Q&A period.

During the Q&A period, we ask that you be respectful to everyone's time and limit your questions.

I would also like to remind you that this conference call may contain forward-looking statements with respect to the future performance of Apollo Group that involve risks and uncertainties. Various factors could cause 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 10-K report and subsequent 10-Q reports 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.

And with that, I'll turn the call over to John.

Dr. John Sperling - Apollo Group - Acting Executive Chairman of the Board

Thank you, Allyson. Good afternoon and thank you for joining us today to discuss our third quarter results. I am pleased to report that Apollo had solid growth in both revenue and enrollment during the third quarter and continues to make significant operational progress, all of which we will discuss in more detail.

Before we discuss the quarter, I would like to address the management changes announced last week. Brian Mueller resigned as President and Director of Apollo Group. We want to thank Brian for his many years of service to Apollo and for the role he has played in our success, and we certainly wish him well in the new endeavor. Joe D'Amico, our current CFO, has agreed to serve as our interim President. Joe has been intimately involved in many aspects of our operation, and we are highly confident in his abilities to lead Apollo through this transition period. He has earned the respect and trust of our Board, our management and our employees and as a result, we do not expect any disruption. Joe and Greg Cappelli, our head of Global Strategy and Apollo Global, will work closely with the operation and global teams as we continue to grow the business.

We are very fortunate to have an extremely talented and long-tenured management team at the executive, regional and campus levels. In both academics and operations, we have the finest employees, and we want to thank them all for the service they do for our students.

Finally, we're engaged in a CEO search and hope to have an announcement on that front in the near future.

Before I turn the call over, I'd like to reiterate that for almost 35 years Apollo Group has been dedicated to delivering the highest caliber of educational programs and services to our students. Helping our students achieve and persist to graduation has been and will continue to be the major goal for all of our faculty and employees, as this is what ultimately generates value for our shareholders.

Now let me turn the call over to Joe.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Thank you, John. I would like to cover three topics. First, I will address our recent management changes; next, I will review our third quarter financial results; and last, I will comment briefly on our recently announced tuition increases. As always, the detailed financial data for the third quarter is available in our press release and 10-Q and a reconciliation of non-GAAP measures to GAAP measures is included in our press release.

First, organizational changes. I would like to add my personal thanks to Brian Mueller for his dedication to Apollo over the last 20 years. I have had the chance to work very closely with him over the past 18 months and firmly believe that we are on very solid operational foundation and an outstanding group of people to continue our momentum. I would also like to announce that we have named Rob Wrubel as Vice President of Marketing for Apollo Group, in addition to his role as CEO of Aptimus. Rob has been instrumental in our marketing strategy since we acquired Aptimus last fall, and he is a natural marketing leader for our organization going forward.

Now our third quarter results. As I discuss the financials, please note that, unless otherwise stated, I will be comparing the third quarter of fiscal 2008 to the third quarter of fiscal 2007. For the third quarter, we reported consolidated net revenues of \$835 million, a 13.9% increase. The key contributor to this growth was our 11% enrollment growth. Enrollment growth was, in turn, fueled by new student enrollments, which increased 9.8%. We are very pleased to see this rebounding in the growth rate of new student enrollments after several quarters of decelerating growth.

Importantly, we experienced an increase in new Bachelor enrollments, which is primarily due to a higher number of Axia transfers.

Net income for the third quarter was \$139 million, a 6% increase from \$131 million. Earnings per share were \$0.85, a 13% increase compared to \$0.75. Incremental gain in EPS is due to higher net income and fewer shares outstanding as a result of our share repurchase activity over the past 12 months.

Operating margin for the quarter was 26.5%, down 120 basis points when compared to 27.7% in the year-ago quarter. Excluding special items in both periods, our operating margin declined 210 basis points to 26.7% from 28.8% a year ago, due to both higher operating expenses and investments in new business opportunities. I'll provide some context around our operating expenses in the quarter, and Greg will discuss our investments.

Instructional costs and services, or ICS, increased 8.3% to \$348 million. As a percentage of revenue, ICS declined 220 basis points to 41.6%, a significant improvement. The improvement was driven in large part by lower bad debt expense, which was offset somewhat by higher employee compensation. Bad debt as a percentage of revenue declined 160 basis points from 4.0% to 2.4%. This includes an adjustment to the 2007 amount to account for the bad debt reclassification that I have discussed on previous calls and as detailed in our 10-Q.

The lower amount of bad debt is due to our continued focus on student retention, which has been steadily improving, as well as our focus on collections. We're very proud of the progress our people have made in managing bad debt over the last year, and we will continue those efforts. However, the decline in this quarter was very significant, and we cannot assure you that it will stay at this level.

Also, please remember that as a percentage of revenue, bad debt will likely increase in seasonally weaker quarters.

Selling and promotional expenses increased 25% to \$204 million. As a percentage of revenue, this is a 220 basis points increase to 24.4%. The higher spending level is due to an increase in enrollment counselors' compensation, higher levels of advertising and other costs associated with our strategic marketing efforts, including Aptimus.

Enrollment counselors' compensation and related expenses explain 90 of the 220 basis point increase. This increase relates primarily to the increased hiring that we did during the year. Helping our enrollment counselors achieve success in managing the costs so they are more consistent with our revenue growth is a key objective. We believe there are several areas within infrastructure and support where we can continue to drive operating efficiencies, but they will take some time to achieve.

Our advertising cost increased 30 basis points as a percentage of net revenue in the third quarter, primarily due to an increase in Internet-based advertising. As we have previously stated, our advertising spend, both on an absolute dollar basis and as a percentage of revenue, and both measures are currently higher than we would like. However, we're working on a number of strategies, which over the next several quarters should not only reduce our advertising cost as a percentage of revenue but will also allow us to have more control over our brands.

The results are not yet obvious, but we are pleased with the initial progress with Aptimus and we'll share more specific information on this at the right time.

