



FORM 10-K

APOLLO GROUP INC - APOL

Filed: November 28, 2001 (period: August 31, 2001)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: August 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 0-25232

APOLLO GROUP, INC.

(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

86-0419443
(I.R.S. Employer Identification No.)

4615 East Elwood Street, Phoenix, Arizona 85040

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (480) 966-5394

Securities registered pursuant to Section 12(b) of the Act:

None
(Title of each class)

None
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

Apollo Education Group Class A common stock, no par value
University of Phoenix Online common stock, no par value

(Title of class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

No shares of the Company's Apollo Education Group Class B common stock, its voting stock, are held by non-affiliates. The holders of the Company's Apollo Education Group Class A common stock are not entitled to any voting rights. Aggregate market value of Apollo Education Group Class A common stock held by non-affiliates as of November 9, 2001, was approximately \$3.4 billion. The holders of the Company's University of Phoenix Online common stock are not entitled to any voting rights. Aggregate market value of University of Phoenix Online common stock held by non-affiliates as of November 9, 2001, was approximately \$234.2 million. The number of shares outstanding for each of the registrant's classes of common stock, as of November 9, 2001, is as follows:

Apollo Education Group Class A common stock, no par value	114,387,000 Shares
Apollo Education Group Class B common stock, no par value	484,000 Shares
University of Phoenix Online common stock, no par value	9,517,000 Shares

Documents Incorporated by Reference

Portions of the registrant's Annual Report to Shareholders for the year ended August 31, 2001 are incorporated herein by reference into Part II. With the exception of those portions which are expressly incorporated by reference in this Annual Report on Form 10-K, the Apollo Group, Inc. 2001 Annual Report is not deemed filed as part of this report.

APOLLO GROUP, INC. AND SUBSIDIARIES

FORM 10-K

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PART I

Item 1 — Business

Overview

Apollo Group, Inc. has been providing higher education to working adults for over 25 years. We operate through our subsidiaries, The University of Phoenix, Inc., Institute for Professional Development, The College for Financial Planning Institutes Corporation, and Western International University, Inc. The consolidated enrollment in our educational programs would make us the largest private institution of higher education in the United States. We currently offer our programs and services at 58 campuses and 102 learning centers in 36 states, Puerto Rico, and Vancouver, British Columbia. Our combined degree enrollment increased to approximately 124,800 at August 31, 2001 from approximately 56,200 at August 31, 1997.

University of Phoenix had degree enrollments of over 103,200 adult students at August 31, 2001, is accredited by The Higher Learning Commission, and has been a member of the North Central Association of Colleges and Schools since 1978. University of Phoenix has successfully replicated its teaching/learning model while maintaining educational quality at 35 physical campuses and 72 learning centers in Arizona, California, Colorado, Florida, Hawaii, Louisiana, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Utah, Washington, Wisconsin, Puerto Rico, and Vancouver, British Columbia. University of Phoenix also offers its educational programs worldwide through University of Phoenix Online, its computerized educational delivery system. University of Phoenix has customized computer programs for student tracking, marketing, faculty recruitment and training, and academic quality management. These computer programs are intended to provide uniformity among University of Phoenix's campuses and learning centers which enhances University of Phoenix's ability to expand into new markets while still maintaining academic quality. Currently, approximately 60% of University of Phoenix's students receive some level of tuition assistance from their employers.

Institute for Professional Development provides program development and management services to regionally accredited private colleges and universities (client institutions) who are interested in expanding or developing their programs for working adults. These services typically include degree program development, curriculum development, market research, student recruitment, and performing accounting and administrative services. Institute for Professional Development provides these services to regionally accredited private colleges and universities at 21 campuses and 28 learning centers in 22 states in exchange for a contractual share of the tuition revenues generated from these programs. Institute for Professional Development's contracts with its client institutions generally range in length from five to ten years with provisions for renewal. Institute for Professional Development places a priority on institutions that:

- are interested in developing or expanding off-campus degree programs for working adults;
- recognize that working adults require a different teaching/ learning model than the 18 to 24 year old student;
- desire to increase enrollments with a limited investment in institutional capital; and
- recognize the unmet educational needs of the working adult students in their market.

Approximately 19,900 degree-seeking students are currently enrolled in Institute for Professional Development assisted programs.

The College for Financial Planning provides financial planning education programs, including the Certified Financial Planner Professional Education Program. The College for Financial Planning began offering some of its non-degree programs at University of Phoenix campuses in 1999.

Western International University currently offers graduate and undergraduate degree programs to approximately 1,500 students in Phoenix, Fort Huachuca, and Chandler, Arizona.

We incorporated in Arizona in 1981 and maintain our principal executive offices at 4615 East Elwood Street, Phoenix, Arizona 85040. Our telephone number is (480) 966-5394. Our Internet Web Site addresses are as follows:

• Apollo Group	http://www.apollogrp.edu
• University of Phoenix	http://www.phoenix.edu
• University of Phoenix Online	http://online.uophx.edu
• Institute for Professional Development	http://www.ipd.org
• Western International University	http://www.wintu.edu
• College for Financial Planning	http://www.fp.edu

Our fiscal year is from September 1 to August 31. Unless otherwise stated, references to the years 2001, 2000, and 1999 relate to the fiscal years ended August 31, 2001, 2000, and 1999, respectively.

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relating to future plans, expectations, events, or performance involve risks and uncertainties and a number of factors could affect the validity of such forward-looking statements, including those set forth in Item 1 of this Form 10-K under the sections “Regulatory Environment,” “Accreditation,” “Federal Financial Aid Programs,” and “State Authorization.”

Industry Background

The adult education market is a significant and growing component of the post-secondary education market, which is estimated by the U.S. Department of Education to be a more than \$200 billion industry. The U.S. Department of Education estimated that for 1998, adults over the age of 24 comprised approximately 6.1 million, or 39.2%, of the students enrolled in higher education programs. The U.S. Census Bureau estimates that approximately 76% of students over the age of 24 work while attending school. The market for adult education should continue to increase as working adults seek additional education and training to update and improve their skills, to enhance their earnings potential, and to keep pace with the rapidly expanding knowledge-based economy.

Many working adults are seeking accredited degree programs that provide flexibility to accommodate the fixed schedules and time commitments associated with their professional and personal obligations. Our format enables working adult students to attend classes and complete coursework on a more convenient schedule. Many universities and emerging technology-based education and training companies currently do not effectively address the unique requirements of working adult students due to the following specific constraints:

- Traditional universities and colleges were designed to fulfill the educational needs of conventional, full-time students aged 18 to 24, who remain the primary focus of these universities and colleges. This focus has resulted in a capital-intensive teaching/learning model that may be characterized by:
 - a high percentage of full-time tenured faculty with doctoral degrees;
 - fully-configured library facilities and related full-time staff;
 - dormitories, student unions, and other significant plant assets to support the needs of younger students; and
 - an emphasis on research and the related staff and facilities.
- The majority of accredited colleges and universities continue to provide the bulk of their educational programming from September to mid-December and from mid-January to May. As a result, most full-time faculty members only teach during that limited period of time. While this structure serves the needs of the full-time 18 to 24 year old student, it limits the educational opportunity for working adults who must delay their education for up to five months during these spring, summer, and winter breaks.

- Traditional universities and colleges are also limited in their ability to market to or provide the necessary customer service for working adult students because it requires the development of additional administrative and enrollment infrastructure. University of Phoenix maintains a single-minded focus on serving the needs of working adult students.

We believe that our track record for enrollment and revenue growth is attributable to our offering a comprehensive service combining educational content, teaching resources, and customer service with a format that is accessible and easy to use for students and corporate clients.

Our Offerings

We believe that our more than 25-year history as a provider of higher education for working adults enables us to provide our students with an effective education and responsive customer service. Our expertise in designing curriculum, recruiting and training faculty, monitoring academic quality, and providing a high level of support services to students allows us to offer the following:

- **Accredited Degree Programs.** We currently offer 15 degree programs in business, education, information technology, and nursing that are accredited by The Higher Learning Commission or the regional accrediting associations of the Institute for Professional Development client institutions. This accreditation enables us to grant Associates, Bachelors, Masters, and Doctoral degrees, while also providing students with access to federal financial aid programs.
- **Experienced Faculty Resources.** While substantially all of our faculty are working professionals, we require each member of our faculty to possess either a Masters or Doctoral degree and to have five years of recent professional experience in a field related to the subject they teach. We have well-developed methods for hiring and training our faculty, which include peer reviews of newly hired instructors by other members of the faculty, training in grading and instructing students, and a teaching internship with a more experienced faculty member. Our classes are designed to be small, with an average of one instructor for every fifteen students. Faculty members are also required to be accessible to students by maintaining office hours.
- **Current and Relevant Standardized Programs.** We use content experts selected from our over 10,000 faculty to design our curriculum. This enables us to offer current and relevant standardized programs to our students. We also utilize an institution-wide system to assess the educational outcomes of our students and improve the quality of our curriculum and instructional model. This system evaluates the cognitive and affective skills of our students upon registration and upon conclusion of the program and also surveys students two years after graduation in order to assess the quality of the education they received.
- **Benefits to Employers.** The employers of our students often provide input to faculty members in designing curriculum, and class projects are typically based on issues relevant to the companies that employ our students. Our classes are taught by a practitioner faculty that emphasizes the skills desired by employers. In addition, the time flexibility provided by our classes further benefits employers since it avoids conflict with their employees' work schedules. A recent survey by University of Phoenix showed that approximately 60% of its students receive some level of tuition assistance from their employers.

Strategy

Our objective is to be the leading provider of accessible, high quality education for working adults and a preferred provider of workplace training to their employers. We are managed as a for-profit corporation in a higher education industry served principally by not-for-profit providers. By design, we treat our adult students as our primary customers and the employers that provide tuition assistance to their employees through tuition reimbursement plans or direct bill arrangements as our secondary customers. We will implement the following strategic initiatives to accomplish this objective:

Establish New University of Phoenix Campuses and Learning Centers. University of Phoenix plans to continue the addition of campuses and learning centers throughout the United States and Canada. New

locations are selected based on an analysis of various factors, including the population of working adults in the area, the number of local employers and their educational reimbursement policies, and the availability of similar programs offered by other institutions. Campuses consist of classroom and administrative facilities with full student and administrative services. Learning centers differ from campuses in that they consist primarily of classroom facilities with limited on-site administrative staff.

The timing related to the establishment of new locations and the expansion of programs may vary depending on regulatory requirements and market conditions.

Establish New Institute for Professional Development Relationships. Institute for Professional Development plans to enter into additional long-term contracts with private colleges and universities in proximity to metropolitan areas throughout the United States.

Expand Educational Programs. We will continue to respond to the changing educational needs of working adults and their employers by introducing new undergraduate and graduate degree programs as well as training programs. To its degree offerings University of Phoenix has recently added the Bachelor of Science in Criminal Justice Administration and specializations in Teacher Education and E-Education to its Master of Arts in Education, as well as, specializations in Marketing and Human Resources to its Master of Business Administration. We believe that expanding our program offerings will help us improve our market position as a provider of higher education and training for working adults. We currently have a full-time staff of approximately 50 persons involved in our centralized curriculum development process. Potential additions to our current offerings include:

- new degree programs, such as a Masters in Health Administration and an emphasis in Software Engineering to University of Phoenix's Bachelor of Science in Information Technology;
- certificate programs, such as Risk Management and Communication Industry Fundamentals;
- continuing education targeted at working professionals, such as Certified Public Accountants;
- professional certification, such as Operations and Supply Chain Management and Certified Web; and
- training programs, such as information technology and quality management training.

Expand Access to Programs. We plan to continue expanding our distance education programs and services. Enrollments in distance education degree programs have increased to approximately 29,000 in 2001 from approximately 4,700 in 1997. University of Phoenix Online courses and programs are available via the Internet 24 hours a day, 7 days a week and can be accessed using basic technology, such as a Pentium-class personal computer, a 28.8K modem, and an Internet service provider, which enhances the accessibility of and the potential market for University of Phoenix Online programs.

International Expansion. We believe that the international market for our services is a major growth opportunity. The U.S. is the most common destination for international students studying abroad. We believe that more working adult students would opt for a U.S. education that does not involve living in the U.S. because they could do so without leaving their employment and incurring the high travel and living costs and stringent visa requirements associated with studying abroad. Our belief is supported by the fact that University of Phoenix Online has students located in over 70 countries despite having used only limited advertising. In addition, many U.S. residents live and work in foreign countries and would benefit from the opportunity to continue their education while abroad. We will continue to conduct market and operations research in various foreign countries where we believe there might be a demand for our programs. Additionally, we plan to offer the University of Phoenix educational model at physical campuses in international markets pursuant to agreements with Apollo International, Inc. as described in Item 13. The first offering under these agreements was started in the Netherlands in September 1999, where we are currently servicing approximately 100 students. We will continue to monitor and assess the feasibility of expanding our educational programs to other international markets through similar licensing agreements. Currently we do not plan to independently open facilities outside of North America.

Teaching/Learning Model-Degree Programs

Our teaching/learning model used by University of Phoenix and Institute for Professional Development client institutions was designed for working adults. This model is structured to enable students who are employed full-time to earn their degrees and still meet their personal and professional responsibilities. Students attend weekly classes, averaging 15 students in size, and also meet weekly as part of a three to five person learning team. The learning team sessions, an integral part of each course, are used for in-depth discussion and review of class materials, work on assigned group projects, and work on communication and teamwork skills. Courses are designed to facilitate the application of knowledge and skills to the workplace and are taught by faculty members who possess advanced degrees and have professional experience in business, industry, government, or the professions. In this way, faculty members are able to share their professional knowledge and skills with the students.

Our teaching/learning model consists of:

Curriculum	The curriculum is designed to integrate academic theory and professional practice and their application to the workplace. The curriculum provides for the achievement of specified educational outcomes that are based on the input from faculty, students, and students' employers. The standardized curriculum for each degree program is also designed to provide students with specified levels of knowledge and skills.
Faculty	Faculty applicants must possess an earned Masters or Doctoral degree from a regionally accredited institution, and have a minimum of five years recent professional experience in a field related to the subject matter in which they seek to instruct. To help promote quality delivery of the curriculum, all faculty members are required to: <ul style="list-style-type: none">• complete an initial assessment conducted by staff and faculty;• receive training in grading, facilitation of the teaching/learning model, and oversight of learning team activities;• serve an internship with an experienced faculty mentor; and• receive ongoing performance evaluations by students, peer faculty, and staff, which are used to establish developmental plans to improve individual faculty performance and to determine continued eligibility of faculty members to provide instruction.
Interactive Learning	Classes are designed to combine individual and group interaction between and among students and the instructor. The curriculum requires a high level of student participation for purposes of increasing the student's ability to work as part of a team.
Learning Resource Services	Students and faculty members are provided with electronic and other learning resources for their information and research needs. Students can access these services directly through the Internet or with the help of a LRS research librarian.
Sequential Enrollment	Students enroll in and complete classes sequentially, rather than concurrently, thereby allowing full-time working adults to focus their attention and resources on one subject at a time. This provides a better balance between learning and ongoing personal and professional responsibilities.
Academic Quality	We have an Academic Quality Management System designed to maintain and improve the quality of programs and academic and student services. This system includes the Adult Learning Outcomes Assessment, which seeks to measure student growth in both the cognitive (subject matter) and affective (educational, personal, and professional values) skills.

Structural Components of Teaching/Learning Model

While adults over the age of 25 comprise approximately 40% of all higher education enrollments in the United States, the mission of most accredited four-year colleges and universities is to serve 18 to 24 year-old students and conduct research. University of Phoenix and Institute for Professional Development client institutions acknowledge the differences in educational needs between older and younger students and provide programs and services that allow working adults to earn their degrees without major disruption to their personal and professional lives.

The educational literature suggests that working adults require a different teaching/learning model than that designed for traditional, younger students. We have found that working adults seek accessibility, curriculum consistency, time and cost effectiveness, and learning that has an immediate application to the workplace.

The structural components of our teaching/learning model include:

<i>Accessibility</i>	Professional programs that can be accessed through a variety of delivery modes (e.g., campus-based or electronically delivered) that make the educational programs accessible regardless of where the students work and live.
<i>Instructional Costs</i>	While the majority of the faculty at most accredited colleges and universities are employed full-time, most of the University of Phoenix and Institute for Professional Development client institutions' faculty are part-time. All faculty are academically qualified, are professionally employed, and are contracted for instructional services on a course-by-course basis.
<i>Facility Costs</i>	We lease our campus and learning center facilities and rent additional classroom space on a short-term basis to accommodate growth in enrollments.
<i>Employed Students</i>	Substantially all of University of Phoenix's students are employed full-time. The average number of years entering students have been employed since their 18th birthday is 14 years. This minimizes the need for capital-intensive facilities and services like dormitories, student unions, food services, personal and employment counseling, health care, sports, and entertainment.
<i>Employer Support</i>	We develop relationships with key employers for purposes of recruiting students and responding to specific employer needs. This allows us to remain sensitive to the needs and perceptions of employers, while helping both to generate and sustain diverse sources of revenues. Approximately 60% of University of Phoenix's students receive some level of tuition assistance from their employers; approximately 54% receive at least half of their tuition and approximately 20% receive full tuition assistance. These percentages are higher for students in the business, management, and information technology programs.

The College for Financial Planning currently offers text-based self-study programs for students preparing for the Certified Financial Planner designation and other financial-related designations, including a Master of Science in Financial Planning. The College for Financial Planning has modularized the learning content for these programs to position them for alternative delivery formats, including but not limited to classroom and online modalities. With the exception of the Masters degree, these same programs are offered in a classroom-based format through University of Phoenix campuses as well as adjunct faculty groups and we also offer them through Internet online-based formats. Most of the College for Financial Planning's students are employed, and over 95% have a bachelors degree or higher. The College for Financial Planning's programs are developed

internally by 14 full-time faculty. These programs are primarily self-study, non-degree programs that require only moderate faculty involvement in the actual delivery of the programs.

Western International University's teaching/learning model has similar characteristics to the teaching/learning model used by University of Phoenix and Institute for Professional Development client institutions, including the use of part-time practitioner faculty, standardized curriculum, computerized learning resources, and leased facilities. However, Western International University provides educational programs in two-month sessions and does not focus exclusively on working adult students. Western International University's faculty consists of approximately 6 full-time faculty and 236 part-time faculty. Western International University's practitioner faculty are working professionals and possess earned Masters or Doctoral degrees and participate in a selection and training process that is similar to that at University of Phoenix.

Degree Programs and Services

University of Phoenix Programs. The following is a list of the degree programs and related areas of specialization that University of Phoenix offers:

- *Associate of Arts in General Studies*
- *Bachelor of Science in Business*
 - **Areas of Specialization**
 - Accounting
 - Administration
 - E-business
 - Information Systems
 - Management
 - Marketing
- *Bachelor of Science in Criminal Justice Administration*
- *Bachelor of Science in Human Services*
- *Bachelor of Science in Health Care Services*
 - **Area of Specialization**
 - Management
- *Bachelor of Science in Information Technology*
- *Bachelor of Science in Management*
- *Bachelor of Science in Nursing*
- *Master of Arts in Education*
 - **Areas of Specialization**
 - Administration and Supervision
 - Curriculum and Instruction
 - Curriculum and Technology
 - E-education
 - Early Childhood
 - Educational Counseling
 - Educational Management
 - Special Education
 - Teacher Education
- *Master of Arts in Organizational Management*
- *Master of Business Administration*
 - **Areas of Specialization**
 - Accounting
 - E-business
 - Global Management
 - Health Care Management
 - Marketing
 - Technology Management
- *Master of Counseling*
 - **Areas of Specialization**
 - Community Counseling
 - Marriage and Family Therapy
 - Mental Health Counseling
 - Marriage, Family and Child Counseling
- *Master of Science in Nursing*
 - **Areas of Specialization**
 - Women's Health Care Nurse Practitioner
 - Family Nurse Practitioner
- *Master of Science in Computer Information Systems*
- *Doctor of Management in Organizational Leadership*

University of Phoenix also offers professional education programs, including continuing education for teachers, custom training, environmental training, and many programs leading to certification in the areas of business, technology, and nursing.

Undergraduate students may demonstrate and document college level learning gained from experience through an assessment by faculty members, according to the guidelines of the Council for Adult and Experiential Learning, for the potential award of credit. The average number of credits awarded to the approximately 2,000 University of Phoenix undergraduate students who utilized the process in 2001 was approximately 9 credits of the 120 required to graduate. The Council for Adult and Experiential Learning reports that over 1,100 regionally accredited colleges and universities currently accept credits awarded for college level learning gained through experience.

Institute for Professional Development Services. The Institute for Professional Development's contracts with its client institutions are individually negotiated and the actual services may vary from one client institution to another. Services to its client institutions may include:

- conducting market research;
- assisting with curriculum development;
- developing and executing marketing strategies;
- marketing and recruiting of students;
- establishing operational and administrative infrastructures;
- training of faculty;
- developing and implementing financial accounting and academic quality management systems;
- assessing the future needs of adult students;
- assisting in developing additional degree programs suitable for the adult higher education market;
- assisting in seeking approval from the respective regional accrediting association for new programs; and
- training of adult program staff.

In consideration for its services, the Institute for Professional Development receives a contractual share of revenues, which are negotiated with each client institution.

In order to facilitate the sharing of information related to the operations of their respective programs, the Institute for Professional Development, its client institutions, and University of Phoenix formed the Consortium for the Advancement of Adult Higher Education. This consortium meets annually to address issues such as the recruitment and training of part-time, professionally employed faculty, employer input in the curriculum development process, assessment of the learning outcomes of adult students, and regulatory issues affecting the operation of programs for working adult students.

Institute for Professional Development client institutions offer the following programs with our assistance:

Degree Programs	Number of Client Institutions
Associate in Business Management	2
Associate of Arts	1
Associate of Arts in Business	4
Associate of Arts in Leadership Studies	1
Associate in Liberal Arts — Business Emphasis	1
Associate of Science in Business	12
Bachelor of Arts in Business	3
Bachelor of Arts in Management	2
Bachelor of Business Administration	6
Bachelor of Health Science in Health Care Leadership and Supervision	1
Bachelor of Science in Accounting	2
Bachelor of Science in Business Administration	13
Bachelor of Science in Business Information Systems	1
Bachelor of Science in Management	8
Bachelor of Science in Management of Information Systems	1
Bachelor of Science in Management Information Technology	1
Bachelor of Science in Management of Human Resources	1
Bachelor of Science in Nursing	2
Master of Business Administration	14
Master of Business Administration for Health Care Executives	1
Master of Education	1
Master of Science in Financial Services	1
Master of Science in Management	8
Master of Science in Nursing	1

The Institute for Professional Development assisted programs also include a limited number of general education courses, certificate programs, and areas of specialization.

College for Financial Planning Programs. The College for Financial Planning currently offers a Master of Science degree with specializations in Financial Planning, Investments, and Financial Analysis and the following non-degree programs:

- Accredited Asset Management Specialist
- Certified Financial Planner Professional Education Program
- Chartered Mutual Fund Counselor
- Foundations in Financial Planning
- Chartered Retirement Plans Specialist
- Chartered Retirement Planning Counselor

Western International University Programs. Western International University currently offers the following degree programs:

- **Associate of Arts**
- **Bachelor of Science**
 - **Areas of Specialization**
 - Accounting
 - Business
 - Business Administration
 - Finance
 - Information Technology
 - International Business
 - Management
 - Marketing
- **Bachelor of Arts**
 - **Areas of Specialization**
 - Administration of Justice
 - Behavioral Science
- **Master of Business Administration**
 - **Areas of Specialization**
 - Finance
 - Information Technology
 - International Business
 - Management
 - Marketing
- **Master of Public Administration**
- **Master of Science**
 - **Areas of Specialization**
 - Information Technology
 - Information Systems Engineering

Western International University also offers a limited number of business-related certificate programs.

Distance Education

At August 31, 2001, there were approximately 29,200 degree seeking students utilizing our distance education delivery systems, approximately 99% of whom are enrolled at University of Phoenix Online. Our distance education components consist primarily of the following:

University of Phoenix Online. University of Phoenix Online has developed its system to be easily accessible and familiar to most students. All the student needs to participate in University of Phoenix Online's classes is a Pentium-class personal computer, a 28.8K modem, and an Internet service provider.

Each student orders textbooks online from a third party prior to the beginning of each class. The student logs into his or her particular class using a password. Prior to the class starting, the instructor posts a syllabus that the student can download and use as a guide. In addition, the student can download the biographies of the other students and the instructor.

Each week, the instructor posts a lecture to the classroom newsgroup. Students log on and read the lecture or print the lecture to read at their convenience. On average, University of Phoenix Online has 9 students per class, who are divided into learning teams of three or four students to work on projects together. Throughout the week, students participate in a group discussion, based on the class content for that week, which is facilitated by the instructor. There are separate conferences set up for learning team projects and individual submission of class assignments. Instructors log on and read comments posted by students, respond to them, and assign grades for their learning team projects. Instructors also give students weekly feedback on class participation. Both students and instructors are required to log on at least five days a week to participate in the classes. In addition, faculty members are required to maintain online office hours. Students are graded on a combination of participation, work product, and examinations.

College for Financial Planning. Business and investment professionals that require continuing professional education (CPE) as part of their professional certification or for employment requirements may complete individual CPE courses through the Internet utilizing most Internet browsers. These programs are mostly short courses designed to focus on relevant topics to the students' trade or profession. The students interact primarily with our Web-based software programs with little or no faculty involvement.

Distance education is currently subject to certain regulatory constraints. See "Business — Federal Financial Aid Programs — Restrictions on Distance Education Programs" and "Business — State Authorization."

Acquisition Strategy

We periodically evaluate opportunities to acquire businesses and facilities. In evaluating such opportunities, management considers, among other factors, location, demographics, price, the availability of financing on acceptable terms, competitive factors, and the opportunity to improve operating performance through the implementation of our operating strategies. We have no current commitments with regard to potential acquisitions.

Customers/ Students

The following is a breakdown of our students by the level of program they are seeking, at August 31, 2001:

Degree Programs	Number of Students	Percentage of Students
Bachelors	82,100	65.8%
Masters	35,600	28.5%
Associates	6,900	5.5%
Doctoral	200	0.2%
Total Degree Students	124,800	100.0%

We consider the employers that provide tuition assistance to their employees through tuition reimbursement plans or direct bill arrangements our secondary customers.

Based on student surveys of incoming students in the first half of 2001, the average age of University of Phoenix's students is in the mid-thirties, approximately 54% are women and 46% are men. Approximately 70% of University of Phoenix's students have been employed on a full-time basis for nine years or more. We believe that the demographics of students enrolled in Institute for Professional Development assisted programs are

similar to those of University of Phoenix. The approximate age percentage distribution of incoming University of Phoenix students is as follows:

Age	Percentage of Students
25 and under	14.5%
26 to 33	37.4%
34 to 45	36.7%
46 and over	11.4%
	100.0%

Based on student surveys, the average age of students at the College for Financial Planning is in the late-thirties, approximately 31% are women and 69% are men. Most of the College for Financial Planning’s students are employed, and over 95% have obtained a bachelors degree or higher.

Institute for Professional Development client institutions have historically consisted of small private colleges; however, the Institute for Professional Development also targets larger institutions of higher education that are in need of marketing, prior learning assessment, and curriculum consulting. The Institute for Professional Development understands that to develop and manage educational programs for working adult students effectively, these potential client institutions require both capital and operational expertise. In response to these requirements, the Institute for Professional Development provides the start-up capital, the curriculum development expertise, and the ongoing management in support of the client institutions’ provision of quality programs for working adult students.

We work closely with businesses and governmental agencies to meet their specific needs either by modifying existing programs or, in some cases, by developing customized programs. These programs are often held at the employers’ offices or on-site at military bases. University of Phoenix has also formed educational partnerships with various corporations to provide programs specifically designed for their employees.

Marketing

To generate interest among potential students, we engage in a broad range of activities to inform the public about our teaching/learning model and the programs offered. These activities include:

Direct Mail. Direct mail is effective at reaching the working adult population that expresses interest in training, education, and self-improvement. Direct mail also enables us to target specific career fields, such as Accounting, Business, Education, Information Technology, and Nursing. We currently purchase education-related mailing lists from numerous suppliers who specialize in this area. In addition, we track leads for every direct mail campaign by allowing potential students the opportunity to respond using the following methods:

- mailing a business reply card;
- faxing a business reply card;
- calling us at a specific 1-800 number; or
- directing the potential student to one of our specific URL addresses on the Internet that are used to track individual marketing campaigns for reach and effectiveness.

Internet Marketing. We advertise extensively on the Internet using purchased banner advertisements on targeted sites, as well as paying other Web sites, such as education portals, a fee on a per lead basis. We also benefit from non-paid Internet referrals, including leads directed to our domain names as a result of Web search using Internet search engines and browsers. We believe these prospective students are likely to enroll in our programs because these prospects are actively seeking information about degree programs.

Re-Marketing. Re-marketing efforts include both direct mail post cards and e-mail sent to existing leads. Re-marketing is a very successful part of our marketing campaign because of our growing database of “qualified” prospects.

Referrals. Based on our recent estimates, approximately 53% of our new students are referred by their employers, co-workers, current students, alumni, family, and friends.

