



Apollo Says U.S. to Conduct Review of Financial Aid

By Meg Tirrell - Nov 4, 2010

[Apollo Group Inc.](#), the biggest education company by enrollment, said the U.S. Department of Education will review the administration of federal financial aid at the company's University of Phoenix. The shares declined.

The probe, scheduled to begin Dec. 6, will cover the financial years 2009-2010 and 2010 to date, the Phoenix-based company [said](#) in a regulatory filing today. The company said in June that the university had been the subject of a similar examination in February 2009 and had taken action to satisfy the department's requirements.

For-profit education companies led by Apollo face close federal scrutiny because almost 90 percent of the companies' revenues derive from funds from the Title IV federal aid program, said [Ariel Sokol](#), an analyst with UBS AG in New York. The Education Department today starts two days of hearings on a proposed regulation that ties the colleges' eligibility for student aid to whether graduates pay back their loans.

"This sort of announcement is pretty much par for the course for a company and sector where the government is increasing scrutiny," Sokol said today in a telephone interview. He has a "neutral" rating on Apollo shares. "Baked in the stock is the understanding that there will be scrutiny."

Shares Fall

Apollo fell \$1.08, or 2.8 percent, to \$37.39 at 9:33 a.m. in Nasdaq Stock Market composite trading. The shares fell 36 percent in 2010 before today. Ryan Rauzon, a spokesman for Apollo, didn't immediately return a call seeking comment.

Apollo disclosed in October 2009 that the Securities and Exchange Commission was asking about the company's revenue recognition practices. Last month, the company said the SEC was also looking at its insider trading policies.

Apollo on Oct. 13 withdrew its forecast for fiscal 2011, citing the regulatory scrutiny and declining numbers of new students. The company said it expected a drop in new enrollment for its degree programs to accelerate in the first quarter of 2011, resulting in a "significant year-over-year decline."

Apollo expects to exceed legal limits on the share of funds received from government financial aid, jeopardizing its biggest source of revenue, [Brian Swartz](#), the company's chief financial officer, said Oct. 13 in a call with analysts and investors.

The University of Phoenix's dependence on federal student aid is "likely to exceed" 90 percent of revenue in fiscal 2012, violating a federal law known as the "90-10" rule, Swartz said in the analysts' call. If a for-profit college doesn't comply with the rule for two consecutive fiscal years, it loses eligibility to receive student-aid funds for at least two years.

The University of Phoenix derived 88 percent of revenue from federal student aid in fiscal 2010, an increase from 86 percent a year earlier, Swartz said. Title IV of the Higher Education Act provides federal student aid.

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