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, 2016**

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 EDUCATION GROUP

APOLLO EDUCATION GROUP, INC.

(Exact name of registrant as specified in its charter)

ARIZONA	**86-0419443**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

4025 S. RIVERPOINT PARKWAY, PHOENIX, ARIZONA 85040
(Address of principal executive offices)

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

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

(Title of each class)	*(Name of each exchange on which registered)*
Apollo Education Group, Inc. Class A common stock, no par value	**The Nasdaq Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☑ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

No shares of Apollo Education Group, Inc. Class B common stock, its voting stock, are held by non-affiliates. The holders of Apollo Education Group, Inc. Class A common stock are not entitled to any voting rights. The aggregate market value of Apollo Education Group Class A common stock held by non-affiliates as of February 29, 2016 (last business day of the registrant's most recently completed second fiscal quarter), was approximately $816 million.

As of October 13, 2016, there were 109,149,552 shares of Apollo's Class A common stock outstanding and 475,149 shares of Apollo's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Information Statement for the 2016 Annual Meeting of Class B Shareholders (Part III)

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
FORM 10-K
FOR THE FISCAL YEAR ENDED AUGUST 31, 2016
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Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contains certain 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. All statements other than statements of historical fact may be forward-looking statements. Such forward-looking statements include, among others, those statements regarding future events and future results of Apollo Education Group, Inc. that are based on current expectations, estimates, forecasts, and the beliefs and assumptions of us and our management, and speak only as of the date made and are not guarantees of future performance or results. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "believe," "expect," "anticipate," "estimate," "plan," "predict," "target," "potential," "continue," "objectives," or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Such statements should be viewed with caution. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to:

- *Changes in regulation of the U.S. education industry and eligibility of proprietary schools to participate in U.S. federal student financial aid programs, including the factors discussed in Item 1, Business, under "Accreditation and Jurisdictional Authorizations," "Financial Aid Programs" and "Regulatory Environment;"*
- *The impact and effectiveness of the initiatives to transform University of Phoenix into a more focused, higher retaining and less complex institution, as discussed in Item 1, Business, under "University of Phoenix;"*
- *Each of the factors discussed in Item 1A, Risk Factors; and*
- *Those factors set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The cautionary statements referred to above also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements for any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

In this report, we refer to Apollo Education Group, Inc. as "the Company," "Apollo Education Group," "Apollo," "APOL," "we," "us" or "our."

Introductory Note Regarding Pending Merger

On February 7, 2016, we entered into an Agreement and Plan of Merger (as amended, the “Merger Agreement”) with AP VIII Queso Holdings, L.P. (“Queso”), an affiliate of Apollo Management VIII, L.P., which is a fund managed by an affiliate of Apollo Global Management, LLC, none of which is, or has ever been, affiliated with us. At the effective time of the merger, which, subject to the satisfaction of the closing conditions, is anticipated to be on or before February 1, 2017, the date on which the contract becomes terminable by either party, each share of our issued and outstanding Class A and Class B common stock will be converted pursuant to the terms of the Merger Agreement into the right to receive $10.00 per share in cash. On May 6, 2016, the Merger Agreement was approved by the holders of our outstanding Class A and Class B common stock, each voting separately as a class. Consummation of the merger is subject to various regulatory and customary approvals, and operating and other conditions. See Part II, Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, Pending Merger, for additional information on the Merger Agreement and the pending merger.

PART I

Item 1. *Business*

Overview

Apollo Education Group, Inc. is a private education provider serving students since 1973. We seek to improve the lives of working adults across the globe by making unemployed learners job-ready and employed learners more productive in their careers and communities. We offer undergraduate, graduate, certificate and nondegree educational programs and services, online and on-campus, principally to working adults in the U.S. and abroad through the following:

University of Phoenix

Founded in 1976, The University of Phoenix, Inc. is a private university in the U.S. that has graduated more than 950,000 students. The University offers undergraduate and graduate degrees through its colleges and schools in a wide range of program areas, including business, education and nursing. A significant majority of the University's approximately 140,000 students attend classes exclusively online, and the University also offers many of its educational programs and services at ground locations in selected major metropolitan areas throughout the U.S. In addition, the University offers a range of nondegree education programs for lifelong learners and students interested in developing skills and knowledge to improve their prospects of employment in their field of choice or advancement within their existing careers. In fiscal year 2016, University of Phoenix generated 78% of our consolidated net revenue.