Now, G&A. G&A expenses were almost \$61 million in the quarter, up 58% from the adjusted year-ago level of \$39 million. As a percentage of revenue our adjusted G&A increased 210 basis points to 7.3% of revenue in the third quarter. The third quarter spend of \$61 million is up from \$55 million in the second quarter of 2008. Excluding share-based comp, our G&A expenses increased approximately \$9 million from the second quarter of 2008, and I would like to focus on that variance.

First, there was a \$3 million increase in overall employee compensation, which includes, among other things, increased headcount at Apollo Global as well as costs to fund our incentive plans. Second, we had about \$4 million in incremental legal cost, which will vary from quarter to quarter and hopefully will not continue at these levels. Third, there was an incremental \$1 million in non-headcount items, primarily from Apollo Global. Fourth and finally, our administrative space expenses increased by approximately \$1 million due to our new headquarters building and Apollo Global.

Regarding the headquarters building, as you will remember, we entered into an option agreement which grants a third party the right to purchase the building and simultaneously lease it back to us. Our extension of the option expired in early June, and as a result the option agreement has terminated. We have retained the \$9 million option deposit, and we are currently marketing land and building to other parties.

So let me just summarize the key drivers of our 210 basis points drop in adjusted operating margin. ICS as a percentage of revenue declined by 220 basis points. Selling and promotion as a percentage of revenue increased by 220 basis points, and G&A as a percentage of revenue increased by 210 basis points.

With respect to income taxes, we expect 2008 full-year tax rate to be between 38.5% and 39%, slightly below our earlier estimate, due to more tax-exempt interest.

We'd also like to note that we expect share-based comp for the year to be below our previous estimate of \$65 million, due to recent executive management changes, but we do not have an estimate at this time.

Before I turn to the balance sheet, I want to discuss the extensive review of our vendor relationships that we have performed over the last couple of quarters. We have successfully renegotiated some of our larger contracts and expect to capture cost savings in excess of \$50 million in fiscal 2009. The majority of the \$50 million in savings will be reflected in ICS costs, due to a new outsourcing contract with our existing financial aid processor. We will also capture savings in such areas as telecommunications, office supplies, professional fees, facilities management and others. These savings will somewhat offset the increased investments we are making, which Greg will discuss in a moment, as well as the higher costs we are incurring in S&P and G&A.

Now I will discuss the balance sheet and our cash flows. Our cash and marketable securities excluding restricted cash totaled approximately \$303 million at May 31, 2008, as compared to \$393 million at August 31, 2007. During the quarter we generated approximately \$259 million of cash flow from operations, which was reduced by \$24 million for capital expenditures and \$23 million for the Apollo Global purchase of UNIACC.

Of the capital expenditures, approximately \$5 million were one-time in nature and represent the final buildout of our new corporate headquarters building in Phoenix.

We are currently expecting our full-year 2008 CapEx to be about \$100 million to \$110 million. During the third quarter we repurchased approximately 9.8 million shares of our common stock at a total cost of \$454 million. This represents an average price of \$46. Our Board recently authorized up to \$500 million for additional share repurchases.

Our allowance for doubtful accounts declined to \$85 million at the end of May quarter from \$100 million at August 31, 2007, and from \$92 million in the third quarter of 2007. Our days sales outstanding declined again this quarter to 26 days from 36 days in the third quarter a year ago and from 38 days as of August 31, 2007. The decrease in DSO from year-end is primarily due to improvements in our processing time for the receipt of student financial aid, the write-off of approximately \$28 million previously reserved uncollectible accounts receivable during the quarter and seasonality. As a result of seasonality, our DSO may fluctuate from quarter to quarter.

Our total allowance continues to exceed all receivables greater than 90 days old.

Finally on pricing, we previously disclosed our recent announced tuition increases go into effect today. While the increases are effective today, because many students elect to prepay, we do not expect the increases to have much of an impact on our fourth quarter results.

Before turning the call over to Greg, I wanted to acknowledge and thank all of our employees and our faculty and all of the people associated with the Apollo Group and The University of Phoenix for their incredible efforts and accomplishments this quarter. In my career I have worked with a lot of companies, and without a doubt, this team is one of the very best. I am very excited about our future together. Greg?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Thanks, Joe. Let me first apologize for my voice, which comes and goes. I'm battling a good old summer cold. Today I'd just like to discuss several areas where we're making investments and provide you with a brief update on our progress in each area.

First, our core domestic business -- we continue to invest in areas of retention, new programs, opening new resource centers and, as Joe mentioned, in advancing our capabilities and marketing.

Second, we continue to invest in our online high school initiative, our new Canadian school called Meritus, and Apollo Global. On the topic of retention, this continues to be our number one focus, is successful student outcomes. Ultimately, lead to maximizing revenue and profitability. During the third quarter we again saw improvement in retention at each degree level, which contributed to our approximately 14% revenue growth and helped build our 11% growth in total enrollment. We continue to grow our revenue at a rate above our long-term targets, and given our tuition increases, which will go into effect today, coupled with the retention efforts we have in place, we think this should continue in the near-term.

It's important to remember, though, that we typically see seasonality in revenue and retention during the fourth quarter as more students elect to take breaks during the summer holidays. Our investments in retention includes expanding programs, improving curriculum, instructional innovation and improved academic and support services for students. Academic quality is the most important to us and a key area of investment going forward.

In an effort to provide a transparent measure of our academic quality and performance, we did recently publish the 2008 Academic Annual Report for The University of Phoenix. The report examines our quality and performance in the context of external measures of success, including the educational testing service, ETS. The results show that as a group, our students tend to enter school with lower test scores than other universities, but they close the gap considerably by the time they graduate. Additionally, our completion rates are comparable to national levels.

Because of our open access admission policy, a large number of our students enter with numerous risk factors as defined by the Department of Ed -- for example, being a single parent and working full-time while enrolled. Our studies show that students with these types of risks do have significantly more success at the University of Phoenix, and in many cases it's why they choose to enroll with us. Overall, we're proud of the results and continue to strive to deliver the best possible education to our 345,000 students.

