U.S. EDUCATION SERVICES

Thoughts on APOL and Education Sector After Disappointing Outlook

Last night, Apollo reported solid 4Q'10 results, but withdrew its prior FY'11 view and guided for significant near-term enrollment declines. As expected, Apollo will implement the Orientation program this fall to shift its mix to higher quality students.

However, the company also announced plans to implement a new admissions model that is a far larger change than previously indicated. Combined with the impact of significant recent negative press coverage of the for-profit school industry (and APOL) and a more aggressive shift in the company's marketing mix away from marketing affiliates, APOL now expects F1Q'11 new student starts to drop as much as 40% y/y.

While these changes will likely create a more sustainable and attractive business in time, they will hurt FY'11 profits and cash flows more than our prior expectations. In addition, we have limited visibility into the duration of these issues and timing for these strategy changes to filter through results and allow a return to growth. **As a result, we are reducing our rating on APOL to 2-Equal Weight, and will look to reassess when clarity into the company's financial outlook improves over the next few quarters.**

While some of the challenges highlighted by Apollo are company-specific, we believe three factors are likely to also hurt the peer companies: 1) enrollment hit from recent negative publicity & press coverage; 2) impact on enrollment/costs from changes made to comply with new incentive compensation rules; and 3) short-term marketing challenges resulting from significant political demand ahead of mid-term elections.

As a result, we are belatedly reducing our sector view from 1-Positive to 2-Neutral. We expect the entire group to be weak today on APOL's report, as investors fear the worst ahead of upcoming September quarter results.

RATING CHANGE

U.S. Education Services
2-NEUTRAL
from 1-Positive

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

U.S. Education Services
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Summary of our Rating, Price Target and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	13-Oct-10	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
U.S. Education Services	1-Pos	**2-Neu**										
Apollo Group, Inc. (APOL)	1-OW	**2-EW**	49.50	66.00	**44.00**	-33	5.50	**4.00**	-27	N/A	N/A	-
Career Education Corp. (CECO)	1-OW	1-OW	20.18	40.00	40.00	-	3.13	3.13	-	3.58	3.58	-
Corinthian Colleges (COCO)	2-EW	2-EW	6.02	8.00	8.00	-	1.35	1.35	-	0.81	0.81	-
DeVry Inc. (DV)	1-OW	1-OW	50.57	71.00	71.00	-	4.54	4.54	-	5.26	5.26	-
Education Management Corp. (EDMC)	1-OW	1-OW	13.27	26.00	26.00	-	1.88	1.88	-	2.24	2.24	-
ITT Educational Services (ESI)	2-EW	2-EW	65.92	121.00	121.00	-	11.26	11.26	-	12.14	12.14	-
Lincoln Educational Services (LINC)	2-EW	2-EW	13.79	22.00	22.00	-	2.51	2.51	-	2.40	2.40	-
Strayer Education (STRA)	2-EW	2-EW	157.05	242.00	242.00	-	9.93	9.93	-	12.10	12.10	-
Universal Technical Institute (UTI)	3-UW	3-UW	18.16	18.00	18.00	-	1.30	1.30	-	1.50	1.50	-

Source: Barclays Capital Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.
FY1(E): Current fiscal year estimates by Barclays Capital. FY2(E): Next fiscal year estimates by Barclays Capital.
Stock Rating: 1-OW: 1-Overweight 2-EW: 2-Equal Weight 3-UW: 3-Underweight RS: RS-Rating Suspended
Sector View: 1-Pos: 1-Positive 2-Neu: 2-Neutral 3-Neg: 3-Negative

Valuation Methodology and Risks

U.S. Education Services

Apollo Group, Inc. (APOL)

Valuation Methodology: Our $44 price target is based on 11x our CY'11 EPS estimate of $3.95.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Apollo Group Inc. will 1) continue to properly execute its growth strategy, 2) adhere to the relevant higher education regulations 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

Source: Barclays Capital

Investment Summary

Last night, despite reporting solid 4Q'10 results, Apollo Group surprised the market by announcing several significant strategy shifts that will negatively effect student enrollments, administrative costs and capital spending. Combined with a larger than expected enrollment hit from recent negative publicity and a challenging marketing environment due to significant political advertising in a contentious mid-term election season, Apollo expects a y/y decline in new student starts of as much as 40% in F1Q'11.

As expected, new student enrollments will be impacted by the aggressive roll-out of the University Orientation program in F1Q'11. We continue to believe that this is the right strategy for the company to improve the quality of students it enrolls and of student outcomes. However, the impact of this strategy will be compounded by the following two new strategic moves:

Admissions Process Changes. Apollo expects to implement a significantly changed admissions model that will impact the role and compensation of admissions reps. Currently, reps are charged with recruiting potential students, but hand those students off to academic counsellors soon after the students have begun class. Rep compensation has been based in part (but not completely) on success in recruiting students. In the new model, the admissions reps are tasked with developing and maintaining relationship with students not only during their recruitment, but also throughout their academic careers. Compensation will be based on metrics derived from the admission counselor's role in student success, and not at all based on the number of students recruited. While the company believes that this new strategy will have a positive impact on the quality of students that enroll and on rep satisfaction, we expect a decline in sales productivity for several quarters (and possibly a larger short-term disruption) as the reps are trained on their new responsibilities occurs.