Apollo Global

Our educational programs based outside the U.S. are primarily offered through our wholly-owned subsidiary, Apollo Global, Inc. We are increasing the extent of our international operations and we believe that our experience pioneering and delivering effective, flexible education to working adults can be utilized to successfully offer education in underserved international markets. Apollo Global served over 175,000 learners worldwide during fiscal year 2016, a significant portion of which represents students in short-term, nondegree programs and students that purchased certain self-study and/or asynchronous programs. Global serves its learners through the following:

- *BPP Holdings Limited ("BPP")* - BPP, which generated approximately half of Apollo Global's fiscal year 2016 net revenue, is headquartered in London, England and offers professional training and exam preparation programs in a variety of areas and qualification training, undergraduate and graduate degrees through BPP University, which principally includes BPP Law School and BPP Business School. The majority of BPP's professional training and exam preparation revenue is generated from accounting and law program areas. The majority of BPP University's revenue represents law qualifications and law degree programs. BPP delivers most of its programs through a mix of online and on-ground instruction with locations throughout the United Kingdom and certain European countries.
- *Open Colleges Australia Pty Ltd ("Open Colleges")* - Open Colleges is headquartered in Sydney, Australia and offers nationally recognized and government approved nondegree certificates, diplomas and other qualifications in a diverse range of disciplines and industries, including health and wellness, business management and services, and community services. The programs are designed for adult learners and provide flexibility through an online, asynchronous delivery model.
- *Career Partner GmbH ("Career Partner")* - Career Partner is headquartered in Munich, Germany and offers undergraduate and graduate degrees primarily in business, and nondegree programs. Career Partner delivers instruction at ground locations in Germany and online.
- *Universidad Latinoamericana ("ULA")* - ULA is headquartered in Mexico City, Mexico and offers graduate and undergraduate degrees, high school and executive education in a variety of program areas and disciplines, including medical, dental and communications. ULA delivers instruction through a mix of online and on-ground delivery at its campuses and learning centers, principally in Mexico City.
- *Faculdade da Educacional da Lapa ("FAEL"*) - FAEL is headquartered in Curitiba, Brazil and offers undergraduate and graduate degrees, primarily in the areas of business, education and technology. FAEL delivers instruction online and at ground locations throughout Brazil.
- *Apollo Global Chile S.A. ("Apollo Global Chile"*) - Apollo Global Chile includes Universidad de Artes, Ciencias y Comunicación ("UNIACC") and Instituto Superior de las Artes y Comunicaciones ("IACC"). UNIACC offers undergraduate and graduate degree programs in a variety of program areas principally at its campus in Santiago, Chile. IACC primarily offers degree and nondegree programs that are delivered online.
- *Milpark Education (Pty) Ltd. ("Milpark Education"*) - Milpark Education is headquartered in Cape Town, South Africa and offers postsecondary education designed for adult learners, including undergraduate and graduate degrees primarily in business, and nondegree programs. Milpark Education delivers instruction principally through distance education and, in select instances, on-ground at its campuses in Cape Town and Johannesburg.

- *India Education Services Private Ltd ("India Education Services")* - India Education Services, a 50:50 joint venture with HT Media Limited, an Indian media company, operates the Bridge School of Management in India. The school offers nondegree management and business programs geared toward adult learners, delivered in a mix of online and on-ground teaching.

Other

- *The College for Financial Planning Institutes Corporation ("College for Financial Planning")* - College for Financial Planning was founded in 1972 and is the creator of the Certified Financial Planner or CFP designation. College for Financial Planning provides online financial services education programs, including graduate degrees in three majors, certificate programs, Financial Industry Regulatory Authority securities license training, and continuing education courses.
- *Western International University, Inc.* - Western International University offers undergraduate and graduate degrees in a variety of program areas, including business, information technology and behavioral science. Western International University's programs are designed to provide students with a more self-managed, streamlined and affordable online higher education solution, as they work to achieve their educational goals and advance their careers. Western International University also provides relevant solutions for employers to help solve their human capital needs through degree and nondegree programs that can be tailored to meet the needs of the specific employer.
- *TIY Academy, LLC ("The Iron Yard")* - The Iron Yard provides various nondegree bootcamp programs that are typically 12 weeks or less in duration, and provide intensive, immersive skills training designed to provide direct pathways to associated careers in information technology.
- *Apollo Professional Development* - Apollo Professional Development provides relevant programs for employers to better help them recruit, develop and retain a qualified workforce.

