

### Introduction

As the largest for-profit education company, and the company that pioneered the modern for-profit education model, Apollo Group, Inc. has the potential to be *the* industry leader in student success. Instead the investigation demonstrates that, at least during the period examined, the company invested relatively little in students and struggled to retain Associate degree students. While the company has started to take positive steps in the right direction, more remains to be done.

### Company Profile

Apollo Group, Incorporated (“Apollo”) is a publicly traded for-profit educational institution headquartered in Phoenix, AZ. Apollo operates two for-profit college brands, the University of Phoenix and Western International University. In 1994, Apollo became the second for-profit college to become publicly traded. The University of Phoenix accounts for the overwhelming majority of the company’s students and is the Nation’s largest for-profit college. It offers Associate, Bachelor’s, Master’s, and Doctoral programs in over 100 different fields.<sup>1078</sup> Thirty-six percent of Apollo’s students are enrolled in the Associate degree programs, 48 percent in Bachelor’s degree programs, and 16 percent in Graduate level programs.<sup>1079</sup> The company’s Associate degree program is exclusively online.<sup>1080</sup>

Apollo operates over 280 locations, and of these locations, approximately 76 are campuses that provide classes in person. The remaining installations are “learning centers” that provide local resources for students that learn online.

Like more than half of the regionally accredited brands the committee examined, both the University of Phoenix and Western International University are regionally accredited by the Higher Learning Commission. The University of Phoenix was first accredited by the HLC in 1978.

The University of Phoenix was founded by John Sperling in 1976 to assist working adults who had some college credit complete college degrees. He founded the company after San Jose State University, where he was a tenured professor, refused to expand a successful grant program Sperling had run that helped police and firefighters complete degrees at the college.<sup>1081</sup> At its founding, the University of Phoenix required all entering students be at least 23 years old, have at least 2 years of work experience, and have already completed significant credit towards a college degree.<sup>1082</sup> The company offered exclusively Bachelor’s degrees. The University of Phoenix offered convenient locations designed to make it easy for working adults to attend classes on existing commuter routes. It offered a “one class at a time” structure, with frequent starts on a rolling basis. A small group of learners would move through the curriculum together, with little or no class selection choice. This

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<sup>1078</sup> For full list of campuses see: <http://www.phoenix.edu/campus-locations.html> and <http://www.west.edu/why-west/campus-locations> (accessed May 10, 2012).

<sup>1079</sup> Apollo Group, 2011 Form 10-K.

<sup>1080</sup> Apollo’s Associate program was at one time primarily run through Axia College. In June 2011, Axia College was merged with the University of Phoenix Online.

<sup>1081</sup> Christopher R. Beha, “Leaving the Field: What I Learned from For-Profit Education,” *Harper’s Magazine*, October 2011.

<sup>1082</sup> *Id.*

innovative model proved to work extremely well for non-traditional students, and is the foundation of most for-profit education offerings today.

Sperling served as CEO of the company until August 2001, and continues to play an active role as chairman of the board. In 2001, Todd Nelson was selected as CEO after serving in a number of other roles at Apollo, and served as CEO until 2006.<sup>1083</sup> Under Nelson's leadership, enrollment increased from 124,800 students to 282,300 students, but the company came under repeated scrutiny.

News reports of a 2006 deposition of John Sperling reported that Sperling testified that Nelson was asked to leave Apollo because, "he was mainly concerned with anything that would cause the stock to drop. ... [H]e was preoccupied primarily with the stock price and not with the functioning of the company."<sup>1084</sup> Interviewed by a reporter in 2009 about Nelson's tenure as CEO, the former president of the University of Phoenix Jorge Klor de Alva replied, "There was a breakdown in the culture that John had built up."<sup>1085</sup>

In 2003, the company was sued by two former employees under the False Claims Act for violating the incentive compensation rules then in place. This case was settled in 2009 for \$78.5 million. In 2004, the Department of Education alleged that Apollo had violated the same rules regarding how much of a role the number of students enrolled could play in setting recruiter pay. The suit was settled for \$9.8 million.

In 2008, Charles Edelstein became CEO, and in 2009, he was joined as co-CEO by Gregory Capelli. Capelli had joined the company in 2007, as executive vice president of Global Strategy and assistant to the executive chairman. The two remain co-CEOs, but Edelstein will step down in August 2012.

According to news reports, at John Sperling's 80th birthday party in 2001, Mr. Sperling set the goal of increasing Apollo's enrollment from an already impressive 124,800 students to 470,800.<sup>1086</sup> This aspiration was reinforced by a 2002 corporate goal known as "5-5-5": "Five Years, Five Million Students and Five Billion Dollars."<sup>1087</sup> During this period, Apollo also eliminated the requirement that students have previous college credit, added a shorter term Associate degree program, and moved to expand online enrollment.<sup>1088</sup>

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<sup>1083</sup> Nelson's combined compensation and severance pay from Apollo amounted to \$41.3 million. In 2007, Nelson became CEO of EDMC and continues in that role today.

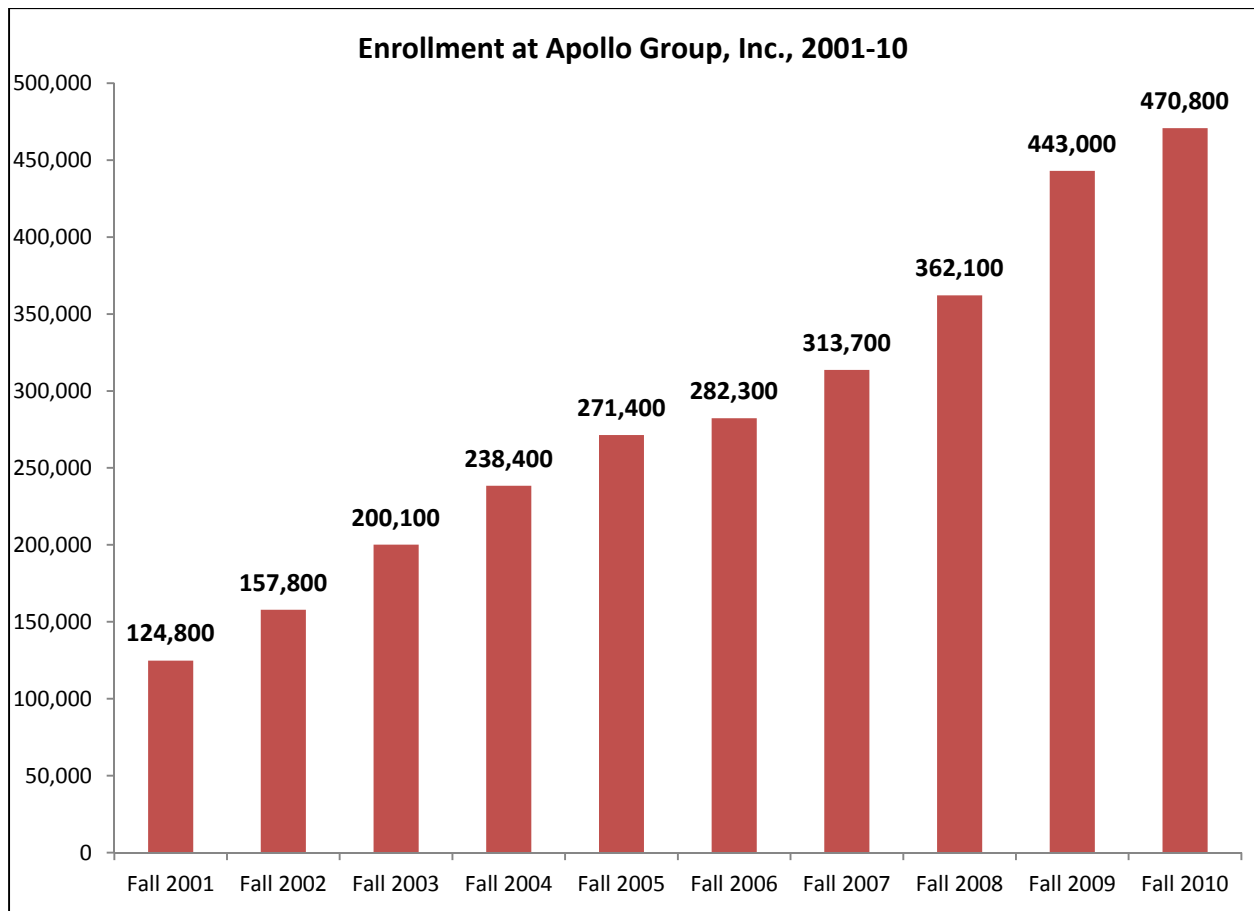
<sup>1084</sup> Charlie Deitch, "There's big money in studying art ... if you own the school," *Pittsburgh City Paper*, March 13, 2008, <http://www.pittsburghcitypaper.ws/pittsburgh/art-of-the-deal/Content?oid=1339907> (accessed June 12, 2012).

<sup>1085</sup> Thomas Bartlett, "Phoenix Risen" *The Chronicle of Higher Education*, July 6, 2009.