One of the more successful retention pilots was the creation of what we call a student resource center. As we discussed last quarter, the first center was open in Texas last spring, and with it we experienced significant improvement, not only in student retention but also in better lead conversion rates and lower employee turnover. We are in the process of rolling these centers out nationwide. Currently, we have a handful of stand-alone centers and many other locations with some resource center components. We plan to open several more in the fourth quarter and throughout fiscal 2009. The cost of these centers average about \$500,000 each, as many are retrofits of existing space, while others are new locations. We think this investment will generate positive returns in the form of improving student success, better retention and improved lead conversion over time.

Let me just quickly shift gears to our investments in marketing. As we've discussed in the past, our educational platform is capable of supporting significant growth in student enrollment. However, our direct response Internet marketing strategy has had to change in order to support that growth efficiently and effectively. We intend to become much more innovative in our marketing communications. Among other things, we're shifting more of our marketing to a direct strategy in which we work directly to advertise with the largest Internet media networks to advertise rather than through affiliate or third-party vendors.

This has required investments for the past five months but gives us far greater control over our brand, and, we feel, the quality of leads. Today direct media investments represent a greater portion of our overall Internet media budget. The Aptimus team also has advanced capabilities in search, which on average has higher conversion rates than other ad spend. We're excited about the opportunities in front of us, and as we've said, we're willing to make the investments now in order to better position ourselves for the future.

Let me spend a minute discussing our investments in new market opportunities. For nearly 35 years, the University of Phoenix has refined and improved its learning systems and delivery methods, and we're beginning to leverage our strengths and experience by applying our platform across new markets, including high school and global. First is the virtual high school market, which we target through Insight schools. Their mission is to serve teams who seek a different kind of high school experience, and that includes students who may realize greater success with the flexibility of studying at their own time, place and pace. It might include teams who are pursuing their dreams in sports or entertainment as well as other students with special needs.

The high school dropout rate average is 30% across the nation, so there is a strong need and demand for alternative study. Insight is a full-time diploma-granting institution that we acquired about 18 months ago, they will start the '08-'09 school year with 11 schools in 10 states, an increase of four since our last earnings call, including a second approval in California. Our strategy with Insight is to acquire students in each state and continue to expand the number of states where we operate schools.

While we believe that the virtual high school market is a good incremental business for Apollo, we're also applying our platform to the Canadian marketplace with our newly launched Meritus University. Meritus University is a Canadian degree-granting university located in New Brunswick and is focused on working adults. It was initially approved for three programs, and we expect it to grow from there. We believe Meritus can be more successful in Canada than the University of Phoenix has been. One of the primary reasons is related to student finances. Meritus meets the requirements for students to receive student tax credits and other Canadian education incentives. Meritus will begin enrolling students later this year, and while small relative to our core University of Phoenix, we're excited about the opportunity.

And last, we're investing in global markets. During the third quarter, Apollo Global closed its first transaction, UNIACC, a Chilean-based arts and communications university. The purchase price was about \$44 million that was composed of cash and assumed debt, plus an earnout to be paid in four years. Apollo Group's cash portion was \$19 million, with Carlyle providing the additional 20%. The remaining portion of the purchase price represented assumed debt.

For the quarter, we reported Apollo Global revenue of about \$4 million, and Apollo Global has a current revenue run rate of about \$35 million to \$40 million. We are pleased with our acquisition, and particularly the management team that has built a tremendous school who are working diligently to grow the business in Chile, and we are finding additional opportunities as well.

Apollo Global continues to search for other opportunities around the world that fit our value criteria, and I believe we have a solid and growing pipeline in place. We hope to be able to discuss some of the opportunities with you soon.

I'd just like to provide you with a quick summary of the dollar value of our investments. As I mentioned previously, three of our key areas of investments include Meritus University, Apollo Global and Insight. On a year-to-date basis, we've recognized \$12 million of revenue from these businesses and \$24 million of expenses compared to zero revenues and \$7 million in expenses in '07. These amounts are principally for Insight Schools.

We expect this run rate to continue in the fourth quarter, and we expect Insight to lose a similar amount in 2009, due to the rollout of these new states. Although these investments are costing us margin points today, we view them as opportunities to generate incremental long-term growth. As you know from looking at our G&A line, we have made substantial investments in the areas of human capital over the past year. While this has elevated our G&A versus the prior year, we don't believe it will increase at the same rate in 2009 and beyond. As I previously have stated, we expect each of the investments throughout the organization to drive an acceptable return for shareholders, which we continue to monitor closely. In the event we can't deploy our capital and an acceptable return, like this quarter, we will look at returning it to our shareholders in a tax-efficient manner.

Finally, I just wanted to share a quick story with you. Today, Dr. John Sperling brought into the office pictures from the very first graduation ceremony from the University of Phoenix back in the 1970s with just eight people. What struck me was the faces of the graduates. They had the very same proud look of great accomplishment that our much larger and more diverse student base carries with them today. You may be aware of just how many thousands of people since that time have received an education from The University of Phoenix that has changed their lives, and the proud tradition all of us in management are now charged to uphold.

And with that, I'll be glad to take any questions, along with Joe and team.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Kelly Flynn, Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

First of all, on the international front, Greg, thanks for covering that. But I wanted to drill down a little bit more on your parameters for acquisitions. I know you talk a lot about return on invested capital, but how big of a deal would you be willing to do? Also, could you perhaps comment on the speculation in the marketplace that you made an offer on a Company for \$1.6 billion?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Sure, Kelly. While we won't speculate or comment on any speculation for any area of the country, what I will repeat from the last couple of quarters is that we are actively searching opportunities around the world. And we've stated that the criteria for us to do anything in global is that, one, it has to make sense strategically to us. We have to be able to add value, and we would like to be able to move the growth curve on anything that we acquire.