Net Revenue

The following presents net revenue for each of our reportable segments for the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
University of Phoenix	$ 1,631,412	$ 2,148,312	$ 2,632,949
Apollo Global	433,700	391,217	338,008
Other	36,738	26,748	25,908
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865

The information required by Item 101(b) and 101(d) of Regulation S-K is provided under Note 18, Segment Reporting, in Part II, Item 8, *Financial Statements and Supplementary Data*, which is incorporated herein by reference.

General

University of Phoenix was founded in 1976 and Apollo was incorporated in Arizona in 1981. Apollo maintains its principal executive offices at 4025 S. Riverpoint Parkway, Phoenix, Arizona 85040 and also maintains senior executive offices at 227 West Monroe Street, Suite 3600, Chicago, Illinois 60606. Our telephone number is (480) 966-5394 and our website address is www.apollo.edu.

Our fiscal year is from September 1 to August 31.

Strategy

The higher education industry is changing at an increasing pace due to a challenging political and regulatory environment, technological developments, evolving needs and objectives of students and employers, economic constraints affecting educational institutions and students, price competition, increased focus on affordability and value, inconsistent quality of secondary education in the U.S. and other factors that challenge many of the core principles underlying the industry.

During this period of transition within the organization and unprecedented industry challenges, we remain focused on our mission to improve the lives of our working adults through higher education. We are working to make unemployed learners job-ready and employed learners more productive in their careers and communities. Our strategy includes the following key themes:

- *Drive improvement in student progression and career outcomes* - We believe that maximizing the value our students garner from their education is our top priority. We are focused on continuously improving our educational programs and services and providing the support needed to enable our students to successfully complete their programs and achieve their career goals.
- *Diversification and targeted growth* - We intend to focus on diversification through growth at our international institutions and increasing our professional development and other nondegree programs, which includes business-to-business product and service offerings.
- *Operational excellence* - We intend to continue our efforts to streamline operations, improve efficiency, ensure our cost structure is in line with our enrollment levels and deliver education more effectively and affordably in order to sustain long-term organizational strength and the ability to reinvest.

Industry

Domestic

The domestic postsecondary degree-granting education industry was estimated to be a more than $550 billion industry in 2013, according to a report published in 2016 by the U.S. Department of Education, with approximately 20 million students attending institutions that participate in U.S. federal financial aid programs. The Department projects that enrollment in postsecondary degree-granting institutions will grow 12% over the ten-year period ending in the fall of 2023 to approximately 23 million students. The degree-granting sector is highly fragmented with more than 4,700 domestic colleges and universities that participate in U.S. federal financial aid programs with no single institution having a significant market share.

Domestic higher education also includes a variety of nondegree programs including education certificate programs, continuing education, professional development, technology bootcamps and test preparation. We believe enrollment in nondegree programs is growing at a faster rate than enrollment in degree programs.

The majority of degree-seeking students today have one or more non-traditional characteristics (e.g., did not enroll immediately after high school graduation, attend part-time, work full-time, are financially independent for purposes of financial aid eligibility, have dependents other than a spouse, are single parents, or have no high school diploma). These non-traditional students (whom we generally refer to as working adults) typically are looking to improve their skills and enhance their earnings potential within the context of their careers or in pursuit of new careers. As the industry has shifted to more students with non-traditional characteristics, an increasing proportion of colleges and universities are addressing the needs of working adults. This includes colleges with well-established brand names that were historically focused on traditional students. See further discussion at *Competition* below.