<sup>1086</sup> Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.

<sup>1087</sup> 2004 Department of Education University of Phoenix Program Review Report.

<sup>1088</sup> Daniel Golden, "Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama" *Bloomberg*, December 29, 2010.



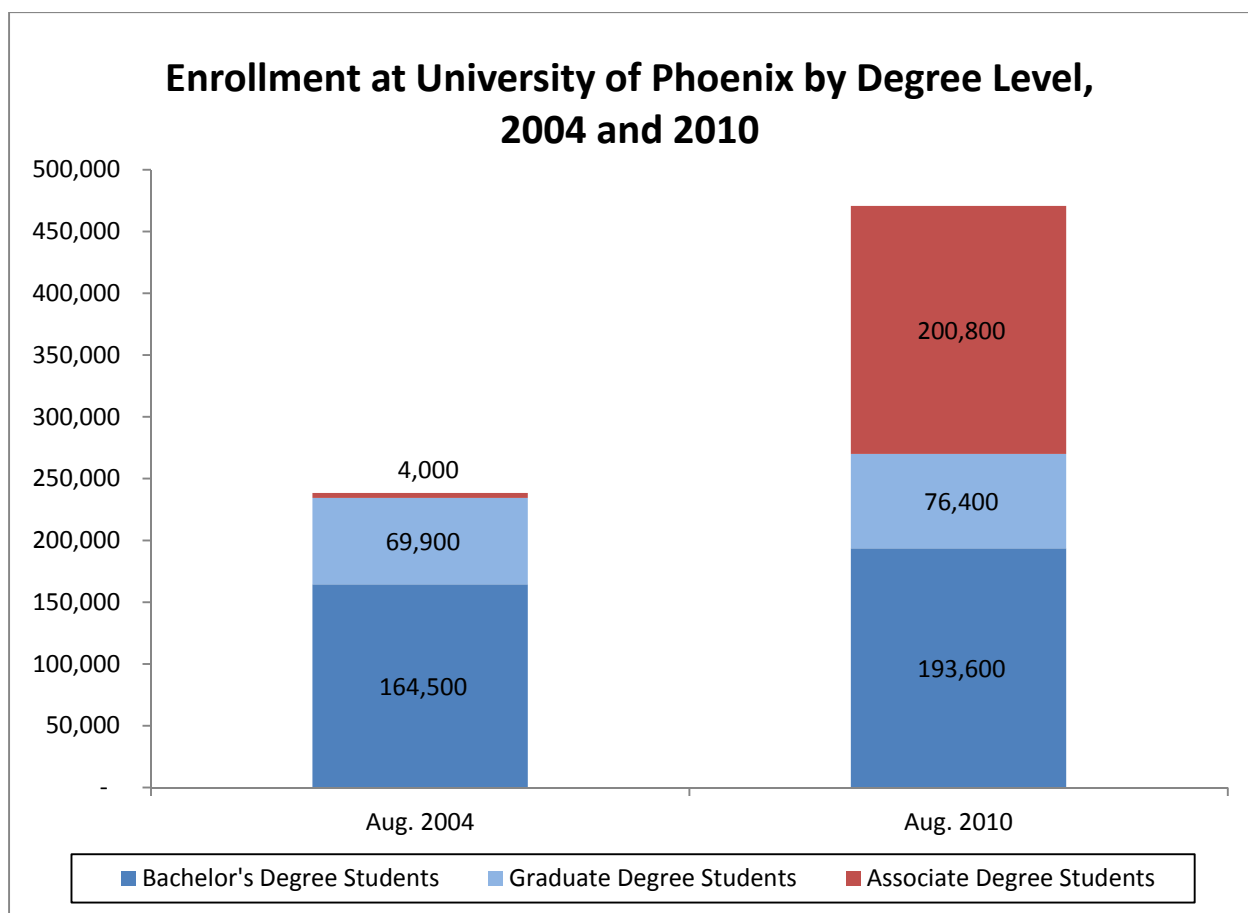
While Apollo ultimately fell short of Sperling’s goal, the company experienced rapid enrollment growth, from 124,800 students in 2001 to 470,800 students in 2010, a larger number of students than the entire Big Ten

Conference.<sup>1089</sup> However, this growth came at a cost. In the words of former University of Phoenix senior vice president, Robert W. Tucker, “At critical junctures, John chose growth over academic integrity, which ultimately diminished a powerful educational model.”<sup>1090</sup>

Much of this growth was driven by growth in Associate degree students at the University of Phoenix.

<sup>1089</sup> Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7. The Big Ten Conference enrolled 458,310 students in Fall 2010. IPEDs Enrollment Figures for Indiana University, Michigan State University, Northwestern University, Ohio State University, Penn State University, Purdue University, University of Iowa, University of Illinois, University of Michigan, University of Minnesota, University of Nebraska, and University of Wisconsin. By March 2012, Apollo’s enrollment had dropped to 355,800.

<sup>1090</sup> “Plunge of For-Profit College Shares Make Patriarch Sperling Rail at Obama” Daniel Golden. Bloomberg. Dec 29, 2010.



In 2004, Apollo enrolled 4,000 Associate degree students, which represented 2 percent of the company's total enrollment. By 2008, the company enrolled 146,500 Associate degree students who made up 41 percent of the student body.<sup>1091</sup>

In late 2010, Apollo leadership initiated the University Orientation Program that required all students with less than 24 credits to successfully complete a 3-week orientation course before actually beginning classes. Any student who withdraws before the conclusion of the program incurs no financial obligation to Apollo. While not as robust as the Kaplan Commitment program initiated around the same time, which allows students to actually attend classes for 5 weeks and withdraw at no cost, the program is a promising step and appears to have had a significant impact on the number and type of students who enroll. While 80 percent of those who start the orientation ultimately enroll at Apollo, the program appears to be at least partially responsible for the drop in enrollment to 355,800 students as of March 2012.<sup>1092</sup> This drop in enrollment, led to a drop in both revenue and profit in 2011.

The company has also recently focused its marketing efforts towards shifting the mix of its enrollments towards Bachelor's level students.<sup>1093</sup> Both the drop in enrollments and the changing mix of students has been helpful to Apollo's 90/10 ratio.<sup>1094</sup> The company at least partly attributes the lower

<sup>1091</sup> Apollo Group, Inc. 10-K period ending 8/31/2008.

<sup>1092</sup> November 2011, Wunderlich Securities Conference; Apollo Group, Inc. 2012, Q2 Form 10-Q.

<sup>1093</sup> Apollo Group Investors Call, Q2 2011.

<sup>1094</sup> December 2011 William Blair Conference.

mix of Associate degree students as the reason it was able to remain in compliance with the 90/10 rule for fiscal year 2011.<sup>1095</sup>

Prior to 2011, growth in enrollment led to growth in revenue. Revenue almost doubled—from \$2.7 billion in 2007 to \$4.9 billion in 2010.<sup>1096</sup>

## Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from \$5.4 to \$32.2 billion.<sup>1097</sup> Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.<sup>1098</sup>

In 2010, Apollo reported 85.3 percent of revenue from title IV Federal financial aid programs.<sup>1099</sup> However, this amount does not include revenue received from Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 3.4 percent of Apollo's revenue, or \$144 million.<sup>1100</sup> With these funds included, 88.7 percent of Apollo's total revenue was comprised of Federal education funds.<sup>1101</sup>

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<sup>1095</sup> Apollo Group Investors Call, Q2 2011. Apollo elected not to take advantage of the temporary ECASLA provision allowing for the exclusion of up to \$2,000 in loans per student from their 90/10 calculation. This means that unlike a number of other for-profit education companies, their 90/10 is more reflective of the actual amount of Federal revenue the company receives.

<sup>1096</sup> Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18. Matching the drop in enrollment, revenue fell to \$4.7 billion in 2011.