We're also willing to look at both small and large transactions. However, you're right; we do measure returns very closely here. And we understand that the larger you get, the more risk there is. That risk criteria has to be built into the proposed return. It has to pass our investment policy committee as well as Carlyle's. So I suspect you'll see speculation from time to time around various areas of the world. We're not always sure where it comes from, but we are focused on, one, making sure strategically it makes sense; and, two, the valuation is something that will create long-term value, including the risks that are involved in making an acquisition or a partnership, for that matter.

Kelly Flynn - Credit Suisse - Analyst

On Brian's departure, I imagine the answer is no, but could you just confirm that there was nothing in the quarter related to that, especially in the stock comp line?

Greg Cappelli - Apollo Group - EVP, Global Strategy

No, we can confirm that.

Operator

Mark Marostica, Piper Jaffray.

Mark Marostica - Piper Jaffray - Analyst

Greg, you mentioned that one part of the strategy on the marketing side is to shift more dollars to direct. Can you give us a sense percentage-wise where you're at today, direct versus affiliates, and where you think the optimal mix is?

Greg Cappelli - Apollo Group - EVP, Global Strategy

You know what, Mark, we just made a decision internally to protect the data a little bit more because we're not through fully rolling out the strategy yet. And we consider some of it competitive. So we will try to help you with that data, once everything is fully employed. But right now, we've made a decision not to give specific percentages out, which I hope you understand.

Mark Marostica - Piper Jaffray - Analyst

Did you mention, just to confirm, is direct a greater percentage than affiliate at this point, just relatively speaking?

Greg Cappelli - Apollo Group - EVP, Global Strategy

I didn't make that statement.

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Mark Marostica - Piper Jaffray - Analyst

Would you be willing to just give us a relative sense at this point?

Greg Cappelli - Apollo Group - EVP, Global Strategy

You know, Mark, it's higher than it was, but probably won't go into any more detail than that.

Mark Marostica - Piper Jaffray - Analyst

Regarding enrollment counselors, can you give us a sense, your hiring plans for enrollment counselors for the rest of the year, perhaps where you are at today in terms of the number and how many you expect to be at by the end of the fiscal year?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

We're looking at enrollment counselor hires and where we hire them very carefully. We have, as you know, pulled forward a significant number of those hires, feel very comfortable with the level that we are at right now in most areas. And we've also taken some steps internally to make sure that they are as effective and utilized as to the extent that we can. So the bottom line is, I can't tell you we won't hire a few more or some more, but it won't be significant.

Mark Marostica - Piper Jaffray - Analyst

Okay. And if I could sneak one last one in, and this might fall into the category of unable to answer, but I think this is the full quarter without your spend on ad.com, the management fee for ad.com. Correct me if I'm wrong on that. But if that's the case, can you talk to your net savings in this quarter from exiting that relationship?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

I won't give you the numbers, but there is savings, at least on a management fee versus cost of Aptimus basis today. But as you know, we continue to make investments in Aptimus and investments in marketing that we believe will definitely pay dividends in the future.

Operator

Gordon Lasic, Robert W. Baird.

Gordon Lasic - Robert W. Baird - Analyst

Today is the first day of your 10% price increase that will go into effect in Axia, so it may be a little too early to answer this. But do you expect any push-back from students who may be less willing to take on so much debt? Are you seeing any sensitivity there?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Well, of course, we really don't know yet. But it's not our expectation that we will have significant push-back, but we really don't know.

I think there's a lot of tradeoff here as you think about what's going on in the marketplace with gas prices being where they are and online education, I think, will become more popular as individuals look at what it takes to drive 20 or 30 miles or 10 miles to go to and from class. So I think hopefully it will benefit us in the future.

Greg Cappelli - Apollo Group - EVP, Global Strategy

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We did not experience significant push-back last year when the price increase was put through, either.

Operator

Sarah Gubins, Merrill Lynch.

Sarah Gubins - Merrill Lynch - Analyst

Could you talk about the qualities that you are looking for in a new CEO?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Sure. I guess what we'd say is, we are looking for character, integrity and leadership. And that's pretty much what we'll say about it at this point.

Sarah Gubins - Merrill Lynch - Analyst

Any comments about the importance of having education industry experience?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

That's a plus.

Sarah Gubins - Merrill Lynch - Analyst

Okay. In terms of the ramp for Insight and Canada, could you talk a bit about how many, roughly speaking, particularly for Insight, how many students you could have, given that you will be in 11 states next year?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Well, the number of students we are really not disclosing at this point in time. That may change down the road, depending on how we end up reporting on Insight. But today, we are really not giving out those kinds of numbers.

Greg Cappelli - Apollo Group - EVP, Global Strategy

And our intent is, as it gets bigger and we have more to report on it, then we will look at disclosing more of the data. But one of the things we did want to make clear is, there is significant investment going into it this year and in the fourth quarter and next year. We feel good about where they are and the strategy and the direction behind the management team and what they've accomplished so far. But it is taking investment.

Sarah Gubins - Merrill Lynch - Analyst

And you mentioned that you expect Insight essentially to lose about \$12 million again next year. That's how you are thinking about it?

Greg Cappelli - Apollo Group - EVP, Global Strategy

In that range, give or take, and we'll try to update you on that as we go along.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

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I just might add, it's probably more than the \$12 million.

Sarah Gubins - Merrill Lynch - Analyst

Probably more? Okay.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Yes.

Sarah Gubins - Merrill Lynch - Analyst

In terms of the pattern throughout the quarter for your new student starts and total enrollment, did that pick up later in the quarter, or was it fairly consistent throughout the quarter?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

The new student growth?

Sarah Gubins - Merrill Lynch - Analyst

Yes.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

New student enrollment growth? I think it was good at the beginning of the quarter and I think it was fairly consistent, as I recall.

Operator

Kevin Doherty, Banc of America.