Changes in Marketing Mix. Second, Apollo has moved to more aggressively shift its marketing mix away from affiliate third-parties marketing firms. While this shift has been underway for ~2 years, the company accelerated it based on its desire to control messaging throughout the recruitment process and to eliminate certain questionable recruiting tactics that could draw scrutiny in the current regulatory environment. The company remains confident that it's internal marketing efforts will generate superior returns over time, but the quick shift this quarter likely contributed to the y/y decline in 4Q'10 starts and weak 1Q'11 starts outlook.

We believe that these strategic changes (Orientation program, new admissions process, more control over the marketing message) will likely create a more sustainable and attractive business over time. However, they will hurt FY'11 profits and cash flows more than our prior expectations. In addition to these two strategic shifts, APOL's enrollments are being negatively impacted by two other factors:

- Enrollment has been impacted by the significant negative press focus on the for-profit school industry (and in many cases Apollo in particular) over the several months. Investigative news reports, negative Congressional hearings and unfavorable reports stemming from the GAO's findings on the industry's recruiting practices all played a role in hurting new enrollments and retention in 4Q'10 and likely over the next few quarters.
- Advertising costs rose this quarter as the competitive marketing climate was affected by increased political campaign spending for both online media and television air time due

to the contentious midterm elections. We believe that APOL (and likely some of its peers) are being crowded out of the best marketing spots by the higher political spend.

Due to all of these factors, Apollo has guided for new student starts to decrease by as much as -40% y/y in F1Q'11, or far worse than our prior expectation of -5%. Furthermore, it is unclear how much each of these factors will contribute to the y/y decline, which limits our visibility into the likely duration of these issues and timing for these strategy changes to filter through results and allow a return to growth.

Unfortunately, these changes coincide with a significant one-time increase in capital investments in technology infrastructure, which is expected to double CapEx in FY2011 vs. FY2010. The investment, which includes the purchase of networking gear and the addition of a new backup data center, will reduce Apollo's free cash flows incrementally in addition to lower expected net income. The company's free cash generation will continue to remain significant ($0.6 billion of free cash flow in FY'11 in addition to $0.7 billion of net cash on balance sheet today), but also be well below our prior expectations.

Given the expected weak enrollment results, lower free cash flows, and fact that FY'11 will now be a significant transition year for Apollo, **we are reducing our rating on APOL to 2-Equal Weight, and will look to reassess when clarity into the company's financial outlook improves over the next few quarters.** We are also reducing our price target to $44, or 11x our new CY'11 EPS estimate of $3.95. Our prior $66 target equated to 11.7x our prior CY'11 EPS estimate of $5.65.

We are reducing our FY'11 estimates as follows:

- *Enrollments and Revenue*. We now expect new student starts and total enrollments to fall 32% and 13% y/y, respectively. We expect 6.6% revenue per student growth (driven by modest pricing, a mix shift to higher revenue bachelor's programs, and impact of Apollo Grobal), and revenue down 7% y/y to 4.599 billion.
- *Expenses and Margins*. We estimate flattish costs, which may prove conservative given APOL's commentary regarding cost reduction actions. However, we believe that any cost savings are likely to take time to materialize and will likely accrue more to the benefit of FY'12 than the next couple of quarters. As a result, our FY'11 operating margin estimate of 22.3%, down 550 basis points y/y.
- *EPS*. We have reduced our FY'11 EPS estimate from $5.50 to $4.00, which assumes a 7% y/y revenue decline and flat y/y expenses. The estimate also does not include any additional share repurchases, which we believe are likely due to the overcapitalized nature of the company's balance sheet and solid free cash flow.
- *Free Cash Flow*. We estimate FY'11 free cash flow of $612 million, down from $1.0 billion previously. The primary changes are lower net income, CapEx higher by ~$175 million, and larger working capital growth than our prior model.

We are also introducing FY'12 revenue and EPS estimates of $4.570 billion and $4.13, or y/y changes of -0.6% and +3.1%, respectively.

Regarding valuation, APOL trades at 12.5x our new CY'11 EPS estimate of $4.00, and a CY'11 free cash flow yield of 9.6%. While we view these as attractive valuations for a business with good margins/ROIC, healthy cash flows, and an overcapitalized balance sheet, we believe significant multiple expansion is unlikely until more clarity into operational

and financial stability appear, which will likely take a couple of quarters to occur. As a result, we believe that a 2-Equal Weight rating is appropriate.

In the remainder of this note, we discuss takeaways for the broader education sector from APOL's 4Q'10 results, and then review those results in detail.

Thoughts on the Broader Education Sector

Apollo Group's withdrawal of its previous FY'11 outlook and poor 1Q'11 enrollment commentary will clearly hurt sentiment on the broader for-profit education sector. While we believe that some of APOL's troubles are company-specific strategies and impacts, the quarter shed light on several issues that are likely to hurt Apollo's peers to varying degrees, including a negative impact from recent bad press, marketing efficiency declines as companies make changes to comply with new regulations, and a more challenging marketing environment in the short-term driven by high levels of marketing competition from the political sphere ahead of the mid-term elections.