<sup>1097</sup> "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

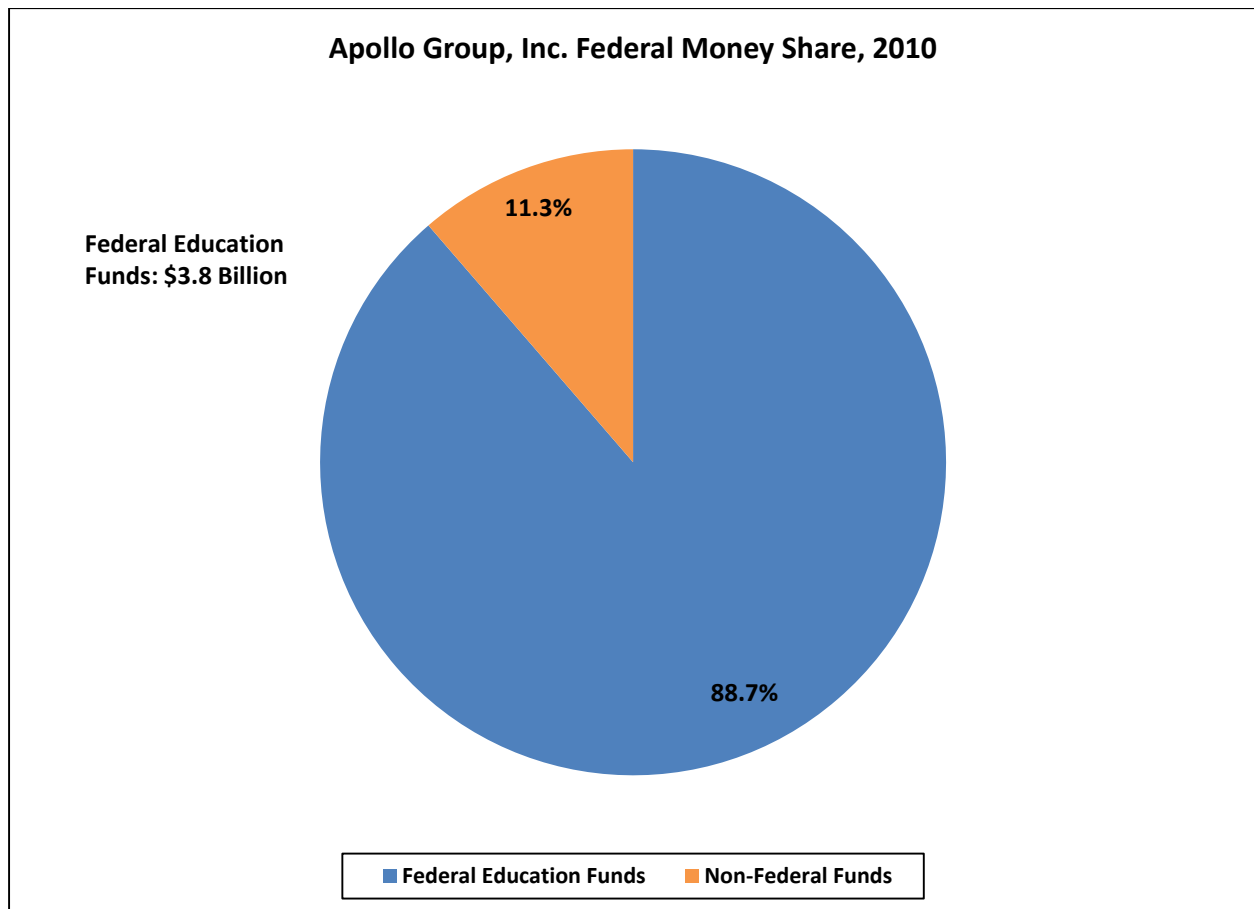
<sup>1098</sup> Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>1099</sup> Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

<sup>1100</sup> Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

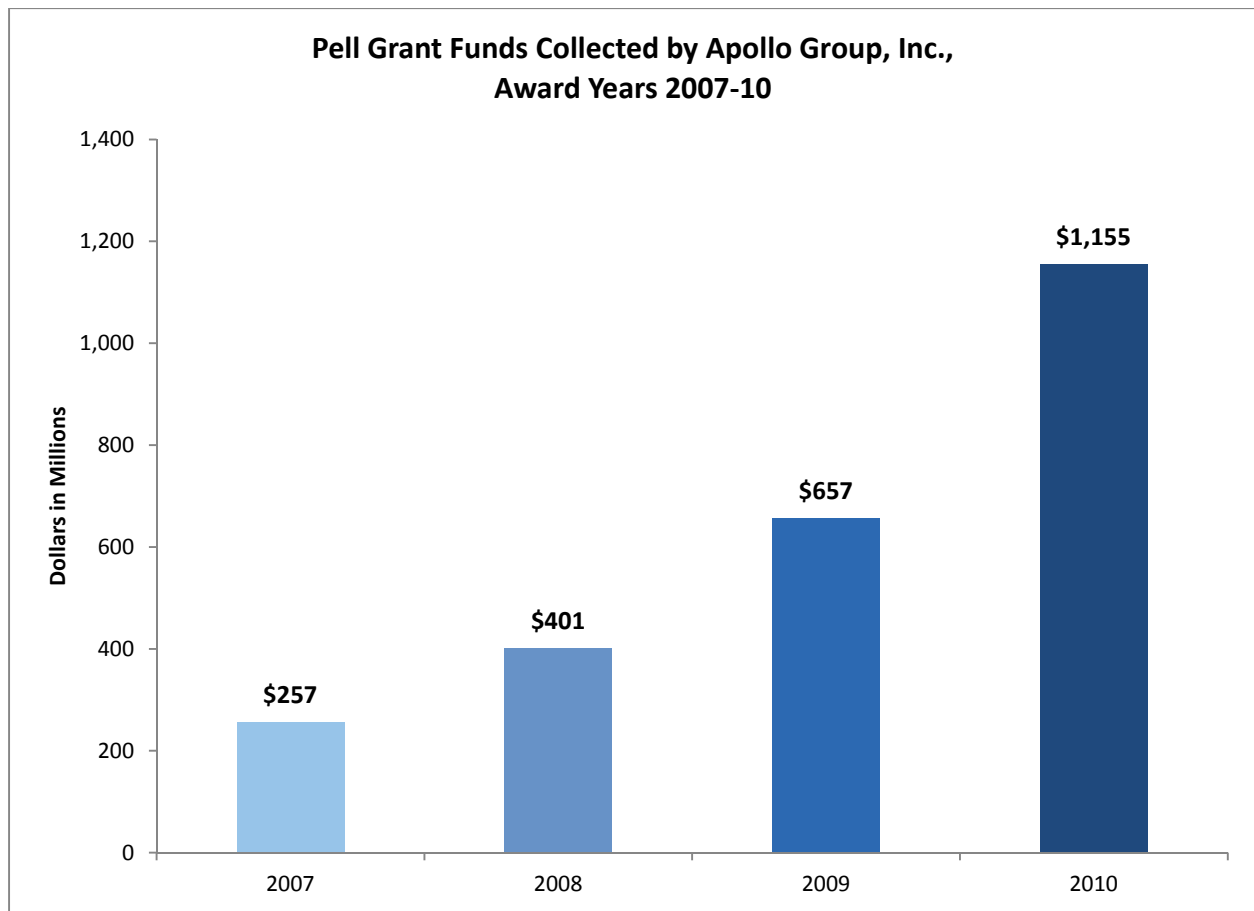
<sup>1101</sup> "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

### Apollo Group, Inc. Federal Money Share, 2010



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from \$1.4 billion to \$8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.<sup>1102</sup> Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

<sup>1102</sup> Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>.



The result of these increases is that Apollo collects more Pell Grant dollars than any other college in the country, passing \$1 billion in 2010. Apollo more than quadrupled the amount of Pell grants it collected, from \$257 million in 2007 to \$1.15 billion in 2010.<sup>1103</sup>

## Spending

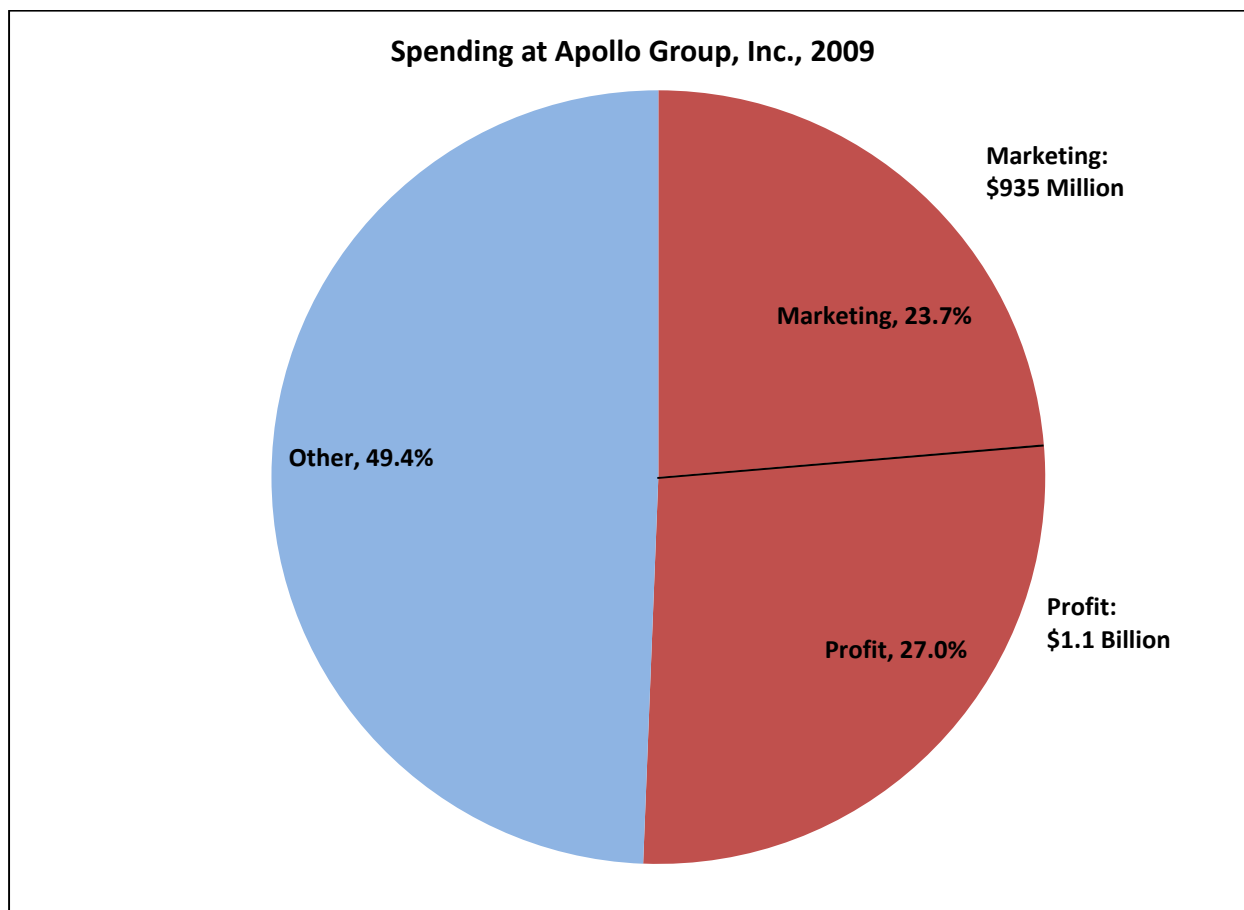
While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students, and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.<sup>1104</sup> During the same period the companies spent 23 percent of revenues on marketing and