Kevin Doherty - Banc of America - Analyst

I wanted to see if we could follow up a more on the tuition price increases. To what degree do you expect to be redeploying some of those incremental dollars back into the business? Or should we really expect more of it to maybe drop to the bottom line? Because I know in the past year, you talked maybe more, expecting more of a 2% to 3% price increase, so how does it maybe change your investment thoughts here?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

We talked a lot about the investments that we are making. So there's nothing on top of what we've talked about that we know now that we'll be investing in. So the pricing that we've taken so far hopefully will offset some of the investing and margin points that we're going through right now.

Kevin Doherty - Banc of America - Analyst

Just on discounting, I think you had mentioned recently that the level of discounting might be declining with the higher loan limits, pricing and so forth. Can you maybe just talk about what to expect going forward? I know it has been running a little below 5% of gross revenue. If

discounting does decline, how might that impact retention? Because I know in the past you had mentioned that discounting is a key component of your focus on retention. Thank you.

Brian Swartz - Apollo Group - CAO

First of all, the discounting level -- we give discounts in order to improve retention and keep students in school. So, given the recent price increases, we will constantly evaluate that from period to period. But we only give those discounts to the extent we believe, and then we evaluate it afterwards, that we can continue to keep students in class as opposed to having them be out of class. So, to the extent it makes sense, we will pursue them in the future.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - BMO Capital Markets - Analyst

I think it was Joe that mentioned a bit about gas prices. I'm just wondering if you've seen any impact either on your campus locations in terms of maybe some negative impact and/or in your online programs in terms of some positive impact the day.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Nothing I can report yet on the campus side. We haven't seen any abnormal absentees or anything like that. On the online side, I think it's a little too early to tell. We'll just have to continue to monitor it.

Greg Cappelli - Apollo Group - EVP, Global Strategy

No one is using it as an excuse at this point, one way or another.

Jeff Silber - BMO Capital Markets - Analyst

Going back to the UNIACC, and forgive me if I'm mispronouncing it, where are the enrollment numbers for the quarter?

Greg Cappelli - Apollo Group - EVP, Global Strategy

We didn't give them out.

Jeff Silber - BMO Capital Markets - Analyst

So they are not in the enrollment data that you have, it excludes that item?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Correct.

Jeff Silber - BMO Capital Markets - Analyst

Just one follow-up from Kelly's question earlier. In terms of the cost of Brian's departure, any indication, will there be some charge in the fourth quarter?

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Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

No, there will not be any charge in the fourth quarter.

Operator

Suzi Stein, Morgan Stanley.

Suzi Stein - Morgan Stanley - Analyst

Any comment on the potential impact from the G.I. Bill? Do you expect this to be meaningful?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

That bill, I think, was passed today or yesterday, last night and we are in the process of evaluating that and can't give you any speculation at this point. The devil is always in the details on those bills, and so we'll be getting into it. But we don't know of anything at the moment.

Suzi Stein - Morgan Stanley - Analyst

I just want to confirm that you're looking for a CEO, not a President.

Greg Cappelli - Apollo Group - EVP, Global Strategy

Yes.

Suzi Stein - Morgan Stanley - Analyst

Is that right? Okay. And does this external search mean that this absolutely won't be filled internally?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Yes.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

I don't know that you answered that -- would you repeat your question, please?

Greg Cappelli - Apollo Group - EVP, Global Strategy

She wanted to know if it was going to be external.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Will it be filled externally? Was that the question?

Suzi Stein - Morgan Stanley - Analyst

Yes.

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Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Okay, yes.

Suzi Stein - Morgan Stanley - Analyst

And I guess you have no sense of the timing yet; correct?

Greg Cappelli - Apollo Group - EVP, Global Strategy

We haven't said. We hope to announce something sooner rather than later, but I don't want to say any more than that.

Suzi Stein - Morgan Stanley - Analyst

Thanks, great quarter.

Operator

Jerry Herman, Stifel Nicolaus.

Jerry Herman - Stifel Nicolaus - Analyst

Just a question on retention. Can you guys give any metric whatsoever that gauges that progress? And I'll ask the couple-quarter-old question about graduation and matriculation rates for Axia, and especially in the context of the Bachelor starts sort of turning the corner. I guess, as part of the question, the question is, have they turned the corner, and should we see continued growth in Bachelor starts? I know that's multifaceted.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Yes. Let me take the last part first, on the associates graduates into the Bachelor program. That continues to go well. We continue to work on that, but we're very pleased with the progress that we've made today. Whether we've turned a corner -- I don't know that I can tell you that yet. We certainly, for the first time in several quarters, have had an increase in Bachelor starts. And we hope that that continues, but we can't give you any assurances on that.

What are your other questions? I'm sorry.

Jerry Herman - Stifel Nicolaus - Analyst

Retention -- you guys seems to be making progress on retention generally. Is there any metric that you can offer in that regard that helps us gauge your progress there?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Well, we do the persistence calculations similar to what you do as a metric that you can look at. And at all levels, it improved this quarter.

Greg Cappelli - Apollo Group - EVP, Global Strategy

And maybe one of the things we'll try to give out more color on in the future is, in some of the things that we're testing, and there's many on the retention front, like the resource centers, we're seeing some really good results. Now, it's early on, and we don't want to give out percentages or

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what not. But we are clearly pleased with what we are seeing there. And that's just one example of a number on the retention front. We are very, very focused on that extremely important indicator because it's really an indicator of the health of the whole business and we'll try to update you as precisely as we can going forward.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Our people, Jerry, are very focused on it and have done just a tremendous job for the last several quarters. We've made very nice strides in improving our retention or persistence. And on graduation rates, I think you have probably have seen our annual academic report, that -- which we intend to publish annually. And in there, there are graduation rates, and those will be -- that's where you can kind of judge our progress in terms of how we're doing on that front.

Jerry Herman - Stifel Nicolaus - Analyst

Have you guys put a number on the number of resource centers that you guys intend to have by the end of this year or next year?