These issues compound a continued uncertain regulatory environment, in which pending regulatory changes seem likely to hurt industry profitability, and Congressional scrutiny poses risks of legislative changes. The Apollo results should heighten these fears for investors, as the strategy changes (orientation, new admissions process) are driven by a desire to improve student outcomes in part to comply with a more challenging regulatory environment. **As a result, we are following up our rating re-alignments ("US Education Services: Realigning Education Ratings: Focus on Quality and Growth" published on 08/16/10) with an admittedly belated downgrade of our US Education Services sector view to 2-Neutral (from prior 1-Positive).**

We believe that the significant changes being made to improve the quality of outcomes at COCO, LINC, and APOL, and the likely changes needed at ESI (and to a lesser extent EDMC) to comply with proposed Gainful Employment rules, make these stocks less likely to outperform the peer group overall. Our top pick in the education space is now DV, which we believe has an attractive combination of quality student outcomes, solid growth prospects, & valuation (especially if it is weak on the APOL news).

Additional Details on Apollo's F4Q'10 & FY'11 Outlook

APOL's 4Q'10 revenues grew 17% y/y to $1.259 billion, which beat our estimates by $14.4 million. Excluding the BPP acquisition, revenue grew 16% resulting from increased tuition levels and enrolment at University of Phoenix. Excluding charges, Apollo's operating margin declined 70 basis points y/y to 25.3%, which exceeded our estimate by 10 basis points. The y/y margin decline was driven by 30, 45 and 20 basis point declines in the Instructional Costs, Selling & promotional expense, and G&A, respectively. This was partially offset by a 170 basis point y/y increase in bad debt expense. Excluding $175.9 million goodwill impairment and a $0.8 million legal accrual, 4Q'10 EPS grew 23% y/y to $1.31, which exceeded management's guidance $1.30 and our/street estimate of $1.29.

Apollo reported disappointing enrollment results, with total new student starts and enrollments decelerating -9.8% and +6.3% y/y, respectively, compared to our expectations of +1.0% and +10.3%. Several thoughts on APOL's enrollments:

New Student Starts

Total starts growth decelerated -9.8% y/y to 92,000 starts, or 11,048 students below our estimate for 103,048 starts (+1% growth), primarily due to the further implementation of the University Orientation program, the adverse impact of increased regulatory and public scrutiny surrounding the sector, and a more challenging marketing environment. Furthermore, total starts growth decelerated from +7.5% reported last quarter, as enrollments were lower than expected at the Associates, Bachelors and Masters degree levels. Growth decelerated -23.8% at Axia, compared to the +2.9% reported last quarter, primarily due to further implementation of the free orientation program for new students with less than 24 credit hours. The orientation, which is designed to increase student outcomes by weeding out less qualified or motivated students, also delays the revenue recognition of new enrollments by the 3 weeks it takes to complete the program. Management is staging a more aggressive roll-out of the program system-wide by November 2010, which will negatively impact starts and enrollment in FY'11.

Bachelor's starts of +14.2% y/y also missed our +25.0% estimate, and decelerated compared to the +21.9% reported last quarter. APOL has increased its focus on recruiting bachelors students, which tend to persist at higher levels and thus are more profitable. However, the negative impacts of harsh public and regulatory scrutiny appear to be taking a toll at all degree levels.

Figure 1: Apollo Starts & Re-Enters

	Nov-07	Feb-08	May-08	Aug-08	Nov-08	Feb-09	May-09	Aug-09	Nov-09	Feb-10	May-10	Aug-10
Associates	33,700	31,100	37,100	41,500	45,800	41,700	48,800	55,400	52,200	43,100	50,200	42,200
Bachelors	21,800	21,500	21,900	27,200	26,100	25,100	26,000	31,700	32,100	31,300	31,700	36,200
Masters	12,400	11,800	11,600	13,600	13,300	12,500	11,900	14,200	13,100	12,200	11,300	12,700
Doctoral	800	600	800	800	1,100	700	800	700	700	900	900	900
Total	**68,700**	**65,000**	**71,400**	**83,100**	**86,300**	**80,000**	**87,500**	**102,000**	**98,100**	**87,500**	**94,100**	**92,000**
Yr./Yr. Growth (%)												
Associates	23.0%	18.3%	19.7%	32.6%	35.9%	34.1%	31.5%	33.5%	14.0%	3.4%	2.9%	(23.8%)
Bachelors	(3.5%)	(5.3%)	0.5%	14.3%	19.7%	16.7%	18.7%	16.5%	23.0%	24.7%	21.9%	14.2%
Masters	5.1%	2.6%	0.0%	(2.2%)	7.3%	5.9%	2.6%	4.4%	(1.5%)	(2.4%)	(5.0%)	(10.6%)
Doctoral	14.3%	(14.3%)	33.3%	0.0%	37.5%	16.7%	0.0%	(12.5%)	(36.4%)	28.6%	12.5%	28.6%
Total	**9.9%**	**6.2%**	**9.8%**	**19.1%**	**25.6%**	**23.1%**	**22.5%**	**22.7%**	**13.7%**	**9.4%**	**7.5%**	**(9.8%)**

Source: Apollo Group and Barclays Capital

Total Enrollment

Driven by the lower than expected Associate and Bachelors starts, Apollo generated total enrollment growth of +6.3% to 470,800, which was 17,904 students below our +10.3% estimate. Persistence at Axia led the overall decline in student retention, which fell y/y at all degree levels to 79.5%.