<sup>1103</sup> Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School, 2006-7 through 2009-10*, <http://federalstudentaid.ed.gov/datacenter/programmatic.html>. See Appendix 13.

<sup>1104</sup> Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

recruiting (\$3.7 billion), and 19.7 percent on profit (\$3.2 billion).<sup>1105</sup> These 15 companies spent a total of \$6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, Apollo allocated 27 percent of its revenue, or \$1.1 billion, to profit and 23.7 percent, or \$935 million, to marketing and recruiting.<sup>1106</sup>



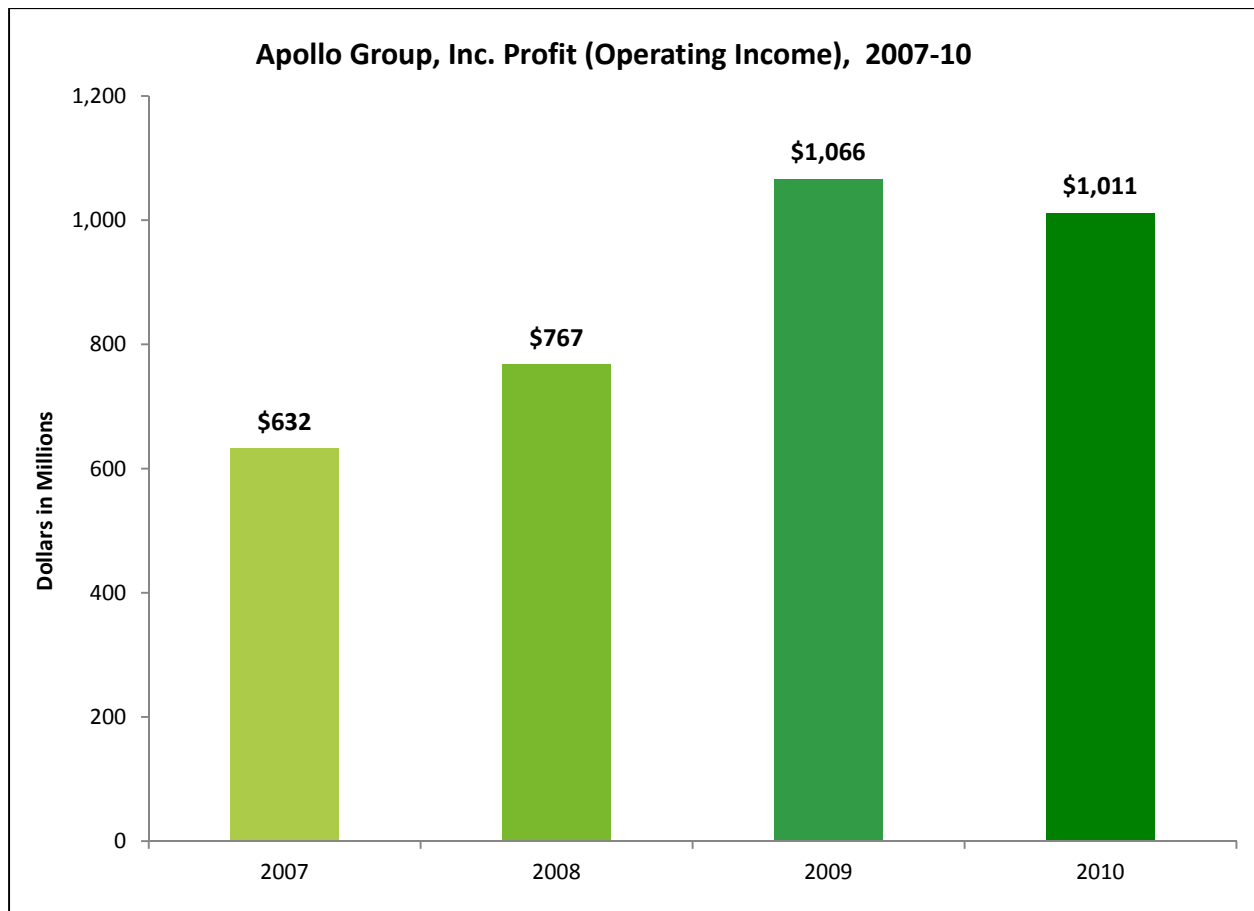
Apollo devoted a total of \$2.04 billion to marketing, recruiting, and profit in fiscal year 2009.<sup>1107</sup> The amount of profit Apollo generated also increased rapidly, growing from \$632 million in 2006 to over \$1 billion in 2010. Matching the drop in enrollment, profit fell in 2011 to \$961 million.

<sup>1105</sup> Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income. See Appendix 19.

<sup>1106</sup> Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

<sup>1107</sup> Id.





## Executive Compensation

Executives at Apollo, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.<sup>1108</sup> In 2009, Apollo Founder and Chairman John Sperling received \$8.6 million in compensation, more than 13 times as much as the president of the University of Arizona, who received \$633,206 in total compensation for 2009-10. Co-CEOs Charles Edelstein and Gregory Capelli together received \$3.4 million. The chief executive officers of the large publicly traded for-profit education companies took home, on average, \$7.3 million in fiscal year 2009.<sup>1109</sup>

<sup>1108</sup> Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a and Appendix 17b.

<sup>1109</sup> Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

Executive	Title	2009 Compensation	2010 Compensation
John G. Sperling	Founder and Chairman	\$8,617,597.00	\$6,963,239.00
Joseph L. D'Amico	President and COO	\$5,115,263.00	\$5,500,246.00
Brian L. Schwartz	Senior VP and CFO	\$2,345,379.00	\$2,369,601.00
William J. Pepicello	President, University of Phoenix	\$2,035,470.00	\$2,035,470.00
Charles B. Edelstein	Co-CEO	\$1,800,000.00	\$1,636,950.00
Gregory W. Cappelli	Co-CEO	\$1,659,712.00	\$1,659,712.00
<b>Total</b> <sup>1110</sup>		\$21,573,421.00	\$20,165,218.00

Co-CEO's Gregory Capelli's 2011 compensation was \$25.1 million.<sup>1111</sup>

## Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Apollo. Tuition for an Associate of Arts in Business at the University of Phoenix Online costs \$24,500.<sup>1112</sup> The same degree costs \$4,087 at Phoenix College in the Maricopa Community College system.<sup>1113</sup>