Greg Cappelli - Apollo Group - EVP, Global Strategy

The range has been around the 25 number, so that could fluctuate some, but -- and then -- and that's for this year, and then potentially doubling that in size the following year.

Operator

Gary Bisbee, Lehman Brothers.

Gary Bisbee - Lehman Brothers - Analyst

I guess the first question, the bad debt expense was a pretty big swing factor quarter to quarter, and I wondered if you could give a little more color on that. You cite retention, so should I think about that, that you've got a fewer number of kids dropping out in the first month, so more money you keep less -- from the DOE lets you refund to them? Or is that a big piece of it? Or, what are the other factors? How does retention really help that so much?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Retention helps, especially with the drops. And so I think you said it correctly. If a student drops and we have a return-to-lender situation, then that student owes us money and that could contribute to bad debt.

I think, a quarter ago or so, we actually put in place a more student-friendly return policy or a fee policy so that the amount of classes you had to take before we charge you for the entire course was more, gives our students a better chance to get acclimated and to see how the curriculum works for them. That will also have an impact on bad debts as well.

So those are some of the factors. In terms of what we've done, we have spoken about this, I guess, for four quarters now or five quarters and we've put just a tremendous amount of effort into our processes and to ensuring that we have all of our paperwork done and that at least we maximize our chance to collect all the money from the student that we possibly can.

Gary Bisbee - Lehman Brothers - Analyst

I realize you said that number is likely to be a bit volatile quarter to quarter. But over the last six months, it has dropped by almost 60%. Maybe the first quarter to the third quarter is not a great seasonal comparison. But when you say volatility, are you talking a couple million dollars one way or the other, or could it be a bigger swing than that?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

I really can't answer that. I'd like to be able to tell you more precisely, but given that this is so dependent on our execution of all of our practices precisely that it's difficult to say whether or not we've set a new level or not. I have a feeling that we'll have some -- that the percentage, anyway, will go up and down here. But I think we've made some really, really good progress, and we have to thank our people for that.

Gary Bisbee - Lehman Brothers - Analyst

When I look at the growth enrollment adviser comp, and I'm not just talking since you hired these 500 reps, but over the last three years, it has definitely been growing at a higher rate than starts. I guess I wondered if you guys track, first of all, or if you could give some commentary on rep productivity. It seems to me, as you've gone more to online and more to Axia, that the productivity of the average rep is falling. And I wonder if that's just some of those things the Company has struggled through over the last couple of years, or if that is just a fact, that it takes more rep time to sign up a kid for Axia or online versus the old campus model. Any commentary on how we should think about that going over the next couple of years?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Sure. I think it's important to recognize from where we came, where we had enrollment counselors at the campus level who are only enrolling for the campus. And then, as you'll recall, we began to have enrollment counselors at the campus enroll online and at the campus. And that was a significant learning exercise. We had to go through training and the like.

And we're constantly replacing enrollment counselors who turn over, so that has an impact. And I think anyone who has ever had anything to do with a call center understands the difficulties of that, and so we are going to make a renewed effort, if you will, at looking at what we can do to better support our enrollment counselors in any way possible, whether that's in support, whether it's from a marketing perspective, giving more tools to our enrollment counselors. You know there's more competition as well, and it's a very complicated area. But we're going to take a shot at doing what we can to improve the outcomes there.

I think your observation is correct. The productivity of the group as a whole has probably deteriorated over time, and we are taking a close look at what we can do about that.

Greg Cappelli - Apollo Group - EVP, Global Strategy

One thing that might help some, Gary, is the turnover is down within that EC group, so we hope to have more tenured staff going forward. But as Joe said, we are very focused on that.

Gary Bisbee - Lehman Brothers - Analyst

Have you been getting a lot of leads in Canada that you can turn over to Meritus, or are you going to have to have a lot of upfront spending to sort of prime the marketing pump and the brand there, rather than just sending leads that might be a better fit for that, like you have done a lot with Axia?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Yes, we are getting leads for Canada, and you know we'll also be introducing new programs as well over time. And, we will put some marketing dollars into Canada as well. We're not prepared to say exactly the number, and that's being evaluated right now from Rob Wrubel and his group. And we'll try to update you on that as we have a better idea of the dollars that are going to ultimately go into Meritus in '09.

In relation to The University of Phoenix, it's not going to be a significant number.

Gary Bisbee - Lehman Brothers - Analyst

Thanks. Nice job on the quarter.

Operator

Trace Urdan, Signal Hill.

Trace Urdan - Signal Hill - Analyst

If I could, I want to go, Joe, maybe take you, go one layer deeper on Gary's question about the bad debt expense. Can you describe for us in simple terms what the mechanism of the calculation is there, and why you would have such a change as you saw in this quarter? Because I still -- you're speaking broadly about retention, but I'm still not getting what the trigger is for that coming down in the quarter so dramatically.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

I'll let our Chief Accounting Officer address that.

Brian Swartz - Apollo Group - CAO

The methodology that sets the reserve has not changed in any of the last numerous quarters, at least since Joe and I have been here. So it's really a function of, as Joe said, of the front-end process of working with students, collecting the money from students, keeping students enrolled so that when they drop, there isn't a receivable that they still owe us. As long as they stay in school, they can persist through. So it's coupled with that front-end processes of working with the students as well as increased retention that's driving the bad expense down.

Trace Urdan - Signal Hill - Analyst

Is that collecting cash from them up front sooner?

Brian Swartz - Apollo Group - CAO

Either cash from them or processing their financial aid and getting the receipt of the Title IV funds, if that's the case, from any of our students, or any other cash funding mechanism that they are using.

Trace Urdan - Signal Hill - Analyst

So then maybe, given that, why wouldn't you have the confidence that this level could be maintained?

Brian Swartz - Apollo Group - CAO

It requires continuous focus, and we are focused on it, like everything else (multiple speakers).

Trace Urdan - Signal Hill - Analyst

No, no, no. I understand the continuous focus.