Figure 2: Apollo Total Enrollments

	Nov-07	Feb-08	May-08	Aug-08	Nov-08	Feb-09	May-09	Aug-09	Nov-09	Feb-10	May-10	Aug-10
Associates	114,300	121,200	134,300	146,500	161,800	170,500	186,600	201,200	205,400	201,300	212,100	200,800
Bachelors	137,800	136,400	137,900	141,800	146,800	150,200	156,100	163,600	171,000	178,000	186,400	193,600
Masters	67,300	67,000	67,300	67,700	69,800	70,500	71,200	71,200	71,900	71,800	70,400	68,700
Doctoral	5,600	5,600	5,800	6,100	6,500	6,500	6,800	7,000	7,300	7,500	7,600	7,700
Total	**325,000**	**330,200**	**345,300**	**362,100**	**384,900**	**397,700**	**420,700**	**443,000**	**455,600**	**458,600**	**476,500**	**470,800**
Yr./Yr. Growth (%)												
Associates	37.7%	37.3%	36.2%	40.2%	41.6%	40.7%	38.9%	37.3%	26.9%	18.1%	13.7%	(0.2%)
Bachelors	(1.5%)	(2.1%)	(2.5%)	2.2%	6.5%	10.1%	13.2%	15.4%	16.5%	18.5%	19.4%	18.3%
Masters	4.5%	1.4%	1.7%	3.7%	3.7%	5.2%	5.8%	5.2%	3.0%	1.8%	(1.1%)	(3.5%)
Doctoral	24.4%	19.1%	18.4%	17.3%	16.1%	16.1%	17.2%	14.8%	12.3%	15.4%	11.8%	10.0%
Total	**11.4%**	**10.7%**	**11.0%**	**15.4%**	**18.4%**	**20.4%**	**21.8%**	**22.3%**	**18.4%**	**15.3%**	**13.3%**	**6.3%**
Student Persistence Rate Yr./Yr. Change (bps)												
Associates	199	413	364	394	205	78	62	(5)	(304)	(258)	(39)	(336)
Bachelor's	26	4	(81)	184	149	184	157	139	(22)	57	29	(6)
Master's	111	(276)	53	274	(62)	107	98	(33)	(87)	(20)	(180)	(51)
Doctoral	183	40	(220)	158	(378)	(5)	302	127	576	118	(297)	(317)
Total	**48**	**31**	**48**	**240**	**76**	**94**	**83**	**26**	**(176)**	**(109)**	**(40)**	**(156)**

Source: Apollo Group and Barclays Capital

Enrollment Outlook – FY'2011

New student enrollments will decline in FY'2011 and by as much as -40% next quarter compared to our prior expectation of -5% as the University Orientation program rolls out in November. As mentioned previously, the enrollment impact are likely to be exacerbated by the following:

Negative Press

With negative public hearings, television news segments, and undercover investigations, the past quarter has been the worst media blitz seen by for-profit schools in recent history. As a result of the scrutiny, there is little doubt that the negative impact on enrollment is real. As the largest for-profit school, APOL probably bore the brunt of the recent negative publicity. The negative press is likely to continue until final gainful employment rules are published early next year.

Changes to Enrollment Counsellor Compensation

As for-profit schools make changes to compensation policies for admission representatives, there is likely to be some decline in enrollment associated with the changes being made. As changes are implemented, we expect productivity to decline as incentives are realigned, and on-the-job training and compliance monitoring are installed. Furthermore, as the admission rep will no longer be a sales person and instead a student counsellor, there is likely to employee turnover and unrest, as some counsellors struggle to re-learn their jobs. This marks a cultural shift across the industry, and the impacts are likely to be felt throughout FY'2011.

Marketing Environment

This quarter, APOL made drastic changes to its third-party marketing channels. After conducting a study of marketing resources, APOL eliminated these channels upon discovering that many enrollments obtained through these channels did not persist. Going forward, APOL is focusing its marking efforts in-house to develop higher quality student leads. In the near-term, these efforts will result in higher lead costs, however, internally driven leads will likely yield greater longer term results.

This outlook does not account for the potential impact of gainful employment, as the final rules are unknown. Management indicated hopes of returning to enrollment and earnings growth in FY'2012.

Figures 3-5 below show our 4Q'10 enrollment and earnings scorecards and our new APOL earnings model.

Figure 3: F4Q'10 Enrollment Scorecard (vs. Our Ests. and 4Q'09)