Print and Broadcast. We rely on print and broadcast advertising primarily to build brand recognition.

Competition

The higher education market is highly fragmented and competitive with no private or public institution enjoying a significant market share. We compete primarily with four-year and two-year degree-granting public and private regionally accredited colleges and universities. Many of these colleges and universities enroll working adults in addition to the traditional 18 to 24 year old students. We expect that these colleges and universities will continue to modify their existing programs to serve working adults more effectively. In addition, many colleges and universities have announced various distance education initiatives.

We believe that the competitive factors in the higher education market include the following:

- the ability to provide easy access to programs and classes;
- reliable and high-quality products and services;
- qualified and experienced faculty;
- cost of the program;
- reputation of programs, classes, and services; and
- the time necessary to earn a degree.

In terms of non-degree programs offered by us, we compete with a variety of business and information technology providers, primarily those in the for-profit training sector. Many of these competitors have significantly more market share and longer-term relationships with key vendors.

The Institute for Professional Development faces competition from other entities offering higher education curriculum development and management services for adult education programs. The majority of the Institute for Professional Development's current competitors provide pre-packaged curriculum or turn-key programs.

Employees

At August 31, 2001, we had the following numbers of employees:

	<u>Full-Time</u>	<u>Part-Time</u>	<u>Faculty</u>	<u>Total</u>
Apollo	391	13	—	404(1)
University of Phoenix	3,967	106	9,758(2)	13,831
Institute for Professional Development	309	8	—(3)	317
College for Financial Planning	97	3	14(4)	114
Western International University	63	9	242(2)	314
Total	<u>4,827</u>	<u>139</u>	<u>10,014</u>	<u>14,980</u>

- (1) Consists primarily of employees in executive administration, information systems, corporate accounting, financial aid, and human resources.
- (2) Consists primarily of part-time faculty contracted on a course-by-course basis who are classified as active by the campus.
- (3) Faculty teaching Institute for Professional Development assisted programs are employed by Institute for Professional Development client institutions.
- (4) Consists primarily of faculty involved in curriculum development and the instructional design process.

We consider our relations with our employees to be good.

Regulatory Environment

The Higher Education Act of 1965 and the related regulations govern all higher education institutions participating in Title IV programs. The Higher Education Act mandates specific additional regulatory responsibilities for each of the following components:

- the accrediting agencies recognized by the U.S. Department of Education;
- the federal government through the U.S. Department of Education; and
- state higher education regulatory bodies.

All higher education institutions participating in Title IV programs must be accredited by an association recognized by the U.S. Department of Education. The U.S. Department of Education reviews all participating institutions for compliance with all applicable standards and regulations under the Higher Education Act. Accrediting associations are required to include the monitoring of Title IV program compliance as part of their accreditation evaluations under the Higher Education Act.

New or revised interpretations of regulatory requirements could have a material adverse effect on us. In addition, changes in or new interpretations of other applicable laws, rules, or regulations could have a material adverse effect on the accreditation, authorization to operate in various states, permissible activities, and costs of doing business of University of Phoenix, Western International University, and one or more of the Institute for Professional Development client institutions. The failure to maintain or renew any required regulatory approvals, accreditation or state authorizations by University of Phoenix or certain of the Institute for Professional Development client institutions could have a material adverse effect on us.

Accreditation

University of Phoenix, Western International University, College for Financial Planning, and the Institute for Professional Development client institutions are covered by regional accreditation which provides the following:

- recognition and acceptance by employers, other higher education institutions, and governmental entities of the degrees and credits earned by students;
- qualification to participate in Title IV programs; and
- qualification for authorization in certain states.

Regional accreditation is accepted nationally as the basis for the recognition of earned credit and degrees for academic purposes, employment, professional licensure, and, in some states, for authorization to operate as a degree-granting institution. Under the terms of a reciprocity agreement among the six regional accrediting associations, representatives of each region in which a regionally accredited institution operates participate in the evaluations for reaffirmation of accreditation. The achievement of University of Phoenix and Western International University missions require them to employ academically qualified practitioner faculty that are able to integrate academic theory with current workplace practice.

University of Phoenix was granted accreditation by The Higher Learning Commission in 1978. University of Phoenix's accreditation was reaffirmed in 1982, 1987, 1992, and 1997. The next comprehensive review is expected to begin in May 2002.

Institute for Professional Development assisted programs offered by its client institutions are evaluated by the client institutions' respective regional accrediting associations either as part of a reaffirmation visit or focused evaluation visit. Current Institute for Professional Development client institutions are accredited by The Higher Learning Commission, Middle States, New England, or Southern regional accrediting associations.

The College for Financial Planning graduate degree program is accredited by The Higher Learning Commission and the Accrediting Commission of the Distance Education and Training Council. The Higher Learning Commission reaffirmed the accreditation of the graduate degree program in August 1999, and their next reaffirmation visit is expected in 2003-04. The Accrediting Commission of the Distance Education and Training Council reaffirmed the accreditation for the College for Financial Planning in 2001.

Western International University was accredited by The Higher Learning Commission prior to the acquisition by us, and the accreditation was reaffirmed in 1998. Western International University's next reaffirmation visit is expected to begin in 2004-05.

The withdrawal of accreditation from University of Phoenix would have a material, adverse effect on us.

All accrediting agencies recognized by the U.S. Department of Education are required to include the monitoring of Title IV program compliance in their evaluations of accredited institutions. As a result, all regionally accredited institutions, including University of Phoenix, Western International University, and the Institute for Professional Development client institutions, will be subject to a Title IV program compliance review as part of accreditation visits.

University of Phoenix's Bachelor of Science in Nursing program received program accreditation from the National League for Nursing Accrediting Commission in 1989. The Master of Science in Nursing program earned the National League for Nursing Accrediting Commission accreditation in 1996. In July 2000, both the Bachelor of Science in Nursing and the Master of Science in Nursing programs received eight year accreditation status from the National League for Nursing Accreditation Commission.

University of Phoenix's Community Counseling program, Master of Counseling in Community Counseling degree, received initial accreditation for its Phoenix and Tucson campuses from the Council for Accreditation of Counseling and Related Educational Programs in 1995, and the next reaffirmation visit is expected to begin in 2002.

University of Phoenix received approval from The Higher Learning Commission to offer its first doctoral level program in 1998. The first students were enrolled in the Doctor of Management degree beginning in 1999. The Doctor of Management degree is offered via distance learning technology with annual two-week residencies in Phoenix throughout the program. The program is limited to a total of 60 new students per year.

The address and phone number for the accrediting bodies are as follows:

The Higher Learning Commission
30 North LaSalle Street, Suite 2400
Chicago, IL 60602-2504
(312) 263-0456

National League for Nursing Accrediting Commission
61 Broadway, 33rd Floor
New York, NY 10006
(800) 669-1656

American Counseling Association Council for Accreditation of Counseling and
Related Educational Programs
5999 Stevenson Avenue
Alexandria, VA 22304
(703) 823-9800

Accrediting Commission of the Distance Education and Training Council
1601 18th Street, NW
Washington, D.C. 20009-2529
(202) 234-5100

Federal Financial Aid Programs

Students at University of Phoenix, Western International University, and Institute for Professional Development client institutions may receive federal financial aid under the Title IV programs. The College for Financial Planning does not participate in Title IV programs because most of its students are enrolled in non-degree programs. In the fiscal year ended August 31, 2001, University of Phoenix and Western International University derived approximately 48% and 33% of their net revenues from students who participated in Title IV programs, respectively. The Institute for Professional Development percentages are estimated to be similar to those at University of Phoenix. The respective Institute for Professional Development client institutions administer their own Title IV programs. Our students may receive Title IV funds because:

- University of Phoenix, Western International University, and Institute for Professional Development client institutions are accredited by an accrediting agency recognized by the U.S. Department of Education;
- the U.S. Department of Education has certified University of Phoenix's, Western International University's, and Institute for Professional Development client institutions' eligibility to participate in the Title IV programs; and
- University of Phoenix, Western International University, and Institute for Professional Development client institutions have applicable state authorization to operate.

The U.S. Department of Education issues regulations based on changes in the law that occur during the federal re-authorization process. The federal re-authorization process is scheduled to start in 2003, with final regulations issued after that time. The re-authorization process could amend existing requirements, or implement new requirements.

The following material provisions of the Title IV regulations, and their related calculations, apply to University of Phoenix, Western International University, and Institute for Professional Development client institutions:

Limits on Title IV Program Funds. The Title IV regulations define the types of educational programs offered by an institution that qualify for Title IV program funds. For students enrolled in qualified programs, the Title IV regulations place limits on the amount of Title IV program funds that a student is eligible to receive in any one academic year as defined by the U.S. Department of Education.

For undergraduate programs, an academic year must consist of at least 30 weeks of instructional time to include a minimum of 360 hours of instructional time and a minimum of 24 credit hours. For graduate programs, an academic year must consist of at least 30 weeks of instructional time to include a minimum of 360 hours of instruction. The Title IV regulations define a week of instruction as the equivalent of 12 hours of regularly scheduled instruction, examinations, or preparation for examinations (the "12-hour Rule"). Most of our degree programs meet this 360 hour minimum and, therefore, qualify for Title IV program funds. The programs that do not qualify for Title IV program funds consist primarily of certificate, corporate training, and continuing professional education programs. These programs are paid for directly by the students or their employers.

Authorizations for New Locations. University of Phoenix, Western International University, the College for Financial Planning, and Institute for Professional Development client institutions are required to have authorization to operate as degree-granting institutions in each state where they physically provide educational programs. Certain states accept accreditation as evidence of meeting minimum state standards for authorization. Other states, including California, require separate evaluations for authorization. Depending on the state, the addition of a degree program not offered previously or the addition of a new location must be included in the institution's accreditation and be approved by the appropriate state authorization agency. University of Phoenix, Western International University, the College for Financial Planning, and Institute for Professional Development client institutions are currently authorized to operate in all states in which they have physical locations. If University of Phoenix is unable to obtain authorization to operate in certain new states, it may have a material adverse effect on our ability to expand University of Phoenix's business.

In addition, The Higher Learning Commission requires University of Phoenix, Western International University, and the College for Financial Planning to obtain their prior approval before these companies are permitted to expand into new states or foreign countries. If University of Phoenix is unable to obtain The Higher Learning Commission's approval for any future geographic expansion, it may have a material, adverse effect on our ability to expand University of Phoenix's business.

Restricted Cash. The U.S. Department of Education places restrictions on Title IV program funds collected for unbilled tuition and funds transferred to us through electronic funds transfer. In some circumstances, an institution is required to submit an irrevocable letter of credit to the U.S. Department of Education in an amount equal to at least 25% of the total dollar amount of refunds paid by the institution in its most recent fiscal year. We have no established letters of credit as of August 31, 2001.

Standards of Financial Responsibility. Pursuant to the Title IV regulations, as revised, each eligible higher education institution must satisfy the minimum standard established for three tests which assess the financial condition of the institution at the end of the institution's fiscal year. The tests provide three individual scores which must then satisfy a composite score standard. The maximum composite score is 3.0. If the institution achieves a composite score of at least 1.5, it is considered financially responsible. A composite score from 1.0 to 1.4 is considered financially responsible, subject to additional monitoring, and the institution may continue to participate as a financially responsible institution for up to three years. An institution that does not achieve a satisfactory composite score will fall under alternative standards. At August 31, 2001, University of Phoenix's and Western International University's composite scores were both 3.0.

Branching and Classroom Locations. The Title IV regulations contain specific requirements governing the establishment of new main campuses, branch campuses, and classroom locations at which the eligible institution offers, or could offer, 50% or more of an educational program. In addition to classrooms at campuses and learning centers, locations affected by these requirements include the business facilities of client companies, military bases, and conference facilities used by University of Phoenix and Western International University. The U.S. Department of Education requires that the institution notify the U.S. Department of Education of each location prior to disbursing Title IV program funds. University of Phoenix and Western International University have procedures in place to ensure timely notification and acquisition of all necessary location approvals prior to disbursing Title IV aid to students attending any new location.

The "90/10 Rule". A requirement of the Higher Education Act, commonly referred to as the "90/10 Rule," applies only to for-profit institutions of higher education, which includes University of Phoenix and Western International University but not Institute for Professional Development client institutions. Under this rule, for-profit institutions will be ineligible to participate in Title IV programs if the amount of Title IV program funds used by the students or institution to satisfy tuition, fees, and other costs incurred by the students exceeds 90% of the institution's cash-basis revenues from eligible programs. University of Phoenix's and Western International University's percentages were 48% and 33%, respectively, at August 31, 2001. University of Phoenix and Western International University are required to calculate this percentage at the end of each fiscal year.

Student Loan Defaults. Eligible institutions must maintain a student loan cohort default rate of less than 25% for three consecutive years. In 1999, the most recent U.S. Department of Education cohort default rate reporting period, the national cohort default rate average for all higher education institutions was 5.6%. University of Phoenix and Western International University students' cohort default rates for the Federal Family Education Loans for 1999 as reported by the U.S. Department of Education were 4.6% and 9.6%, respectively. Institute for Professional Development client institution students' cohort default rates for 1999 ranged from 1.5% to 11.7% with a median cohort default rate of 3.0%.

Compensation of Representatives. Title IV regulations prohibit an institution from providing any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment, admission, or financial aid awarding activity. We believe that our current method of compensating enrollment counselors complies with the Title IV regulations.

Eligibility and Certification Procedures. The Higher Education Act specifies the manner in which the U.S. Department of Education reviews institutions for eligibility and certification to participate in Title IV programs. University of Phoenix's eligibility to participate in Title IV programs expires in June 2003. Western International University's eligibility to participate in Title IV programs expires in September 2003.

Administrative Capability. The Higher Education Act directs the U.S. Department of Education to assess the administrative capability of each institution to participate in Title IV programs. The failure of an institution to satisfy any of the criteria used to assess administrative capability may allow the U.S. Department of Education to determine that the institution lacks administrative capability and, therefore, may be subject to additional scrutiny or denied eligibility for Title IV programs.

Restrictions on Distance Education Programs. Telecommunications courses are deemed to be correspondence courses by the Title IV regulations if 50% or more of the courses offered at the institution are offered through distance education. The regulations of the U.S. Department of Education specify that an institution is not eligible to participate in Title IV programs if more than 50% of its courses are correspondence courses, or if 50% or more of its regular students are enrolled in the institution's correspondence courses.

Change of Ownership or Control. A change of our ownership or control, depending on the type of change, may have significant regulatory consequences for University of Phoenix and Western International University. Such a change of ownership or control could trigger recertification by the U.S. Department of Education, reauthorization by state licensing agencies, or the evaluation of the accreditation by The Higher Learning Commission.

The U.S. Department of Education has adopted the change of ownership and control standards used by the federal securities laws for institutions owned by publicly-held corporations. Upon a change of ownership and control sufficient to require us to file a Form 8-K with the Securities and Exchange Commission, University of Phoenix and Western International University would cease to be eligible to participate in Title IV programs until recertified by the U.S. Department of Education. Under some circumstances, the U.S. Department of Education may continue the institution's participation in the Title IV programs on a temporary basis pending completion of the change in ownership approval process. This recertification would not be required, however, if the transfer of ownership and control was made upon a person's retirement or death and was made either to a member of the person's immediate family or to a person with an ownership interest in us who had been involved in our management for at least two years preceding the transfer.

In addition, some states where we are presently licensed have requirements governing change of ownership or control. Currently, Arizona and California would require University of Phoenix and Western International University, as applicable, to be reauthorized upon a 20% change in ownership and a 25% change in control. These states require a new application to be filed for state licensing if such a change of ownership or control occurs. Washington has a similar reauthorization requirement triggered by a change of ownership, but provides that a temporary certificate of authorization may be issued pending the reauthorization process.

Moreover, we are required to report any material change in stock ownership. At that time, The Higher Learning Commission may seek to evaluate the effect of such a change of stock ownership on University of Phoenix's, the College for Financial Planning's, and Western International University's continuing operations.

If University of Phoenix is not re-certified by the U.S. Department of Education, does not obtain reauthorization from the necessary state agencies, or has its accreditation withdrawn as a consequence of any change in ownership or control, it would have a material adverse effect on us.

State Authorization

University of Phoenix is authorized to operate in all 20 states where it has a physical presence. University of Phoenix has held these authorizations for periods ranging from less than one year to twenty-three years. We have been approved to operate in Georgia and Idaho and are scheduled to begin classes in both locations in the first half of fiscal 2002. Applications for approval to operate in New York, New Jersey, and Illinois have been submitted and are awaiting approval.

All regionally accredited institutions, including University of Phoenix, are required to be evaluated separately for authorization to operate in Puerto Rico. University of Phoenix obtained authorization from the Puerto Rico Commission on Higher Education, and that authorization remains in effect.

University of Phoenix is registered with British Columbia's Private Post-Secondary Education Commission and has begun the process to obtain accreditation through the province of British Columbia. University of Phoenix has also received approval to operate in Alberta, Canada.

Institute for Professional Development client institutions possess authorization to operate in all states in which they offer educational programs, which are subject to renewal. The College for Financial Planning is currently authorized to operate in Colorado and does not require authorization for its self-study programs that are offered worldwide. Western International University is currently authorized to operate in Arizona.

Some states assert authority to regulate all degree-granting institutions if their educational programs are available to their residents, whether or not the institutions maintain a physical presence within those states. University of Phoenix has obtained or is in the process of obtaining licensure in those states and we do not believe this will materially effect University of Phoenix Online's operating activities.

Admissions Standards

To gain admission to University of Phoenix's, Western International University's, and Institute for Professional Development client institutions' undergraduate programs, students generally must have a high school diploma or General Equivalency Diploma and satisfy certain minimum grade point average, employment, and age requirements. Additional requirements may apply to individual programs. Students already in undergraduate programs may petition to be admitted on provisional status if they do not meet certain admission requirements.

To gain admission to University of Phoenix's, Western International University's, and Institute for Professional Development client institutions' graduate programs, students generally must have an undergraduate degree from a regionally accredited college or university and satisfy minimum grade point average, work experience, and employment requirements. Additional requirements may apply to individual programs. Students in graduate programs may petition to be admitted on provisional status if they do not meet certain admission requirements.

Tax Reform Act of 1997 and Tax Relief Act of 2001

In August 1997, Congress passed the Tax Reform Act of 1997 that added several new tax credits and incentives for students and extended benefits associated with the educational assistance program. The Hope Scholarship Credit provides up to \$1,500 tax credit per year per eligible student for tuition expenses in the first two years of postsecondary education in a degree or certificate program. The Lifetime Learning Credit provides up to \$1,000 tax credit per year per taxpayer return for tuition expenses for all postsecondary education, including graduate studies. Both of these credits are phased out for taxpayers with modified adjusted gross income between \$40,000 and \$50,000 (\$80,000 and \$100,000 for joint returns) and are subject to other restrictions and limitations. The Tax Reform Act of 1997 also provides for the deduction of interest from gross income on education loans and limited educational IRAs for children under the age of 18. These deductions are also subject to adjusted gross income limitations and other restrictions. These new provisions became effective for 1998 individual tax returns.

In June 2001, Congress passed the Tax Relief Act of 2001 that provided even more educational tax incentives. The major enhancements include: increased contribution limits to Education IRAs; tax-free withdrawals from Section 529 Qualified Tuition Programs; employer-provided graduate education assistance; and expansion of the student loan interest deduction. In addition, the Lifetime Learning Credit was increased beginning in 2002 to up to \$2,000 per year per taxpayer return and a new above-the-line deduction will be allowed for qualified higher education expenses paid by a taxpayer on behalf of the taxpayer, spouse, or dependent. In 2002 and 2003, taxpayers with adjusted gross income that does not exceed \$65,000 (\$130,000

for joint returns) may claim a maximum deduction of \$3,000. Taxpayers may not claim the new deduction and a Hope or Lifetime Learning Credit in the same year with respect to the same student.

Employer Tuition Assistance

Many of our students receive some form of tuition assistance from their employers. The Internal Revenue Code, defines situations where this tuition assistance qualifies as a deductible business expense when adequately documented by the employer and employee. The Internal Revenue Code also provides a safe-harbor provision for an exclusion from wages of up to \$5,250 of tuition reimbursement per year per student under the Educational Assistance Program. The Educational Assistance Program provision did not apply to graduate level programs and was set to expire in December 2001. The Tax Relief Act of 2001 extends the exclusion for employer-provided education assistance to graduate courses beginning after December 31, 2001 and makes the exclusion for both undergraduate and graduate courses permanent. Employers or employees may still continue to deduct such tuition assistance where it qualifies as a deductible business expense and is adequately documented. The percentage of incoming University of Phoenix students with access to employer tuition assistance was approximately 60% in 2001.

Locations

University of Phoenix currently has 35 physical campuses and 72 learning centers located in Arizona, California, Colorado, Florida, Hawaii, Louisiana, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Utah, Washington, Wisconsin, Puerto Rico, and Vancouver, British Columbia. University of Phoenix also offers its educational programs worldwide through University of Phoenix Online, its computerized delivery system.

The Institute for Professional Development currently operates at 21 campuses and 28 learning centers in Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and Wisconsin.

The College for Financial Planning's operations are located near Denver, Colorado.

Western International University's main campus is located in Phoenix, Arizona. Additionally, Western International University operates two learning centers in Arizona.

Item 2 — Properties

We lease all of our administrative and educational facilities. In some cases, classes are held in the facilities of the students' employers at no charge to us. Leases generally range from five to ten years with one to two renewal options for extended terms. We also lease space from time-to-time on a short-term basis in order to provide specific courses or programs. The lease on our corporate headquarters, which includes the University of Phoenix, Phoenix Main Campus, expires on August 31, 2003. As of August 31, 2001, we leased approximately 3.5 million square feet.

We evaluate current utilization of the educational facilities and projected enrollment growth to determine facility needs. We anticipate that an additional 500,000 square feet will be leased in 2002.

Item 3 — Legal Proceedings

We are not engaged in any legal proceedings that we believe would have a material effect on our financial position or operating results.

Item 4 — Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5 — Market for Registrant's Common Equity and Related Stockholder Matters

There is no established public trading market for our Apollo Education Group Class B common stock, and all shares of our Apollo Education Group Class B common stock are beneficially owned by our executive officers. Our Apollo Education Group Class A common stock trades on the Nasdaq National Market under the symbol "APOL" and our University of Phoenix Online common stock trades on the Nasdaq National Market under the symbol "UOPX." The holders of our Apollo Education Group Class A common stock and our University of Phoenix Online common stock are not entitled to any voting rights.

The table below sets forth the high and low bid prices for our Apollo Education Group Class A common stock as reported by the Nasdaq National Market. All prices for periods prior to the 3-for-2 stock split in January 2001 have been restated to reflect the effect of the stock split.

	<u>High</u>	<u>Low</u>
2000		
First Quarter	\$ 18.54	\$ 11.71
Second Quarter	19.75	12.25
Third Quarter	20.13	13.17
Fourth Quarter	28.42	17.75
2001		
First Quarter	\$ 31.83	\$ 21.63
Second Quarter	40.00	21.71
Third Quarter	39.98	29.00
Fourth Quarter	46.13	33.05

The table below sets forth the high and low bid prices for our University of Phoenix Online common stock between October 3, 2000 (the date of the offering) and August 31, 2001 as reported by the Nasdaq National Market. All prices for periods prior to the 3-for-2 stock split in July 2001 have been restated to reflect the effect of the stock split.

	<u>High</u>	<u>Low</u>
2001		
First Quarter	\$ 20.17	\$ 9.27
Second Quarter	29.00	14.17
Third Quarter	26.39	14.88
Fourth Quarter	40.13	22.57

These over-the-counter market quotations may reflect inter-dealer prices without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

At November 16, 2001 there were approximately 260 holders of record of Apollo Education Group Class A and 3 holders of record of Apollo Education Group Class B common stock, and approximately 20 holders of record of shares of University of Phoenix Online common stock. We estimate that, when you include shareholders whose shares are held in nominee accounts by brokers, there were approximately 4,800 holders of our Apollo Education Group Class A common stock and approximately 31,200 holders of University of Phoenix Online common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the near future. It is the current policy of our Board of Directors to retain earnings to finance the operations and expansion of our business. We are permitted to pay dividends exclusively on our Apollo Education Group Class A and Apollo Education Group Class B common stock, exclusively on University of Phoenix Online common stock, or on both, in equal or unequal amounts. Holders of our Apollo Education Group Class A

common stock and Apollo Education Group Class B common stock are entitled to equal per share cash dividends to the extent declared by the Board of Directors.

Item 6 — Selected Consolidated Financial Data

Information relating to this item appears under the captions “Selected Consolidated Information of Apollo Group, Inc.” on page 15 of the 2001 Annual Report for Apollo Group, Inc. and “Selected Financial Information of University of Phoenix Online” on page 43 of that report, and such information is incorporated herein by reference in accordance with General Instruction G(2) of Form 10-K. This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements and related Notes for Apollo Group, Inc. and University of Phoenix Online.

Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations

Information relating to this item appears under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Apollo Group, Inc.” on pages 16 through 20 of the 2001 Annual Report for Apollo Group, Inc. and “Management’s Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online” on pages 44 through 47 of that report, and such information is incorporated herein by reference in accordance with General Instruction G(2) of Form 10-K. This information should be read in conjunction with the Financial Statements and related Notes for Apollo Group, Inc. and University of Phoenix Online.

Item 7a — Quantitative and Qualitative Disclosures about Market Risk

Information relating to this item appears under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Apollo Group, Inc.” on page 20 of the 2001 Annual Report for Apollo Group, Inc., and such information is incorporated herein by reference in accordance with General Instruction G(2) of Form 10-K.

Item 8 — Financial Statements and Supplementary Data

Information relating to this item appears on pages 21 through 40 of the 2001 Annual Report for Apollo Group, Inc. and pages 48 through 57 of that report for University of Phoenix Online, and such information is incorporated herein by reference in accordance with General Instruction G(2) of Form 10-K. Other financial statements and schedules required under Regulation S-X promulgated under the Securities Act of 1933 are identified in Item 14 hereof and are incorporated herein by reference.

Item 9 — Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10 — Directors and Executive Officers of the Registrant

Our Board of Directors is currently divided into three classes, having staggered terms of three years each and are elected by the holders of our Apollo Education Group Class B common stock.

Our Class I directors, consisting of John G. Sperling, Ph.D., Dino J. DeConcini, and Thomas C. Weir, will stand for reelection at our 2003 Annual Meeting. Our Class II directors, consisting of John R. Norton III, Hedy F. Govenar, and J. Jorge Klor de Alva will stand for reelection at our 2004 Annual Meeting. Our Class III directors, consisting of Todd S. Nelson, Peter V. Sperling, and John Blair will stand for reelection at our 2002 Annual Meeting.

The following sets forth information as of October 31, 2001 concerning our directors and executive officers:

Name	Age	Position
John G. Sperling, Ph.D.	80	Chairman of the Board
Todd S. Nelson	42	President, Chief Executive Officer and Director
Peter V. Sperling	42	Senior Vice President, Secretary, Treasurer and Director
Laura Palmer Noone, J.D., Ph.D.	42	President, The University of Phoenix, Inc.
Anthony Digiovanni	51	Chief Executive Officer, University of Phoenix Online
Kenda B. Gonzales	44	Chief Financial Officer
Daniel E. Bachus	31	Chief Accounting Officer and Controller
John Blair	63	Director
Dino J. DeConcini	67	Director
Hedy F. Govenar	57	Director
J. Jorge Klor de Alva, J.D., Ph.D.	53	Director
John R. Norton III	72	Director
Thomas Weir	68	Director

John G. Sperling, Ph.D., is the founder and Chairman of the Board of Directors of Apollo Group, Inc. Dr. Sperling was also President of Apollo Group, Inc. from its inception until February 1998 and Chief Executive Officer of Apollo Group, Inc. until August 2001. Prior to his involvement with Apollo Group, Inc., from 1961 to 1973, Dr. Sperling was a professor of Humanities at San Jose State University where he was the Director of the Right to Read Project and the Director of the NSF Cooperative College-School Science Program in Economics. At various times from 1955 to 1961, Dr. Sperling was a member of the faculty at the University of Maryland, Ohio State University, and Northern Illinois University. Dr. Sperling received his Ph.D. from Cambridge University, an M.A. from the University of California at Berkeley, and a B.A. from Reed College. Dr. Sperling is the father of Peter V. Sperling.

Todd S. Nelson has been with Apollo Group, Inc. since 1987. Mr. Nelson has been the Chief Executive Officer of Apollo Group, Inc. since August 2001 and the President of Apollo Group, Inc. since February 1998. Mr. Nelson was Vice President of Apollo Group, Inc. from 1994 to February 1998 and the Executive Vice President of University of Phoenix from 1989 to February 1998. From 1987 to 1989, Mr. Nelson was the Director of University of Phoenix's Utah campus. From 1985 to 1987, Mr. Nelson was the General Manager at Amembal and Isom, a management training company. From 1984 to 1985, Mr. Nelson was a General Manager for Vickers & Company, a diversified holding company. From 1983 to 1984, Mr. Nelson was a Marketing Director at Summa Corporation, a recreational properties company. Mr. Nelson received an M.B.A. from the University of Nevada at Las Vegas and a B.S. from Brigham Young University. Mr. Nelson was a member of the faculty at University of Nevada at Las Vegas from 1983 to 1984.