The higher education industry is changing at an increasing pace as discussed in *Strategy* above. As a result, we see several forces impacting the higher education market in the near future:

- Increased pressure for more affordable education programs from reputable brands and lower student loan debt;
- Increased demand for certain education offerings, including nondegree programs, that lead to direct job pathways and require less time to complete;
- Increased demand for effective remedial education and other services and programs for students who are underprepared for college;
- Increased demand for proof of learning outcomes and education effectiveness; and
- Continued contraction of the proprietary sector following the recent ceasing of operations and bankruptcy protection filing by two major proprietary education institutions, together serving over 110,000 students, due to delays in or denial by the Department of Education of Title IV funding for students, based in part on the existence of multiple investigations by various regulatory authorities. See further discussion at *Regulatory Environment* below.

International

There were approximately 175 million students enrolled in postsecondary education worldwide in 2012, excluding the U.S., according to a report published in 2016 by the U.S. Department of Education. The international higher education market and associated opportunities often vary significantly by country due to a variety of factors including, but not limited to, the political, cultural and regulatory environments, as well as the structure of pre- and postsecondary educational systems. Additionally, higher education is rapidly evolving and private education is playing an important role in advancing the development of education, specifically higher education and lifelong learning, in many countries around the world. Within the last several years, educational groups and other investors have been investing in education institutions and consolidating the market in several countries. However, we believe there are underserved international markets that provide growth opportunities for private education as a result of some or all of the following:

- Insufficient public funding to meet demand for education;
- Shortcomings in the quality of higher education offerings, resulting in the rise of supplemental training to meet industry demands in the developing world;
- Worldwide appreciation of the importance that knowledge plays in economic progress; and
- The availability and role of technology in education, broadening the accessibility and reach of education.

University of Phoenix

University of Phoenix was founded in 1976 to provide access to effective higher education for working adults who wanted to advance their knowledge and achieve their professional goals. The University has been an innovator in higher education and has graduated more than 950,000 students. The University offers undergraduate and graduate degrees through its colleges and schools in a wide range of program areas as well as various nondegree programs. A significant majority of the University's students attend classes exclusively online and the proportion of the University's online students has increased in recent years. Many of the University's academic programs are also offered at ground locations in selected major metropolitan areas throughout the U.S.

The University's vision is to be recognized as the most trusted provider of career-relevant higher education for working adults. In furtherance of this, the University offers career focused programs and an instructional model designed specifically to meet the educational needs of working adults, which is further discussed below.

Due in part to the rapidly changing higher education environment, particularly for proprietary institutions, and the competitive factors described in *Competition* below, the University's enrollment has substantially declined since late 2010. The University is working to stabilize enrollment in the longer term by transforming itself into a more focused, higher retaining and less complex institution, including through:

- <u>Student outcomes initiatives</u> designed to better prepare incoming students and to help existing students progress in their programs to completion. This includes tailoring initial course sequences to match the academic capabilities of students when they first enroll, continuing to assess our programs to retire or improve those which have lower retention rates or are less career relevant, adding more career-focused pathways that offer certificates and four-year bachelor's degrees in key growth areas of the employment market, and piloting diagnostic tools for development of enhanced admissions guidelines and pathways expected to be implemented in fiscal year 2017.
- <u>Student experience initiatives</u> such as concentrating on fewer ground locations in selected major metropolitan areas throughout the U.S. while maintaining a regional presence for both on-ground and online students, and continuing to improve the classroom experience by offering student cohort start dates approximately every five weeks for most programs to optimize class size and classroom dynamics.
- <u>Brand health and outreach initiatives</u> designed to better manage the University's marketing message, improve its ability to identify those students more likely to persist in its educational programs, and build on the University's move away from third-party operated websites for marketing purposes.
- <u>Operational excellence initiatives</u> designed to reduce costs, improve operations and facilitate future systems upgrades such as continuing the transition of technology systems from proprietary and legacy systems to commercial software and software as a service. This includes the University's online classroom and developing increased student self-service capabilities in admissions, financial aid, academic planning and class scheduling.

We have experienced significant challenges in accurately predicting the effects on enrollment and retention of the various initiatives that we have developed and deployed in recent years. Accordingly, there is no assurance that our current transformation plan will stabilize enrollment, improve retention or achieve the other intended results, and the broad scope and number of simultaneous changes increases the risk of unexpected challenges and unintended consequences. Some of these initiatives have accelerated the enrollment decline at University of Phoenix in recent years, as discussed further in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*. Further, we expect that the University's enrollment will continue declining as we implement the initiatives; however, we expect the rate of decline to moderate as compared to the rate we experienced during 2016 and that enrollment will not increase prior to fiscal year 2019.