	Aug-10E	Aug-10A	DIFF	Aug-09A	DIFF
New Student Starts & Re-Enters					
Associates	47,921	42,200	(5,721)	55,400	(13,200)
Bachelors	39,625	36,200	(3,425)	31,700	4,500
Masters	14,697	12,700	(1,997)	14,200	(1,500)
Doctoral	805	900	95	700	200
Total Starts & Re-Enters	**103,048**	**92,000**	**(11,048)**	**102,000**	**(10,000)**
Univ. of Phoenix & Axia Enrollments					
Associates	212,585	200,800	(11,785)	201,200	(400)
Bachelor's	197,500	193,600	(3,900)	163,600	30,000
Master's	70,810	68,700	(2,110)	71,200	(2,500)
Doctoral	7,808	7,700	(108)	7,000	700
Total UoP & Axia Enrollments	**488,704**	**470,800**	**(17,904)**	**443,000**	**27,800**
Student Retention Rate					
Associates	78%	75%	(286)	78%	(336)
Bachelor's	85%	84%	(26)	84%	(6)
Master's	80%	80%	(16)	80%	(51)
Doctoral	92%	89%	(267)	93%	(317)
Total UoP & Axia	**80.9%**	**79.5%**	**(144)**	**81.1%**	**(156)**
Yr./Yr. Change					
Starts & Re-Enters					
Associates	(13.5%)	(23.8%)	(1,033)	33.5%	
Bachelors	25.0%	14.2%	(1,080)	16.5%	
Masters	3.5%	(10.6%)	(1,406)	4.4%	
Doctoral	15.0%	28.6%	1,357	(12.5%)	
Total Starts & Re-Enters	**1.0%**	**(9.8%)**	**(1,083)**	**22.7%**	
UoP & Axia Enrollments					
Associates	5.7%	(0.2%)	(586)	37.3%	
Bachelor's	20.7%	18.3%	(238)	15.4%	
Master's	(0.5%)	(3.5%)	(296)	5.2%	
Doctoral	11.5%	10.0%	(155)	14.8%	
Total UoP & Axia Enrollments	**10.3%**	**6.3%**	**(404)**	**22.3%**	

Source: Apollo Group and Barclays Capital

Figure 4: APOL's 4Q'10 Earnings Scorecard (vs. Our Ests. and 4Q'09), in $ millions, except per share data

	Aug-10E	Aug-10A	DIFF	Aug-09A	DIFF
Net Revenues	**1,245.1**	**1,259.4**	**14.4**	**1,075.8**	**183.7**
Instructional Costs & Svcs (ex BDE)	486.8	473.4	(13.4)	407.7	65.7
Gross Margin	758.2	786.0	27.8	668.0	118.0
Selling and Promotional	288.3	301.6	13.3	262.5	39.1
Bad Debt Expense	72.0	74.3	2.3	45.2	29.1
General and Administrative	83.7	91.0	7.3	79.9	11.2
Income from Operations	**314.3**	**319.1**	**4.8**	**280.5**	**38.6**
Interest Income, Net	(1.2)	(3.1)	(1.9)	(0.5)	(2.6)
Pretax Income	313.1	317.3	4.3	279.2	38.2
Income Taxes	125.2	127.7	2.5	117.2	10.4
Minority Interest, net of tax	(3.0)	(4.2)	(1.2)	(3.7)	(0.5)
Consolidated Net Income	**190.8**	**193.9**	**3.0**	**165.6**	**28.3**
Earnings per Share, Dil.	**$1.29**	**$1.31**	**$0.018**	**$1.06**	**$0.24**
APOL Shares Outst., Diluted	148.0	148.3	0.3	155.7	(7.4)
Margin Analysis			**+/-**		**+/-**
Gross margin	60.9%	62.4%	150	62.1%	30
Instructional Costs/Sales	39.1%	37.6%	(150)	37.9%	(30)
Selling & Promotional/Sales	23.2%	23.9%	80	24.4%	(50)
Bad Debt Expense/Sales	5.8%	5.9%	10	4.2%	170
G&A/Sales	6.7%	7.2%	50	7.4%	(20)
Operating Margin	**25.2%**	**25.3%**	**10**	**26.1%**	**(70)**
Interest Income/Sales	-0.1%	-0.2%	(20)	0.0%	(20)
Tax Rate	40.0%	40.2%	20	42.0%	(180)
Net Margin	15.3%	15.4%	10	15.4%	0
Year/Year Growth Rates					
Revenues	**16%**	**17%**	**130**	**29%**	
Instructional Costs	19%	16%	(330)	21%	
Selling & Promotional	10%	15%	510	18%	
G&A	5%	14%	920	66%	
Operating Income	**12%**	**14%**	**170**	**42%**	
Net Income	15%	17%	180	37%	
Earnings per Share, Dil.	**21%**	**23%**	**170**	**41%**	
Shares Outstanding	(5%)	(5%)	20	(3%)	
Operating Metrics			**DIFF**		**DIFF**
Enrollments (000s)	**488.7**	**470.8**	**(17.9)**	**443.0**	**27.8**
Yr./Yr. Growth	10.3%	6.3%	(400)	22.3%	-1610
Revenues per Avg. Enrollment	**$2,548**	**$2,675**	**$127**	**$2,428**	**$247**
Yr./Yr. Growth	4.9%	10.2%	520	5.8%	440
Starts & Re-Enters	**103,048**	**92,000**	**(11,048)**	**102,000**	**-10,000**
Yr./Yr. Growth	1.0%	-9.8%	-1,080	22.7%	-3,250