Peter V. Sperling has been with Apollo Group, Inc. since 1983. Mr. Sperling has been a Senior Vice President since June 1998. Mr. Sperling was the Vice President of Administration from 1992 to June 1998 and has been the Secretary and Treasurer of Apollo Group, Inc. since 1988. From 1987 to 1992, Mr. Sperling was the Director of Operations at Apollo Education Corporation. From 1983 to 1987, Mr. Sperling was Director of Management Information Services of Apollo Group, Inc. Mr. Sperling received his M.B.A. from University of Phoenix and his B.A. from the University of California at Santa Barbara. Mr. Sperling is the son of John G. Sperling.

Laura Palmer Noone, J.D., Ph.D., has been with University of Phoenix since 1987. Dr. Palmer Noone has served as President of University of Phoenix since September 2000. From 1994 to 2000 she was the Provost and Senior Vice President for Academic Affairs, and from 1991 to 1994, she was Director of Academic Affairs at University of Phoenix, Phoenix campus. Prior to that, she was Judge Pro Tem at the City of Chandler, and an Attorney at Law in general civil practice emphasizing business representation and civil litigation. She has also served as adjunct faculty at Grand Canyon University and Chandler-Gilbert Community College. Dr. Palmer Noone currently serves as a member of the Arizona State Board for Private Postsecondary Education and as a Board of Trustee Member for the Florida Coastal School of Law. Dr. Palmer Noone has also recently been nominated to serve on the National Advisory Committee on Institutional Quality and Integrity. Dr. Palmer Noone received her Ph.D. from the Union Institute, her J.D. and her M.B.A. from the University of Iowa, and her B.B.A. from the University of Dubuque.

Anthony F. Digiovanni has been with University of Phoenix since 1989. Mr. Digiovanni has served as Chief Executive Officer of University of Phoenix Online since June 2001. Mr. Digiovanni served as President of University of Phoenix Online from April 2000 to June 2001. From February 1998 to April 2000 he was Executive Vice President of University of Phoenix, and from 1992 to 1998, he was Regional Vice President of University of Phoenix's Western Region. Prior to that, he was Campus Director for the Southern California campus of University of Phoenix. From 1984 to 1989, Mr. Digiovanni was Chief Operating Officer for Abco Hardware and Builder's Supply, a Southern California-based industrial distributor. Mr. Digiovanni received his M.B.A. from the University of Southern California and his B.B.A. from Loyola Marymount University.

Kenda B. Gonzales has been with Apollo Group, Inc. since October 1998. Ms. Gonzales is the Chief Financial Officer of Apollo Group, Inc. Prior to joining Apollo Group, Inc., Ms. Gonzales was the Senior Executive Vice President and Chief Financial Officer of UDC Homes, Inc., a home building corporation. From 1985 to 1996, Ms. Gonzales was the Senior Vice President and Chief Financial Officer of Continental Homes Holding Corp., a home building corporation. Ms. Gonzales began her career as a Certified Public Accountant with Peat, Marwick, Mitchell and Company and is a graduate of the University of Oklahoma with a Bachelor of Accountancy.

Daniel E. Bachus has been with Apollo Group, Inc. since August 2000. Mr. Bachus is the Chief Accounting Officer and Controller of Apollo Group, Inc. From 1992 to 2000, Mr. Bachus was employed by Deloitte & Touche LLP, most recently as an Audit Senior Manager. Mr. Bachus received his B.S. in Accountancy from the University of Arizona and is a Certified Public Accountant.

John Blair has been a director of Apollo Group, Inc. since September 2000 and is a member of the Audit and Compensation Committees of the Board of Directors of Apollo Group, Inc. In addition, he served from 1982 to September 2000 as a director of Western International University, Inc., a wholly-owned subsidiary of Apollo Group, Inc. Mr. Blair was the Chief Operating Officer of Integrated Information Systems, Inc., a provider of integrated Internet solutions, from May 1999 through December 2000. In 1984, Mr. Blair founded J. Blair Consulting, an independent consulting business that provides management counsel to individuals and organizations in the areas of strategic planning, product planning, organizational diagnosis, management development, and strategies for leveraging business value through technology and continues to be active in this professional services firm. Mr. Blair earned a B.S. in Engineering from Purdue University and a Master of Arts in Organizational Management from University of Phoenix.

Dino J. Deconcini has been a director of Apollo Group, Inc. since 1981 and is currently a member of the Audit Committee of the Board of Directors of Apollo Group, Inc. Mr. DeConcini is currently the Director of Financial Education at Consumer Federation of America. From February 1995 to June 2000, Mr. DeConcini

was the Executive Director, Savings Bonds Marketing Office, U.S. Department of the Treasury. From 1979 to 1995, Mr. DeConcini was a shareholder and employee in DeConcini, McDonald, Brammer, Yetwin and Lacy, P.C., Attorneys at Law. From 1993 to 1995, Mr. DeConcini was a Vice President and Senior Associate of Project International Associates, Inc., an international business consulting firm. From 1991 to 1993 and 1980 to 1990, Mr. DeConcini was a Vice President and partner of Paul R. Gibson & Associates, an international business consulting firm.

Hedy F. Govenar has been a director of Apollo Group, Inc. since March 1997. Ms. Govenar is founder and President of Governmental Advocates, Inc., a lobbying and political consulting firm in Sacramento, California. An active lobbyist with the firm since 1979, she represents a variety of corporate and trade association clients. From 1989 to 1999, Ms. Govenar served as a Commissioner on the California Film Commission as an appointee of the California State Assembly. Ms. Govenar received an M.A. from California State University and a B.A. from University of California at Los Angeles.

J. Jorge Klor de Alva, J.D., Ph.D., has been a director of Apollo Group, Inc. since 1991. Since September 1, 2000, Dr. Klor de Alva has been President and Chief Executive Officer of Apollo International. Dr. Klor de Alva was President of University of Phoenix and Senior Vice President of Apollo Group, Inc. from February 1998 through August 2000. Dr. Klor de Alva was Vice President of Business Development of Apollo Group, Inc. from 1996 to 1998. Dr. Klor de Alva was a Professor at the University of California at Berkeley from July 1994 until July 1996. From 1989 to 1994, Dr. Klor de Alva was a Professor at Princeton University. From 1984 to 1989, Dr. Klor de Alva was the Director of the Institute for Mesoamerican Studies, and from 1982 to 1989, was an Associate Professor at the State University of New York at Albany. From 1971 to 1982, Dr. Klor de Alva served at various times as Associate Professor, Assistant Professor, or lecturer at San Jose State University and the University of California at Santa Cruz. Dr. Klor de Alva received a B.A. and J.D. from the University of California at Berkeley and a Ph.D. from the University of California at Santa Cruz.

John R. Norton III has been a director of Apollo Group, Inc. since March 1997 and is currently a member of the Audit and Compensation Committees of the Board of Directors of Apollo Group, Inc. Mr. Norton founded the J.R. Norton Company, an agricultural producer, in 1955 engaged in diversified agriculture including crop production and cattle feeding. He served as the Deputy Secretary of the U.S. Department of Agriculture in 1985 and 1986. Mr. Norton is also on the Board of Directors of Terra Industries, Inc., a producer and marketer of nitrogen products and methanol. He attended Stanford University and the University of Arizona where he received a B.S. in Agriculture in 1950.

Thomas C. Weir has been a director of Apollo Group, Inc. since 1983. In 1996, Mr. Weir became the President of Dependable Nurses of Phoenix, Inc., a provider of temporary nursing services. During 1994, Mr. Weir became the President of Dependable Nurses, Inc., a provider of temporary nursing services, W.D. Enterprises, Inc., a financial services company, and Dependable Personnel, Inc., a provider of temporary clerical personnel. In addition, Mr. Weir has been an independent financial consultant since 1990. From 1989 to 1990, Mr. Weir was President of Tucson Electric Power Company. From 1979 to 1987, Mr. Weir was Chairman and Chief Executive Officer of Home Federal Savings & Loan Association, Tucson, Arizona.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, as well as persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in beneficial ownership. Directors, executive officers, and greater than 10% shareholders are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of such forms furnished to us, or written representations that no Forms 5 were required, we believe that during the fiscal year ended August 31, 2001, our directors and officers complied with all Section 16(a) filing requirements with the following exceptions:

John Sperling and Todd Nelson were required to file Forms 5 in 1996 and 1997 to report certain gifts of Apollo Education Group Class A common stock made to third parties. These transactions were reported pursuant to Forms 4 filed in August 2001.

Committees of the Board of Directors

The Board of Directors has two principal committees: (1) an Audit Committee comprised of John Blair (Chairperson), Dino J. DeConcini, and John R. Norton III and (2) a Compensation Committee comprised of John R. Norton III (Chairperson) and John Blair.

Meetings of the Board of Directors and its Committees

During the year ended August 31, 2001, the Board of Directors met on four occasions. All of the directors attended 100% of the Board of Directors meetings and meetings of each of the committees on which he or she served, except Thomas C. Weir who attended 75% of the Board of Director meetings.

Compensation Committee. The Compensation Committee of our Board of Directors, which met one time during 2001, reviews all aspects of compensation of executive officers and determines or makes recommendations on such matters to the full Board of Directors. The report of the Compensation Committee for 2001 is set forth in Item 11.

Audit Committee. The Audit Committee, which met on four occasions in 2001, represents the Board of Directors in evaluating the quality of our financial reporting process and internal financial controls through consultations with our independent accountants, internal management, and the Board of Directors. The report of the Audit Committee for 2001 is set forth in Item 11.

Other Committees. We do not maintain a standing nominating committee or other committee performing similar functions.

Item 11 — Executive Compensation

Director Compensation

Fees. In 2001, our non-employee directors received a \$24,000 annual retainer, \$2,000 for each board meeting attended, and \$1,000 for each committee meeting attended. In addition, committee chairmen received an additional \$500 for each committee meeting. Non-employee directors are also reimbursed for out-of-pocket expenses.

Apollo Group, Inc. Amended and Restated Director Stock Plan. The Board of Directors has adopted the Apollo Group, Inc. Amended and Restated Director Stock Plan ("Director Plan") to attract and retain independent directors. Under the amended Director Plan, up to 925,000 shares of Apollo Education Group Class A common stock and up to 100,000 shares of University of Phoenix Online common stock may be available for grant of awards. Options granted under the amended Director Plan are fully vested six months and one day after the date of grant and are exercisable in full thereafter until the date that is ten years after the date of grant. The exercise price per share under the amended Director Plan is equal to the fair market value of such shares upon the date of grant. Under the amended Director Plan, each non-employee director automatically receives a grant of options to purchase 20,250 shares of Apollo Education Group Class A common stock on September 1 of each year through 2003. In addition, under the amended Director Plan each non-employee director who was on the Board of Directors on the date of the offering of University of Phoenix Online common stock received a grant of stock options to purchase 10,000 shares of University of Phoenix Online common stock on the date of such offering at the initial public offering price of \$14.00 per share, which became exercisable six months and one day after the date University of Phoenix Online common stock options were granted.

Executive Compensation

The following table discloses the annual and long-term compensation earned for services rendered in all capacities by our Chief Executive Officer, the four other most highly compensated executive officers for 2001, and one individual who would have been one of the most highly compensated except that he was not serving as an executive officer as of August 31, 2001:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Other Annual Compensation (1)	Restricted Stock Awards	Long-Term Compensation Awards		LTIP Payouts	All Other Compensation (3)
		Salary	Bonus	Securities Underlying Options			APOL	UOPX		
John G. Sperling	2001	\$ 450,000	\$ —	\$ 31,280	\$ —	187,500	900,000	\$ —	\$ —	
Chairman of the Board	2000	400,000	—	73,293	—	187,500	—	—	—	
	1999	400,000	—	64,141	—	187,500	—	—	—	
Todd S. Nelson	2001	\$ 400,010	\$ 262,500	\$ —	\$ —	150,000	750,000	\$ —	\$ —	
President and Chief	2000	350,000	262,500	—	—	150,000	—	—	—	
Executive Officer	1999	350,000	262,500	—	—	150,000	—	—	—	
Anthony Digiovanni	2001	\$ 295,000	\$ 164,000	\$ —	\$ —	15,000	375,000	\$ —	\$ 3,165	
Chief Executive Officer,	2000	272,500	144,500	—	—	37,500	—	—	3,165	
University of Phoenix Online	1999	250,000	126,613	—	—	75,000	—	—	3,073	
Jerry F. Noble	2001	\$ 250,000	\$ 187,500	\$ —	\$ —	—	22,500	\$ —	\$ 208	
Former Senior Vice President	2000	250,000	187,500	—	—	15,000	—	—	3,165	
and President of Institute for	1999	250,000	161,752	—	—	75,000	—	—	3,072	
Professional Development(2)										
Kenda B. Gonzales	2001	\$ 244,000	\$ 150,000	\$ —	\$ —	15,000	225,000	\$ —	\$ 3,165	
Chief Financial Officer	2000	200,000	142,500	—	—	37,500	—	—	3,165	
	1999	174,359	90,000	—	—	63,000	—	—	—	
Laura Palmer Noone	2001	\$ 190,000	\$ 67,420	\$ —	\$ —	15,000	150,000	\$ —	\$ 3,165	
President, The University of	2000	140,939	43,260	—	—	15,000	—	—	3,165	
Phoenix, Inc.	1999	128,400	42,000	—	—	30,000	—	—	3,073	

- (1) Messrs. Nelson, Digiovanni, and Noble and Ms. Palmer Noone also received certain perquisites, the value of which did not exceed the lesser of \$50,000 for each person or 10% of their cash compensation. Dr. John Sperling received perquisites primarily in the form of a company provided car, available for business and personal use, and tax consulting services.
- (2) Effective January 15, 2001, Mr. Noble resigned as a Director and Senior Vice President of Apollo Group, Inc. and as President of Institute for Professional Development. He was retained by us a consultant until October 31, 2001.
- (3) Amounts shown consist of contributions made by us to Apollo Group, Inc.'s Savings and Investment Plan paid in 2001, 2000, and 1999.

The following tables disclose options granted by us to our Chief Executive Officer, the four other most highly compensated executive officers for 2001, and one individual who would have been one of the most highly compensated except that he was not serving as an executive officer as of August 31, 2001:

Option Grants to Purchase Apollo Education Group Class A Common Stock

In the Last Fiscal Year

Name	Option Grants in Fiscal Year 2001				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted To Employees in Fiscal Year	Exercise Price Per Share (\$/Share)	Expiration Date	5%	10%
John G. Sperling	187,500	18.46%	\$ 22.260	12/15/10	\$ 2,624,896	\$ 6,652,002
Todd S. Nelson	150,000	14.77%	22.260	12/15/10	2,099,917	5,321,602
Anthony Digiovanni	15,000	1.48%	22.260	12/15/10	209,992	532,160
Kenda B. Gonzales	15,000	1.48%	22.260	12/15/10	209,992	532,160
Laura Palmer Noone	15,000	1.48%	22.260	12/15/10	209,992	532,160

Option Grants to Purchase University of Phoenix Online Common Stock

In the Last Fiscal Year

Name	Option Grants in Fiscal Year 2001				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted To Employees in Fiscal Year	Exercise Price Per Share (\$/Share)	Expiration Date	5%	10%
John G. Sperling	900,000	20.43%	\$ 9.333	9/27/10	\$ 5,282,696	\$ 13,387,389
Todd S. Nelson	750,000	17.03%	9.333	9/27/10	4,402,247	11,156,157
Anthony Digiovanni	375,000	8.51%	9.333	9/27/10	2,201,123	5,578,079
Jerry F. Noble	22,500	0.51%	9.333	9/27/10	132,067	334,685
Kenda B. Gonzales	225,000	5.08%	9.333	9/27/10	1,320,674	3,346,847
Laura Palmer Noone	150,000	3.41%	9.333	9/27/10	880,449	2,231,231

Aggregated Option Exercises in Fiscal Year 2001 and Option Values

at August 31, 2001

The following tables disclose the number of shares received from the exercise of our options, the value received therefrom, and the number and value of in-the-money and out-of-the-money options held by our Chief Executive Officer, the four other most highly compensated officers for 2001, and one individual who would have been one of the most highly compensated except that he was not serving as an executive officer as of August 31, 2001:

Apollo Education Group Class A Common Stock

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John G. Sperling	—	\$ —	373,155	343,750	\$ 10,255,974	\$ 7,456,950
Todd S. Nelson	291,313	5,439,173	124,999	275,000	2,622,528	5,965,560
Anthony Digiovanni	65,094	1,968,863	98,749	38,750	2,210,080	881,031
Jerry F. Noble	82,203	1,646,524	4,999	80,000	133,907	1,805,436
Kenda B. Gonzales	—	—	32,500	83,000	797,990	1,919,718
Laura Palmer Noone	15,000	405,931	39,980	23,750	961,599	493,567

University of Phoenix Online Common Stock

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John G. Sperling	—	\$ —	600,000	300,000	\$ 11,200,020	\$ 5,600,010
Todd S. Nelson	187,500	4,042,074	312,500	250,000	5,833,344	4,666,675
Anthony Digiovanni	124,999	3,174,763	125,001	125,000	2,333,356	2,333,337
Jerry F. Noble	—	—	15,000	7,500	280,000	140,000
Kenda B. Gonzales	75,000	2,065,827	75,000	75,000	1,400,003	1,400,003
Laura Palmer Noone	45,000	993,600	5,001	99,999	93,352	1,866,651

Employment and Deferred Compensation Agreements. In December 1993, we entered into an employment agreement and deferred compensation agreement with Dr. John G. Sperling, our Chairman of the Board. The term of the employment agreement was for four years and expired on December 31, 1997. The employment agreement has automatically renewed for four additional one-year periods through December 31, 2001, and will automatically renew for additional one-year periods thereafter. Under the terms of the employment agreement, Dr. Sperling received an annual salary for 1999 and 2000 of \$400,000 and for 2001 of \$450,000. This salary is subject to annual review by the Compensation Committee. We may terminate the employment agreement only for cause, and Dr. Sperling may terminate the employment agreement at any time upon 30 days written notice.

The deferred compensation agreement provides that upon his termination of employment with us and until his death, Dr. Sperling shall receive monthly payments equal to one-twelfth of his highest annual base salary paid by us during any one of the three calendar years preceding the calendar year in which Dr. Sperling's employment is terminated. In addition, upon Dr. Sperling's death, his designated beneficiary shall be paid an amount equal to three times his highest annual base salary in 36 equal monthly installments with the first such installment due on the first day of the month following the month of Dr. Sperling's death.

We do not have employment agreements with any of our other executive officers.

Board Compensation Committee Report on Executive Compensation

Our Compensation Committee (the "Committee") is composed entirely of independent outside members of our Board of Directors. The committee reviews and approves each of the elements of our executive compensation program related to John G. Sperling and Todd S. Nelson (the "Senior Executives"), and periodically assesses the effectiveness and competitiveness of the program in total. In addition, the committee administers the key provisions of the executive compensation program and reviews with our Board of Directors in detail all aspects of compensation for our Senior Executives. The committee has furnished the following report on executive compensation:

Overview and Philosophy. Our compensation program for Senior Executives is primarily comprised of base salary, annual bonus, and long-term incentives in the form of stock option grants. Senior Executives also participate in various other benefit plans, including medical and retirement plans, generally available to all of our employees.

Each of the Senior Executives receives a base salary, which when aggregated with their maximum bonus amount, is intended to be competitive with similarly situated executives in comparable industries, including those companies in the peer group contained in the Stock Performance Graph. The companies surveyed had annual revenues ranging from approximately \$78.2 million to \$568.2 million, with an average of \$291.3 million and a median of \$325.3 million. This data was used to target annual cash compensation for the Senior Executives at the higher end of companies surveyed.

Our philosophy is to pay base salaries to the Senior Executives that enable us to attract, motivate, and retain highly qualified executives. The annual bonus program is designed to reward for performance based on financial results. Stock option grants are intended to provide substantial rewards to executives based on stock price appreciation and improved overall financial performance. The vesting of the options can be accelerated if certain profit and stock price goals are achieved.

Base Salary. Salary increases for the Senior Executives are based on a review of the competitive data described above. We target base pay at the level required to attract and retain highly qualified executives. In determining salaries, the committee also takes into account position within us, individual experience and performance, our revenue size compared to the companies surveyed, and our specific needs particular to us.

Annual Bonus Program. In addition to a base salary, Senior Executives were eligible to receive a bonus of up to seventy-five percent (75%) of their respective base salaries. All annual bonuses are tied to our financial performance.

At the beginning of each fiscal year, the Compensation Committee establishes an earnings per share goal for us.

The annual bonuses for our Senior Executives are tied solely to our earnings per share goal. If that goal is achieved, our Senior Executives earn a bonus equal to seventy-five percent (75%) of their respective annual salary. These goals were exceeded for 2001.

Options. We believe that it is important for Senior Executives to have an equity stake in us, and, toward this end, we make option grants to key Senior Executives from time to time under the Apollo Group, Inc. 2000 Stock Incentive Plan. In making option awards, the Compensation Committee reviews our financial performance during the past fiscal year, the awards granted to other executives, and the individual officer's specific role.

Other Benefits. Senior Executives are eligible to participate in benefit programs designed for all of our full-time employees and also received certain perquisites primarily including company cars and company paid tax consulting. These programs include medical, disability and life insurance, and a qualified retirement program allowed under Section 401(k) of the Internal Revenue Code.

Chairman of the Board Compensation. Dr. John G. Sperling is the founder and Chairman of our Board of Directors. In December 1993, we entered into an employment agreement (the "Employment Agreement") and deferred compensation agreement (the "Deferred Compensation Agreement") with Dr. Sperling. The

Employment Agreement terminated on December 31, 1997. The Employment Agreement has automatically renewed for four additional one-year periods through December 31, 2001, and will automatically renew for additional one-year periods thereafter. The Deferred Compensation Agreement provides that upon Dr. Sperling's termination of employment with us and until his death, Dr. Sperling shall receive monthly payments equal to one-twelfth of his highest annual base salary paid by us during any one of the three calendar years preceding the calendar year in which Dr. Sperling's employment is terminated. In addition, upon Dr. Sperling's death, his designated beneficiary shall be paid an amount equal to three times his highest annual base salary in 36 equal monthly installments with the first installment due on the first day of the month following the month of Dr. Sperling's death.

Dr. Sperling's base salary and bonus are determined annually on the same basis discussed above for the Senior Executives. During fiscal year 2001, Dr. Sperling received an annual base salary of \$450,000. In addition, because the earnings per share goal for us was exceeded, Dr. Sperling was eligible for a bonus for 2001. Dr. Sperling has elected to forego this bonus in exchange for options in our Apollo Education Group Class A common stock. The amount of options to be granted will be determined at the discretion of the Compensation Committee and will be granted at fair market value and expire ten years after the grant date. The Compensation Committee does not apply a mathematical formula to determine the number of options granted, but will consider Dr. Sperling's contribution to our performance during fiscal year 2001.

Compensation and Management Committee Interlocks and Insider Participation

No member of our Compensation Committee during the fiscal year ended August 31, 2001, was an officer or employee of us.

COMPENSATION COMMITTEE

John R. Norton III

John Blair

Audit Committee Report

The Audit Committee, operating under its written charter, has (i) reviewed and discussed the audited financial statements of the Company as of and for the year ended August 31, 2001 with management of the Company; (ii) discussed with the Company's independent accountants the matters required to be discussed by Statement of Accounting Standards (SAS) No. 61, Communications with Audit Committees, and SAS No. 90, Audit Committee Communications; (iii) received and reviewed the written disclosures and the letter from its independent accountants required by Independence Standards Board No. 1, Independence Discussions with Audit Committees; and (iv) discussed with its independent accountants, the independent accountants' independence. Based on its review and discussions listed above, the Audit Committee recommended to the Board of Directors that the audited financial statements be incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2001, for filing with the Securities and Exchange Commission.

This report is submitted by the Audit Committee.

John Blair, Chairman

Dino J. Deconcini
John R. Norton III

Audit and Related Fees

Audit Fees. PricewaterhouseCoopers LLP's fees for the audit of the Company's consolidated financial statements for fiscal 2001 as well as for limited reviews of the consolidated financial information included in the Company's quarterly reports on Form 10-Q for fiscal 2001 are \$182,000, of which an aggregate amount of \$132,000 had been billed through August 31, 2001.

Financial Information Systems Design and Implementation Fees. The Company did not engage PricewaterhouseCoopers LLP to provide services with respect to the design or implementation of financial information systems during fiscal 2001.

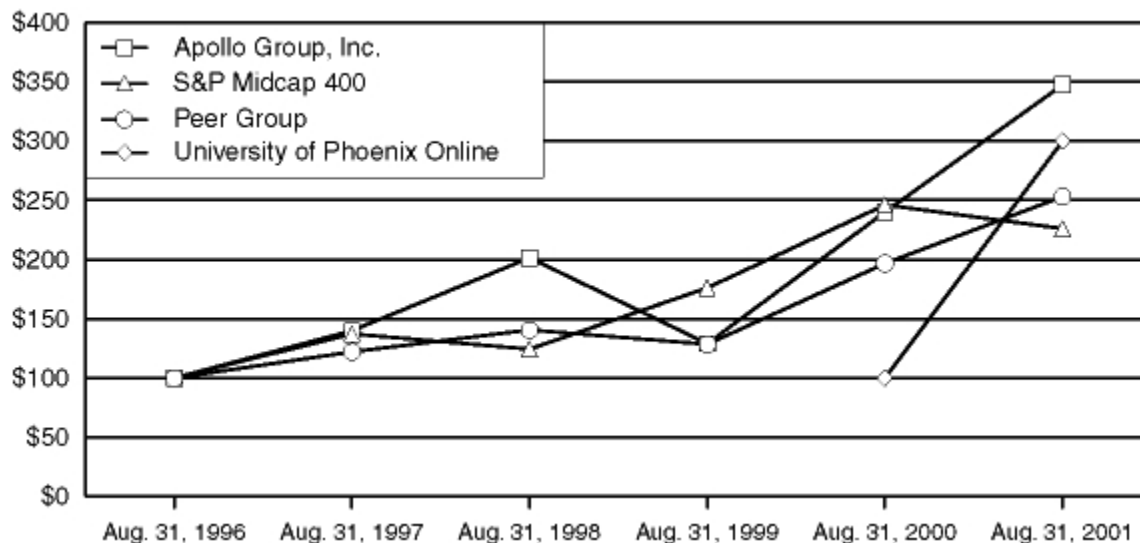
All Other Fees. The aggregate amount of all other fees billed to the Company for all other services rendered by PricewaterhouseCoopers LLP for fiscal 2001 were \$369,000. Such other services included: federal financial aid compliance audit services, tax planning and advice, preparation of income tax returns, assistance with securities registrations, audits of the financial statements of certain of the Company's employee benefit plans, and other accounting advice and assistance. The Audit Committee has determined that the provision of the foregoing services and the related fees are compatible with maintaining PricewaterhouseCoopers LLP's independence.

Stock Performance Graph

The line graph below compares the cumulative total shareholder return on our Apollo Education Group Class A common stock and University of Phoenix Online common stock with the cumulative total return for the Standard & Poor's MidCap 400 Index and an index of peer group companies selected by us for the period from August 31, 1996, through August 31, 2001. The graph assumes that the value of the investment in our Apollo Education Group Class A common stock and each index was \$100 at August 31, 1996, and that all dividends paid by those companies included in the indexes were reinvested. It also assumes the value of our University of Phoenix Online common stock was \$100 at August 31, 2000.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

AMONG APOLLO GROUP, INC., THE S & P MIDCAP 400 INDEX, A PEER GROUP AND UNIVERSITY OF PHOENIX ONLINE



* \$100 INVESTED ON 8/31/1996 IN APOL, PEER GROUP & S & P, OR ON 9/28/00 IN UOPX — INCLUDING REINVESTMENT OF DIVIDENDS. FISCAL YEAR ENDING AUGUST 31.

	Aug. 31 1996	Aug. 31 1997	Aug. 31 1998	Aug. 31 1999	Aug. 31 2000	Aug. 31 2001
Apollo Education Group Class A common stock	\$ 100.00	\$ 139.95	\$ 201.47	\$ 129.04	\$ 240.07	\$ 347.38
S&P MidCap 400	100.00	137.28	124.40	176.13	246.14	226.13
Education Peer Group	100.00	122.12	140.61	128.52	196.71	253.03
University of Phoenix Online					100.00	300.01

The education peer group is composed of the publicly-traded common stock of 8 education-related companies that include Career Education Corporation (CECO), Corinthian Colleges, Inc. (COCO), DeVry Inc. (DV), Education Management Corporation (EDMC), ITT Educational Services, Inc. (ESI), Sylvan Learning Systems, Inc. (SLVN), Strayer Education, Inc. (STRA), and Whitman Education Group, Inc. (WIX).

We believe that the education peer group is representative of the education industry in which we operate. Similar to us, all of the companies in the education peer group participate in the for-profit, post-secondary education market.

Item 12 — Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of our common stock as of October 31, 2001. Except as otherwise indicated, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares, except to the extent that authority is shared by spouses under applicable law or as otherwise noted below.