Brian Swartz - Apollo Group - CAO

Like everything else, so it's one of those things you've got to monitor and watch.

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Trace Urdan - Signal Hill - Analyst

Right. No, I understand the focus. It's just that Joe seemed to imply that it might not stay at this level, it might go back a bit. And I wondered if there was a reason for that or if it's just -- you are not promising.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

It's a cautionary -- maybe the accountant in me, the conservative nature.

Trace Urdan - Signal Hill - Analyst

Okay, fair enough. The other question I had was, it looked like the Masters retention, as best we can measure it, seemed to be quite strong in the quarter. It also looked like the revenue per student in the Masters area was strong in the quarter. I wondered if there is anything behind that observation. Nothing special, huh?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Nothing special has popped up on that, Trace.

Operator

Corey Greendale, First Analysis.

Unidentified Participant

Hi, it's [Tom] in for Corey. I just wanted to go back, some questions on Aptimus. You had mentioned Internet spending being higher than you had wanted (technical difficulty) quarter. I just wondered how long do you expect that (technical difficulty) to persist?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

I think that that -- it will be higher than we would like for at least several quarters. But I want to be sure you understand, we also have many goals and many objectives that we're monitoring very closely and measuring. It's not something that will change overnight, but over time it's our view that it will change, and we've been talking about that as well for awhile.

So at the right time, we can give you more insights into that, but at this stage, we don't want to let out more competitive information than we have.

Greg Cappelli - Apollo Group - EVP, Global Strategy

You know, Tom, one of the things we are doing now is, it's important for us -- we understand that, that's at a level that's not acceptable to us at this time. We want to bring it down. But one of the things we do do, is we measure the marginal return for spending dollars and advertising and all the different channels. And although it's higher, marginal return is still positive for us, which is why we continue to spend. But as Joe said, everybody here is focused on it. We hope to be able to deliver some good news at some point in the future here. I think we've made the right investments, and it's going to take a little bit of time here. We'll keep you guys updated, but at least we put those investments in place, and we are not content to just do things the way they've been done over the past couple of years.

Unidentified Participant

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Just one quick follow-up. I think, Greg, you had mentioned \$50 million in savings from renegotiating vendor contracts. Was that correct? And is it correct, then, that that would be offset by a number of the other investments you've talked about in (technical difficulty) and global and things like (technical difficulty)?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

The \$50 million estimate is correct. That represents, let me say, what I believe are kind of the low hanging fruit. And I think we will, as an organization, continue to stay focused on how we can be more efficient and more effective in our spend and use the power of the size of this organization to take advantage of our ability to negotiate better deals.

So we as an organization now are kind of taking that on. So there was another part to that?

Unidentified Participant

Just --

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Oh, will it offset the investments, or will there be investments to offset that? I'll let Greg --

Greg Cappelli - Apollo Group - EVP, Global Strategy

Well, you heard me talk about the investment dollars, which were the biggest pieces. And, you can see the size of those cost savings. The thing that we didn't try to quantify to you, because it's difficult and, frankly, it's part of the ongoing concern for the business, is we invested heavily in human capital over the past year. We won't be investing in that same rate, but in a lot of areas of the organization. So, as Joe said, this is part of looking at the organization. This is part of looking at the low-hanging fruit as well, in terms of vendor contracts. And there's more to go there, hopefully. Will it totally offset all the investments? I can't tell you for sure, but it's a real good start.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Also, those investments are expected to generate revenue.

Greg Cappelli - Apollo Group - EVP, Global Strategy

Correct.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

That will truly offset those investments, as we expect nice returns from them.

Greg Cappelli - Apollo Group - EVP, Global Strategy

We don't expect to just keep coming back quarter after quarter, saying we continue to invest at a higher and higher rate and not have anything to show for it. That would be unacceptable.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - William Blair - Analyst

I think, Joe, I wanted to make sure that I understood something you said in your opening remarks, that over the next several quarters the advertising costs should decline as a percentage of revenue. Is that still an accurate statement? And I would imagine that that statement would include any kind of investments you're thinking of making with Meritus. Is that a fair way to characterize it?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

No. I'll have to go back to my remarks now, but I don't think I said that it would decline as a percentage. What I did say is that we weren't satisfied with the absolute dollar and the percentage of revenue either amount and that we were working hard at changing that. But I didn't make any commitments or projections as to where it would be.

Brandon Dobell - William Blair - Analyst

I just wanted to make sure I didn't misstate what you guys were trying to come across.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Yes, the key here, Brandon, is it's just going to take some time. There's no magic bullet here. What we are doing is, hopefully, something that will have some real positive impact at some point in time.

Brandon Dobell - William Blair - Analyst

Going back to an earlier question about the enrollment counselors, you talked a little bit about turnover and about productivity. I wonder if you could give us a context for what was either productivity metrics that you'd like to use that you think are most accurate, compare that to where we were a year ago or compare to where you think you can get in the next year. And, probably as importantly, in terms of enrollment counselor turnover, especially the first six months of a tenure, how much room do you think you have to improve that? And what kind of time frame should we think is the right time frame to improve that metric?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Brandon, you know, the operator won't cut you off after one question any more. So you don't have to line ten up in a row any more.

Brandon Dobell - William Blair - Analyst

I appreciate that.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Well, we are not giving those measurements out. An enrollment counselor has an awfully difficult job. And so, we measure them on a number of factors, so I don't plan to give those measurements out. But I think we would say, though, just based on the growth in cost, what we would like to do is try to get it more in line with our growth in revenue.

So that's the way we are looking at it. But we have a lot of measurements and statistics. Again, it's another area that's going to take a little bit of time to fix. There isn't a magic fix there, but we're going to look at some bigger ideas, if you will, to provide the support that we think will help them.

Greg Cappelli - Apollo Group - EVP, Global Strategy

Internally, we're measuring those statistics very closely and we look at them often.