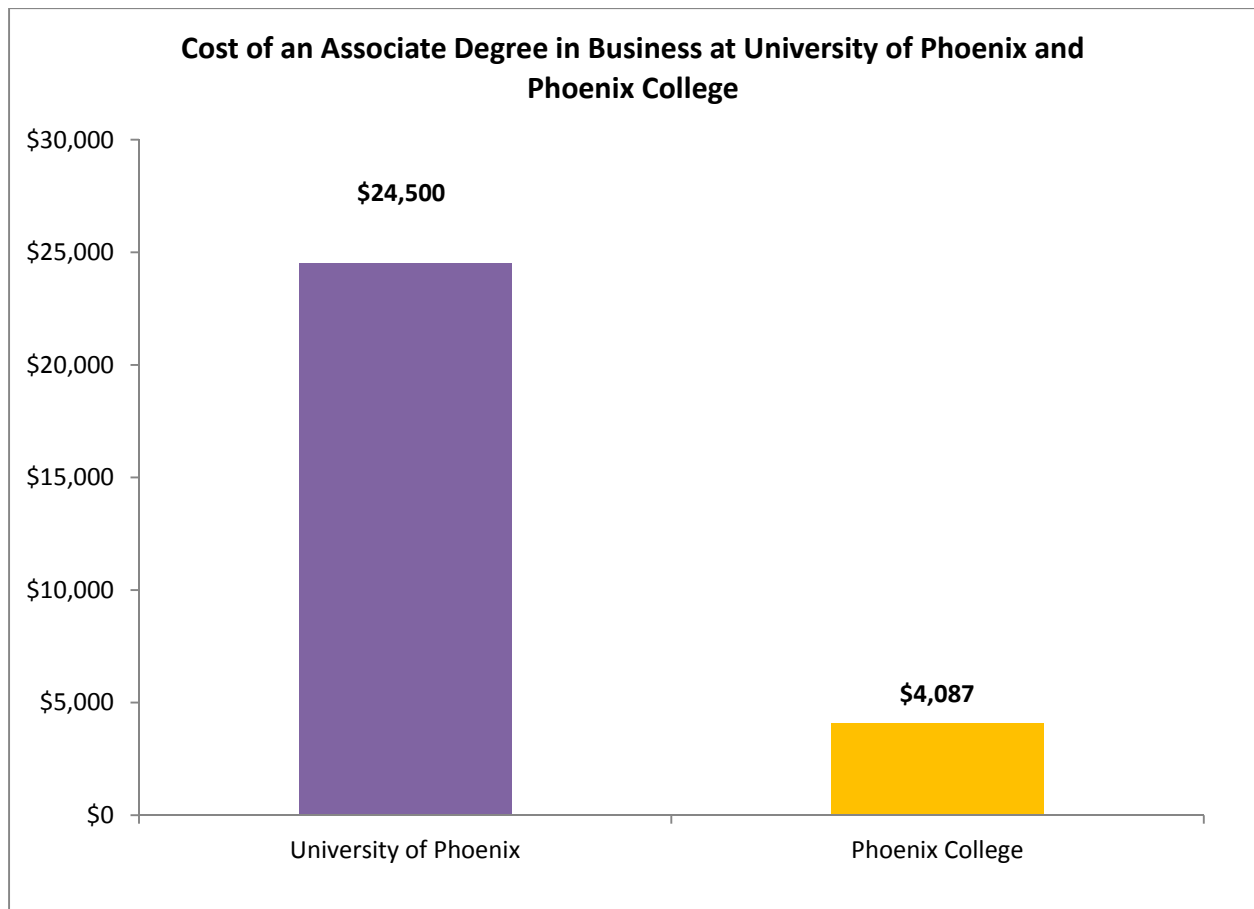
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<sup>1110</sup> Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

<sup>1111</sup> Apollo Group 2011 DEF 14C.

<sup>1112</sup> See Appendix 14; see also, University of Phoenix, *School of Business*, [http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm\\_sp=Program+Page--SealSheet+PDF--AAFB](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page--SealSheet+PDF--AAFB) (accessed April 19, 2012).

<sup>1113</sup> See Appendix 14; see also, Phoenix College, *Phoenix College*, <http://www.pc.maricopa.edu/> (accessed April 19, 2012).

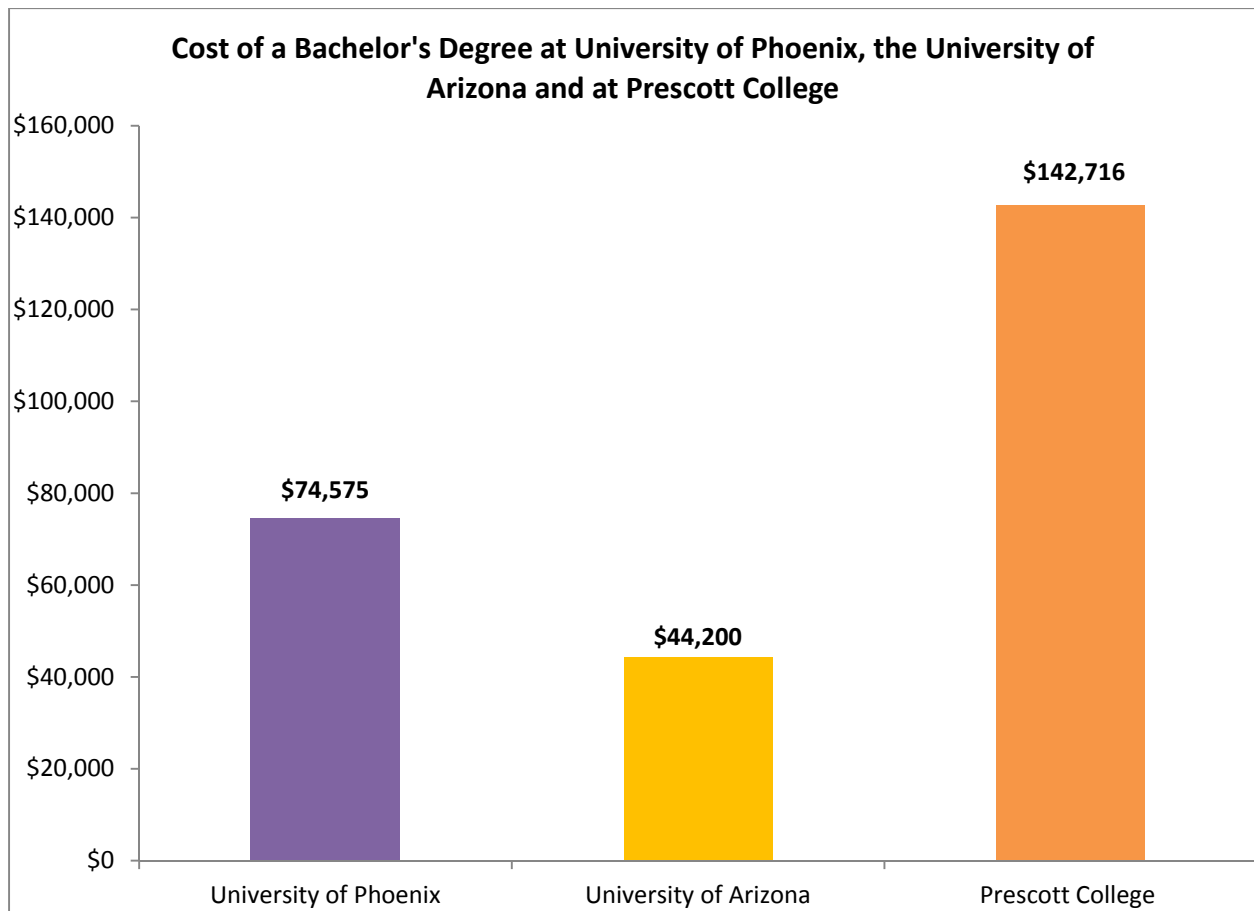


Tuition for a Bachelor's of Science in Business at the University of Phoenix in Hohokam, AZ, costs \$74,575.<sup>1114</sup> The same degree at the University of Arizona costs \$44,200.<sup>1115</sup> However, the cost of tuition for a Bachelor's degree at the University of Phoenix is considerably less than a Bachelor's degree at a comparable non-profit college. It costs \$142,716 to obtain a Bachelor's degree at the non-profit Prescott College.<sup>1116</sup>

<sup>1114</sup> See Appendix 14; see also, University of Phoenix, *School of Business*, [http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm\\_sp=Program+Page- -SealSheet+PDF- -AAFB](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/AAFB-013B.pdf?cm_sp=Program+Page- -SealSheet+PDF- -AAFB)[http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm\\_sp=Program+Page- -SealSheet+PDF- -BSB-M](http://cdn-static.phoenix.edu/content/dam/altcloud/programs/Sealsheets/BSB-M-025B.pdf?cm_sp=Program+Page- -SealSheet+PDF- -BSB-M) (accessed April 19, 2012).

<sup>1115</sup> See Appendix 14; see also, University of Arizona, *The University of Arizona*, <http://www.arizona.edu/> (accessed April 19, 2012).

<sup>1116</sup> See Appendix 14; see also, Prescott College, *Prescott College*, <http://www.prescott.edu/> (accessed April 19, 2012).



The higher tuition that Apollo charges is reflected in the amount of money that Apollo collects for each veteran that it enrolls. From 2009-11, Apollo trained 29,336 veterans and received \$210 million in post-9/11 GI bill benefits, averaging \$7,158 per veteran. In contrast, public colleges collected an average of \$4,642 per veteran trained in the same period.<sup>1117</sup>

According to Apollo executives, the company has increased tuition, “3 percent, 4 percent, 5 percent really in most areas of the country the last couple of years.”<sup>1118</sup> To the company’s credit, while executives have indicated in calls with investors that they have considered raising tuition as a means of addressing 90/10 concerns, unlike some other for-profit colleges, Apollo has elected not to do so.<sup>1119</sup>

Internal Apollo emails indicate that the company is aware tuition costs and increases are a concern for many students. According to one internal email, “they are starting to hear an increase in the reason that the student is not returning to school is because they are advising that the price increase/high tuition is preventing them from returning.”<sup>1120</sup>

Internal documents from the period examined indicate that, when presented with questions regarding cost from prospective students, recruiters are trained not to provide direct answers. According

<sup>1117</sup> See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans’ Affairs via the Department of Veterans Affairs on July 18, 2011.