Name and Address of Beneficial Owner (1)	Apollo Education Group Class A Common Stock	Percent Owned	Apollo Education Group Class B Common Stock	Percent Owned	University of Phoenix Online Common Stock	Percent Owned
John G. Sperling	18,651,758	16.3%(2- 12)	243,081	50.3%(28)	600,000	6.1%(30)
Peter V. Sperling	16,444,921	14.4 (2),(13- 16)	232,068	48.0 (29)	100,000	1.0 (31)
Todd S. Nelson	39,938	0.0 (17)	8,385	1.7	312,500	3.2 (32)
Kenda B. Gonzales	32,500	0.0 (18)			75,000	0.8 (33)
Laura Palmer Noone	40,326	0.0 (19)			5,473	0.1 (34)
Anthony F. Digiovanni	100,328	0.1 (20)			125,594	1.3 (35)
Jerry F. Noble	104,999	0.1 (21)			15,000	0.2 (36)
J. Jorge Klor de Alva	30,375	0.0 (22)			15,000	0.2 (37)
Thomas C. Weir	161,175	0.1 (23)			15,000	0.2 (38)
Hedy F. Govonar	62,325	0.1 (24)			15,000	0.2 (39)
John R. Norton III	123,000	0.1 (25)			15,000	0.2 (40)
Dino J. DeConcini	60,532	0.1 (26)			12,000	0.1 (41)
John Blair	675	0.0			12,000	0.1 (42)
Total for All Directors and Executive Officers as a Group (13 persons)	35,852,852	31.3%(27)	483,534	100.0%	1,317,567	13.7%(43)

- (1) The address of each of the listed shareholders, unless noted otherwise, is in care of Apollo Group, Inc., 4615 East Elwood Street, Phoenix, Arizona 85040.
- (2) Includes 904,893 shares held by the John Sperling 1994 Irrevocable Trust dated April 27, 1994 for which Messrs. John and Peter Sperling are the co-trustees.
- (3) Includes 309,623 shares held by the John G. Sperling Revocable Trust dated January 31, 1995.
- (4) Includes 1,762,500 shares held by The Sperling Foundation.
- (5) Includes 373,155 shares that Dr. John Sperling has the right to acquire within 60 days of the date of the table set forth above.
- (6) Includes 375,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing November 5, 2002.
- (7) Includes 525,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing November 14, 2003.
- (8) Includes 375,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing January 12, 2004.

- (9) Includes 250,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing April 20, 2004.
- (10) Includes 250,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing July 13, 2004.
- (11) Includes 250,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing July 20, 2005.
- (12) Includes 250,000 shares that Dr. John Sperling has subject to a forward sale agreement maturing February 4, 2004.
- (13) Includes 290,082 shares held by the Peter V. Sperling Revocable Trust dated January 31, 1995.
- (14) Includes 198,155 shares that Mr. Peter Sperling has the right to acquire within 60 days of the date of the table set forth above.
- (15) Includes 528,000 shares that Mr. Peter Sperling has subject to a forward sale agreement maturing July 18, 2002.
- (16) Includes 500,000 shares that Mr. Peter Sperling has subject to a forward sale agreement maturing February 2, 2004.
- (17) Includes 24,999 shares that Mr. Nelson has the right to acquire within 60 days of the date of the table set forth above.
- (18) Includes 32,500 shares that Ms. Gonzales has the right to acquire within 60 days of the date of the table set forth above.
- (19) Includes 39,980 shares that Ms. Palmer Noone has the right to acquire within 60 days of the date of the table set forth above.
- (20) Includes 98,749 shares that Mr. Digiovanni has the right to acquire within 60 days of the date of the table set forth above.
- (21) Includes 4,999 shares that Mr. Noble has the right to acquire within 60 days of the date of the table set forth above.
- (22) Includes 30,375 shares that Mr. Klor de Alva has the right to acquire within 60 days of the date of the table set forth above.
- (23) Includes 151,875 shares that Mr. Weir has the right to acquire within 60 days of the date of the table set forth above.
- (24) Includes 60,750 shares that Ms. Govenar has the right to acquire within 60 days of the date of the table set forth above.
- (25) Includes 121,500 shares that Mr. Norton has the right to acquire within 60 days of the date of the table set forth above.
- (26) Includes 60,532 shares that Mr. DeConcini has the right to acquire within 60 days of the date of the table set forth above.
- (27) Includes 1,212,069 shares that all Directors and Executive Officers as a group have the right to acquire within 60 days of the date of the table set forth above.
- (28) Includes 243,080 shares held by the John G. Sperling Revocable Trust dated January 31, 1995.
- (29) Includes 232,067 shares held by the Peter V. Sperling Revocable Trust dated January 31, 1995.
- (30) Includes 300,000 shares that Dr. John Sperling has the right to acquire within 60 days of the date of the table set forth above.
- (31) Includes 100,000 shares that Mr. Peter Sperling has the right to acquire within 60 days of the date of the table set forth above.
- (32) Includes 312,500 shares that Mr. Nelson has the right to acquire within 60 days of the date of the table set forth above.
- (33) Includes 75,000 shares that Ms. Gonzales has the right to acquire within 60 days of the date of the table set forth above.

- (34) Includes 5,001 shares that Ms. Palmer Noone has the right to acquire within 60 days of the date of the table set forth above.
- (35) Includes 125,001 shares that Mr. Digiovanni has the right to acquire within 60 days of the date of the table set forth above.
- (36) Includes 15,000 shares that Mr. Noble has the right to acquire within 60 days of the date of the table set forth above.
- (37) Includes 15,000 shares that Mr. Klor de Alva has the right to acquire within 60 days of the date of the table set forth above.
- (38) Includes 15,000 shares that Mr. Weir has the right to acquire within 60 days of the date of the table set forth above.
- (39) Includes 15,000 shares that Ms. Govenar has the right to acquire within 60 days of the date of the table set forth above.
- (40) Includes 15,000 shares that Mr. Norton has the right to acquire within 60 days of the date of the table set forth above.
- (41) Includes 12,000 shares that Mr. DeConcini has the right to acquire within 60 days of the date of the table set forth above.
- (42) Includes 12,000 shares that Mr. Blair has the right to acquire within 60 days of the date of the table set forth above.
- (43) Includes 1,021,501 shares that all Directors and Executive Officers as a group have the right to acquire within 60 days of the date of the table set forth above.

Item 13 — Certain Relationships and Related Transactions

On August 14, 1998, we, together with, Hughes Network Systems and Hermes Onetouch L.L.C. formed Interactive Distance Learning, Inc. for the purpose of acquiring One Touch Systems, Inc. In connection with the transaction, we, Hughes Network Systems, and Hermes Onetouch L.L.C. entered into certain agreements regarding the relationships among the parties. As contemplated in the agreements, it is anticipated that we may from time to time engage in transactions with One Touch Systems, Inc. for the provision of distance learning products and services. Currently, there are no transactions with One Touch Systems, Inc. Hermes Onetouch L.L.C., which owns 30% of the outstanding shares of Interactive Distance Learning, Inc., is wholly-owned by Dr. John G. Sperling, our Chairman.

Effective July 15, 1999, we entered into contracts with Apollo International, Inc. to provide educational products and services in certain locations outside of the United States, Canada, and Puerto Rico. John G. Sperling, J. Jorge Klor de Alva, and Todd Nelson are directors of us and also directors of Apollo International, Inc. J. Jorge Klor de Alva, a former Senior Vice President of Apollo Group, Inc., is the President and Chief Executive Officer of Apollo International, Inc. Shares of Apollo International, Inc. stock are beneficially owned by us (2.6% for which we have committed to pay \$999,989 and have paid \$749,978) and by an investment entity controlled by John G. Sperling and Peter V. Sperling, son of John G. Sperling, and a Senior Vice President and Director of Apollo Group, Inc. (26%). In addition, we have an option to acquire additional shares in Apollo International, Inc. During the fiscal year ended August 31, 2001, we received no revenue from Apollo International, Inc. for educational products and services.

Effective June 1, 1999, we entered into an agreement with Governmental Advocates, Inc. to provide consulting services to us with respect to matters concerning legislation, regulations, public policy, electoral politics and any other topics of concern to us relating to state government in the state of California. Hedy Govenar, one of our directors, is the founder and President of Governmental Advocates, Inc. On June 1, 2001, we renewed this agreement for an additional one year. Pursuant to the agreement, we paid consulting fees to Governmental Advocates, Inc. of \$120,000 in both 2001 and 2000.

PART IV

Item 14 — Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The following consolidated financial statements of Apollo Group, Inc. and Subsidiaries, included in the Annual Report to Shareholders for the year ended August 31, 2001, are incorporated by reference from our 2001 Annual Report to Shareholders.

Apollo Group, Inc.

- Report of Independent Accountants
- Consolidated Balance Sheet as of August 31, 2001 and 2000
- Consolidated Statement of Operations for the Years Ended August 31, 2001, 2000, and 1999
- Consolidated Statement of Comprehensive Income for the Years Ended August 31, 2001, 2000, and 1999
- Consolidated Statement of Changes in Shareholders' Equity for the Years Ended August 31, 2001, 2000, and 1999
- Consolidated Statement of Cash Flows for the Years Ended August 31, 2001, 2000, and 1999
- Notes to Consolidated Financial Statements

University of Phoenix Online

- Report of Independent Accountants
- Balance Sheet as of August 31, 2001 and 2000
- Statement of Operations for the Years Ended August 31, 2001, 2000, and 1999
- Statement of Cash Flows for the Years Ended August 31, 2001, 2000, and 1999
- Notes to Financial Statements

2. Financial Statement Schedules:

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or related notes.

3. Exhibits

Exhibit Number	Description of Exhibit	Sequentially Numbered Page or Method of Filing
2.1	Asset Purchase Agreement by and among National Endowment for Financial Education,® College for Financial Planning, Inc., as assignee of Apollo Online, Inc., as Buyer, and Apollo Group, Inc. dated August 21, 1997	Incorporated by reference to Exhibit 10.1 of our Registration Statement No. 333-35465 on Form S-3 filed September 11, 1997
2.2	Assignment and Amendment of Asset Purchase Agreement by and among National Endowment for Financial Education, Inc. the College for Financial Planning, Inc., Apollo Online, Inc., and Apollo Group, Inc., dated September 23, 1997	Incorporated by reference to Exhibit 10.2 of our Registration Statement No. 333-35465 on Form S-3 filed September 11, 1997
3.1	Amended Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 of our Registration Statement No. 333-33370 on Form S-3, dated August 31, 2000
3.2	Amended Bylaws of the Company (As Amended Through June 1996)	Incorporated by reference to Exhibit 3.2 of the August 31, 1996 Form 10-K
10.1a	Business Loan Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1a of the November 30, 1997 Form 10-Q
10.1b	Revolving Promissory Note between Apollo Group, Inc. and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1c of the November 30, 1997 Form 10-Q
10.1c	Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1d of the February 28, 1998 Form 10-Q
10.1d	Second Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated August 13, 1998	Incorporated by reference to Exhibit 10.1e of the February 28, 1999 Form 10-Q
10.1e	Third Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated April 30, 1999	Incorporated by reference to Exhibit 10.1f of the May 31, 1999 Form 10-Q
10.1f	Fourth Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated August 3, 1999	Incorporated by reference to Exhibit 10.1f of the August 31, 1999 Form 10-K
10.1g	Fifth Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated November 1, 1999	Incorporated by reference to Exhibit 10.1g of the August 31, 1999 Form 10-K
10.1h	Sixth Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated March 2, 2000	Incorporated by reference to Exhibit 10.1h of the February 29, 2000 Form 10-Q/ A, filed July 20, 2000
10.1i	Seventh Modification Agreement between Apollo Group, Inc. and Wells Fargo Bank, National Association dated February 23, 2001	Incorporated by reference to Exhibit 10.1i of the February 28, 2001 10-Q
10.2	Apollo Group, Inc. Amended and Restated Director Stock Plan	Incorporated by reference to Exhibit 10.2 of our Registration Statement No. 333-33370 on Form S-3, dated August 31, 2000

Exhibit Number	Description of Exhibit	Sequentially Numbered Page or Method of Filing
10.3	Apollo Group, Inc. Long-Term Incentive Plan	Incorporated by reference to Exhibit 10.3 of Form S-1 No. 33-83804
10.4	Apollo Group, Inc. Savings and Investment Plan	Incorporated by reference to Exhibit 10.4 of the August 31, 1996 Form 10-K
10.5	Apollo Group, Inc. Amended and Restated 1994 Employee Stock Purchase Plan	Incorporated by reference to Exhibit 10.2 of our Registration Statement No. 333-33370 on Form S-3, dated August 31, 2000
10.7	Apollo Group, Inc. 2000 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 of our Registration Statement No. 333-33370 on Form S-3, dated August 31, 2000
10.8	Employment Agreement between Apollo Group, Inc. and John G. Sperling	Incorporated by reference to Exhibit 10.6 of Form S-1 No. 33-83804
10.9	Deferred Compensation Agreement between John G. Sperling and Apollo Group, Inc.	Incorporated by reference to Exhibit 10.7 of Form S-1 No. 33-83804
10.10a	Shareholder Agreement dated September 7, 1994, by and between the Company and each holder of the Company's Apollo Education Group Class B Common Stock	Incorporated by reference to Exhibit 10.10 of Form S-1 No. 33-83804
10.10b	Amendment to Shareholder Agreement between the Company and each holder of the Company's Apollo Education Class B Common Stock, dated May 25, 2001	Filed herewith
10.11	Agreement of Purchase and Sale of Assets of Western International University dated June 30, 1995 (without schedules and exhibits)	Incorporated by reference to Exhibit 10.11 of the August 31, 1995 Form 10-K
10.12	Purchase and Sale Agreement dated October 10, 1995	Incorporated by reference to Exhibit 10.12 of the August 31, 1996 Form 10-K
10.13	Independent Contractor Agreement between Apollo Group, Inc. and Governmental Advocates, Inc. dated June 1, 2001	Filed herewith
13	Pages 15 through 57 of Apollo Group, Inc. 2001 Annual Report to Shareholders for the year ended August 31, 2001	Filed herewith
21	List of Subsidiaries	Filed herewith
23	Consent of Independent Accountants	Filed herewith
99.1	Form of Agreement of Institute for Professional Development	Incorporated by reference to Exhibit 99.1 of Form S-1 No. 33-83804
99.2	Audit Committee Charter	Filed herewith

(b) Reports on Form 8-K

During the last quarter of the 2001 fiscal year, we filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Phoenix, State of Arizona, on November 26, 2001.

APOLLO GROUP, INC.
An Arizona Corporation

By: /s/ TODD S. NELSON

Todd S. Nelson
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ JOHN G. SPERLING _____ John G. Sperling	Chairman of the Board of Directors	November 26, 2001
/s/ TODD S. NELSON _____ Todd S. Nelson	President, Chief Executive Officer, and Director (Principal Executive Officer)	November 26, 2001
/s/ PETER V. SPERLING _____ Peter V. Sperling	Senior Vice President, Secretary, Treasurer, and Director	November 26, 2001
/s/ KENDA B. GONZALES _____ Kenda B. Gonzales	Chief Financial Officer (Principal Financial Officer)	November 26, 2001
/s/ DANIEL E. BACHUS _____ Daniel E. Bachus	Chief Accounting Officer and Controller	November 26, 2001
/s/ DINO J. DECONCINI _____ Dino J. DeConcini	Director	November 26, 2001
/s/ J. JORGE KLOR DE ALVA _____ J. Jorge Klor de Alva	Director	November 26, 2001
/s/ THOMAS C. WEIR _____ Thomas C. Weir	Director	November 26, 2001
/s/ JOHN R. NORTON III _____ John R. Norton III	Director	November 26, 2001

Signature	Title	Date
/s/ HEDY F. GOVENAR	Director	November 26, 2001
Hedy F. Govenar		
/s/ JOHN BLAIR	Director	November 26, 2001
John Blair		

EXHIBIT INDEX

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10.10a	Shareholder Agreement dated September 7, 1994, by and between the Company and each holder of the Company's Apollo Education Group Class B Common Stock	Incorporated by reference to Exhibit 10.10 of Form S-1 No. 33-83804
10.10b	Amendment to Shareholder Agreement between the Company and each holder of the Company's Apollo Education Class B Common Stock, dated May 25, 2001	Filed herewith
10.11	Agreement of Purchase and Sale of Assets of Western International University dated June 30, 1995 (without schedules and exhibits)	Incorporated by reference to Exhibit 10.11 of the August 31, 1995 Form 10-K
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13	Pages 15 through 57 of Apollo Group, Inc. 2001 Annual Report to Shareholders for the year ended August 31, 2001	Filed herewith
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99.1	Form of Agreement of Institute for Professional Development	Incorporated by reference to Exhibit 99.1 of Form S-1 No. 33-83804
99.2	Audit Committee Charter	Filed herewith

AMENDMENT TO SHAREHOLDER AGREEMENT

This Amendment to Shareholder Agreement is made as of May 25, 2001 by and among John G. Sperling, Peter V. Sperling, and Todd S. Nelson (each a "Shareholder" and collectively the "Shareholders") and Apollo Group, Inc. (the "Company").

Whereas, the Shareholders and the Company are parties to a Shareholders Agreement dated as of September 7, 1994 (the "Agreement"); the other parties to the Agreement (William H. Gibbs, John D. Murphy, James W. Hoggatt, and Jerry F. Noble) no longer own any of the Class B Common Stock of the Company; and the Shareholders wish to amend the Agreement;

Now, therefore, it is agreed:

1. Section 2 of the Agreement is amended in its entirety to read:

"2. Transfer to Other Shareholder(s). Notwithstanding the provisions of Section 1 or Section 7 hereof, a Shareholder may transfer Shares to any other Shareholder. The Shares so transferred shall not be converted into shares of the Company's Class A Common Stock as a result of such transfer."

2. Section 5 of the Agreement is amended in its entirety to read:

"5. Transfer to a Trust. Notwithstanding the provisions of Section 1 or Section 7 hereof, a Shareholder may transfer Shares to a trust created by the Shareholder ("Shareholder Trust"), provided that any and all trustee(s) of such a Shareholder Trust are Shareholders and enter into an agreement with the Company acknowledging the existence of this Agreement and agreeing that any disposition of the Shares by the trustees (including any transfers to beneficiaries) will be made in compliance with the terms and conditions of this Agreement. The Shares so transferred shall not be converted into shares of the Company's Class A Common Stock as a result of such transfer. In addition, John G. Sperling may transfer shares to a Shareholder Trust in which the trustees are Peter V. Sperling, Todd S. Nelson, and Jon S. Cohen, with the following provision to fill any vacancy as trustee: if any named trustee resigns or is unavailable to serve, the remaining trustee(s) shall appoint the successor trustee(s) and in the case of any disagreement, the Board of Directors of the Company shall appoint the successor trustee. The Shares so transferred shall not be converted into shares of the Company's Class A Common Stock as a result of such transfer."

3. The first paragraph of Section 7 of the Agreement is amended in its entirety to read:

"7. Purchase of Stock Upon Death, Incompetency, or Bankruptcy of Shareholder. Upon the death or incompetency of any Shareholder or the filing of a voluntary or involuntary bankruptcy petition by or against any Shareholder (a "Noncontinuing Shareholder"), the Company and the other Shareholders (the

"Continuing Shareholders") shall have the right to purchase the Shares owned by the Noncontinuing Shareholder (including any Shares or interest therein owned by his or her spouse, if any) in the manner set forth in this Section 7, unless the Noncontinuing Shareholder made a transfer pursuant to Section 2 or Section 5 hereof that is effective upon death, incompetency, or bankruptcy. For purposes of this Section 7, a Shareholder shall be deemed incompetent if the Shareholder is adjudicated incompetent in an appropriate judicial proceeding."

4. Section 16 of the Agreement is amended in its entirety to read:

"16. Shareholder Defined. In addition to John G. Sperling, Peter V. Sperling, and Todd S. Nelson, the term Shareholder as used herein shall also include (i) any person, his successors and assigns, and any corporation, partnership, joint venture, association, or other entity, whether or not such individual or entity is a Shareholder as of the date hereof, who acquires any Shares from any Shareholder, directly or indirectly, by any means whatsoever in a transaction permitted by this Agreement, or (ii) any person or entity who acquires Shares from the Company and who agrees (and whose spouse consents, if necessary) to become a party to and be bound by the terms of this Agreement, but any Shareholder who no longer owns any Shares shall not be entitled to any of the benefits of this Agreement."

5. Peter V. Sperling represents and warrants that his shares of Class B Common Stock are his sole and separate property. The spouse of Todd S. Nelson has signed the consent attached.

6. The Agreement, as hereby amended, is confirmed.

In witness whereof, the parties have executed this document as of the date stated above.

Shareholders:

The Company:

APOLLO GROUP, INC.

By:

John G. Sperling

Peter V. Sperling

Todd S. Nelson

</TEXT>
</DOCUMENT>

LOBBYIST AGREEMENT

This service agreement ("Agreement") is entered into by and between Apollo Group, Inc. ("Apollo") an Arizona corporation and parent company of University of Phoenix ("UOP"), with its principal place of business at 4615 E. Elwood, Phoenix, AZ 85040, and GOVERNMENTAL ADVOCATES, INC. ("Firm"), with its principal place of business at 1127 ELEVENTH STREET, SUITE #400, SACRAMENTO, CALIFORNIA, 95814.

PURPOSE OF AGREEMENT. The purpose of this Agreement is to state the terms and conditions under which Firm will provide the LOBBYIST SERVICES ("Services") included in this Agreement to Apollo, and as listed in the Scope of Services, attached hereto, and incorporated as part of the Agreement.

1. SERVICES. Firm agrees to perform the Services and warrants that each of its employees, agents or Firms assigned to provide Services under this Agreement to Apollo shall have the proper skill, training and background so as to be able to perform in a competent and professional manner, that all Services will be so performed and performed in a manner compatible with Apollo's business operations, and that Firm shall cause the Services to be performed in accordance with the Scope of Services and generally accepted industry practices. Firm agrees to comply with all laws, registration or any other requirements of any governing body overseeing such Services as performed in this Agreement, including but not limited to, the compliance requirements and governmental entities outlined in the Scope of Services.
2. TERM OF AGREEMENT. The Term of this Agreement shall commence on JUNE 1, 2001, and shall continue in full force for one (1) year unless otherwise terminated as provided herein. This Agreement may be renewed for an additional period(s) upon written mutual agreement of both parties.
3. PAYMENT. Compensation for Services performed under this Agreement will be as outlined in the Scope of Services. Payment terms will be net thirty (30) days upon receipt of Firm invoice, with all payments made in arrears. Upon termination of this Agreement, payments under this paragraph shall cease; provided, however, that Firm will be entitled to payments for periods or partials that occurred prior to the date of termination and for which Firm has not yet been paid.
4. TERMINATION. This Agreement may be terminated without cause, by either party with a 30 day written notice to the other party. This Agreement may be terminated immediately by Apollo upon any breach hereof or violation of the law by the Firm. Upon termination of the Agreement, Firm shall return to Apollo all records, notes, data, memoranda and materials of any nature that are in Firm's possession or under Firm's control and that are Apollo's property or relate to Apollo's business.
5. RELATIONSHIP. The parties understand that Firm is an independent contractor with respect to Apollo and not an employee of Apollo. Apollo shall not provide fringe benefits, including health insurance benefits, paid vacation, or any other employee benefit, for the benefit of Firm or any agents, employees or contractors of Firm. As an independent contractor, Firm shall pay all taxes imposed and other liabilities incurred as an independent contractor. This Agreement is neither intended to nor will it be construed as, creating any other relationship, including one of employment, joint venture or agency.

6. NON COMPETE. For the term of this Agreement the Firm shall not represent any entity that would be in direct competition with Apollo, nor shall the Firm represent any entity that would have an interest in conflict with the best interest of Apollo without the approval of Apollo. The Firm shall immediately disclose potential conflicts of interest.
7. OWNERSHIP OF PRODUCTS, REPORTS, ETC: Any and all products, reports, etc. developed by the Firm in whole or in part which are utilized, or accepted by Apollo because of the relationship between the Firm and Apollo, and any and all intellectual, property rights, including copyrights in the products, reports, etc., shall become the exclusive property of Apollo.
8. INSURANCE. Firm acknowledges Firm's obligation to obtain appropriate insurance coverage for the benefit of Firm (and Firm's employees, if any). Firm waives any rights to recovery from Apollo for any injuries that Firm (and/or Firm's employees) may sustain while performing services under this Agreement and that are a result of the negligence of Firm or Firm's employees. Firm agrees to provide Apollo with necessary documentation, including certificates of insurance, evidencing the required coverage, if requested.
9. CONFIDENTIAL INFORMATION. "Confidential Information" means any information, whether or not owned by or developed by Apollo, which is not generally known and which Firm may obtain through direct or indirect contact with Apollo. Such Confidential Information includes, but is not limited to: business records and plans, marketing strategies, cost, discounts, product design information, technical information, business affairs, financial reports, customer lists, student information, and other proprietary information. Confidential Information does not include information that Firm can show, by clear and convincing evidence, to be:
 - 1) In the public domain.
 - 2) Rightfully received from a third party without any obligation of confidentiality.
 - 3) Rightfully known to Firm without any limitations on use or disclosure prior to its receipt from Apollo.
 - 4) Independently developed by Firm without use of or reference to the Confidential Information by persons who had no access to the Confidential Information.PROTECTION OF CONFIDENTIAL INFORMATION. Firm understands and acknowledges that the Confidential Information has been developed or obtained by Apollo through the investment of significant time, effort and expense, and that the Confidential Information is a valuable, special, and unique asset of Apollo which provides a significant market advantage, and needs to be protected from improper disclosure. Firm shall hold the Confidential Information of Apollo in strictest secrecy and not disclose or make any use thereof except for the performance of this Agreement. Firm shall not cause or permit the disclosure of Confidential Information in any form to any person without the prior written consent of Apollo. Firm shall cause all persons who obtain access to such Confidential Information, directly or indirectly, through Firm to abide by the confidentiality provisions of this Agreement. The obligations of this paragraph will remain in effect until which time all Confidential Information is no longer confidential, as defined above, through no act, breach, or omission of Firm.
10. INDEMNIFICATION. Apollo shall not be liable for any negligent, intentional or fraudulent acts of Firm or its agents. Firm hereby agrees to indemnify and hold Apollo harmless from all claims, losses, expenses, fees (including attorney fees), costs, and judgments that may be asserted against Apollo that result, directly or indirectly, from the acts or omissions of Firm, Firm's employees and Firm's agents, including without limitation any infringement of third party rights or violation or breach of confidentiality as stated herein. The indemnification provisions shall survive termination of this Agreement.

11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona and the United States of America without reference to conflict of laws principles. The Superior Court of Maricopa County and/or the United States District Court for the District of Arizona shall have exclusive jurisdiction and venue over all controversies in connection with this Agreement, and each party irrevocably consents to such exclusive and personal jurisdiction and venue.
12. ENTIRE AGREEMENT. This Agreement constitutes the final, complete, and exclusive statement of the terms of the agreement between the parties regarding its subject matter and supersedes any prior and contemporaneous offers, negotiations, and understandings, whether oral or written, between the parties.
13. SEVERABILITY. If any provision of this Agreement is held by any court or other tribunal to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If any court or other tribunal finds that any provision of this Agreement is invalid or enforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.
14. WAIVER OF CONTRACTUAL RIGHT. The failure of either party to strictly enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to enforce and compel strict compliance with every provision of this Agreement.
15. AMENDMENT AND ASSIGNMENT. This Agreement may not be changed, modified, altered, or amended in any respect without the mutual written consent by authorized Firms of both parties. This Agreement may not be assigned by Firm or otherwise transferred, in whole or in part, by Firm without the prior written consent of Apollo.
16. CORPORATE AUTHORITY. Each individual executing this Agreement on behalf of a corporation represents and warrants that he/she is duly authorized to execute and deliver this Agreement on behalf of said corporation and that this Agreement is binding upon said corporation in accordance with its terms.
17. SURVIVAL OF OBLIGATIONS. The parties' rights and obligations, which by their nature would continue beyond the expiration or termination of this Agreement, including but not limited to Confidential Information, shall survive such expiration or termination of this Agreement.
18. TERMS/CONDITIONS. All terms and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns, as well as their respective subsidiaries, affiliates, parent companies, and other entities controlling or controlled by the respective parties.
19. NOTICE. Any notice required or permitted under this Agreement must be sent by registered or certified mail, return receipt requested and shall be deemed given when received by the individuals set forth below. Only the authorized Firms of the parties may amend or waive processes of this Agreement.

IF for Apollo Group, Inc.:
Todd Nelson, President
4615 E. Elwood St
Phoenix, AZ 85040

IF for Firm:
Hedy Govenar
1127 - 11th Street, Suite #400
Sacramento, California 95814

Such address may be changed from time to time by either party by providing written notice to the other in the manner set forth above.

IN WITNESS WHEREOF, The parties have executed this Agreement as of the date first above written.

Apollo Signature

Firm Signature

Todd Nelson, President

Firm Printed Name/Title

Date

Date

Social Security or Federal Tax ID #

SCOPE OF SERVICES

SERVICES

Firm shall provide strategic advice on matters concerning legislation, regulations, public policy, electoral politics and any other topic of concern to Apollo related to state government in the state of CALIFORNIA. All Services performed by the Firm for Apollo under this Agreement shall be timely done.