Brandon Dobell - William Blair - Analyst

And then kind of a final big picture question. I think a couple weeks ago at the Blair conference you guys talked about shareholder returns, corporate returns and student returns on the value proposition. As you think about your decision to raise price, and especially not just this near-term decision but on let's call a next, two or three-year basis, where you've got still substantial room between the tuition and Title IV, how do you reconcile that decision with what the student value proposition may look like now compared to, let's say, a couple years from now, if price goes up? Do you think that those students still have the same value for going to school with you guys as they would right now?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Without question, Brandon. We try to measure those returns. We understand that our returns can't be higher than our students' over time. We think, A, we're competitively priced; B, that's not all students look at when they look at evaluating where to go for education. And C, some of the reasons we put through price increases is because we're putting more into the education as well, and costs go up every year.

So, to answer your question directly, we very much believe those returns are still there for them in a significant way.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer - Analyst

Congratulations on the quarter. Within LCS, obviously bad debt had a large impact. But also, you alluded to classroom lease expense and depreciation. Could you give us an idea of the magnitude on these two? Is that just scale that you're getting there with over the [fiscal], or is there initiatives in place to further push that?

Brian Swartz - Apollo Group - CAO

In terms of space, we hope to continue to get leverage through the utilization of our space. It's going to vary from period to period. We always look at our real estate needs very holistically and make those decisions at that level. And then again, on bad debts, this is our highest revenue quarter or generally our strongest quarter, and so that's a very seasonal nature as a percentage of revenue. But we are going to stay focused on it.

Scott Schneeberger - Oppenheimer - Analyst

Also, Greg, you mentioned a strengthening pipeline globally, and obviously a lot of hires, I mentioned that's occurring globally or across different geographies. Could you speak a little bit more to the pipeline, perhaps size? Is it large entities, small entities, mix, geographical location type of investments you are looking at? Any color there? Thanks.

Greg Cappelli - Apollo Group - EVP, Global Strategy

As I said, we're evaluating the opportunities that we think we can have the most impact on together with a partner anywhere in the world and there are different opportunities of all sizes. What I would say is, there are more opportunities that look like the one we already did last quarter than speculation of what we might have done this quarter. And I think that's probably true globally, not just in one area.

There are large opportunities. Those would have to meet all our criteria on all fronts for both our ourselves and Carlyle, in order to enter into something like that. Like I said, we are evaluating and we want to understand what's going on around the world. So we have put the people in place to do that. We have great investment policy committees here, and we'll continue to report back to you on what we find.

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Operator

Kelly Flynn, Credit Suisse.

Kelly Flynn - Credit Suisse - Analyst

I'll take it off-line. I was going to ask about bad debt, but it's been asked many times. Thanks.

Operator

Mark Marostica, Piper Jaffray.

Mark Marostica - Piper Jaffray - Analyst

I just want to turn quickly back to Bachelor starts again and ask the question, with the month of June behind us, if you could comment on whether or not you saw continuation of the return in start growth in June on the Bachelor level. Thanks.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

For the month of June?

Mark Marostica - Piper Jaffray - Analyst

Yes.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

It's -- for Bachelors only, I don't have that information handy.

Mark Marostica - Piper Jaffray - Analyst

How about for the business, just overall -- starts for the overall business?

Greg Cappelli - Apollo Group - EVP, Global Strategy

Mark, we're just not going to comment on that.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - BMO Capital Markets - Analyst

I know it's late, but nobody has really asked about the private lending environment and I know it's a relatively small component of your student base, but I'm just wondering if you can give us an update what's going on there. Thanks.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Yes, it is small and it's getting smaller because of the increase in Title IV loan limits. So this is really a non-issue for the Company. We still have lenders who are doing private loans. We have not had any issues, as best I can tell, anything significant, anyway, where we're finding that students aren't able to get a loan. I know from some other discussions with one of our lenders that there are private loans being gotten by students privately that don't go through us, so that we might not even know sometimes when the student is getting a private loan. But so far, we have not just had any impact from the private loan sector or private issues.

Operator

Gary Bisbee, Lehman Brothers.

Gary Bisbee - Lehman Brothers - Analyst

You've talked over the last couple of quarters and then some conferences about this whole concept of the resource centers to help retention and what not. I'm actually not clear exactly what it is. Could you just explain? Is this just having an academic adviser and an admissions rep close by so they can think of it as a physical presence near them? Or what exactly are you doing there?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

It is a physical presence near a student group, and it's a center that individuals can come to, to enroll or to get tutoring or to learn how to get onto the system, all kinds of support mechanisms there.

Greg Cappelli - Apollo Group - EVP, Global Strategy

Meet with a counselor.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Meet with the counselors, where they can have interactions directly with us, whether they are online or on ground. And they've proven to be, from our perspective, very interesting and the first one we did was very successful from our perspective, and now we are doing some others to see if we can repeat that success.

Greg Cappelli - Apollo Group - EVP, Global Strategy

Gary, you are welcome to visit any of them to see what you think, but from our perspective, to really provide another avenue for students to have a touch point to The University of Phoenix from their online world, I think that's what we're getting good response back from. And these are nice, open, airy centers. They are good places if you just want to go study on a Sunday. The usage goes way up when people are completing assignments and might need some help with something or just need a quiet place to go.

So, so far, so good. But you're welcome to check it out yourself.

Gary Bisbee - Lehman Brothers - Analyst

Is there any reason you won't turn all the existing 100 campuses or whatever it is, start to try to use them for this? I'll go see one. I guess it sounds like it's quite different. But is that -- ?

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Well, I think we're going to take this a step at a time at this point.

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Greg Cappelli - Apollo Group - EVP, Global Strategy

We just haven't made that evaluation yet.

Operator

There are no further questions at this time. I would now like to turn the call over to Joe D'Amico for closing comments.

Joe D'Amico - Apollo Group - Interim President, CFO, EVP, Treasurer

Thank you, everyone. We appreciate the questions and your continued interest in support of the Company. Have a good day, or evening.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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