<sup>1118</sup> William Blair Conference, December 2011.

<sup>1119</sup> Apollo Group Investors Call, Q2 2011. See also Apollo Group Investors Call, Q4 2010. While Apollo is uncomfortably close to the 90/10 threshold, calls with investors suggest the company is focused on more appropriate ways to deal with the problem, including increasing debt counseling and the number of employer funded students. See Apollo Group, 2010, Q4 Earnings Call with Investors; Apollo Group, 2011, Q3 Earnings Call with Investors.

<sup>1120</sup> Apollo Group, Internal Email, RE: GP, October 2, 2008 (AGI0045757, at AGI0045758).

to a 2007 training manual, if the prospect says “you’re too expensive,” the recruiter could respond, “Can you afford not to go?” or “If student loans will match your payment to your income when you are in repayment, why do loans scare you?” or “If you are going to be making more money, wouldn’t these loans be easier to pay back?” or finally “Why would you not want to invest in yourself?”<sup>1121</sup> If a student complains that the University of Phoenix is expensive compared to other schools, the recruiters were given proposed responses including, “When your degree hangs on the wall in a few years . . . will you tell your friends and family you bought the cheapest degree you could find?”<sup>1122</sup>

## Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges must demonstrate consistent enrollment growth each quarter.

Internal documents from the period examined by the committee demonstrate an aggressive approach to enrolling prospective students.<sup>1123</sup> Recruiters were trained to push prospective students to commit to attending the school by creating a sense of urgency. A 2007 manual instructed “after gaining voice-to-voice contact with your students, uncovering and developing needs, matching our benefits to their needs, and helping them to work through their concerns, you now have to challenge them to act NOW.”<sup>1124</sup> The document goes on to state, “this chapter will help you create urgency in your students so they resist the urge to wait and get excited to begin NOW.”<sup>1125</sup>

In order to create this sense of urgency, a 2007 training document states: “Do not tell the student we have classes running every week unless you can agree on a start date, or rolling start dates is a selling point.”<sup>1126</sup> Another suggested response to generate a sense of urgency is, “it looks like I might be able to squeeze you into” the next start date.<sup>1127</sup> Apollo’s training manuals instructed recruiters to avoid telling prospective students “you have plenty of time to get everything in order,” because “if the student thinks he/she has plenty of time, he/she might wait and apply later.”<sup>1128</sup>

The committee reviewed a small sampling of complaints from students who felt they were misled or deceived by recruiters.<sup>1129</sup> While student complaints may not be representative of the experience of the majority of students, they do provide an important window into practices that appear to be occurring. As one servicemember said in his complaint:

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<sup>1121</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at 15339). The company states that this document is no longer in use.

<sup>1122</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312, at AGI0014465). The company states that this document is no longer in use.

<sup>1123</sup> According to Apollo the training manuals cited in the report are no longer in use.

<sup>1124</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015329).

<sup>1125</sup> Id.

<sup>1126</sup> Id., at 15333; See Also, Apollo Group, *University of Phoenix Enrollment Counselor Guide Online Campus*, 2007 (AGI0014312).

<sup>1127</sup> Apollo Group, *University of Phoenix Enrollment Counselor Guide*, 2007 (AGI0015231, at AGI0015334).

<sup>1128</sup> Apollo, 2007, *Enrollment Counselor Guide: School of Advanced Studies* (AGI00014312, at AGI0014504) (University of Phoenix).

<sup>1129</sup> After extensive negotiation, Apollo provided the committee with a small sample of student complaints but failed to provide the vast majority of the 5,152 complaints students lodged with the company.

I believe that the University of Phoenix is using deceptive practices in order to lure students into the school, the enrollment counselors tell students that they should be complete with their course of studies in a short period of time fully knowing how long it is going to take. . . . I have talked with other students at the University of Phoenix and this appears to be a common tactic used by University of Phoenix enrollment counselors [sic].<sup>1130</sup>

Another military student who was billed for a class that he never took wrote:

As a marine of 19 years, I've served in Desert Storm, Somalia, and Operation Iraqi Freedom x2. You cannot imagine the emotional battle this has taken on me after dealing with this for nearly TWO years!! An education institution such as yours earns millions of dollars each year, and yet you punish those who are willing to risk their lives and fight for your freedoms, you should be ashamed! I am very disappointed as an American that an institution such as your calls itself a place of 'higher' learning.' It was because of the selfless sacrifice of our WWII Veterans and the implementation of the GI Bill that paved the way for hundreds Colleges to open across our country. I am going to retire from the Marines after 20 years of service, I hope you will take a good look at how you treat Veteran's in the future [sic].<sup>1131</sup>

The son of one Apollo student, disputing a bill, wrote, "My father did not make any loans [sic]. The school Phoenix University never told him upfront that he was applying for a loan he thought he was applying for some type of Pell Grant from the government which he would not have to repay. They told him they he was approved for a loan with your institution after the period that classes would start . . . My father does not speak English and is not computer savvy [sic]."<sup>1132</sup>

Another former student was told by an Apollo admissions counselor that her felony conviction would not hinder a career as a pharmacy technician.<sup>1133</sup> The student graduated with a 3.61 GPA, and \$27,000 in debt, only to discover that the required licensing board placed a lifetime bar on individuals with certain felony convictions sitting for the exam.<sup>1134</sup>

#### Government Accountability Office Undercover Recordings<sup>1135</sup>

Undercover recordings made during GAO visits to University of Phoenix campuses in Hohokam, AZ, and Philadelphia, PA showed multiple instances of deceptive and misleading recruitment.

Recordings of the encounters at the Hohokam campus document misleading tactics with regard to the cost of attending. Asked about a Bachelor's program in elementary education that required 120 credits, the recruiter said, "This is a Bachelor's so it's four years, you would finish in exactly four years, that's the worst scenario. . . . There are ways to speed it up."<sup>1136</sup> Yet, when the undercover prospective student asks about cost, the recruiter quoted a price based on attending three terms a year, "With tuition

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<sup>1130</sup> Letter from Office of the Attorney General State of Arizona Consumer Information & Complaints to University of Phoenix, May 4, 2009 (AGI0051856).

<sup>1131</sup> Apollo Group, Internal Correspondence, July 7, 2009 (AGI0053273).

<sup>1132</sup> Letter from [REDACTED] to Apollo Group, July 27, 2009 (AGI0052827).

<sup>1133</sup> Letter from Aubrie Roupe, former University of Phoenix student, to Senator Tom Harkin, April 2, 2011.

<sup>1134</sup> Id.

<sup>1135</sup> Apollo was also visited by GAO for their report "Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges." The GAO agent was unable to enroll at the school as they did not meet requirements for acceptance based on insufficient evidence of high school graduation.

<sup>1136</sup> Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1 Scenario 2 at minute 11:16, available at <http://harkin.senate.gov/help/gao.cfm> (accessed June 14, 2012).

and books it's approximately . . . its right about \$9,500 a year.”<sup>1137</sup> In reality, if the prospective student were to take full-time classes year round to finish in less than 4 years, the cost would be greater than \$9,500. In another instance, when asked about the job placement rate, the admissions representative states, “we don't have that statistic, because a lot of them move out of state. And a lot of them did.”<sup>1138</sup>

## Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.<sup>1139</sup>

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan “cohort default rates.” These metrics indicate that many students who enroll at Apollo are not achieving their educational and career goals.

## Retention Rates

Information Apollo provided to the committee indicates that, of the 279,576 students who enrolled at Apollo in 2008-9, 60.5 percent, or 169,138 students, withdrew by mid-2010. Amongst all 30 companies analyzed, 599,575 students withdrew, and because of its size, Apollo accounted for 28 percent of those students. These withdrawn students were enrolled a median of 4 months.<sup>1140</sup> Apollo's overall withdrawal rate is significantly higher than the sector-wide withdrawal rate of 54 percent. While the withdrawal rate for Bachelor's degree students is slightly below the average of the companies examined, the withdrawal rate for Associate students is 16 percent higher than the Bachelor's withdrawal rate. The withdrawal rate for Apollo's Associate program is 66.4 percent, meaning that more than two-thirds of the students who enrolled in 2008-9, 117,738 people, withdrew by mid-2010. This is the fifth highest Associate withdrawal rate of any company examined by the committee.<sup>1141</sup>

### Status of Students Enrolled in Apollo Group, Inc. in 2008-9, as of 2010

<sup>1137</sup> Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1, Scenario 2 at minute 14:27, available at <http://harkin.senate.gov/help/gao.cfm> (accessed June 14, 2012).

<sup>1138</sup> Audio Recording: Undercover Recording of Visits by GAO Agents to For-Profit Schools, School 1 Scenario 1, at 26:14, available at <http://harkin.senate.gov/help/gao.cfm> (accessed June 14, 2012).

<sup>1139</sup> Patricia Steele and Sandy Baum, “How Much Are College Students Borrowing?,” *College Board Policy Brief*, August 2009 [http://advocacy.collegeboard.org/sites/default/files/09b\\_552\\_PolicyBrief\\_WEB\\_090730.pdf](http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf) (accessed June 12, 2012).