COMPENSATION AND PAYMENT

For Services performed under this Agreement, Apollo shall pay the Firm the sum of \$10,000.00 PER MONTH. Agreement also includes reimbursement of fees/expenses incurred on the behalf of Apollo if applicable.

COMPLIANCE - REQUIRED FOR EACH CONTRACT BUT STATE OF REGISTRATION WILL VARY
During the term of this Agreement, Firm agrees to formally register as a legislative and executive branch lobbyist with the CALIFORNIA Secretary of State, and further agrees to at all times abide by the laws of the state of CALIFORNIA governing lobbyists and to inform Apollo of any legal obligations Apollo may have under the laws of the state of CALIFORNIA.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF APOLLO GROUP, INC.

The following selected consolidated financial and operating data of Apollo Group, Inc. are qualified by reference to and should be read in conjunction with the consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Apollo Group, Inc." The statement of operations data for the years ended August 31, 2001, 2000, and 1999 and the balance sheet data as of August 31, 2001 and 2000 are derived from the audited consolidated financial statements of Apollo Group, Inc. Diluted net income per share and diluted weighted average shares outstanding have been retroactively restated for stock splits.

	YEAR ENDED AUGUST 31,				
	2001	2000	1999	1998	1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
STATEMENT OF OPERATIONS DATA:					
REVENUES:					
Tuition and other, net	\$769,474	\$609,997	\$498,846	\$384,877	\$279,195
COSTS AND EXPENSES:					
Instructional costs and services	410,084	352,874	287,582	223,525	161,996
Selling and promotional	150,311	96,491	79,143	57,458	42,097
General and administrative	48,076	46,555	39,368	33,708	24,295
	608,471	495,920	406,093	314,691	228,388
INCOME FROM OPERATIONS	161,003	114,077	92,753	70,186	50,807
Interest income, net	14,106	6,228	5,229	6,086	4,174
INCOME BEFORE INCOME TAXES	175,109	120,305	97,982	76,272	54,981
Provision for income taxes	67,292	49,114	38,977	29,975	21,602
NET INCOME	\$107,817	\$ 71,191	\$ 59,005	\$ 46,297	\$ 33,379
NET INCOME ATTRIBUTED TO:					
APOLLO EDUCATION GROUP COMMON STOCK	\$104,513	\$ 71,191	\$ 59,005	\$ 46,297	\$ 33,379
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK	\$ 3,304	\$-	\$-	\$-	\$-
EARNINGS PER SHARE ATTRIBUTED TO:					
APOLLO EDUCATION GROUP COMMON STOCK:					
DILUTED NET INCOME PER SHARE	\$ 0.90	\$ 0.62	\$ 0.50	\$ 0.39	\$ 0.29
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	115,999	114,964	118,257	118,630	115,538
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK:					
DILUTED NET INCOME PER SHARE	\$ 0.32				
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	10,242				
(DOLLARS IN THOUSANDS)					
BALANCE SHEET DATA:					
Cash, cash equivalents, and restricted cash	\$203,829	\$ 95,593	\$ 77,332	\$ 75,039	\$ 78,855
Marketable securities	198,105	64,246	39,571	45,467	41,429
TOTAL CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES	\$401,934	\$159,839	\$116,903	\$120,506	\$120,284
TOTAL ASSETS	\$680,343	\$404,790	\$348,342	\$305,160	\$194,910
Current liabilities	\$182,200	\$131,089	\$108,787	\$ 95,574	\$ 67,394
Long-term liabilities	16,258	12,493	8,435	9,778	3,199
Shareholders' equity	481,885	261,208	231,120	199,808	124,317
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$680,343	\$404,790	\$348,342	\$305,160	\$194,910
OPERATING STATISTICS:					
Degree enrollments at end of year	124,800	100,900	86,800	71,400	56,200
Number of locations:					
Campuses	58	54	49	42	35
Learning centers	102	96	80	71	60
TOTAL NUMBER OF LOCATIONS	160	150	129	113	95

We did not pay any cash dividends on our common stock during any of the periods set forth in the table above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF APOLLO GROUP, INC.

This Annual Report, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations of Apollo Group, Inc." and the "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online" contain forward-looking statements. Forward-looking statements are inherently uncertain and subject to risks. Such statements should be viewed with caution. Forward-looking statements in this report include, but are not limited to, statements such as: 1) we believe that our cash from operations along with our existing cash balances and availability under our line of credit will be adequate to fund our capital and operating needs for the next 12 to 18 months; 2) although we believe that the OIG's audits of IPD's client institutions will be resolved without any material effect on our financial position, results of operations, or cash flows, and without any material change in IPD's business strategy, as with any program review or audit, no assurance can be given as to the final outcome since the matters are not yet resolved; 3) total purchases of property and equipment for us for the year ended August 31, 2002, are expected to range from \$45.0 to \$50.0 million; 4) total purchases of property and equipment for University of Phoenix Online for the year ended August 31, 2002, are expected to range from \$10.0 to \$15.0 million; and 5) we anticipate that seasonal trends in the second and fourth quarters will continue in the future.

Future events and actual results could differ materially from those set forth in the forward-looking statements as a result of many factors. Statements in this Annual Report, including "Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences. Additional factors that could cause actual results to differ materially from those expressed in such forward-looking statements include, without limitation: 1) new or revised interpretations of regulatory requirements; 2) changes in or new interpretations of other applicable laws, rules, and regulations; 3) failure to maintain or renew required regulatory approvals, accreditation, or state authorizations by University of Phoenix or certain Institute for Professional Development client institutions; 4) failure to obtain authorizations from states in which University of Phoenix does not currently provide degree programs; 5) failure to obtain approval from The Higher Learning Commission for University of Phoenix to operate in new states; 6) changes in student enrollment; and 7) other factors set forth in this Annual Report. These forward-looking statements are based on estimates, projections, beliefs, and assumptions of us and our management and speak only as of the date made and are not guarantees of future performance. We undertake no obligation to publicly update or revise any forward-looking statements, or any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission.

BACKGROUND AND OVERVIEW

Our tuition and other revenues, net of student discounts, have increased to \$769.5 million in 2001 from \$610.0 million in 2000. Net income has increased to \$107.8 million in 2001 from \$71.2 million in 2000. At August 31, 2001, we had approximately 124,800 degree-seeking students.

Approximately 94% of our tuition and other net revenues in 2001 consist of tuition revenues. Tuition revenue is recognized on a weekly basis, pro rata over the period of instruction. Our tuition and other net revenues also include sales of textbooks and other education-related products, application fees, other student fees, and other income. Our tuition and other net revenues vary from period to period based on several factors that include: 1) the aggregate number of students attending classes; 2) the number of classes held during the period; and 3) the weighted average tuition price per credit hour (weighted by program and location). University of Phoenix tuition revenues currently represent approximately 91% of consolidated tuition revenues. Institute for Professional Development tuition revenues consist of the contractual share of tuition revenues from students enrolled in related programs at its client institutions. Institute for Professional Development's contracts with its respective client institutions generally have terms of five to ten years with provisions for renewal.

We categorize our expenses as instructional costs and services, selling and promotional, and general and administrative. Instructional costs and services at University of Phoenix, Western International University, and College for Financial Planning consist primarily of costs related to the delivery and administration of our educational programs that include faculty compensation, administrative salaries for departments that provide service directly to the students, financial aid processing costs, the costs of educational materials sold, facility leases and other occupancy costs, bad debt expense, and depreciation and amortization of property and equipment. University of Phoenix and Western International University faculty members are paid for one course offering at a time. All classroom facilities are leased or, in some cases, are provided by the students' employers at no charge to us. Instructional costs and services at Institute for Professional Development consist primarily of program administration, student services, and classroom lease expense. Most of the other instructional costs for Institute for Professional Development-assisted programs, including

faculty, financial aid processing, and other administrative salaries, are the responsibility of its client institutions.

Selling and promotional costs consist primarily of compensation for enrollment advisors and corporate marketing, advertising costs, production of marketing materials, and other costs related to selling and promotional functions.

General and administrative costs consist primarily of administrative salaries, occupancy costs, depreciation and amortization, and other related costs for departments such as executive management, information systems, corporate accounting, human resources, and other departments that do not provide direct services to our students. To the extent possible, we centralize these services to avoid duplication of effort.

RESULTS OF OPERATIONS

The following table sets forth our consolidated statement of operations data expressed as a percentage of tuition and other net revenues for the periods indicated:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
REVENUES:			
Tuition and other, net	100.0%	100.0%	100.0%
COSTS AND EXPENSES:			
Instructional costs and services	53.3	57.8	57.6
Selling and promotional	19.5	15.8	15.9
General and administrative	6.3	7.7	7.9
	79.1	81.3	81.4
INCOME FROM OPERATIONS	20.9	18.7	18.6
Interest income, net	1.9	1.0	1.0
INCOME BEFORE INCOME TAXES	22.8	19.7	19.6
Less provision for income taxes	8.8	8.0	7.8
NET INCOME	14.0%	11.7%	11.8%

YEAR ENDED AUGUST 31, 2001, COMPARED WITH THE YEAR ENDED AUGUST 31, 2000

Tuition and other net revenues increased by 26.1% to \$769.5 million in 2001 from \$610.0 million in 2000 primarily due to a 18.7% increase in average full-time equivalent degree student enrollments and tuition price increases averaging four to six percent (depending on the geographic area and program) at University of Phoenix. Most of our University of Phoenix campuses, which include their respective learning centers, had increases in net revenues and average full-time equivalent degree student enrollments from 2000 to 2001.

Tuition and other net revenues for the years ended August 31, 2001 and 2000, consist primarily of \$707.4 million and \$540.4 million, respectively, of net tuition revenues from students enrolled in degree programs and \$14.8 million and \$29.1 million, respectively, of net tuition revenues from students enrolled in non-degree programs.

Instructional costs and services increased by 16.2% to \$410.1 million in 2001 from \$352.9 million in 2000 due primarily to the direct costs necessary to support the increase in degree student enrollments and the \$5.1 million charge taken in 2001 related to the IPD client institutions' audit by the OIG partially offset by the \$6.0 million charge taken in the third quarter of 2000 related to the University of Phoenix agreement with the U.S. Department of Education. Direct costs consist primarily of faculty compensation, related staff salaries at each respective location, classroom lease expenses, and financial aid processing costs. These costs as a percentage of tuition and other net revenues decreased to 53.3% in 2001 from 57.8% in 2000 due primarily to greater tuition and other net revenues being spread over the fixed costs related to centralized student services and the \$6.0 million charge recorded in the third quarter of 2000 related to the U.S. Department of Education agreement offset in part by the \$5.1 million charge taken in 2001 related to the IPD client institutions' audit by the OIG. Excluding the \$5.1 million and \$6.0 million charges, instructional costs and services as a percentage of tuition and other net revenues would have decreased to 52.6% in 2001 from 56.9% in 2000 due to greater net revenues being spread over a proportionally lower increase in instructional costs and services. We may not be able to leverage our

recurring costs to the same extent as we face increased costs related to our expansion into additional markets.

Selling and promotional expenses increased by 55.8% to \$150.3 million in 2001 from \$96.5 million in 2000 due primarily to additional advertising and marketing and an increase in enrollment advisors. These expenses as a percentage of tuition and other net revenues increased to 19.5% in 2001 from 15.8% in 2000 due to increased advertising primarily related to University of Phoenix Online and five new campuses opened in the previous four quarters.

General and administrative expenses increased by 3.3% to \$48.1 million in 2001 from \$46.6 million in 2000 due primarily to increased employee expenses related primarily to information services and depreciation related to the implementation of information support systems. General and administrative expenses as a percentage of tuition and other net revenues decreased to 6.3% in 2001 from 7.7% in 2000 due primarily to greater tuition and other net revenues being spread over the fixed costs related to various centralized functions such as information services, corporate accounting, and human resources.

Net interest income was \$14.1 million and \$6.2 million in 2001 and 2000, respectively. This increase was attributable to the increase in cash equivalents and marketable securities between periods primarily as a result of the reinvestment of cash flows from operations and the University of Phoenix Online offering. Interest expense was \$643,000 and \$431,000 in 2001 and 2000, respectively.

Our effective tax rate decreased to 38.4% in 2001 from 40.8% in 2000. This decrease is due primarily to higher tax-exempt interest income, as well as decreased state income tax expense.

Net income increased to \$107.8 million in 2001 from \$71.2 million in 2000 due primarily to increased enrollments, increased tuition rates, improved utilization in instructional costs and services and general and administrative costs, and a reduction in our effective tax rate partially offset by an increase in selling and promotional expenses.

YEAR ENDED AUGUST 31, 2000, COMPARED WITH THE YEAR ENDED AUGUST 31, 1999

Tuition and other net revenues increased by 22.3% to \$610.0 million in 2000 from \$498.8 million in 1999 primarily due to a 16.1% increase in average full-time equivalent degree student enrollments and tuition price increases averaging four to five percent (depending on the geographic area and program) at University of Phoenix. Most of our University of Phoenix campuses, which include their respective learning centers, had increases in net revenues and average full-time equivalent degree student enrollments from 1999 to 2000.

Tuition and other net revenues for the years ended August 31, 2000 and 1999, consist primarily of \$540.4 million and \$442.0 million, respectively, of net tuition revenues from students enrolled in degree programs and \$29.1 million and \$24.8 million, respectively, of net tuition revenues from students enrolled in non-degree programs.

Instructional costs and services increased by 22.7% to \$352.9 million in 2000 from \$287.6 million in 1999 due primarily to the direct costs necessary to support the increase in degree student enrollments and the \$6.0 million charge related to the University of Phoenix agreement with the U.S. Department of Education. Direct costs consist primarily of faculty compensation, related staff salaries at each respective location, classroom lease expenses, and financial aid processing costs. These costs as a percentage of tuition and other net revenues increased to 57.8% in 2000 from 57.6% in 1999 due to the \$6.0 million charge related to the U.S. Department of Education agreement. Excluding the \$6.0 million charge, instructional costs and services as a percentage of tuition and other net revenues would have decreased to 56.9% in 2000 from 57.6% in 1999 due to greater net revenues being spread over a proportionally lower increase in instructional costs and services.

Selling and promotional expenses increased by 21.9% to \$96.5 million in 2000 from \$79.1 million in 1999 due primarily to additional advertising and marketing. These expenses as a percentage of tuition and other net revenues remained relatively consistent at 15.8% in 2000 from 15.9% in 1999.

General and administrative expenses increased by 18.3% to \$46.6 million in 2000 from \$39.4 million in 1999 due primarily to increased employee expenses related primarily to information services and depreciation related to the implementation of information support systems. General and administrative expenses as a percentage of tuition and other net revenues remained relatively consistent at 7.7% in 2000 from 7.9% in 1999.

Net interest income was \$6.2 million and \$5.2 million in 2000 and 1999, respectively. Net interest income increased in 2000 due

primarily to higher average cash balances. Interest expense was \$431,000 and \$57,000 in 2000 and 1999, respectively.

Our effective tax rate increased to 40.8% in 2000 from 39.8% in 1999. This increase is due primarily to lower tax-exempt interest income and higher state taxes in new tax jurisdictions.

Net income increased to \$71.2 million in 2000 from \$59.0 million in 1999 due primarily to increased enrollments, increased tuition rates, and improved utilization in selling and promotional and general and administrative costs.

SEASONALITY IN RESULTS OF OPERATIONS

We experience seasonality in our results of operations primarily as a result of changes in the level of student enrollments. While we enroll students throughout the year, second quarter (December to February) average full-time equivalent enrollments and related revenues generally are lower than other quarters due to the holiday breaks in December and January. Second quarter costs and expenses historically increase as a percentage of tuition and other net revenues as a result of certain fixed costs not significantly affected by the seasonal second quarter declines in net revenues.

We experience a seasonal increase in new enrollments in August of each year when most other colleges and universities begin their fall semesters. As a result, instructional costs and services and selling and promotional expenses historically increase as a percentage of tuition and other net revenues in the fourth quarter due to increased costs in preparation for the August peak enrollments.

We anticipate that these seasonal trends in the second and fourth quarters will continue in the future.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities increased to \$164.6 million in 2001 from \$118.1 million in 2000. The increase resulted primarily from increased net income, increased tax benefits of stock options exercised and a larger increase in student deposits and deferred revenue partially offset by larger increases in restricted cash and receivables.

Capital expenditures increased to \$44.4 million in 2001 from \$34.8 million in 2000 primarily due to higher expenditures in 2001 related primarily to internal-use software development projects. In addition, during 2001 University of Phoenix Online incurred costs associated with building an additional facility. Total costs associated with this facility were \$7.6 million. University of Phoenix Online sold this facility upon completion in August 2001 and is leasing it back under a ten year lease agreement. Total purchases of property and equipment for the year ended August 31, 2002, are expected to range from \$45.0 to \$50.0 million. These expenditures will primarily be related to new campuses and learning centers and increases in normal recurring capital expenditures due to the overall increase in student and employee levels resulting from the growth in our business.

At August 31, 2001, we had no outstanding borrowings on our \$10.0 million line of credit. Borrowings under the line of credit bear interest at LIBOR plus .75% or prime at our election. The line of credit is renewable annually, and any amounts borrowed under the line are payable upon its termination in February 2003.

Our Board of Directors authorized a program allocating up to \$150 million of our funds to repurchase shares of Apollo Education Group Class A common stock and University of Phoenix Online common stock. As of August 31, 2001, we had repurchased approximately 6,635,000 shares of Apollo Education Group Class A common stock at a total cost of approximately \$104.8 million and no shares of University of Phoenix Online common stock.

We believe that our cash from operations along with our existing cash balances and availability under our line of credit will be adequate to fund our capital and operating needs for the next 12 to 18 months.

On March 24, 2000, our Board of Directors authorized the issuance of a new class of stock called University of Phoenix Online common stock, that is intended to reflect the separate performance of University of Phoenix Online, a division of University of Phoenix. Our other businesses and our retained interest in University of Phoenix Online are referred to as "Apollo Education Group." On October 3, 2000, an offering of 5,750,000 shares of University of Phoenix Online common stock was completed at a price of \$14.00 per share. This stock represented a 10.8% interest in University of Phoenix Online with Apollo Education Group retaining the remaining 89.2% interest in University of Phoenix Online.

The U.S. Department of Education requires that Title IV Program funds collected in advance of student billings be kept in a separate cash or cash equivalent account until the students are billed for that portion of their program. In addition, all Title IV Program funds received by us through electronic funds transfer are subject to certain holding period restrictions. These funds generally remain in these separate accounts for an average of 60-75 days from receipt. As of August 31, 2001, we had approximately \$57.9 million in these separate accounts, which are reflected in the Consolidated Balance Sheet as restricted cash, to comply with these requirements. These restrictions on cash have not affected our ability to fund daily operations.

The Title IV Regulations, as revised, require all higher education institutions to meet a minimum composite score to be deemed financially responsible by the U.S. Department of Education. If the minimum composite score of 1.0 is not met, an institution would fall under alternative standards and may lose its eligibility to participate in Title IV Programs. The maximum composite score is 3.0. As of August 31, 2001, University of Phoenix's and Western International University's composite scores were both 3.0. These requirements apply separately to University of Phoenix and Western International University and to each of the respective Institute for Professional Development client institutions, but not to us on a consolidated basis.

In January 1998, the U.S. Department of Education Office of the Inspector General ("OIG") began performing an audit of University of Phoenix's administration of the Title IV Programs. The team previously presented questions regarding University of Phoenix's interpretation of the "12-hour rule," distance education programs, and institutional refund obligations. University of Phoenix reached an agreement with the U.S. Department of Education which acknowledges no admission that there were any issues of non-compliance or errors by University of Phoenix. To bring this audit to closure and settle all outstanding issues prior to the final OIG report, which was issued on March 31, 2000, University of Phoenix agreed to modify its physical campus learning team attendance log to track the sites of learning team meetings and record the hours attended. This modification has not had a negative impact on either University of Phoenix or its students. This modification does not require any change to University of Phoenix Online's learning team attendance log. Part of the agreement, dated March 27, 2000, reached with the U.S. Department of Education requires University of Phoenix to pay the U.S. Department of Education \$6.0 million as a negotiated settlement in full satisfaction of all monetary findings arising under the final OIG audit report. This amount was reflected in instructional costs and services in our third quarter 2000 results. \$1.5 million of this amount was paid in 2000 with the remaining \$4.5 million due in 2003.

The OIG is currently auditing the administration of the federal student financial assistance programs in connection with educational programs provided pursuant to contractual arrangements between IPD and certain of its client institutions. In audit reports issued to three client institutions, the OIG asserted that the client institutions violated the statutory prohibition on the use of incentive payments for recruiting by paying IPD a percentage of tuition revenue. The reports further suggest that IPD paid its employees in a manner that included incentive-based compensation even though IPD based its compensation plans for recruiters on factors or qualities that were not solely related to the success in securing enrollments. Additionally, the audit reports question the client institutions' interpretation of the "12-hour rule." Although both IPD and the client institutions believe that the matters in question do not relate to student program, or institutional eligibility and therefore believe a repayment of federal funds is not appropriate, the OIG has recommended to the U.S. Department of Education that the client institutions be required to return to lenders all loan funds disbursed. The institutions, with IPD assistance, are working with the U.S. Department of Education to eliminate or settle the issues raised in the audit reports.

During 2001, IPD recorded a charge of \$5.1 million to provide for its share of the estimated settlement obligation relating to all of its client institutions under audit. Our calculation of the estimated settlement obligation, which is reflected in instructional costs and services in the accompanying consolidated statement of operations, was based on information available to us and our previous experience with respect to such settlements.

Although we believe that the OIG's audits of IPD's client institutions will be resolved without any material effect on our financial position, results of operations, or cash flows, and without any material change in IPD's business strategy, as with any program review or audit, no assurance can be given as to the final outcome as the matters are not yet resolved.

IMPACT OF INFLATION

Inflation has not had a significant impact on our historical operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our portfolio of marketable securities includes numerous issuers, varying types of securities, and varying maturities. We intend to hold these securities to maturity. The fair value of our portfolio of marketable securities would not be significantly impacted by either

a 100 basis point increase or decrease in interest rates due primarily to the short-term nature of the portfolio. We do not hold or issue derivative financial instruments.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Apollo Group, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Apollo Group, Inc. and its subsidiaries at August 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Apollo Group, Inc.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Phoenix, Arizona
September 28, 2001

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APOLLO GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	AUGUST 31,	
	2001	2000

(DOLLARS IN THOUSANDS)		
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	\$ 145,933	\$ 59,912
Restricted cash	57,896	35,681
Marketable securities	170,866	58,226
Receivables, net	92,179	78,933
Deferred tax assets, net	7,822	8,267
Other current assets	12,355	5,888

TOTAL CURRENT ASSETS	487,051	246,907
Property and equipment, net	102,624	87,833
Marketable securities	27,239	6,020
Cost in excess of fair value of assets purchased, net	37,096	38,548
Deferred tax assets, net	3,180	
Other assets	23,153	25,482

TOTAL ASSETS	\$ 680,343	\$ 404,790
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES		
Current portion of long-term liabilities	\$ 408	\$ 450
Accounts payable	16,846	12,960
Accrued liabilities	30,524	22,297
Income taxes payable	7,096	365
Student deposits and current portion of deferred revenue	127,326	95,017

TOTAL CURRENT LIABILITIES	182,200	131,089
Deferred tuition revenue, less current portion	1,409	1,295
Long-term liabilities, less current portion	14,849	9,973
Deferred tax liabilities, net		1,225

TOTAL LIABILITIES	198,458	143,582

Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 1,000,000 shares authorized; none issued		
Apollo Education Group Class A nonvoting common stock, no par value, 400,000,000 shares authorized; 114,237,000 and 112,497,000 issued at August 31, 2001 and August 31, 2000, respectively	103	103
Apollo Education Group Class B voting common stock, no par value, 3,000,000 shares authorized; 484,000 and 512,000 issued and outstanding at August 31, 2001 and August 31, 2000, respectively	1	1
University of Phoenix Online nonvoting common stock, no par value, 400,000,000 shares authorized; 9,447,000 issued and outstanding at August 31, 2001		
Additional paid-in capital	185,424	95,259
Apollo Education Group Class A treasury stock, at cost, 3,859,000 and 5,317,000 shares at August 31, 2001 and August 31, 2000, respectively	(60,761)	(83,353)
Retained earnings	357,036	249,219
Accumulated other comprehensive income (loss)	82	(21)

TOTAL SHAREHOLDERS' EQUITY	481,885	261,208

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 680,343	\$ 404,790
	=====	

The accompanying notes are an integral part of these consolidated financial statements.

APOLLO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED AUGUST 31,		
	2001	2000	1999

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
REVENUES:			
Tuition and other, net	\$769,474	\$609,997	\$498,846

COSTS AND EXPENSES:			
Instructional costs and services	410,084	352,874	287,582
Selling and promotional	150,311	96,491	79,143
General and administrative	48,076	46,555	39,368

	608,471	495,920	406,093

INCOME FROM OPERATIONS	161,003	114,077	92,753
Interest income, net	14,106	6,228	5,229

INCOME BEFORE INCOME TAXES	175,109	120,305	97,982
Provision for income taxes	67,292	49,114	38,977

NET INCOME	\$107,817	\$ 71,191	\$ 59,005
=====			
NET INCOME ATTRIBUTED TO:			
APOLLO EDUCATION GROUP COMMON STOCK	\$104,513	\$ 71,191	\$ 59,005
=====			
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK	\$ 3,304	\$ -	\$ -
=====			
EARNINGS PER SHARE ATTRIBUTED TO:			
APOLLO EDUCATION GROUP COMMON STOCK:			
BASIC NET INCOME PER SHARE	\$ 0.91	\$ 0.63	\$ 0.51
=====			
DILUTED NET INCOME PER SHARE	\$ 0.90	\$ 0.62	\$ 0.50
=====			
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	114,275	113,674	116,524
=====			
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	115,999	114,964	118,257
=====			
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK:			
BASIC NET INCOME PER SHARE	\$ 0.38		
=====			
DILUTED NET INCOME PER SHARE	\$ 0.32		
=====			
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	8,796		
=====			
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	10,242		
=====			

The accompanying notes are an integral part of these consolidated financial statements.

APOLLO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
<i>(IN THOUSANDS)</i>			
NET INCOME	\$ 107,817	\$ 71,191	\$ 59,005
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES:			
Currency translation gain (loss)	103	(17)	(10)
Unrealized gains on security		8	
Reclassification adjustment for gains included in net income		(8)	
COMPREHENSIVE INCOME	\$ 107,920	\$ 71,174	\$ 58,995

The accompanying notes are an integral part of these consolidated financial statements.

APOLLO GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK					
	APOLLO EDUCATION GROUP				UNIVERSITY OF PHOENIX ONLINE	
	CLASS A NONVOTING		CLASS B VOTING		NONVOTING	
	SHARES	STATED VALUE	SHARES	STATED VALUE	SHARES	STATED VALUE
(IN THOUSANDS)						
BALANCE AT AUGUST 31, 1998	115,668	\$ 101	512	\$ 1		\$ -
Stock issued under stock purchase plan	239					
Stock issued under stock option plans	1,849	1				
Tax benefits of stock options exercised						
Treasury stock purchase	(2,814)					
Other comprehensive income						
Net income						
BALANCE AT AUGUST 31, 1999	114,942	102	512	1		
Stock issued under stock purchase plan	273					
Stock issued under stock option plans	1,037	1				
Tax benefits of stock options exercised						
Treasury stock purchase	(3,755)					
Other comprehensive income						
Net income						
BALANCE AT AUGUST 31, 2000	112,497	103	512	1		
Issuance of University of Phoenix Online common stock					8,625	
Stock issued under stock purchase plans	125				152	
Stock issued under stock option plans	1,400				670	
Conversion of Apollo Education Group Class B common stock to Apollo Education Group Class A common stock	28		(28)			
Tax benefits of stock options exercised						
Stock issued to Apollo Education Group Class B shareholders	256					
Fractional shares paid out in connection with stock split	(1)					
Treasury stock purchase	(68)					
Other comprehensive income						
Net income						
BALANCE AT AUGUST 31, 2001	114,237	\$ 103	484	\$ 1	9,447	\$ -

	ADDITIONAL PAID-IN CAPITAL	APOLLO EDUCATION GROUP CLASS A TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
(IN THOUSANDS)					
BALANCE AT AUGUST 31, 1998	\$ 80,677	\$ -	\$ 119,023	\$ 6	\$ 199,808
Stock issued under stock purchase plan	3,374				3,374
Stock issued under stock option plans	5,456				5,457
Tax benefits of stock options exercised	9,683				9,683
Treasury stock purchase		(46,197)			(46,197)
Other comprehensive income				(10)	(10)
Net income			59,005		59,005
BALANCE AT AUGUST 31, 1999	99,190	(46,197)	178,028	(4)	231,120
Stock issued under stock purchase plan	(952)	4,325			3,373
Stock issued under stock option plans	(8,594)	15,513			6,920
Tax benefits of stock options exercised	5,615				5,615
Treasury stock purchase		(56,994)			(56,994)
Other comprehensive income				(17)	(17)
Net income			71,191		71,191
BALANCE AT AUGUST 31, 2000	95,259	(83,353)	249,219	(21)	261,208
Issuance of University of Phoenix Online common stock	72,755				72,755
Stock issued under stock purchase plans	2,962	1,987			4,949
Stock issued under stock option plans	(3,706)	22,198			18,492
Conversion of Apollo Education Group Class B common stock to Apollo Education Group Class A common stock					-
Tax benefits of stock options exercised	18,180				18,180
Stock issued to Apollo Education Group Class B shareholders					-
Fractional shares paid out in connection with stock split	(26)				(26)
Treasury stock purchase		(1,593)			(1,593)

Other comprehensive income				103	103
Net income		107,817			107,817

BALANCE AT AUGUST 31, 2001	\$ 185,424	\$ (60,761)	\$357,036	\$ 82	\$ 481,885
=====					

The accompanying notes are an integral part of these consolidated financial statements.