Source: Apollo Group and Barclays Capital

Figure 5: New APOL Earnings Model, in $ millions, except per share data

	F2009	Nov-09	Feb-10	May-10	Aug-10	F2010	Nov-10E	Feb-11E	May-11E	Aug-11E	F2011E	F2012E
Net Revenues	**3,974.2**	**1,270.3**	**1,070.3**	**1,337.4**	**1,259.4**	**4,937.5**	**1,262.2**	**1,002.2**	**1,209.0**	**1,125.6**	**4,599.0**	**4,570.5**
Instructional Costs & Svcs (ex BDE)	1,451.9	467.3	443.5	468.4	473.4	1,852.5	480.0	445.3	450.6	441.1	1,817.1	1,802.9
Gross Margin	2,522.3	803.0	626.8	869.0	786.0	3,085.0	782.1	556.9	758.4	684.5	2,781.9	2,767.6
Selling and Promotional	960.4	275.5	263.5	273.5	301.6	1,114.1	295.8	274.3	277.4	289.8	1,137.4	1,130.8
Bad Debt Expense	151.8	62.2	73.9	72.2	74.3	282.6	74.5	63.1	63.5	63.6	264.7	237.5
General and Administrative	280.7	72.4	72.0	79.7	91.0	315.1	87.7	89.9	87.2	90.4	355.2	357.0
Income from Operations	**1,129.4**	**392.9**	**217.5**	**443.6**	**319.1**	**1,373.1**	**324.1**	**129.5**	**330.3**	**240.7**	**1,024.6**	**1,042.3**
Interest Income (Expense)	8.1	(2.0)	(2.7)	(1.2)	(3.1)	(9.0)	(3.3)	(1.3)	(1.2)	(1.2)	(7.0)	8.2
Other Income (Expense)	(2.3)	(0.9)	(0.1)	(1.3)	1.4	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	1,135.2	390.1	214.7	441.2	317.3	1,363.3	320.8	128.2	329.0	239.6	1,017.6	1,050.5
Income Taxes	467.3	161.3	86.7	177.2	127.7	552.9	134.7	53.8	138.2	100.6	427.4	430.7
Minority Interest, net of tax	(4.5)	(0.0)	(2.1)	(0.3)	(4.2)	(6.6)	(0.5)	(2.0)	(0.5)	(3.5)	(6.5)	(1.5)
Consolidated Net Income	**672.4**	**228.7**	**130.1**	**264.2**	**193.9**	**817.0**	**186.6**	**76.3**	**191.3**	**142.5**	**596.7**	**621.3**
Earnings per Share, Diluted	**$4.21**	**$1.47**	**$0.84**	**$1.74**	**$1.31**	**$5.34**	**$1.26**	**$0.51**	**$1.28**	**$0.95**	**$4.00**	**$4.13**
APOL Shares Outst., Diluted	159.6	156.0	155.2	152.3	148.3	153.0	148.6	149.0	149.2	149.5	149.1	150.6
Margin Analysis												
Gross margin	63.5%	63.2%	58.6%	65.0%	62.4%	62.5%	62.0%	55.6%	62.7%	60.8%	60.5%	60.6%
Instructional Costs/Sales	36.5%	36.8%	41.4%	35.0%	37.6%	37.5%	38.0%	44.4%	37.3%	39.2%	39.5%	39.4%
Selling & Promotional/Sales	24.2%	21.7%	24.6%	20.4%	23.9%	22.6%	23.4%	27.4%	22.9%	25.7%	24.7%	24.7%
Bad Debt Expense/Sales	3.8%	4.9%	6.9%	5.4%	5.9%	5.7%	5.9%	6.3%	5.3%	5.7%	5.8%	5.2%
G&A/Sales	7.1%	5.7%	6.7%	6.0%	7.2%	6.4%	7.0%	9.0%	7.2%	8.0%	7.7%	7.8%
Operating Margin	**28.4%**	**30.9%**	**20.3%**	**33.2%**	**25.3%**	**27.8%**	**25.7%**	**12.9%**	**27.3%**	**21.4%**	**22.3%**	**22.8%**
Interest Income/Sales	0.2%	(0.2%)	(0.3%)	(0.1%)	(0.2%)	(0.2%)	(0.3%)	(0.1%)	(0.1%)	(0.1%)	(0.2%)	0.2%
Tax Rate	41.2%	41.4%	40.4%	40.2%	40.2%	40.6%	42.0%	42.0%	42.0%	42.0%	42.0%	41.0%
Net Margin	16.9%	18.0%	12.2%	19.8%	15.4%	16.5%	14.8%	7.6%	15.8%	12.7%	13.0%	13.6%
Year/Year Growth Rates												
Revenues	**27%**	**31%**	**22%**	**27%**	**17%**	**24%**	**(1%)**	**(6%)**	**(10%)**	**(11%)**	**(7%)**	**(1%)**
Instructional Costs	15%	36%	31%	29%	16%	28%	3%	0%	(4%)	(7%)	(2%)	(1%)
Selling & Promotional	19%	21%	17%	12%	15%	16%	7%	4%	1%	(4%)	2%	(1%)
Bad Debt Expense	46%	78%	105%	102%	64%	86%	20%	(15%)	(12%)	(14%)	(6%)	(10%)
G&A	30%	24%	1%	11%	14%	12%	21%	25%	9%	(1%)	13%	1%
Operating Income	**51%**	**28%**	**6%**	**32%**	**14%**	**22%**	**(18%)**	**(40%)**	**(26%)**	**(25%)**	**(25%)**	**2%**
Net Income	43%	27%	4%	31%	17%	21%	(18%)	(41%)	(28%)	(27%)	(27%)	4%
Earnings per Share, Dil.	**48%**	**31%**	**9%**	**37%**	**23%**	**27%**	**(14%)**	**(39%)**	**(26%)**	**(27%)**	**(25%)**	**3%**
Shares Outstanding	(4%)	(3%)	(5%)	(4%)	(5%)	(4%)	(5%)	(4%)	(2%)	1%	(3%)	1%
Operating Metrics												
Univ. of Phoenix & Axia Enrolls	**411.6**	**455.6**	**458.6**	**476.5**	**470.8**	**465.4**	**432.3**	**403.0**	**398.5**	**392.7**	**406.6**	**386.4**
Yr./Yr. Growth	20.8%	18.4%	15.3%	13.3%	6.3%	13.1%	(5.1%)	(12.1%)	(16.4%)	(16.6%)	(12.6%)	(5.0%)
Revenues per Enrollment	**$9,656**	**$2,788**	**$2,334**	**$2,807**	**$2,675**	**$10,610**	**$2,920**	**$2,487**	**$3,034**	**$2,866**	**$11,310**	**$11,830**
Yr./Yr. Growth	4.7%	10.5%	5.9%	12.3%	10.2%	9.9%	4.7%	6.6%	8.1%	7.1%	6.6%	4.6%