<sup>1140</sup> Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are “active” or “withdrawn.” The date a student is considered “withdrawn” varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

<sup>1141</sup> It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	177,368	4.7%	28.9%	66.4%	117,738	126
Bachelor's Degree	102,208	1.8%	47.9%	50.3%	51,400	115
All Students	279,576	3.6%	35.9%	60.5%	169,138	123

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

### Online vs. Brick and Mortar Outcomes

An analysis of withdrawal rates among the 11 companies that provided disaggregated data indicates that students enrolled in online programs had higher withdrawal rates than students enrolled in campus based programs. Overall brick and mortar Apollo students are faring significantly better than online Apollo students. However, all Associate students attended online, and when only the Bachelor's degree students are analyzed, withdrawal rates are much more evenly distributed between online and brick and mortar students. Apollo estimates that approximately 75 percent of the company's undergraduate students who default are online students.<sup>1142</sup>

Status of Online Students Enrolled at Apollo in 2008-9, as of mid-2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	177,246	8,380	4.7%	51,191	28.9%	117,675	66.4%
Bachelor's	58,713	1,368	2.3%	28,319	48.2%	29,026	49.4%
All	235,959	9,748	4.1%	79,510	33.7%	146,701	62.2%

Status of Brick & Mortar Students Enrolled at Apollo in 2008-9, as of mid-2010							
Degree Type	Enrollment	Students Completed	Completed	Students Still Enrolled	Still Enrolled	Students Withdrawn	Withdrawn
Associate	2	0	0%	1	50%	1	50%
Bachelor's	42,010	377	0.9%	19,973	47.5%	21,660	51.6%
All	42,012	377	0.9%	19,974	47.5%	21,661	51.6%

### Student Loan Defaults

The number of students leaving Apollo with no degree correlates with the high rates of student loan defaults by students who attended Apollo. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for

<sup>1142</sup> Apollo, *Default Management Plan*, September, 2010 (AGI0032838).



at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.<sup>1143</sup>

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.<sup>1144</sup> In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.<sup>1145</sup> On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.<sup>1146</sup> The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.<sup>1147</sup>

The 3 year default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.<sup>1148</sup> This change represents a 32.6 percent increase over 4 years.<sup>1149</sup> Apollo's default rate has similarly increased, growing from 12 percent for students entering repayment in 2005 to 20.9 percent for students entering repayment in 2008.<sup>1150</sup> The company expects the rate for 2009 to be 26.7 percent.<sup>1151</sup> Company officials have also told investors that they do not expect the 2010 rate to exceed 30 percent.<sup>1152</sup> This is important because, as of 2014, a 3-year default rate of greater than 30 percent will result in a loss of access to title IV funding.

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<sup>1143</sup> Direct Loan Default Rates, 34 CFR 668.183(c).

<sup>1144</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default by sector.

<sup>1145</sup> Id.

<sup>1146</sup> Id.

<sup>1147</sup> Id.

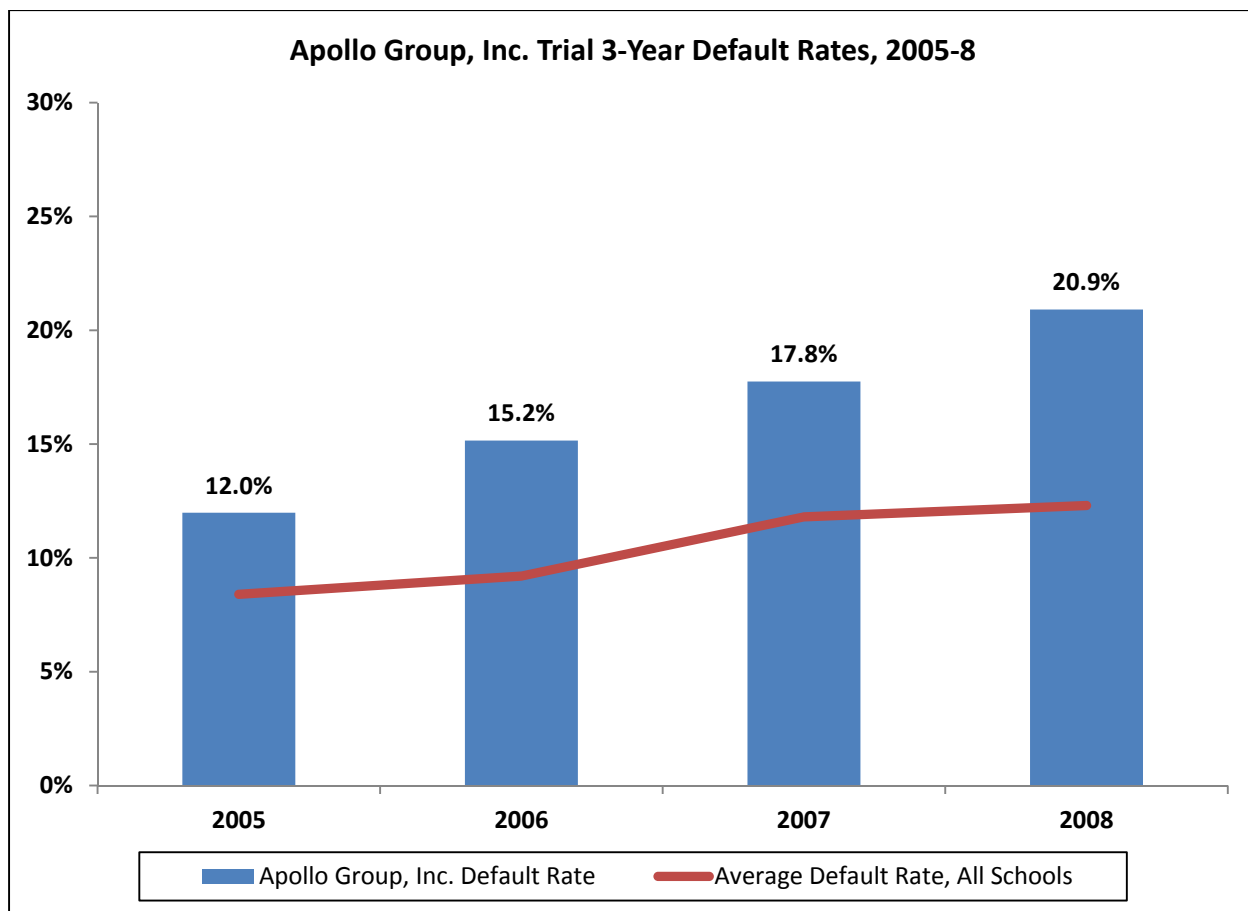
<sup>1148</sup> Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

<sup>1149</sup> Id.

<sup>1150</sup> Id.

<sup>1151</sup> Apollo Investors Call, Q2 2012.

<sup>1152</sup> Id.



An internal email from an associate vice president at Apollo makes clear that the long-term prognosis for students is even worse. The email documents that the company expects the lifetime default rates for Associate degree students entering repayment in 2006 to be 77.7 percent and to be 55.8 percent for students entering repayment in 2007.<sup>1153</sup>

### Default management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Default management is sometimes accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies also pursue default management strategies that include loan counseling, education, and alternative repayment options. Default management contractors are paid to counsel students into

<sup>1153</sup> Apollo Internal Email, *RE: Default Information...*, May 11, 2010 (AGI0049553). (At the time all 2 year students (the Axia program) were enrolled and tracked through WIU). See Also Apollo Internal Email, *RE: HELP – PLEASE HURRY*, July 16, 2009 (AGI0049229); Apollo Internal Email, *FW: Cohort Default Rates*, September 10, 2008 (AGI0048359); Apollo Internal Email, *FW: Axia and WIU 2005 Cohort Default Rate Notification*, September 19, 2007 (AGI0048483); Apollo Internal Email, *Re: CDR for graduates.....*, April 29, 2010 (AGI0048299).

repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

Apollo, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to “cure” students who are approaching default.<sup>1154</sup> The company also contracts with the i3 group for additional default management services.<sup>1155</sup> According to executives, i3’s role is to “perform our ‘swat’ effort on the WIU F[iscal] Y[ear] 09 late stage delinquent student borrower population.”<sup>1156</sup> In practice, documents indicate that nearly all “cures” are accomplished by deferment or forbearance, not by students actually repaying their loans. Some companies pay different amounts for different types of cures, but it is unclear from the documents produced if this is Apollo’s practice.

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school’s ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

## Instruction and Academics

The quality of any college’s academics is difficult to quantify. However the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Apollo spent \$892 per student on instruction in 2009, compared to \$2,225 per student on marketing, and \$2,535 per student on profit.<sup>1157</sup> This is one of the lowest amounts spent on instruction per student of any company analyzed. On average, the 30 for-profit education companies examined spent \$2,050 on instruction per student, and the 15 publicly traded education companies spend \$1,909 on

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<sup>1154</sup> Apollo, *Cohort Default Management Solutions Agreement*, June 22, 2010. (AGI0034246). Company redacted all information regarding fees paid to GRC.