APOLLO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
(IN THOUSANDS)			
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Net income	\$ 107,817	\$ 71,191	\$ 59,005
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,740	27,052	19,971
Amortization of investment discounts/premiums	(1,370)	316	617
Provision for uncollectible accounts	12,393	7,785	6,906
Deferred income taxes	(3,960)	(1,770)	(505)
Tax benefits of stock options exercised	18,180	5,615	9,683
Decrease (increase) in assets:			
Restricted cash	(22,215)	(9,883)	(3,085)
Receivables	(25,520)	(11,054)	(21,288)
Other assets	(6,747)	1,540	(5,902)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	18,790	8,642	(5,022)
Student deposits and deferred revenue	32,423	12,666	15,815
Other liabilities	2,102	6,001	(633)
NET CASH PROVIDED BY OPERATING ACTIVITIES	164,633	118,101	75,562
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:			
Net additions to property and equipment	(44,443)	(34,830)	(44,732)
Additions related to facility subject to sale-leaseback	(7,608)		
Proceeds from sale-leaseback of facility	10,528		
Purchase of marketable securities	(281,361)	(63,285)	(24,644)
Maturities of marketable securities	148,872	38,294	29,922
Purchase of other assets	(1,346)	(4,081)	(3,536)
Proceeds from sale of land	879	997	4,212
NET CASH USED FOR INVESTING ACTIVITIES	(174,479)	(62,905)	(38,778)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:			
Purchase of Apollo Education Group Class A common stock	(1,593)	(56,994)	(46,197)
Issuance of Apollo Education Group Class A common stock	14,923	10,293	8,831
Issuance of University of Phoenix Online common stock	82,534		
Payments on long-term debt	(100)	(100)	(200)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	95,764	(46,801)	(37,566)
Currency translation gain (loss)	103	(17)	(10)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,021	8,378	(792)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,912	51,534	52,326
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 145,933	\$ 59,912	\$ 51,534
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	\$ 44,164	\$ 46,635	\$ 30,224
Interest	\$ 4	\$ 12	\$ 48

The accompanying notes are an integral part of these consolidated financial statements.

APOLLO GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS

Apollo Group, Inc. ("Apollo" or the "Company"), through its wholly-owned subsidiaries, The University of Phoenix, Inc. ("University of Phoenix"), Institute for Professional Development ("IPD"), The College for Financial Planning Institutes Corporation (the "College"), and Western International University, Inc. ("WIU"), has been providing higher education to working adults for over 25 years.

University of Phoenix is a regionally accredited, private institution of higher education offering associates, bachelors, masters, and doctoral degree programs in business, management, computer information systems, education, and health care. University of Phoenix has 35 physical campuses and 72 learning centers located in Arizona, California, Colorado, Florida, Hawaii, Louisiana, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Utah, Washington, Wisconsin, Puerto Rico, and Vancouver, British Columbia. University of Phoenix also offers its educational programs worldwide through University of Phoenix Online, its computerized educational delivery system. University of Phoenix is accredited by The Higher Learning Commission ("HLC") and is a member of the North Central Association of Colleges and Schools.

IPD provides program development and management services under long-term contracts to 21 regionally accredited private colleges and universities. IPD currently operates at 21 campuses and 28 learning centers in 22 states.

The College, located in Denver, Colorado, provides financial planning education programs, as well as a regionally accredited graduate degree program in financial planning.

WIU, which is accredited by HLC, currently offers undergraduate and graduate degree programs in Phoenix, Chandler, and Fort Huachuca, Arizona.

On March 24, 2000, the Board of Directors of Apollo authorized the issuance of a new class of stock called University of Phoenix Online common stock, that is intended to reflect the separate performance of University of Phoenix Online, a division of University of Phoenix. Apollo's other businesses and its retained interest in University of Phoenix Online are referred to as "Apollo Education Group." On October 3, 2000, an offering of 5,750,000 shares of University of Phoenix Online common stock was completed at a price of \$14.00 per share. This stock represented a 10.8% interest in University of Phoenix Online with Apollo Education Group retaining the remaining 89.2% interest in University of Phoenix Online.

The Company's fiscal year is from September 1 to August 31. Unless otherwise stated, references to the years 2001, 2000, and 1999 relate to the fiscal years ended August 31, 2001, 2000, and 1999, respectively.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Apollo and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted cash

The U.S. Department of Education requires that Title IV Program funds collected in advance of student billings be kept in a separate cash or cash equivalent account until the students are billed for that portion of their program. In addition, all Title IV Program funds received by the Company through electronic funds transfer are subject to certain holding period restrictions. These funds generally remain in these separate accounts for an average of 60-75 days from date of receipt. Restricted cash is excluded from cash and cash

equivalents in the Consolidated Statement of Cash Flows until the cash is transferred from these restricted accounts to the Company's operating accounts. The Company's restricted cash is invested primarily in U.S. agency-backed securities and auction market preferred stock with maturities of ninety days or less.

Investments

Investments in marketable securities such as municipal bonds and U.S. agency obligations are stated at amortized cost, which approximates fair value. It is the Company's intention to hold its marketable securities until maturity. Investments in joint ventures and other long-term investments are carried at cost and are included in other assets in the Consolidated Balance Sheet.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation. The Company capitalizes the cost of software used for internal operations once technological feasibility of the software has been demonstrated. Such costs consist primarily of custom-developed and packaged software and the direct labor costs of internally developed software. Depreciation is provided on all furniture, equipment, and related software using the straight-line method over the estimated useful lives of the related assets which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets. Maintenance and repairs are expensed as incurred.

Revenues, receivables, and related liabilities

The Company's educational programs range in length from one-day seminars to degree programs lasting up to four years. Students in the Company's degree programs generally enroll in a program of study that encompasses a series of five to six week courses that are taken consecutively over the length of the program. Students are billed on a course-by-course basis when the student first attends a session, resulting in the recording of a receivable from the student and deferred tuition revenue in the amount of the billing. The related revenue for each course, including that portion of tuition revenues to which the Company is entitled under the terms of its revenue-sharing contracts with IPD client institutions, is recognized on a pro rata basis over the period of instruction for each course. Application fee revenue and related costs are deferred and recognized on a pro rata basis over the period of the program. Seminars, continuing education programs, and many of the College's non-degree programs are usually billed in one installment with the related revenue also recognized on a pro rata basis over the period of instruction.

Tuition and other revenues are shown net of discounts relating to a variety of promotional programs. Such discounts totaled \$10.3 million, \$8.7 million, and \$7.0 million in 2001, 2000, and 1999, respectively.

Many of the Company's students participate in government sponsored financial aid programs under Title IV of the Higher Education Act of 1965. These financial aid programs generally consist of guaranteed student loans and direct grants to students. Guaranteed student loans are issued directly to the student by external financial institutions, to whom the student is obligated, and are non-recourse to the Company.

Student deposits consist of payments made in advance of billings. As the student is billed, the student deposit is applied against the resulting student receivable.

Cost in excess of fair value of assets purchased

The Company amortizes cost in excess of fair value of assets purchased using the straight-line method over the estimated useful life. At August 31, 2001 and 2000, the Company's cost in excess of fair value of assets purchased related primarily to the acquisition of certain assets of the College and WIU, which are being amortized over 35 years and 15 years, respectively.

Statement of Financial Accounting Standards 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," requires that long-lived assets, including cost in excess of fair value of assets purchased, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. The carrying value of cost in excess of fair value of assets purchased is assessed for any permanent impairment by evaluating the operating performance and future undiscounted cash flows of the underlying businesses. Adjustments are made if the sum of the expected future net cash flows is less than book value. As of August 31, 2001, there have been no impairment adjustments recognized.

Fair value of financial instruments

The carrying amount reported in the Consolidated Balance Sheet for cash and cash equivalents, restricted cash, marketable securities, accounts receivable, accounts payable, accrued liabilities, and student deposits and deferred revenue approximate fair value because of the short-term nature of these financial instruments.

Earnings per share

Prior to 2001, basic net income per share was computed using the weighted average number of Apollo Education Group Class A and Class B common shares outstanding during the period. Diluted net income per share was computed using the weighted average number of Apollo Education Group Class A and Class B common and common equivalent shares outstanding during the period. Both basic and diluted weighted average shares have been retroactively restated for stock splits effected in the form of stock dividends. The amount of any tax benefit to be credited to additional paid-in capital related to the exercise of options was included when applying the treasury stock method to stock options in the computation of earnings per share.

Beginning in the first quarter of 2001, the consolidated financial statements of Apollo Group, Inc. presented basic and diluted earnings per share for Apollo Education Group common stock and University of Phoenix Online common stock using the two-class method. The two-class method is an earnings allocation formula that determines the earnings per share for Apollo Education Group common stock and University of Phoenix Online common stock according to participation rights in undistributed earnings.

Basic earnings per share for Apollo Education Group common stock is calculated by dividing Apollo Education Group earnings (including its retained interest in University of Phoenix Online earnings) by the weighted average number of shares of Apollo Education Group common stock outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of options issuable under Apollo Group, Inc. incentive plans, exclusive of options granted with respect to University of Phoenix Online common stock.

Basic earnings per share for University of Phoenix Online common stock is calculated by dividing University of Phoenix Online earnings (excluding Apollo Education Group's retained interest in University of Phoenix Online earnings) by the weighted average number of shares of University of Phoenix Online common stock outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of options with respect to University of Phoenix Online common stock.

Deferred rental payments and deposits

The Company records rent expense using the straight-line method over the term of the lease agreement. Accordingly, deferred rental liabilities are provided for lease agreements that specify scheduled rent increases over the lease term. Rental deposits are provided for lease agreements that specify payments in advance or scheduled rent decreases over the lease term.

Selling and promotional costs

The Company expenses selling and promotional costs as incurred. Selling and promotional costs include marketing salaries, direct-response and other advertising, promotional materials, and related marketing costs.

Start-up costs

Costs related to the start-up of new campuses and learning centers are expensed as incurred.

Stock-based compensation

The Company has elected to account for its stock-based awards in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and has provided the pro forma disclosures as required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), for the years ended August 31, 2001, 2000, and 1999.

Segment information

The Company's operations are aggregated into a single reportable segment based upon their similar economic and operating

characteristics. The Company's educational operations are conducted in similar markets and produce similar economic results. These operations provide higher education programs for working adults. The Company's operations are also subject to a similar regulatory environment, which includes licensing and accreditation.

New accounting pronouncements

During December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"), which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. The Company implemented the related guidelines during the fourth quarter of fiscal 2001, with effect from September 1, 2000, without material effect on its financial position or results of operations.

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133") establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an enterprise recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and resulting designation. The Company adopted SFAS No. 133 effective September 1, 2000, without impact to its financial position or results of operations as the Company has no derivative financial instruments.

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 eliminates the use of the pooling-of-interests method of accounting for business combinations and requires all acquisitions to be accounted for using the purchase method. SFAS No. 142, among other things, discontinues the requirement that goodwill resulting from purchase business combinations be amortized to expense over the related estimated useful life. Under the new guidance, goodwill balances are subjected to impairment analysis on an annual basis or whenever events or circumstances indicate that the estimated fair value is less than the related carrying value. As of August 31, 2001, the Company had approximately \$37.1 million in unamortized cost in excess of fair value of assets purchased resulting from its acquisitions of WIU and the College.

The Company is required to adopt SFAS No. 142 effective September 1, 2002 but is considering adopting the new standard effective September 1, 2001. Although the analysis of the impact of SFAS No. 142 has not been completed, it is not expected to have a material effect on our financial position or results of operations. The Company recognized \$1.5 million of goodwill amortization expense in 2001 (approximately \$.01 per diluted share of Apollo Education Group common stock) and such amortization will no longer be required upon adoption of SFAS No. 142.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain amounts reported for the years ended August 31, 2000 and 1999, have been reclassified to conform to the 2001 presentation, having no effect on net income.

NOTE 3. BALANCE SHEET COMPONENTS

Marketable securities consist of the following, in thousands:

TYPE	AUGUST 31, 2001		AUGUST 31, 2000	
	ESTIMATED MARKET VALUE	AMORTIZED COST	ESTIMATED MARKET VALUE	AMORTIZED COST
CLASSIFIED AS CURRENT:				
Municipal bonds	\$100,867	\$100,536	\$ 35,870	\$ 35,880
U.S. treasury obligations	3,447	3,447	299	298
U.S. agency obligations	42,358	42,288	18,091	18,098
Auction rate preferred stock	8,000	8,000	3,950	3,950
Commercial paper	16,622	16,595		
TOTAL CURRENT MARKETABLE SECURITIES	171,294	170,866	58,210	58,226
CLASSIFIED AS NONCURRENT:				
Municipal bonds due in 1-2 years	21,075	20,972	5,528	5,518
U.S. agency obligations	3,006	3,000	502	502
Commercial paper	3,277	3,267		
TOTAL NONCURRENT MARKETABLE SECURITIES	27,358	27,239	6,030	6,020
TOTAL MARKETABLE SECURITIES	\$198,652	\$198,105	\$ 64,240	\$ 64,246

Receivables consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Trade receivables	\$ 98,342	\$ 84,093
Interest receivable	1,912	870
Income tax refunds receivable		1,850
	100,254	86,813
Less allowance for doubtful accounts	(8,075)	(7,880)
TOTAL RECEIVABLES, NET	\$ 92,179	\$ 78,933

Bad debt expense was \$12.5 million, \$7.8 million, and \$6.9 million for 2001, 2000, and 1999, respectively. Write-offs, net of recoveries, were \$12.2 million, \$9.5 million, and \$3.9 million for 2001, 2000, and 1999, respectively.

Property and equipment consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Furniture and equipment	\$ 125,500	\$ 101,752
Software	33,420	23,290
Leasehold improvements	32,771	25,141
Land and buildings	115	99
	191,806	150,282
Less accumulated depreciation and amortization	(89,182)	(62,449)
PROPERTY AND EQUIPMENT, NET	\$ 102,624	\$ 87,833

Depreciation and amortization expense was \$29.7 million, \$24.2 million, and \$16.5 million for 2001, 2000, and 1999, respectively.

Cost in excess of fair value of assets purchased consist of the following, in thousands:

	AUGUST 31,	
	2001	2000

Cost in excess of fair value of assets purchased	\$ 42,581	\$ 42,831
Less accumulated amortization	(5,485)	(4,283)

TOTAL COST IN EXCESS OF FAIR VALUE OF ASSETS PURCHASED, NET	\$ 37,096	\$ 38,548
	=====	

Total amortization expense was \$1.5 million, \$1.4 million, and \$1.5 million in 2001, 2000, and 1999, respectively.

Accrued liabilities consist of the following, in thousands:

	AUGUST 31,	
	2001	2000

Salaries, wages, and benefits	\$13,579	\$13,415
Other accrued liabilities	16,945	8,882

TOTAL ACCRUED LIABILITIES	\$30,524	\$22,297
	=====	

Student deposits and current portion of deferred revenue consist of the following, in thousands:

	AUGUST 31,	
	2001	2000

Student deposits	\$ 72,938	\$ 52,003
Current portion of deferred tuition revenue	43,134	40,420
Application fee revenue	4,196	
Other deferred revenue	7,058	2,594

TOTAL STUDENT DEPOSITS AND CURRENT PORTION OF DEFERRED REVENUE	\$127,326	\$ 95,017
	=====	

NOTE 4. SHORT-TERM BORROWINGS

At August 31, 2001, the Company had no outstanding borrowings on its \$10.0 million line of credit. Borrowings under the line of credit bear interest at LIBOR plus .75% or prime at the Company's election. Any amounts borrowed under the line are payable upon its termination in February 2003. The Company's line of credit agreement prohibits the Company from paying cash dividends or making other cash distributions without the lender's consent.

NOTE 5. LONG-TERM LIABILITIES

Long-term liabilities consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Deferred compensation discounted at 7.5%	\$ 1,172	\$ 1,116
Deferred rent	5,336	3,318
University of Phoenix Department of Education settlement	4,500	4,500
Deferred gain on sale-leasebacks	4,030	1,199
Other long-term liabilities	219	290
	-----	-----
Total long-term liabilities	15,257	10,423
Less current portion	(408)	(450)
	-----	-----
TOTAL LONG-TERM LIABILITIES, NET	\$ 14,849	\$ 9,973
	=====	=====

The undiscounted deferred compensation liability was \$1.6 million at August 31, 2001 and 2000, respectively. The undiscounted note payable related to the WIU acquisition was \$200,000 and \$300,000 at August 31, 2001 and 2000, respectively. The discount rates for these agreements were determined at the date of each respective agreement based on the estimated long-term rate of return on high-quality fixed income investments with cash flows similar to the respective agreements.

The note payable related to the WIU acquisition is payable \$100,000 in 2002 and \$100,000 in 2003. The University of Phoenix U.S. Department of Education settlement liability is payable in 2003.

NOTE 6. INCOME TAXES

The related components of the income tax provision are as follows, in thousands:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
	-----	-----	-----
Current:			
Federal	\$ 61,812	\$ 42,312	\$ 32,304
State and other	9,440	8,572	7,178
	-----	-----	-----
TOTAL CURRENT	71,252	50,884	39,482
	-----	-----	-----
Deferred:			
Federal	(3,467)	(1,537)	(361)
State and other	(493)	(233)	(144)
	-----	-----	-----
TOTAL DEFERRED	(3,960)	(1,770)	(505)
	-----	-----	-----
TOTAL PROVISION FOR INCOME TAXES	\$ 67,292	\$ 49,114	\$ 38,977
	=====	=====	=====

The income tax provision differs from the tax that would result from application of the statutory U.S. federal income tax rate as follows:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
	-----	-----	-----
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	5.2	5.5	5.2
Other, net	(1.8)	0.3	(0.4)
	-----	-----	-----
EFFECTIVE INCOME TAX RATE	38.4%	40.8%	39.8%
	=====	=====	=====

Deferred tax assets and liabilities consist of the following, in thousands:

	AUGUST 31,	
	2001	2000

GROSS DEFERRED TAX ASSETS:		
Allowance for doubtful accounts	\$ 3,873	\$ 4,038
Deferred tuition revenue	1,030	2,068
University of Phoenix Department of Education settlement	1,809	1,924
IPD Department of Education reserve	2,050	
Other	4,815	3,477

TOTAL GROSS DEFERRED TAX ASSETS	13,577	11,507

GROSS DEFERRED TAX LIABILITIES:		
Depreciation and amortization of property and equipment	--	2,312
Amortization of cost in excess of fair value of assets purchased	2,385	1,900
Other	190	253

TOTAL GROSS DEFERRED TAX LIABILITIES	2,575	4,465

NET DEFERRED TAX ASSETS	\$11,002	\$ 7,042
	=====	

Net deferred tax assets are reflected in the accompanying consolidated balance sheet as follows, in thousands:

	AUGUST 31,	
	2001	2000

Current deferred tax assets, net	\$ 7,822	\$ 8,267
Noncurrent deferred tax assets, net	3,180	
Noncurrent deferred tax liabilities, net		(1,225)

NET DEFERRED TAX ASSETS	\$ 11,002	\$ 7,042
	=====	

In light of the Company's history of profitable operations, management has concluded that it is more likely than not that the Company will ultimately realize the full benefit of its deferred tax assets related to future deductible items. Accordingly, the Company believes that a valuation allowance is not required for its net deferred tax assets.

NOTE 7. COMMON STOCK

The Company's Board of Directors authorized a program allocating up to \$150 million in Company funds to repurchase shares of Apollo Education Group Class A common stock and University of Phoenix Online common stock. As of August 31, 2001, the Company had repurchased approximately 6,635,000 shares of Apollo Education Group common stock at a total cost of approximately \$104.8 million and no shares of University of Phoenix Online common stock.

On January 10, 2001, the Company's Board of Directors authorized a 3-for-2 stock split of its Apollo Education Group Class A and Class B common stock to be affected in the form of a stock dividend. In connection with this split, holders of Apollo Education Group Class B common stock were issued one share of Apollo Education Group Class A common stock for every two shares of Apollo Education Group Class B common stock. All Apollo Education Group common stock amounts, Apollo Education Group common stock prices, and earnings per share figures for periods prior to the stock split have been restated to reflect the effect of the stock split.

On June 29, 2001, the Company's Board of Directors authorized a 3-for-2 stock split of its University of Phoenix Online common stock to be affected in the form of a stock dividend. All University of Phoenix Online common stock amounts, University of Phoenix Online common stock prices, and earnings per share figures for periods prior to the stock split have been restated to reflect the effect of the stock split.

NOTE 8. EARNINGS PER SHARE

Earnings attributable to different classes of the Company's common stocks are as follows, in thousands:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
Apollo Education Group	\$104,513	\$ 71,191	\$ 59,005
University of Phoenix Online	3,304		
NET INCOME	\$107,817	\$ 71,191	\$ 59,005

The earnings attributable to University of Phoenix Online common stock represent the portion of the earnings of University of Phoenix Online attributed to the shares of University of Phoenix Online common stock outstanding excluding Apollo Education Group's retained interest in University of Phoenix Online. At the date of the issuance of the University of Phoenix Online common stock, Apollo Education Group retained an 89.2% interest in University of Phoenix Online. This percentage has decreased to 88.3% at August 31, 2001 due to the issuance of shares of University of Phoenix Online common stock as part of the Apollo Group, Inc. Employee Stock Purchase Plan and the issuance of shares related to the exercise of University of Phoenix Online stock options.

A reconciliation of the basic and diluted earnings per share computations for Apollo Education Group Class A and Class B common stock is as follows, in thousands, except per share amounts:

	2001			FOR THE YEAR ENDED AUGUST 31, 2000			1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT
Basic net income per share	\$104,513	114,275	\$ 0.91	\$ 71,191	113,674	\$ 0.63	\$ 59,005	116,524	\$ 0.51
Effect of dilutive securities: Stock options		1,724			1,290			1,733	
DILUTED NET INCOME PER SHARE	\$104,513	115,999	\$ 0.90	\$ 71,191	114,964	\$ 0.62	\$ 59,005	118,257	\$ 0.50

Basic earnings per share for Apollo Education Group common stock for the year ended August 31, 2001 were computed by dividing Apollo Education Group earnings (including its retained interest in University of Phoenix Online earnings) by the weighted average number of Apollo Education Group common stock shares outstanding during the respective periods. Diluted earnings per share was calculated similarly, except that it included the dilutive effect of the assumed exercise of options issuable under Apollo Group, Inc. incentive plans, exclusive of options granted and shares issued with respect to University of Phoenix Online common stock.

A reconciliation of the basic and diluted earnings per share computations for University of Phoenix Online common stock is as follows, in thousands, except per share amounts:

	FOR THE PERIOD FROM THE DATE OF THE OFFERING THROUGH AUGUST 31, 2001		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT
Basic net income per share	\$3,304	8,796	\$0.38
Effect of dilutive securities: Stock options		1,446	
DILUTED NET INCOME PER SHARE	\$3,304	10,242	\$0.32

Basic earnings per share of University of Phoenix Online common stock for the period from the date of the offering through August 31, 2001, were computed by dividing University of Phoenix Online earnings (excluding Apollo Education Group's retained interest in University of Phoenix Online earnings) by the number of shares of University of Phoenix Online common stock outstanding during

the respective periods. Diluted earnings per share was calculated similarly, except that it included the dilutive effect of the assumed exercise of options with respect to University of Phoenix Online common stock.

NOTE 9. EMPLOYEE AND DIRECTOR BENEFIT PLANS

The Company provides various health, welfare, and disability benefits to its full-time, salaried employees which are funded primarily by Company contributions. The Company does not provide post-employment or post-retirement health care and life insurance benefits to its employees.

401(k) Plan

The Company sponsors a 401(k) plan which is available to all employees who have completed one year and at least 1,000 hours of continuous service. The Company matches 100% of the contributions from the first \$10,000 of a participant's annual pre-tax earnings. Contributions from the participant's earnings in excess of \$10,000 are matched by the Company at 18.5%. Participant contributions are subject to certain restrictions as set forth in the Internal Revenue Code. The Company's matching contributions totaled \$2.6 million, \$2.3 million, and \$2.2 million for 2001, 2000, and 1999, respectively.

Stock-Based Compensation Plans

The Company has four stock-based compensation plans: the Apollo Group, Inc., Amended and Restated Director Stock Plan ("Director Stock Plan"), the Apollo Group, Inc., Long-Term Incentive Plan ("LTIP"), the Apollo Group, Inc., 2000 Incentive Plan ("2000 Incentive Plan"), and the Apollo Group, Inc., Amended and Restated 1994 Employee Stock Purchase Plan ("Purchase Plan").

The Director Stock Plan currently provides for an annual grant to the Company's non-employee directors of options to purchase shares of the Company's Apollo Education Group Class A common stock on September 1 of each year through 2003. In addition, each non-employee director who was on the Board of Directors on the date of the public offering of University of Phoenix Online common stock received a grant of stock options to purchase 10,000 shares of University of Phoenix Online common stock on the date of such offering at the initial public offering price of \$14.00 per share. These options have vested as of August 31, 2001. Under the LTIP, the Company may grant options, incentive stock options, stock appreciation rights, and other stock-based awards in the Company's Apollo Education Group Class A common stock to certain officers, key employees, or directors of the Company. Many of the options granted under the LTIP vest 25% per year starting at the end of 2002. The vesting may be accelerated for individual employees if the stock price reaches defined goals for at least three trading days, and if certain profit goals, defined for groups of individuals, are also achieved. Under the 2000 Incentive Plan, the Company may grant options, incentive stock options, stock appreciation rights, and other stock-based awards in the Company's Apollo Education Group Class A and University of Phoenix Online common stock to certain officers, key employees, or directors of the Company. Many of the options granted under the 2000 Incentive Plan vest over a four year period. The vesting may be accelerated for individual employees if certain operational goals are met. The Purchase Plan allows employees of the Company to purchase shares of the Company's Apollo Education Group Class A common stock and University of Phoenix Online common stock at quarterly intervals through periodic payroll deductions. The purchase price per share, in general, is 85% of the lower of 1) the fair market value (as defined in the Purchase Plan) on the enrollment date into the respective quarterly offering period or 2) the fair market value on the purchase date.

The Company applies APB No. 25 and related interpretations in accounting for its stock-based compensation, and has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for these plans. Had compensation cost for the plans been determined based on the fair value at the grant date consistent with SFAS No. 123, the Company's net income, income per share, and weighted average shares outstanding would have been as follows, in thousands, except per share amounts:

YEAR ENDED AUGUST 31,
2001 2000 1999

APOLLO EDUCATION GROUP

PRO FORMA:

Net income	\$ 90,147	\$ 66,484	\$ 55,395
Diluted income per share	\$ 0.78	\$ 0.58	\$ 0.48
Diluted weighted average shares outstanding	115,722	113,674	116,451

AS REPORTED:

Net income	\$104,513	\$ 71,191	\$ 59,005
Diluted income per share	\$ 0.90	\$ 0.62	\$ 0.50
Diluted weighted average shares outstanding	115,999	114,964	118,257

UNIVERSITY OF PHOENIX ONLINE

PRO FORMA:

Net income	\$ 2,599		
Diluted income per share	\$ 0.27		
Diluted weighted average shares outstanding	9,559		

AS REPORTED:

Net income	\$ 3,304		
Diluted income per share	\$ 0.32		
Diluted weighted average shares outstanding	10,242		

The effects of applying SFAS No. 123 in the above pro forma disclosures are not necessarily indicative of future amounts. The fair value of each option grant is estimated on the date of grant using the Black-Scholes method with the following weighted-average assumptions for grants in 2001, 2000, and 1999, respectively, for Apollo Education Group: 1) dividend yield of 0.0% in all years; 2) expected volatility of 61.0%, 74.0%, and 73.0%; 3) risk-free interest rates of 5.3%, 6.5%, and 4.5%; and 4) expected lives of 3.1, 5.0, and 7.5 years and for grants in 2001 for University of Phoenix Online: 1) dividend yield of 0.0%; 2) expected volatility of 75.0%; 3) risk-free interest rate of 6.0%; and 4) expected life of 2.7 years.