Source: Apollo Group and Barclays Capital

Valuation Methodology and Risks

U.S. Education Services

Apollo Group, Inc. (APOL)

Valuation Methodology: Our $44 price target is based on 11x our CY'11 EPS estimate of $3.95.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Apollo Group Inc. will 1) continue to properly execute its growth strategy, 2) adhere to the relevant higher education regulations 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

Career Education Corp. (CECO)

Valuation Methodology: Our $40 price target equates to 11.2x our CY'11 EPS estimates of $3.58.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Career Education Corporation will 1) continue to properly execute its growth strategy, both internally and through acquisitions, 2) adhere to the relevant higher education regulations, 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

Corinthian Colleges (COCO)

Valuation Methodology: Our price target of $8 equates to 8x new CY'11 EPS estimate of $1.03

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Corinthian Colleges will 1) continue to properly execute its growth strategy, both internally and through acquisitions, 2) adhere to the relevant higher education regulations, 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

DeVry Inc. (DV)

Valuation Methodology: Our $71 price target is based on 14.5x our CY'11 EPS estimates of $4.90.

Risks which May Impede the Achievement of the Price Target: While our investment thesis on DeVry remains cautious, we note that the most pertinent risks the company faces includes 1) the prolonged inability to reinvigorate new student start growth, 2) not properly executing its long-term growth strategy, 3) encountering a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools, and 4) being subject to material litigation on behalf of current or former students or employees.

Education Management Corp. (EDMC)

Valuation Methodology: Our $26 target equates to 12.5x our CY'11 EPS estimate of $2.05.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Education Management will: 1) continue to properly execute its growth strategy, both internally and through acquisitions; 2) generate sufficient cash flows to meet its debt obligations; 3) adhere to the relevant higher education regulations; 4) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools; and 5) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

ITT Educational Services (ESI)

Valuation Methodology: Our $121 PT is based on 10x our CY'11 EPS estimate of $12.25.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that ITT Educational Services will (1) continue to properly execute its growth strategy, (2) adhere to the relevant higher education regulations, (3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools, and (4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions proved incorrect, our rating and price target would have to be reconsidered.

Lincoln Educational Services (LINC)

Valuation Methodology: Our $22 price target equates to 9.5x our CY'11 EPS estimate of $2.43.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Lincoln Educational Services will 1) continue to properly execute its growth strategy, both internally and through acquisitions, 2) adhere to the relevant higher education regulations, 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

Strayer Education (STRA)

Valuation Methodology: Our $242 price target equates to 20x our CY'11 EPS estimate of $12.10.

Valuation Methodology and Risks

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Strayer Education will 1) continue to properly execute its growth strategy; 2) adhere to the relevant higher education regulations; 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools; and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

Universal Technical Institute (UTI)

Valuation Methodology: Our $18 price target is based on 11.5x our CY'11 EPS estimate of $1.54.

Risks which May Impede the Achievement of the Price Target: Risks for Universal Technical Institute include: 1) continued execution issues which could lead to further declines in enrollments and earnings; 2) the highly regulated nature of the higher education industry; 3) the highly competitive nature of the auto technician training market; and 4) litigation risks on behalf of current or former students or employers. If any of these risks occurs, our rating and price target would have to be reconsidered.

Source: Barclays Capital

ANALYST(S) CERTIFICATION(S)

I, Gary E. Bisbee, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Apollo Group, Inc. (APOL, 13-Oct-2010, USD 49.50), 2-Equal Weight/2-Neutral

DeVry Inc. (DV, 13-Oct-2010, USD 50.57), 1-Overweight/2-Neutral

Materially Mentioned Stocks (Ticker, Date, Price)

Corinthian Colleges (COCO, 13-Oct-2010, USD 6.02), 2-Equal Weight/2-Neutral

Education Management Corp. (EDMC, 13-Oct-2010, USD 13.27), 1-Overweight/2-Neutral

ITT Educational Services (ESI, 13-Oct-2010, USD 65.92), 2-Equal Weight/2-Neutral

Lincoln Educational Services (LINC, 13-Oct-2010, USD 13.79), 2-Equal Weight/2-Neutral

Guide to the Barclays Capital Fundamental Equity Research Rating System:

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Education Services

Apollo Group, Inc. (APOL)	Career Education Corp. (CECO)	Corinthian Colleges (COCO)
DeVry Inc. (DV)	Education Management Corp. (EDMC)	ITT Educational Services (ESI)
Lincoln Educational Services (LINC)	Strayer Education (STRA)	Universal Technical Institute (UTI)

IMPORTANT DISCLOSURES CONTINUED

Distribution of Ratings:

Barclays Capital Inc. Equity Research has 1586 companies under coverage.

43% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 53% of companies with this rating are investment banking clients of the Firm.

44% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 47% of companies with this rating are investment banking clients of the Firm.

11% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of companies with this rating are investment banking clients of the Firm.

Barclays Capital offices involved in the production of equity research:

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Tokyo

Barclays Capital Japan Limited (BCJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCC, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

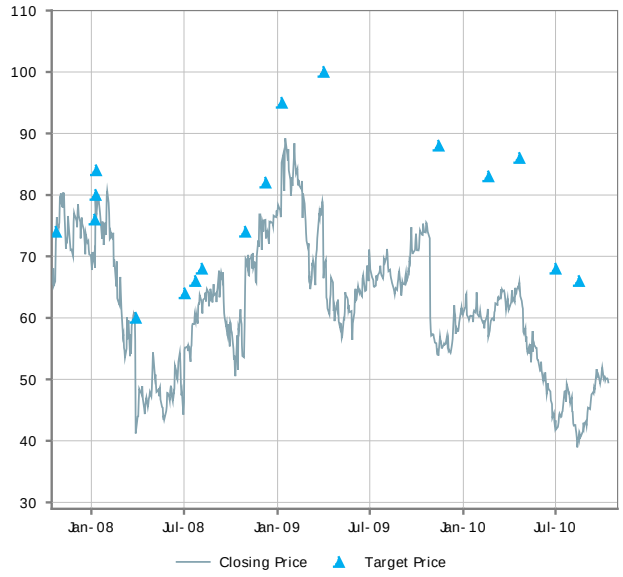
IMPORTANT DISCLOSURES CONTINUED

Apollo Group, Inc. (APOL)

USD 49.50 (13-Oct-2010)

Stock Rating	Sector View
2-EQUAL WEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 13-Oct-2010)



Link to Barclays Capital Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
16-Aug-2010	40.98		66.00
01-Jul-2010	43.34		68.00
21-Apr-2010	65.74		86.00
19-Feb-2010	56.92		83.00
13-Nov-2009	53.86		88.00
01-Apr-2009	66.46		100.00
09-Jan-2009	85.27		95.00
08-Dec-2008	75.87		82.00
29-Oct-2008	58.87		74.00
05-Aug-2008	62.84		68.00
23-Jul-2008	60.34		66.00
02-Jul-2008	46.26		64.00
28-Mar-2008	56.34		60.00
10-Jan-2008	80.30		84.00
09-Jan-2008	68.11		80.00
07-Jan-2008	69.07		76.00
23-Oct-2007	65.93		74.00

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Valuation Methodology: Our $44 price target is based on 11x our CY'11 EPS estimate of $3.95.

Risks which May Impede the Achievement of the Price Target: Our investment thesis assumes that Apollo Group Inc. will 1) continue to properly execute its growth strategy, 2) adhere to the relevant higher education regulations 3) not encounter a material change in the post secondary regulatory environment that restricts its ability to operate or hurts the competitive positioning of its schools and 4) not be subject to material litigation on behalf of current or former students or employees. If any of these assumptions is proven incorrect, our rating and price target would have to be reconsidered.

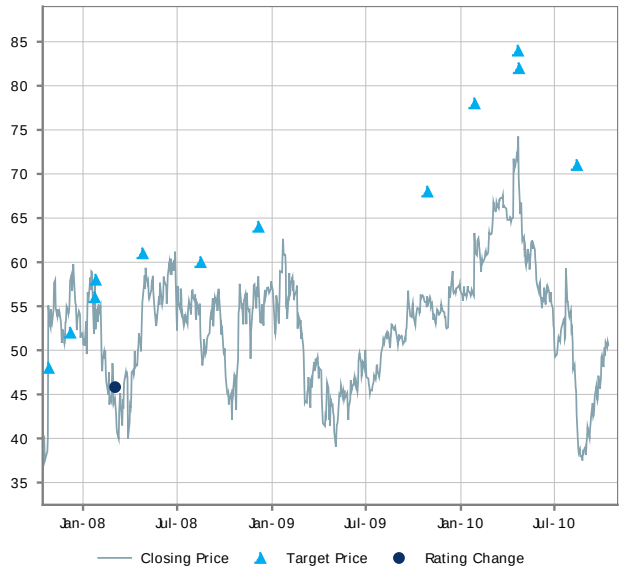
IMPORTANT DISCLOSURES CONTINUED

DeVry Inc. (DV)

USD 50.57 (13-Oct-2010)

Stock Rating	Sector View
1-OVERWEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 13-Oct-2010)



Link to Barclays Capital Live for interactive charting

Currency=USD

Date	Closing Price	Rating	Price Target
13-Aug-2010	42.71		71.00
23-Apr-2010	69.46		82.00
21-Apr-2010	72.83		84.00
27-Jan-2010	63.32		78.00
28-Oct-2009	56.13		68.00
05-Dec-2008	56.09		64.00
15-Aug-2008	55.30		60.00
25-Apr-2008	53.80		61.00
03-Mar-2008	43.94	1-Overweight	
25-Jan-2008	57.74		58.00
23-Jan-2008	51.89		56.00
07-Dec-2007	55.61		52.00
26-Oct-2007	40.03		48.00

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