<sup>1155</sup> Apollo Internal Email, Re:i3 Contract – Ready for your execution, August 18, 2010 (AGI0034261).

<sup>1156</sup> Id.

<sup>1157</sup> Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDS data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of “general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution’s students.” Denominator is IPEDS “full-time equivalent” enrollment.

instruction per student. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a more comparable amount but charge far less tuition than for-profit colleges. On a per student basis, University of Arizona spent \$11,128 per student on instruction, while Midwestern University spent \$10,219 per student, and Phoenix College spent \$3,344 per student.<sup>1158</sup>

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time.<sup>1159</sup> In 2010, Apollo employed 1,140 full-time and 31,671 part-time faculty.<sup>1160</sup> Thus, fully 96 percent of Apollo's faculty was employed on a part-time basis.<sup>1161</sup>

In 2010, the HLC expressed concern regarding the high percentage of University of Phoenix students in directed studies and had questions about its rigor and quality.<sup>1162</sup> Directed studies is the practice by which students pursue independent study with more minimal instruction supervision. At least one campus (Oklahoma City) had over 40 percent of students in directed studies.<sup>1163</sup> The company uses directed studies as a tool for keeping students in the program and has the concern that decreasing its usage could hurt retention.<sup>1164</sup>

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<sup>1158</sup> Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

<sup>1159</sup> Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

<sup>1160</sup> *Id.*

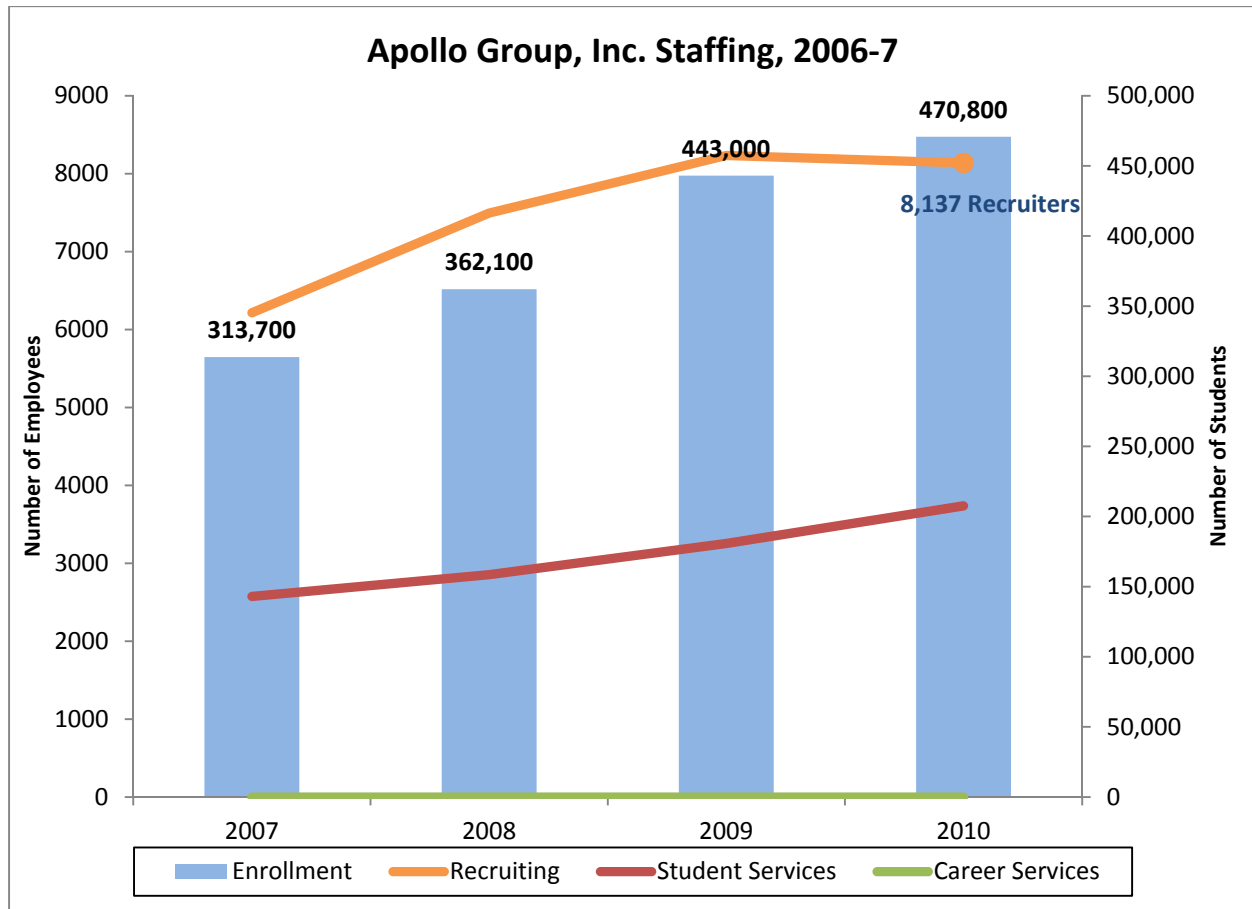
<sup>1161</sup> *Id.*

<sup>1162</sup> Apollo, Internal Email, *FW: DS study guidelines*, March 1, 2010 (AGI0047203).

<sup>1163</sup> Apollo, Directed Studies graph, March 1, 2010 (AGI0047205).

<sup>1164</sup> Apollo, Internal Email, *FW: DS discussion*, March 18, 2010 (AGI0047230).

## Staffing



While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 470,800 students, Apollo employed 8,137 recruiters, 0 career services employees, and 3,737 student services employees.<sup>1165</sup> That means each student services staffer was responsible for 126 students, but the company employed one recruiter for every 58 students. Apollo has long taken the position, that given that their students are working adults, they are not in need of career counseling or job placement services.<sup>1166</sup> Additionally, because the company holds regional accreditation, their accreditor does not require tracking of how many students are employed. Apollo did not alter this position even after it began enrolling over 100,000 Associate degree seekers, or after it eliminated its age, work experience, and credit requirements.

## Enforcement Actions

In November 2010, the University of Phoenix received a subpoena from the Florida Attorney General’s office regarding “misrepresentations regarding financial aid” and “unfair or deceptive

<sup>1165</sup> Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

<sup>1166</sup> In the company’s response, found in Appendix 6, Apollo, for the first time, stated to the committee that it utilizes a third-party provider to “accelerate the delivery of career services to University of Phoenix students.”

practices regarding recruiting, enrollment, placement, etc.”<sup>1167</sup> The Delaware attorney general also issued a subpoena to the University of Phoenix regarding the company’s business practices in Delaware.<sup>1168</sup> The Massachusetts attorney general is investigating whether the University of Phoenix used unfair or deceptive tactics to recruit students or in connection with student financial aid.<sup>1169</sup>

In October 2010, Apollo announced that the Securities and Exchange Commission (SEC) had requested information from Apollo about the company’s insider trading policies relating to stock sales made by John Sperling and Peter Sperling in 2009, although no additional information has been made public by the SEC. The sales in question occurred around the time the Department of Education was investigating University of Phoenix policies regarding title IV financial aid programs.<sup>1170</sup> In April 2012, the SEC announced an insider trading investigation based on trades prior to the February 2012 announcement of lower than expected earnings.<sup>1171</sup>

## Conclusion

When the University of Phoenix was started in 1976, it pioneered an entirely new model of learning. That model revolutionized thinking about how to provide opportunities for higher education to underserved and non-traditional students. Yet in the 2000s, Apollo appears to have made critical decisions that prioritized financial success over student success. While Apollo has recently put in place some important reforms, both by instituting the University Orientation Program and by appearing to address some issues with recruiting and marketing practices, and career services, serious concerns remain. The company makes one of the lowest investments in per student spending on instruction and does not employ career counseling staff though the company has recently partnered with a company that provides career services. Student retention data provided by the company demonstrates that 66 percent of students seeking Associate degrees withdrew, 16 percent higher than the withdrawal rate for students in the Bachelor’s programs. Because the company received \$3.8 billion in Federal financial aid, including over a billion in Pell grant dollars, these poor outcomes are particularly troubling. Apollo is a mature for-profit education provider and has a demonstrated ability to provide high quality programs that lead to student success. However, at least during the period analyzed, the company did not appear to be fully meeting that goal.

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<sup>1167</sup> Florida Office of the Attorney General, *Public Consumer-Related Investigation*, <http://myfloridalegal.com/85256309005085AB.nsf/0/9682560BAF290B1F852577C000722E75> (accessed June 19, 2012).

<sup>1168</sup> Apollo 10-K August 31, 2011.

<sup>1169</sup> Jahna Berry, “Massachusetts’ AG probing University of Phoenix for alleged deceptive tactic,” *The Arizona Republic* <http://www.azcentral.com/business/articles/2011/05/16/20110516apollo-group-arizona-university-of-phoenix-investigated-deceptive-unfair-tactics.html> (accessed June 14, 2012).

<sup>1170</sup> Apollo 8-K October 26, 2010.

<sup>1171</sup> Apollo 8-K April 18, 2012.