A summary of the activity related to stock options to purchase Apollo Education Group Class A common stock granted under the Director Stock Plan, the LTIP, and the 2000 Incentive Plan is as follows, in thousands, except per share amounts:

	LTIP	DIRECTOR STOCK PLAN	2000 INCENTIVE PLAN	TOTAL	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
OUTSTANDING AT AUGUST 31, 1998	5,566	256		5,822	\$ 5.661
Granted	1,665	91		1,756	17.321
Exercised	(1,811)	(38)		(1,849)	2.951
Canceled	(581)			(581)	7.105
OUTSTANDING AT AUGUST 31, 1999	4,839	309		5,148	10.451
Granted	1,344	91		1,435	13.907
Exercised	(1,026)	(11)		(1,037)	6.679
Canceled	(200)			(200)	16.007
OUTSTANDING AT AUGUST 31, 2000	4,957	389		5,346	11.901
Granted	24	152	961	1,137	23.963
Exercised	(1,284)	(116)		(1,400)	8.739
Canceled	(78)		(8)	(86)	13.748
OUTSTANDING AT AUGUST 31, 2001	3,619	425	953	4,997	15.500
EXERCISABLE AT AUGUST 31, 2001	1,614	425	387	2,426	
AVAILABLE FOR ISSUANCE AT AUGUST 31, 2001	356	552	6,547	7,455	

A summary of the activity related to stock options to purchase University of Phoenix Online common stock granted under the Director Stock Plan and the 2000 Incentive Plan is as follows, in thousands, except per share amounts:

	DIRECTOR STOCK PLAN	2000 INCENTIVE PLAN	TOTAL	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
OUTSTANDING AT AUGUST 31, 2000	--	--	--	\$ --
Granted	90	4,315	4,405	9.333
Exercised	(6)	(664)	(670)	9.333
Canceled		(3)	(3)	9.333
OUTSTANDING AT AUGUST 31, 2001	84	3,648	3,732	9.333
EXERCISABLE AT AUGUST 31, 2001	84	1,740	1,824	
AVAILABLE FOR ISSUANCE AT AUGUST 31, 2001	60	9,188	9,248	

The following table summarizes information about the stock options to purchase Apollo Education Group Class A common stock at August 31, 2001:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	CONTRACTUAL YEARS REMAINING	WEIGHTED AVG. EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	WEIGHTED AVG. EXERCISE PRICE PER SHARE
	(In thousands)			(In thousands)	
\$ 1.087 to \$ 5.021	983	4.02	\$ 4.811	674	\$ 4.716
\$11.333 to \$ 15.861	1,095	7.87	\$12.956	638	\$13.132
\$17.083 to \$17.083	1,350	7.30	\$17.083	337	\$17.083
\$17.445 to \$22.260	1,318	8.51	\$21.161	587	\$21.265
\$26.490 to \$42.450	251	8.52	\$30.180	190	\$28.636
	-----			-----	
\$ 1.087 to \$42.450	4,997	7.16	\$15.500	2,426	\$14.524
	=====			=====	

The following table summarizes information about the stock options to purchase University of Phoenix Online common stock at August 31, 2001:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	CONTRACTUAL YEARS REMAINING	WEIGHTED AVG. EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	WEIGHTED AVG. EXERCISE PRICE PER SHARE
	(In thousands)			(In thousands)	
\$ 9.333 to \$ 9.333	3,732	9.07	\$9.333	1,824	\$9.333
\$ 9.333 to \$ 9.333	3,732	9.07	\$9.333	1,824	\$9.333
	=====			=====	

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company is obligated under facility and equipment leases that are classified as operating leases. Following is a schedule of future minimum lease commitments as of August 31, 2001, in thousands:

	OPERATING LEASES	
	FACILITIES	EQUIPMENT & OTHER
2002	\$ 66,642	\$ 778
2003	66,683	425
2004	57,681	83
2005	51,326	
2006	40,960	
Thereafter	71,682	
	-----	-----
	\$ 354,974	\$1,286
	=====	=====

Facility and equipment rent expense totaled \$71.8 million, \$58.8 million, and \$44.8 million for 2001, 2000, and 1999, respectively.

In January 1998, the U.S. Department of Education Office of the Inspector General ("OIG") began performing an audit of University of Phoenix's administration of the Title IV Programs. The team previously presented questions regarding University of Phoenix's interpretation of the "12-hour rule," distance education programs, and institutional refund obligations. University of Phoenix reached an agreement with the U.S. Department of Education which acknowledges no admission that there were any issues of non-compliance

or errors by University of Phoenix. To bring this audit to closure and settle all outstanding issues prior to the final OIG report, which was issued on March 31, 2000, University of Phoenix agreed to modify its physical campus learning team attendance log to track the sites of learning team meetings and record the hours attended. This modification has not had a negative impact on either University of Phoenix or its students. This modification does not require any change to University of Phoenix Online's learning team attendance log. Part of the agreement, dated March 27, 2000, reached with the U.S. Department of Education requires University of Phoenix to pay the U.S. Department of Education \$6.0 million as a negotiated settlement in full satisfaction of all monetary findings arising under the final OIG audit report. This amount was reflected in instructional costs and services in our third quarter 2000 results. \$1.5 million of this amount was paid in 2000 with the remaining \$4.5 million due in 2003.

The OIG is currently auditing the administration of the federal student financial assistance programs in connection with educational programs provided pursuant to contractual arrangements between IPD and certain of its client institutions. In audit reports issued to three client institutions, the OIG asserted that the client institutions violated the statutory prohibition on the use of incentive payments for recruiting by paying IPD a percentage of tuition revenue. The reports further suggest that IPD paid its employees in a manner that included incentive-based compensation even though IPD based its compensation plans for recruiters on factors or qualities that were not solely related to the success in securing enrollments. Additionally, the audit reports question the client institutions' interpretation of the "12-hour rule." Although both IPD and the client institutions believe that the matters in question do not relate to student program, or institutional eligibility and therefore believe a repayment of federal funds is not appropriate, the OIG has recommended to the U.S. Department of Education that the client institutions be required to return to lenders all loan funds disbursed. The institutions, with IPD assistance, are working with the U.S. Department of Education to eliminate or settle the issues raised in the audit reports.

During 2001, IPD recorded a charge of \$5.1 million, to provide for its share of the estimated settlement obligation relating to all of its client institutions under audit. Our calculation of the estimated settlement obligation, which is reflected in instructional costs and services in the accompanying consolidated statement of operations, was based on information available to us and our previous experience with respect to such settlements.

Although we believe that the OIG's audits of IPD's client institutions will be resolved without any material effect on our financial position, results of operations, or cash flows, and without any material change in IPD's business strategy, as with any program review or audit, no assurance can be given as to the final outcome as the matters are not yet resolved.

The Company is involved in various legal proceedings occurring in the normal course of business. The Company believes that the disposition of these cases will not have a material adverse impact on the financial position or results of operations of the Company.

NOTE 11. CONSOLIDATING STATEMENT OF OPERATIONS DATA

The following schedules present statement of operations data of Apollo Education Group, University of Phoenix Online, and Apollo Group, Inc. We have presented this information to illustrate the respective operating results of Apollo Education Group and University of Phoenix Online, including the impact of the inter-group license fee and inter-group allocated expenses, and how the operating results of those groups relate to the consolidated operating results of Apollo Group, Inc.

Since its inception, the Company has financed University of Phoenix Online's operations internally and has not incurred any related third-party debt. All of its cash receipts and disbursements are processed by the Company on University of Phoenix Online's behalf. Prior to the offering, all amounts were settled through the funds allocated to/from Apollo Education Group component of University of Phoenix Online's divisional net worth. Whenever University of Phoenix Online generated cash from operations, that cash was deemed to be transferred to Apollo Education Group and was accounted for as a return of capital. Whenever University of Phoenix Online had a cash need, that cash was deemed to be transferred from Apollo Education Group and was accounted for as a capital contribution. As a result of this policy, no inter-group interest income or expense was reflected in the consolidating statement of operations for the periods prior to the offering.

Upon the completion of the offering, the net proceeds of the offering of \$72.8 million were transferred to University of Phoenix Online and accounted for as a capital contribution. Subsequently, the difference between cash receipts and cash outlays attributable to University of Phoenix Online have been accounted for as a revolving credit advance from University of Phoenix Online to Apollo Education Group (to the extent this difference was not transferred to University of Phoenix Online) requiring the reflection of interest expense by Apollo Education Group and interest income by University of Phoenix Online at the rate of interest determined by the Board of Directors. Accordingly, operating results for Apollo Education Group and University of Phoenix Online for periods subsequent to the offering are not comparable to such operating results prior to the offering.

	YEAR ENDED AUGUST 31,							
	2001			2000				
	Apollo Education Group	University of Phoenix Online	Eliminations	Apollo Group, Inc.	Apollo Education Group	University of Phoenix Online	Eliminations	Apollo Group, Inc.
(IN THOUSANDS)								
REVENUES:								
Tuition and other, net(1)	\$ 588,947	\$ 180,527	\$ -	\$ 769,474	\$ 507,384	\$ 102,613	\$ -	\$ 609,997
Inter-group license fee revenue(2)	7,221		(7,221)	-	4,104		(4,104)	-
	596,168	180,527	(7,221)	769,474	511,488	102,613	(4,104)	609,997
COSTS AND EXPENSES:								
Instructional costs and services								
External expenses(3)	354,345	55,739		410,084	316,429	36,445		352,874
Inter-group allocated expenses(4)	(12,367)	12,367		-	(9,265)	9,265		-
Inter-group license fee expense(2)		7,221	(7,221)	-		4,104	(4,104)	-
Selling and promotional								
External expenses(3)	105,432	44,879		150,311	80,995	15,496		96,491
Inter-group allocated expenses(4)	(1,067)	1,067		-	(772)	772		-
General and administrative								
External expenses(3)	48,076			48,076	46,555			46,555
Inter-group allocated expenses(4)	(10,554)	10,554		-	(7,248)	7,248		-
	483,865	131,827	(7,221)	608,471	426,694	73,330	(4,104)	495,920
INCOME FROM OPERATIONS								
Interest income, net	112,303	48,700		161,003	84,794	29,283		114,077
	10,477	3,629		14,106	6,228			6,228
INCOME BEFORE INCOME TAXES								
Provision for income taxes(5)	122,780	52,329		175,109	91,022	29,283		120,305
	46,726	20,566		67,292	37,313	11,801		49,114
NET INCOME	\$ 76,054	\$ 31,763	\$ -	\$ 107,817	\$ 53,709	\$ 17,482	\$ -	\$ 71,191

	YEAR ENDED AUGUST 31,			
	1999			
	Apollo Education Group	University of Phoenix Online	Eliminations	Apollo Group, Inc.
(IN THOUSANDS)				
REVENUES:				
Tuition and other, net(1)		\$ 429,264	\$ -	\$ 498,846
Inter-group license fee revenue(2)		2,783	(2,783)	-
		432,047	(2,783)	498,846
COSTS AND EXPENSES:				
Instructional costs and services				
External expenses(3)		255,778	31,804	287,582
Inter-group allocated expenses(4)		(4,995)	4,995	-
Inter-group license fee expense(2)			2,783	(2,783)
Selling and promotional				
External expenses(3)		67,828	11,315	79,143
Inter-group allocated expenses(4)		(201)	201	-
General and administrative				
External expenses(3)		39,368		39,368
Inter-group allocated expenses(4)		(5,352)	5,352	-

	352,426	56,450	(2,783)	406,093
INCOME FROM OPERATIONS	79,621	13,132		92,753
Interest income, net	5,229			5,229
INCOME BEFORE INCOME TAXES	84,850	13,132		97,982
Provision for income taxes(5)	33,654	5,323		38,977
NET INCOME	\$ 51,196	\$ 7,809	\$ -	\$ 59,005

(1) Tuition and other revenues are shown net of discounts from a variety of promotional programs and represent amounts earned from students of Apollo Education Group and University of Phoenix Online, respectively. There are no tuition or other revenues that have been allocated between Apollo Education Group and University of Phoenix Online.

(2) Apollo Group, Inc. charges University of Phoenix Online a license fee equal to 4% of University of Phoenix Online's net revenues for the use of curriculum, trademarks, and copyrights owned by Apollo Group, Inc. and its subsidiaries. The license fee, which is included in University of Phoenix Online's instructional costs and services, totaled \$7.2 million, \$4.1 million, and \$2.8 million for the years ended August 31, 2001, 2000, and 1999, respectively. The inter-group license fee revenue of Apollo Education Group eliminates against the inter-group license fee expense of University of Phoenix Online in consolidation at the Apollo Group, Inc. level.

The related license policy was not in place prior to March 24, 2000; however, in order to prepare financial statements that include the charges and benefits of the types provided for under this policy, the accompanying consolidating statement of operations data reflect charges and benefits that would have applied if this policy had been in effect during the periods presented. Although it has no

present intention to do so, Apollo Group, Inc.'s Board of Directors may at any time in its sole discretion modify, rescind, or supplement this policy.

(3) External expenses represent costs incurred directly by Apollo Education Group and University of Phoenix Online and do not include any inter-group allocations.

(4) Certain costs incurred by Apollo Group, Inc. and University of Phoenix including legal, accounting, corporate office, and centralized student services costs, have been allocated to University of Phoenix Online on the basis of its revenues in relation to those of Apollo Group, Inc. and University of Phoenix. The allocation of such expenses to University of Phoenix Online was as follows, in thousands:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
Instructional costs and services	\$12,367	\$ 9,265	\$ 4,995
Selling and promotional	1,067	772	201
General and administrative	10,554	7,248	5,352
	-----	-----	-----
	\$23,988	\$17,285	\$10,548
	=====	=====	=====

The related corporate expense allocation policy was not in place prior to March 24, 2000; however, in order to prepare financial statements that include the charges and benefits of the types provided for under this policy, the accompanying consolidating statement of operations data reflect charges and benefits that would have applied if this policy had been in effect during the periods presented. Although it has no present intention to do so, Apollo Group, Inc.'s Board of Directors may at any time in its sole discretion modify, rescind, or supplement this policy.

(5) University of Phoenix Online's results, along with other divisions of University of Phoenix, are included in the Apollo Group, Inc. consolidated federal income tax return. State taxes are paid based upon apportioned taxable income or loss of Apollo Group, Inc., with the exception of certain state taxes that are based upon an apportionment of University of Phoenix taxable income or loss. The provision for income taxes included in the accompanying consolidating statement of operations data has been calculated on a separate company basis.

NOTE 12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth selected unaudited quarterly financial information for each of the Company's last eight quarters.

	2001				2000			
	AUG. 31, 2001	MAY 31, 2001	FEB. 28, 2001	NOV. 30, 2000	AUG. 31, 2000	MAY 31, 2000	FEB. 29, 2000	NOV. 30, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)								
REVENUES:								
Tuition and other, net	\$215,116	\$214,305	\$162,980	\$177,073	\$165,008	\$167,591	\$133,980	\$143,418
COSTS AND EXPENSES:								
Instructional costs and services(1)	112,741	107,871	94,237	95,235	90,792	97,499	81,849	82,734
Selling and promotional	46,185	40,127	32,991	31,008	27,944	23,695	22,293	22,559
General and administrative	10,767	13,600	11,723	11,986	12,403	11,828	10,828	11,496
	169,693	161,598	138,951	138,229	131,139	133,022	114,970	116,789
INCOME FROM OPERATIONS	45,423	52,707	24,029	38,844	33,869	34,569	19,010	26,629
Interest income, net	3,522	3,755	3,661	3,168	2,042	1,590	1,279	1,317
INCOME BEFORE INCOME TAXES	48,945	56,462	27,690	42,012	35,911	36,159	20,289	27,946
Provision for income taxes	17,694	21,074	11,341	17,183	14,603	15,016	8,376	11,119
NET INCOME	\$ 31,251	\$ 35,388	\$ 16,349	\$ 24,829	\$ 21,308	\$ 21,143	\$ 11,913	\$ 16,827
NET INCOME ATTRIBUTED TO:								
APOLLO EDUCATION GROUP COMMON STOCK	\$ 30,155	\$ 34,224	\$ 15,695	\$ 24,439	\$ 21,308	\$ 21,143	\$ 11,913	\$ 16,827
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK	\$ 1,096	\$ 1,164	\$ 654	\$ 390	\$ -	\$ -	\$ -	\$ -
EARNINGS PER SHARE ATTRIBUTED TO:								
APOLLO EDUCATION GROUP COMMON STOCK:								
DILUTED NET INCOME PER SHARE	\$ 0.26	\$ 0.29	\$ 0.14	\$ 0.21	\$ 0.19	\$ 0.19	\$ 0.10	\$ 0.14
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	116,540	116,240	116,008	115,209	114,644	114,189	114,778	116,245
UNIVERSITY OF PHOENIX ONLINE COMMON STOCK:								
DILUTED NET INCOME PER SHARE	\$ 0.10	\$ 0.11	\$ 0.06	\$ 0.04				
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	10,841	10,160	10,154	9,720				

(1) Includes the \$6.0 million charge related to the U.S. Department of Education agreement in the May 31, 2000 quarter and the \$1.4 million, \$2.7 million, and \$1.0 million charges recorded in the November 30, 2000, May 31, 2001, and August 31, 2001 quarters, respectively, related to the OIG audit of IPD's client institutions.

SELECTED FINANCIAL INFORMATION OF UNIVERSITY OF PHOENIX ONLINE

The following selected financial and operating data are qualified by reference to and should be read in conjunction with the financial statements of University of Phoenix Online and the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online." The statement of operations data for the years ended August 31, 2001, 2000, and 1999 and the balance sheet data as of August 31, 2001 and 2000 are derived from University of Phoenix Online's audited financial statements.

	YEAR ENDED AUGUST 31,				
	2001	2000	1999	1998	1997
(IN THOUSANDS)					
STATEMENT OF OPERATIONS DATA:					
REVENUES:					
Tuition and other, net	\$180,527	\$102,613	\$69,582	\$45,081	\$28,550
COSTS AND EXPENSES:					
Instructional costs and services	75,327	49,814	39,582	25,443	17,679
Selling and promotional	45,946	16,268	11,516	7,917	6,102
General and administrative	10,554	7,248	5,352	3,960	2,149
	131,827	73,330	56,450	37,320	25,930
INCOME FROM OPERATIONS	48,700	29,283	13,132	7,761	2,620
Interest income, net	3,629				
INCOME BEFORE INCOME TAXES	52,329	29,283	13,132	7,761	2,620
Provision for income taxes	20,566	11,801	5,323	3,151	1,078
NET INCOME	\$ 31,763	\$ 17,482	\$ 7,809	\$ 4,610	\$ 1,542

	AUGUST 31,			
	2001	2000	1999	1998
(IN THOUSANDS)				
BALANCE SHEET DATA:				
Cash and cash equivalents	\$ 36,261	\$ --	\$ --	\$ --
Marketable securities	70,499			
TOTAL CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES	\$106,760	\$ -	\$ --	\$ -
TOTAL ASSETS	\$147,790	\$21,962	\$14,871	\$ 8,516
Current liabilities	\$ 36,954	\$15,991	\$11,789	\$ 9,613
Long-term liabilities	3,004	123		42
Divisional net worth	107,832	5,848	3,082	(1,139)
TOTAL LIABILITIES AND DIVISIONAL NET WORTH	\$147,790	\$21,962	\$14,871	\$ 8,516

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF UNIVERSITY OF PHOENIX ONLINE

This Annual Report, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online" contains forward-looking statements. Forward-looking statements are inherently uncertain and subject to risks. Such statements should be viewed with caution. Forward-looking statements in this Annual Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online," include, but are not limited to, statements such as total purchases of property and equipment for University of Phoenix Online for the year ended August 31, 2002, are expected to range from \$10.0 to \$15.0 million.

Future events and actual results could differ materially from those set forth in the forward-looking statements as a result of many factors. Statements in this Annual Report, including "Notes to Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online," describe factors, among others, that could contribute to or cause such differences. Additional factors that could cause actual results to differ materially from those expressed in such

forward-looking statements include, without limitation: 1) new or revised interpretations of regulatory requirements; 2) changes in or new interpretations of other applicable laws, rules, and regulations; 3) University of Phoenix Online depends on

University of Phoenix's accreditation and the failure to maintain that accreditation would significantly reduce demand for University of Phoenix Online's programs; 4) University of Phoenix Online depends on University of Phoenix's state authorization to operate and the failure to maintain that authorization could prevent University of Phoenix Online from operating its business; 5) changes in student enrollment; and 6) other factors set forth in this Annual Report. These forward-looking statements are based on estimates, projections, beliefs, and assumptions of us and our management and speak only as of the date made and are not guarantees of future performance. We undertake no obligation to publicly update or revise any forward-looking statements, or any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission.

BACKGROUND AND OVERVIEW

University of Phoenix Online is a provider of accessible, accredited educational programs for working adults. It began operations in 1989 by modifying courses developed by University of Phoenix's physical campuses for delivery via modem to students worldwide. Today, students can log on to their online classes via the Internet 24 hours a day, 7 days a week wherever there is Internet accessibility using basic technology such as a Pentium-class personal computer, a 28.8K modem, and an Internet service provider, thereby enhancing the accessibility of and the potential market for its programs. University of Phoenix Online currently offers eleven accredited degree programs in business, education, information technology, and nursing. As of August 31, 2001, University of Phoenix Online had approximately 29,000 degree-seeking students and approximately 2,600 faculty members.

In order to track the economic performance of University of Phoenix Online, we have separated University of Phoenix Online, our online division, from Apollo Education Group, which includes the rest of our businesses. University of Phoenix Online common stock is intended to track the economic performance of University of Phoenix Online.

University of Phoenix Online has relied upon us to finance its operations since inception. Therefore, University of Phoenix Online's financial position, results of operations, and cash flows to date are not necessarily indicative of the financial position, results of operations, and cash flows that would have resulted had University of Phoenix Online been operating as an independent company.

The provision of services and other matters between University of Phoenix Online and Apollo Education Group, including the right to use our curriculum, trademarks, and copyrights, are governed by corporate expense, license, and income tax allocation policies, which are described below. These arrangements were not in place prior to March 24, 2000. However, in order to prepare financial statements that include charges and benefits of the types provided for under these arrangements, the financial statements for University of Phoenix Online reflect charges and benefits that would have applied if these inter-group arrangements had been in effect during the periods presented.

Although we have no present intention to do so, our Board of Directors may rescind, modify, or add to any of these policies. While management believes that these allocation methods are reasonable, the allocated expenses are not necessarily indicative of, and it is not practicable for us to estimate, the levels of expenses that would have been incurred if University of Phoenix Online had been operating as an independent company.

Corporate expenses

In order to prepare the financial statements for University of Phoenix Online, certain costs incurred by us and University of Phoenix, including legal, accounting, corporate office, and centralized student services costs, were allocated to University of Phoenix Online on the basis of its revenues in relation to those of us and University of Phoenix. Management believes the allocation methodology is fair to each group because allocations based on revenue will not inflate or dilute the operating margin of one group in favor of the other. The allocation of such expenses to University of Phoenix Online was as follows, in thousands:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
Instructional costs and services	\$12,367	\$ 9,265	\$ 4,995
Selling and promotional	1,067	772	201
General and administrative	10,554	7,248	5,352
	\$23,988	\$17,285	\$10,548

License fee

We charge University of Phoenix Online a license fee equal to 4% of University of Phoenix Online's net revenues for the use of our curriculum, trademarks, and copyrights. The license fee, which is included in instructional costs and services in University of Phoenix Online's statement of operations, was \$7.2 million, \$4.1 million, and \$2.8 million for the years ended August 31, 2001, 2000, and 1999, respectively.

Income taxes

University of Phoenix Online's results, along with those of University of Phoenix's other divisions, are included in our consolidated federal income tax return. State taxes are paid based upon our apportioned taxable income or loss, with the exception of certain state taxes that are based upon an apportionment of University of Phoenix taxable income or loss.

The provision for income taxes included in University of Phoenix Online's statement of operations has been calculated on a separate company basis. The related current and deferred tax assets and liabilities are settled with University of Phoenix at the end of each period through the revolving credit advance account.

University of Phoenix Online's effective income tax rate differs from the federal statutory tax rate primarily as a result of state income taxes.

We intend, for so long as University of Phoenix Online common stock remains outstanding, to include in our filings under the Securities Exchange Act of 1934, financial statements of University of Phoenix Online, and "Management's Discussion and Analysis of Financial Condition and Results of Operations of University of Phoenix Online," as of the same dates and for the same periods as our consolidated financial statements. These financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America, and in the case of annual financial statements, will be audited. These financial statements are not legally required under current law or Securities and Exchange Commission regulations.

Tuition and other revenues are shown net of discounts. University of Phoenix Online's educational degree programs last up to four years. Students in degree programs enroll in a program of study that encompasses a series of five to six week courses that are taken consecutively over the length of the program. Students are billed on a course-by-course basis when the student first attends a session, resulting in the recording of a receivable from the student and deferred tuition revenue in the amount of the billing. The revenue for each course is recognized on a pro rata basis over the period of instruction.

Instructional costs and services consist primarily of costs related to the delivery and administration of educational programs and includes a license fee equal to 4% of University of Phoenix Online's net revenues for the use of our curriculum, trademarks, and copyrights. Instructional costs and services include expenses directly attributable to University of Phoenix Online's operations, such as faculty compensation, administrative salaries, facility leases and other occupancy costs, bad debt expense, depreciation and amortization of property and equipment, and an allocation of expenses relating to centralized departments that provide services directly to University of Phoenix Online's students.

Selling and promotional costs consist primarily of compensation for enrollment advisors, advertising costs, production of marketing materials, other costs related to selling and promotional functions, and an allocation of expenses relating to our centralized marketing functions.

General and administrative costs consist of the allocation of administrative salaries, occupancy costs, depreciation and amortization, and other related costs for departments such as executive management, information systems, corporate accounting, human resources, and other departments that do not provide direct services to University of Phoenix Online students.

RESULTS OF OPERATIONS

The following table sets forth the statement of operations data of University of Phoenix Online, expressed as a percentage of tuition and other net revenues for the periods indicated:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999

REVENUES:			
Tuition and other, net	100.0%	100.0%	100.0%

COSTS AND EXPENSES:			
Instructional costs and services	41.7	48.5	56.9
Selling and promotional	25.5	15.9	16.5
General and administrative	5.8	7.1	7.7
	-----	-----	-----
	73.0	71.5	81.1

INCOME FROM OPERATIONS	27.0	28.5	18.9
Interest income, net	2.0		

INCOME BEFORE INCOME TAXES	29.0	28.5	18.9
Less provision for income taxes	11.4	11.5	7.7

NET INCOME	17.6%	17.0%	11.2%
=====			

YEAR ENDED AUGUST 31, 2001, COMPARED WITH THE YEAR ENDED AUGUST 31, 2000

Tuition and other net revenues increased by 75.9% to \$180.5 million in 2001 from \$102.6 million in 2000 due primarily to an increase in average full-time equivalent degree student enrollments and tuition price increases of two to three percent. Average full-time equivalent degree student enrollments increased to approximately 15,700 in 2001 from approximately 9,500 in 2000.

Instructional costs and services increased by 51.2% to \$75.3 million in 2001 from \$49.8 million in 2000 due primarily to the direct costs necessary to support the increase in degree student enrollments offset in part by University of Phoenix Online's allocation of \$1.1 million of the \$6.0 million charge related to the U.S. Department of Education agreement in the third quarter of 2000. Direct costs consist primarily of faculty compensation and related staff salaries. These costs as a percentage of tuition and other net revenues decreased to 41.7% in 2001 from 48.5% in 2000 due primarily to greater net revenues being spread over the fixed costs related to centralized student services and University of Phoenix Online's allocation of \$1.1 million of the \$6.0 million charge related to the U.S. Department of Education agreement in the third quarter of 2000. As University of Phoenix Online expands, it may not be able to leverage its existing instructional costs and services to the same extent.

Selling and promotional expenses increased by 182.4% to \$45.9 million in 2001 from \$16.3 million in 2000 due primarily to increased advertising and an increase in the number of enrollment advisors. These expenses as a percentage of tuition and other net revenues increased to 25.5% in 2001 from 15.9% in 2000 due primarily to increased advertising and an increase in the number of enrollment advisors.

General and administrative expenses increased by 45.6% to \$10.6 million in 2001 from \$7.2 million in 2000 due primarily to a higher revenue growth rate at University of Phoenix Online in that period compared to Apollo Education Group which resulted in a higher allocation of general and administrative expenses to University of Phoenix Online. General and administrative expenses as a percentage of tuition and other net revenues decreased to 5.8% in 2001 from 7.1% in 2000 due primarily to greater net revenues being spread over a proportionately lower increase in general and administrative expenses.

Net interest income was \$3.6 million and \$0 in 2001 and 2000, respectively. This increase was attributable to the increase in cash equivalents and marketable securities between periods.

University of Phoenix Online's effective tax rate decreased to 39.3% in 2001 from 40.3% in 2000 due to tax exempt interest income in 2001.

Net income increased to \$31.8 million in 2001 from \$17.5 million in 2000, due primarily to increased enrollments, improved utilization of instructional costs and services and general and administrative expenses, and an increase in interest income.

YEAR ENDED AUGUST 31, 2000, COMPARED WITH THE YEAR ENDED AUGUST 31, 1999

Tuition and other net revenues increased by 47.5% to \$102.6 million in 2000 from \$69.6 million in 1999 due primarily to an increase in average full-time equivalent degree student enrollments. Average full-time equivalent degree student enrollments increased

to approximately 9,500 in 2000 from approximately 7,000 in 1999.

Instructional costs and services increased by 25.9% to \$49.8 million in 2000 from \$39.6 million in 1999 due primarily to the direct costs necessary to support the increase in degree student enrollments and University of Phoenix Online's allocation of \$1.1 million of the \$6.0 million charge related to the U.S. Department of Education agreement. Direct costs consist primarily of faculty compensation and related staff salaries. These costs as a percentage of tuition and other net revenues decreased to 48.5% in 2000 from 56.9% in 1999 due primarily to greater net revenues being spread over the fixed costs related to centralized student services offset in part by University of Phoenix Online's allocation of \$1.1 million of the \$6.0 million charge related to the U.S. Department of Education agreement.

Selling and promotional expenses increased by 41.3% to \$16.3 million in 2000 from \$11.5 million in 1999 due primarily to an increase in enrollment advisors and additional advertising and marketing. These expenses as a percentage of tuition and other net revenues decreased to 15.9% in 2000 from 16.5% in 1999 due primarily to greater net revenues being spread over a proportionately lower increase in selling and promotional expenses.

General and administrative expenses increased by 35.4% to \$7.2 million in 2000 from \$5.4 million in 1999 due primarily to a higher revenue growth rate at University of Phoenix Online in that period compared to Apollo Education Group which resulted in a higher allocation of general and administrative expenses to University of Phoenix Online. General and administrative expenses as a percentage of tuition and other net revenues decreased to 7.1% in 2000 from 7.7% in 1999 due primarily to greater net revenues being spread over a proportionately lower increase in general and administrative expenses.

The effective tax rate decreased to 40.3% in 2000 from 40.5% in 1999.

Net income increased to \$17.5 million in 2000 from \$7.8 million in 1999, due primarily to increased enrollments and improved utilization of instructional costs and services, selling and promotional, and general and administrative expenses.

QUARTERLY FLUCTUATIONS IN RESULTS OF OPERATIONS

University of Phoenix Online may experience seasonality in its results of operations primarily as a result of changes in the level of student enrollments. While students are enrolled throughout the year, average enrollments and related revenues may be lower in some quarters than others. Most expenses do not vary directly with revenues and are difficult to adjust in the short term. As a result, if revenues for a particular quarter are lower than another, operating expenses may not be able to be proportionately reduced for that quarter.

LIQUIDITY AND CAPITAL RESOURCES

University of Phoenix Online currently is able to provide for its own capital expenditures and cash required for operations. All of its cash receipts and cash disbursements are processed by us on its behalf. Cash generated by Apollo Education Group and University of Phoenix Online has been and will continue to be managed centrally by us. University of Phoenix Online's liquidity could be adversely affected by the investment decisions we make.

Net cash provided by operating activities increased to \$45.5 million in 2001 from \$18.4 million in 2000. The increase resulted primarily from increased net income and a larger increase in student deposits and deferred revenue partially offset by a larger increase in receivables.

Capital expenditures increased to \$9.2 million in 2001 from \$3.7 million in 2000 due primarily to continued growth in operations. In addition, during 2001 University of Phoenix Online incurred costs associated with building an additional facility. Total costs associated with this facility were \$7.6 million. University of Phoenix Online sold this facility upon completion in August 2001 and is leasing it back under a ten year lease agreement. Total purchases of property and equipment for the year ended August 31, 2002, are expected to range from \$10.0 to \$15.0 million. These expenditures will primarily be related to increases in normal recurring capital expenditures due to the overall increase in students and employees resulting from the growth in the business.

On March 24, 2000, the Board of Directors of Apollo Group, Inc. ("Apollo") authorized the issuance of a new class of stock called University of Phoenix Online common stock, that is intended to reflect the separate performance of University of Phoenix Online, a division of The University of Phoenix, Inc., a wholly-owned subsidiary of Apollo. Apollo's other businesses and its retained interest

in University of Phoenix Online are referred to as "Apollo Education Group." On October 3, 2000, an offering of 5,750,000 shares of University of Phoenix Online common stock was completed at a price of \$14.00 per share. This stock represented a 10.8% interest in University of Phoenix Online with Apollo Education Group retaining the remaining 89.2% interest in University of Phoenix Online.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Apollo Group, Inc.:

In our opinion, the accompanying balance sheet and the related statements of operations and of cash flows present fairly, in all material respects, the financial position of University of Phoenix Online at August 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Apollo Group, Inc.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, University of Phoenix Online is a division of The University of Phoenix, Inc., a wholly-owned subsidiary of Apollo Group, Inc. Accordingly, the financial statements of University of Phoenix Online should be read in conjunction with the audited financial statements of Apollo Group, Inc.

PricewaterhouseCoopers LLP
Phoenix, Arizona
September 28, 2001

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UNIVERSITY OF PHOENIX ONLINE
(A DIVISION OF THE UNIVERSITY OF PHOENIX, INC.,
A WHOLLY-OWNED SUBSIDIARY OF APOLLO GROUP, INC.)

BALANCE SHEET

	AUGUST 31,	
	2001	2000
(IN THOUSANDS)		
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	\$ 36,261	\$ --
Marketable securities	67,766	
Receivables, net	21,754	13,991
Other current assets	2,008	482
TOTAL CURRENT ASSETS	127,789	14,473
Marketable securities	2,733	
Revolving credit advance to Apollo Education Group	4,087	
Property and equipment, net	12,946	5,940
Other assets	235	1,549
TOTAL ASSETS	\$147,790	\$ 21,962
LIABILITIES AND DIVISIONAL NET WORTH:		
CURRENT LIABILITIES		
Accounts payable	\$ 338	\$ 245
Accrued liabilities	3,509	1,220
Student deposits and deferred tuition revenue	33,107	14,526
TOTAL CURRENT LIABILITIES	36,954	15,991
Long-term liabilities	3,004	123
TOTAL LIABILITIES	39,958	16,114
Commitments and contingencies		
DIVISIONAL NET WORTH		
Funds allocated to/from Apollo Education Group	46,474	(23,747)
Accumulated earnings	61,358	29,595
TOTAL DIVISIONAL NET WORTH	107,832	5,848
TOTAL LIABILITIES AND DIVISIONAL NET WORTH	\$147,790	\$ 21,962

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF PHOENIX ONLINE
(A DIVISION OF THE UNIVERSITY OF PHOENIX, INC.,
A WHOLLY-OWNED SUBSIDIARY OF APOLLO GROUP, INC.)

STATEMENT OF OPERATIONS

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
(IN THOUSANDS)			
REVENUES:			
Tuition and other, net	\$180,527	\$102,613	\$69,582
<hr style="border-top: 1px dashed black;"/>			
COSTS AND EXPENSES:			
Instructional costs and services	75,327	49,814	39,582
Selling and promotional	45,946	16,268	11,516
General and administrative	10,554	7,248	5,352
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	131,827	73,330	56,450
<hr style="border-top: 1px dashed black;"/>			
INCOME FROM OPERATIONS	48,700	29,283	13,132
Interest income, net	3,629		
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
INCOME BEFORE INCOME TAXES	52,329	29,283	13,132
Provision for income taxes	20,566	11,801	5,323
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
NET INCOME	\$ 31,763	\$ 17,482	\$ 7,809
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF PHOENIX ONLINE
(A DIVISION OF THE UNIVERSITY OF PHOENIX, INC.,
A WHOLLY-OWNED SUBSIDIARY OF APOLLO GROUP, INC.)

STATEMENT OF CASH FLOWS

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
<i>(IN THOUSANDS)</i>			
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Net income	\$ 31,763	\$ 17,482	\$ 7,809
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,072	1,383	922
Amortization of investment discounts	(1,438)		
Provision for uncollectible accounts	2,061	2,129	2,411
Increase in assets:			
Receivables	(9,705)	(4,987)	(7,001)
Other assets	(235)	(1,884)	(131)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	2,328	(301)	(66)
Student deposits and deferred revenue	18,581	4,503	2,260
Other liabilities	49	123	(60)
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,476	18,448	6,144
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:			
Net additions to property and equipment	(9,208)	(3,732)	(2,556)
Additions related to facility subject to sale-leaseback	(7,608)		
Proceeds from sale-leaseback of facility	10,528		
Purchase of marketable securities	(119,281)		
Maturities of marketable securities	50,220		
NET CASH USED FOR INVESTING ACTIVITIES	(75,349)	(3,732)	(2,556)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:			
Revolving credit advance to Apollo Education Group	(4,087)		
Funds allocated to/from Apollo Education Group	70,221	(14,716)	(3,588)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	66,134	(14,716)	(3,588)
NET CHANGE IN CASH AND CASH EQUIVALENTS	36,261	--	--
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	--	--	--
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 36,261	\$ --	\$ --

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF PHOENIX ONLINE
(A DIVISION OF THE UNIVERSITY OF PHOENIX, INC.,
A WHOLLY-OWNED SUBSIDIARY OF APOLLO GROUP, INC.)

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

On March 24, 2000, the Board of Directors of Apollo Group, Inc. ("Apollo") authorized the issuance of a new class of stock called University of Phoenix Online common stock, that is intended to reflect the separate performance of University of Phoenix Online, a division of The University of Phoenix, Inc. ("University of Phoenix"), a wholly-owned subsidiary of Apollo. Apollo's other businesses and its retained interest in University of Phoenix Online are referred to as "Apollo Education Group." On October 3, 2000, an offering of 5,750,000 shares of University of Phoenix Online common stock was completed at a price of \$14.00 per share. This stock represented a 10.8% interest in University of Phoenix Online with Apollo Education Group retaining the remaining 89.2% interest in University of Phoenix Online. This percentage has decreased to 88.3% at August 31, 2001 due to the purchase of shares of University of Phoenix Online common stock as part of the Apollo Group, Inc. Employee Stock Purchase Plan and the exercise of University of Phoenix Online stock options.

University of Phoenix Online is the online division of University of Phoenix which is a regionally accredited, private institution of higher education offering associates, bachelors, masters, and doctoral degree programs in business, management, computer information systems, education, and health care. University of Phoenix Online offers its educational programs worldwide through its computerized educational delivery system. University of Phoenix is accredited by The Higher Learning Commission and is a member of the North Central Association of Colleges and Schools.

The accompanying financial statements provide financial information regarding the underlying business of University of Phoenix Online. Even though Apollo has separated its assets, liabilities, revenues, and expenses between Apollo Education Group and University of Phoenix Online for purposes of tracking the economic performance of each of University of Phoenix Online and Apollo Education Group, that separation will not change the legal title to any assets or the responsibility for any liabilities and will not affect the rights of creditors. Holders of University of Phoenix Online common stock are common stockholders of Apollo and are subject to all the risks associated with an investment in Apollo's assets and liabilities. Material financial events which may occur at Apollo Education Group may affect University of Phoenix Online's results of operations or financial position. Accordingly, University of Phoenix Online's financial statements should be read in conjunction with Apollo's consolidated financial statements.

The provision of services and other matters between University of Phoenix Online and Apollo Education Group, including the right to use the curriculum, trademarks, and copyrights of Apollo and its subsidiaries, are governed by corporate expense, income tax, and license allocation policies, which are described in Note 3. Related Party Transactions. These policies were not in place prior to March 24, 2000. However, in order to prepare financial statements that include charges and benefits of the types provided for under these policies, the accompanying financial statements reflect charges and benefits that would have applied if these policies had been in effect during the periods presented.

University of Phoenix Online's fiscal year is from September 1 to August 31. Unless otherwise stated, references to the years 2001, 2000, and 1999 relate to the fiscal years ended August 31, 2001, 2000, and 1999, respectively.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation. University of Phoenix Online capitalizes the cost of software used for internal operations once technological feasibility of the software has been demonstrated. Such costs consist primarily of custom-developed and packaged software and the direct labor costs of internally-developed software. Depreciation is provided on all furniture, equipment, and software using the straight-line method over the estimated useful lives of the related assets

which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets. Maintenance and repairs are expensed as incurred.

Revenues, receivables, and related liabilities

Tuition and other revenues are shown net of discounts relating to a variety of promotional programs. University of Phoenix Online's educational degree programs last up to four years. Students in degree programs enroll in a program of study that encompasses a series of five to six week courses that are taken consecutively over the length of the program. Students are billed on a course-by-course basis, when the student first attends a session, resulting in the recording of a receivable from the student and deferred tuition revenue in the amount of the billing. The revenue for each course is recognized on a pro rata basis over the period of instruction.

Many of University of Phoenix Online's students participate in government sponsored financial aid programs under Title IV of the Higher Education Act of 1965. These financial aid programs generally consist of guaranteed student loans and direct grants to students. Guaranteed student loans are issued directly to the student by external financial institutions, to whom the student is obligated, and are non-recourse to University of Phoenix.

Student deposits consist of payments made in advance of billings. As the student is billed, the student deposit is applied against the resulting student receivable.

Earnings per share

Earnings per share for University of Phoenix Online has been omitted from the accompanying statement of operations since University of Phoenix Online common stock is a class of stock of Apollo and is not part of the capital structure of University of Phoenix Online.

Apollo's consolidated financial statements present basic and diluted earnings per share for Apollo Education Group common stock and University of Phoenix Online common stock using the two-class method. The two-class method is an earnings allocation formula that determines the earnings per share for Apollo Education Group common stock and University of Phoenix Online common stock according to participation rights in undistributed earnings.

Fair value of financial instruments

The carrying amount reported in the balance sheet for cash and cash equivalents, marketable securities, receivables, accounts payable, accrued liabilities, and student deposits and deferred tuition revenue approximates fair value because of the short-term nature of these financial instruments.

Selling and promotional costs

University of Phoenix Online expenses selling and promotional costs as incurred. Selling and promotional costs include marketing salaries, direct-response and other advertising, promotional materials, and related marketing costs.

New accounting pronouncements

During December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101"), which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. University of Phoenix Online implemented the related guidelines during the fourth quarter of 2001, with effect from September 1, 2000, without material effect on its financial position or results of operations.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comprehensive income

Comprehensive income includes all changes in divisional net worth during a period from non-owner sources. University of Phoenix Online has not had any transactions, other than net income, that are required to be reported in comprehensive income.

NOTE 3. RELATED PARTY TRANSACTIONS

University of Phoenix Online's financial statements reflect the application of certain expense allocation and treasury activity policies summarized below. Although it has no present intention to do so, Apollo's Board of Directors may rescind, modify, or add to any of these policies. While management believes that these allocation methods are reasonable, the allocated expenses are not necessarily indicative of, and it is not practicable for us to estimate, the levels of expenses that would have been incurred if University of Phoenix Online had been operating as an independent company.

Corporate expenses

In order to prepare the accompanying financial statements, certain costs incurred by Apollo and University of Phoenix were allocated to University of Phoenix Online on the basis of its revenues in relation to those of Apollo and University of Phoenix. The allocation of such expenses to University of Phoenix Online was as follows, in thousands:

	YEAR ENDED AUGUST 31,		
	2001	2000	1999
Instructional costs and services	\$12,367	\$ 9,265	\$ 4,995
Selling and promotional	1,067	772	201
General and administrative	10,554	7,248	5,352
	-----	-----	-----
	\$23,988	\$17,285	\$10,548
	=====	=====	=====

License fee

Apollo charges University of Phoenix Online a license fee equal to 4% of University of Phoenix Online's net revenues for the use of curriculum, trademarks, and copyrights owned by Apollo and its subsidiaries. The license fee, which is included in instructional costs and services in the accompanying statement of operations, was \$7.2 million, \$4.1 million, and \$2.8 million for the years ended August 31, 2001, 2000, and 1999, respectively.

Income taxes

University of Phoenix Online's results, along with those of University of Phoenix's other divisions, are included in Apollo's consolidated federal income tax return. State taxes are paid based upon apportioned taxable income or loss of Apollo, with the exception of certain state taxes that are based upon an apportionment of University of Phoenix taxable income or loss.

The provision for income taxes included in the accompanying statement of operations has been calculated on a separate company basis. The related current and deferred tax assets and liabilities are settled with University of Phoenix at the end of each period through the revolving credit advance to Apollo Education Group account.

University of Phoenix Online's effective income tax rate differs from the federal statutory tax rate primarily as a result of state income taxes.

Treasury activities

Since its inception, Apollo has financed University of Phoenix Online's operations internally and has not incurred any related third-party debt. All of its cash receipts and disbursements were processed by Apollo on University of Phoenix Online's behalf. All amounts were settled through the funds allocated to/from Apollo Education Group component of University of Phoenix Online's divisional net worth. Whenever University of Phoenix Online generated cash from operations, that cash was deemed to be transferred to Apollo Education Group and was accounted for as a return of capital. Whenever University of Phoenix Online had a cash need, that cash was deemed to be transferred from Apollo Education Group and was accounted for as a capital contribution. As a result of

this policy, no inter-group interest income or expense was reflected in the consolidating statement of operations for the periods prior to the offering.

Upon the completion of the offering, the net proceeds of the offering of \$72.8 million were transferred to University of Phoenix Online and accounted for as a capital contribution. Subsequently, the difference between cash receipts and cash outlays attributable to University of Phoenix Online have been accounted for as a revolving credit advance (to the extent this difference was not transferred to University of Phoenix Online) from University of Phoenix Online to Apollo Education Group requiring the reflection of interest expense by Apollo Education Group and interest income by University of Phoenix Online at the rate of interest determined by the Board of Directors. Accordingly, operating results for Apollo Education Group and University of Phoenix Online for periods subsequent to the offering will not be comparable to such operating results prior to the offering.

NOTE 4. BALANCE SHEET COMPONENTS

Marketable securities consist of the following, in thousands:

TYPE	AUGUST 31, 2001	
	ESTIMATED MARKET VALUE	AMORTIZED COST

CLASSIFIED AS CURRENT:		
Municipal bonds	\$16,757	\$16,732
U.S. treasury obligations	3,447	3,447
U.S. agency obligations	31,126	31,097
Auction rate preferred stock	1,400	1,400
Commercial paper	15,111	15,090
	-----	-----
TOTAL CURRENT MARKETABLE SECURITIES	67,841	67,766
	-----	-----
CLASSIFIED AS NONCURRENT:		
Municipal bonds due in 1-2 years	525	525
Commercial paper	2,208	2,208
	-----	-----
TOTAL NONCURRENT MARKETABLE SECURITIES	2,733	2,733
	-----	-----
TOTAL MARKETABLE SECURITIES	\$70,574	\$70,499
	=====	=====

Receivables consist of the following, in thousands:

	AUGUST 31,	
	2001	2000

Trade receivables	\$ 22,973	\$ 15,717
Interest receivable	256	
Less allowance for doubtful accounts	(1,475)	(1,726)
	-----	-----
TOTAL RECEIVABLES, NET	\$ 21,754	\$ 13,991
	=====	=====

Bad debt expense was \$2.1 million, \$2.1 million, and \$2.4 million for 2001, 2000, and 1999, respectively.

Property and equipment consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Furniture and equipment	\$ 14,999	\$ 6,277
Software	570	540
Leasehold improvements	2,025	1,632
	17,594	8,449
Less accumulated depreciation and amortization	(4,648)	(2,509)
PROPERTY AND EQUIPMENT, NET	\$ 12,946	\$ 5,940

Depreciation and amortization expense was \$2.2 million, \$1.4 million, and \$0.9 million for 2001, 2000, and 1999, respectively.

Accrued liabilities consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Salaries, wages, and benefits	\$1,836	\$1,046
Other accrued liabilities	1,673	174
TOTAL ACCRUED LIABILITIES	\$3,509	\$1,220

Student deposits and deferred tuition revenue consist of the following, in thousands:

	AUGUST 31,	
	2001	2000
Student deposits	\$20,897	\$ 6,123
Deferred tuition revenue	12,210	8,403
TOTAL STUDENT DEPOSITS AND DEFERRED TUITION REVENUE	\$33,107	\$14,526

Divisional net worth activity is as follows, in thousands:

	FUNDS ALLOCATED TO/FROM APOLLO EDUCATION GROUP	ACCUMULATED EARNINGS	TOTAL
BALANCE AT AUGUST 31, 1999	\$ (9,031)	\$ 12,113	\$ 3,082
Net income		17,482	17,482
Funds allocated to/from Apollo Education Group	(14,716)		(14,716)
BALANCE AT AUGUST 31, 2000	(23,747)	29,595	5,848
Net income		31,763	31,763
Funds allocated to/from Apollo Education Group	70,221		70,221
BALANCE AT AUGUST 31, 2001	\$ 46,474	\$ 61,358	\$107,832

University of Phoenix Online and Apollo Education Group had no intercompany purchases for the years ended August 31, 2001 and 2000.

NOTE 5. BENEFIT PLANS

Employees of University of Phoenix Online are eligible to participate in Apollo's various health, welfare, and disability benefit programs offered to its full-time, salaried employees. Additionally, eligible employees also participate in Apollo's 401(k) plan as well as its employee stock option and stock purchase plans. Apollo does not provide post-employment or post-retirement health care and life insurance benefits to University of Phoenix Online's employees.

NOTE 6. COMMITMENTS AND CONTINGENCIES

University of Phoenix Online is obligated under facility and equipment leases that are classified as operating leases. Following is a schedule of future minimum lease commitments as of August 31, 2001, in thousands:

OPERATING LEASES		
	FACILITIES	EQUIPMENT & OTHER
2002	\$ 2,403	\$ 3
2003	2,415	
2004	2,453	
2005	2,493	
2006	2,405	
Thereafter	8,382	
	\$ 20,551	\$ 3

Facility and equipment rent expense totaled \$2.0 million, \$1.2 million, and \$1.4 million for 2001, 2000, and 1999, respectively.

There are no legal proceedings to which Apollo is a party pertaining to the business and operations of University of Phoenix Online, other than those occurring in the normal course of business. Management believes that the disposition of these cases will not have a material adverse impact on the financial position or results of operations of Apollo Education Group or University of Phoenix Online.

In January 1998, the U.S. Department of Education Office of the Inspector General ("OIG") began performing an audit of University of Phoenix's administration of the Title IV Programs. The team previously presented questions regarding University of Phoenix's interpretation of the "12-hour rule," distance education programs, and institutional refund obligations. University of Phoenix reached an agreement with the U.S. Department of Education which acknowledges no admission that there were any issues of non-compliance or errors by University of Phoenix. To bring this audit to closure and settle all outstanding issues prior to the final OIG report, which was issued on March 31, 2000, University of Phoenix agreed to modify its physical campus learning team attendance log to track the sites of learning team meetings and record the hours attended. This modification did not require any change to University of Phoenix Online's learning team attendance log. Part of the agreement, dated March 27, 2000, reached with the U.S. Department of Education requires University of Phoenix to pay the U.S. Department of Education \$6.0 million as a negotiated settlement in full satisfaction of all monetary findings arising under the final OIG audit report. Approximately \$1.1 million of this amount was allocated to University of Phoenix Online during 2000 in accordance with the corporate expense allocation policy and has been reflected in University of Phoenix Online's instructional costs and services.

NOTE 7. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth selected unaudited quarterly financial information of University of Phoenix Online for each of the last eight quarters.

	2001				2000			
	AUG. 31, 2001	MAY 31, 2001	FEB. 28, 2001	NOV. 30, 2000	AUG. 31, 2000	MAY 31, 2000	FEB. 29, 2000	NOV. 30, 1999
(IN THOUSANDS)								
REVENUES:								
Tuition and other, net	\$56,244	\$54,071	\$36,125	\$34,087	\$31,661	\$28,367	\$21,868	\$20,717
COSTS AND EXPENSES:								
Instructional costs and services (1)	23,211	20,783	15,687	15,646	13,525	14,478	11,269	10,542
Selling and promotional	16,176	13,449	8,719	7,602	5,754	4,208	3,220	3,086
General and administrative	2,681	3,200	2,574	2,099	2,287	1,873	1,585	1,503
	42,068	37,432	26,980	25,347	21,566	20,559	16,074	15,131
INCOME FROM OPERATIONS	14,176	16,639	9,145	8,740	10,095	7,808	5,794	5,586
Interest income, net	917	1,008	1,010	694				
INCOME BEFORE INCOME TAXES	15,093	17,647	10,155	9,434	10,095	7,808	5,794	5,586
Provision for income taxes	5,594	6,999	4,115	3,858	4,059	3,132	2,346	2,264
NET INCOME	\$ 9,499	\$10,648	\$ 6,040	\$ 5,576	\$ 6,036	\$ 4,676	\$ 3,448	\$ 3,322

(1) Includes University of Phoenix Online's allocation of \$1.1 million of the \$6.0 million charge related to the U.S. Department of Education agreement in the May 31, 2000 quarter.

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EXHIBIT 21
LIST OF SUBSIDIARIES

The Company holds 100% of the outstanding capital stock of:

The University of Phoenix, Inc.
Institute for Professional Development
Western International University, Inc.
The College for Financial Planning Institutes Corporation

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-46834, 33-87844, 33-88982, 33-88984, and 33-63429) of Apollo Group, Inc. of our reports dated September 28, 2001 relating to the consolidated financial statements of Apollo Group, Inc. and the financial statements of University of Phoenix Online, which appear in the Annual Report to Shareholders, which are included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Phoenix, Arizona
November 26, 2001

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Apollo Group, Inc.
Audit Committee of the Board of Directors

CHARTER

I. Purpose

The purpose of the Audit Committee (the "Committee") is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the Company's publicly reported financial information as well as its systems of internal control relating to financial reporting, compliance with laws and regulations, and ethical business conduct. The Committee will maintain effective working relationships with management, the Company's internal audit department and the Company's outside auditors and will promote continuous improvement in the Company's policies and procedures at all levels.

II. Composition

The Committee will be comprised of at least three qualified independent directors all of whom meet the independence requirements of the stock exchange on which the Company's common shares are listed. The members of the Committee will be elected by the Board of Directors who will also designate the Committee's Chairman.

III. Meetings

The Committee will meet at least four times a year. In connection therewith, the Committee will meet at least once a year with management, the director of the internal audit department and the Company's outside auditors in separate executive sessions to discuss any matters that the Committee deems appropriate. Minutes of each Committee meeting will be kept and the Committee's Chairman will provide periodic reports on its activities to the Board of Directors

IV. Charter

The Committee will review this charter on an annual basis and revise it as necessary.

V. Responsibilities

The Committee's primary responsibilities are summarized below:

Financial Statements

- The Committee will review the Company's quarterly and annual financial statements and related press releases and filings with the SEC and discuss such items with management and the Company's outside auditors prior to issuance.
- The Committee will meet with the Company's outside auditors to discuss the planned scope of their audit of the Company's annual financial statements as well as the nature of procedures to be performed in connection with their limited reviews of the Company's interim financial information.

- The Committee will meet with the Company's outside auditors at the conclusion of their audit of the Company's annual financial statements as well as at the conclusion of their limited reviews of the Company's interim financial information to discuss the related results of such audit or limited reviews and to receive communications from the outside auditors which are required in connection with such engagements.
- The Committee will review all significant changes in the Company's financial accounting and reporting policies and discuss such changes with management and the Company's outside auditors prior to implementation.

Title IV Programs

- The Committee will meet with management, the internal audit director and the Company's outside auditors to discuss the Company's participation in Title IV Student Financial Assistance Programs of the Higher Education Act of 1965, as amended (Title IV Programs).
- The Committee will meet with the Company's outside auditors to discuss the planned scope of their attestation engagement relating to the Company's compliance with the requirements of the Title IV Programs.
- The Committee will meet with the Company's outside auditors at the conclusion of their attestation engagement relating to the Company's compliance with the requirements of the Title IV Programs to discuss the related results including any findings noted as well as management's related corrective action plans.

Internal Audit

- The Committee will meet periodically with the director of the Company's internal audit department to review the department's organizational structure, staffing levels, planned activities and other related information. The Committee will also receive periodic reports from the internal audit director on the results of its activities.

Internal Controls

- The Committee will review reports prepared by management, the internal audit department and the Company's outside auditors with respect to the Company's system of internal controls over financial reporting, including controls relating to the Company's information systems, and monitor the implementation of any related recommendations for improvements.

Income Tax Matters

- The Committee will meet at least annually with management and the Company's tax advisors to discuss the Company's position with respect to federal, state and foreign income tax matters.

Legal Matters

- The Committee will meet at least annually with management and the Company's general counsel to discuss the Company's compliance with all relevant laws and regulations, including any related internal control systems to facilitate such compliance, as well as the status of any legal matters effecting the Company.

Code of Ethics

- The Committee will annually review the Company's Code of Ethical Conduct. The Committee will also receive reports from management and the director of internal audit concerning any related violations noted during the year.

Independent Accountants

- The outside auditors are accountable to the board of directors and the Committee. The Committee will evaluate the performance of the Company's outside auditors on an annual basis and recommend to the Board of Directors that the outside auditors be either retained or discharged. The Committee will also review and approve the fees paid to the outside auditors in connection with the annual audit of the Company's financial statements as well as the limited reviews of the Company's interim financial information.
- The Committee will review and confirm the independence of the Company's outside auditors by reviewing nonaudit services provided as well as the independent accountants' assertion of their independence in accordance with professional standards or other requirements. The Committee will be responsible for ensuring that it receives a formal written statement delineating all relationships between the outside auditors and the Company consistent with Independence Standards Board Standard 1. The Committee will actively engage in a dialogue with the outside auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditors.

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