Colleges & Schools and Programs

The University offers undergraduate and graduate degrees in a wide range of program areas through the following colleges and schools:

Colleges and Schools

School of Business	School of Nursing[(1)]	College of Social Sciences
College of Education	College of Humanities and Sciences	College of Security and Criminal Justice
School of Health Services Administration[(1)]	College of Information Systems and Technology	School of Advanced Studies

(1) Offered through the University's College of Health Professions.

The School of Business, College of Social Sciences and College of Health Professions represent more than 70% of the University's Degreed Enrollment. Refer to *Students* below for a definition of Degreed Enrollment.

Although degree programs represent the substantial majority of the University's revenue, the University is focused on growing its nondegree continuing education programs, which include:

- Individual, credit bearing courses in a variety of program areas, mostly from the University's degree programs. These courses assist students in fulfilling their educational professional goals, maintaining licensures, and earning general elective credits to transfer into a degree program.
- Noncredit bearing professional development programs designed to advance career-specific skills and knowledge for working professionals in a variety of program areas.
- Test-preparation and certificate programs designed to help working professionals achieve industry-recognized certifications and/or successfully complete content-specific tests.

Degree seeking students also have the opportunity to benefit from the University's nondegree programs by earning certificates that can be used in the workplace as they are working toward their ultimate degree goal with no additional tuition or time.

Instructional Model

University of Phoenix's instructional model is designed specifically to meet the educational needs of working adults who seek accessibility, application of theory and practice, and access to practitioner faculty learning that has immediate application to the workplace. The delivery model is structured to enable students who are employed full-time or have other commitments to earn their degrees and still meet their personal and professional responsibilities. The University's focus on working, non-traditional, non-residential students minimizes the need for capital-intensive facilities and services like dormitories, student unions, food service, health care, sports and entertainment.

Many of the University's academic programs are offered at ground locations in selected major metropolitan areas throughout the U.S., but a significant majority of the University's students attend classes exclusively online. The University currently employs a proprietary online learning system used by both faculty and students; however, University of Phoenix entered into an agreement in June 2015 with a leading provider of learning management systems to implement a new learning management system, which the University began piloting with certain students in calendar year 2016. The University believes this arrangement will reduce cost and complexity, make it easier to incorporate improvements and, over time, improve learning outcomes and enhance the student experience.

Components of University of Phoenix's instructional model for both online and on-ground classes include:

- *Curriculum*. Faculty content experts design the curriculum for the University's programs, which enables it to offer current and relevant standardized programs to its students. The curricula are designed to integrate academic theory and professional practice and their application to the workplace.
- *Faculty*. Substantially all University of Phoenix faculty possess either a master's or doctoral degree. Faculty members typically have many years of experience in the field in which they instruct, and most teach on an adjunct basis.
- *Accessibility*. Many of the University's academic programs may be accessed either online or on-ground.
- *Active Learning Environment and Class Schedule*. University of Phoenix courses involve collaborative learning activities and class schedules often vary in length and structure depending on degree level and delivery mode. The University recently reduced the number of student cohort start dates from approximately every week to approximately every five weeks for most programs in order to reduce complexity and improve the classroom experience.
- *Student Learning Resources*. The University offers students and faculty a variety of education services including learning resources for their information and research needs, tutoring, student workshops and PhoenixConnect, the University's proprietary academic social media network.

Marketing

University of Phoenix engages in a broad range of advertising and marketing activities to educate students about the options they have in higher learning and convey the University's value proposition and offerings to connect education to careers. The University is focused on enhancing its brand perception and utilizing different communication channels, which are discussed below, to attract students who are more likely to persist in the University's programs.

- *Internet.* Many prospective students identify their education opportunities online through search engines, information and social network sites, various education portals on the Internet and school-specific sites such as the University's phoenix.edu. The University advertises on the Internet using search engine keywords, banners, and custom advertising placements on targeted sites, such as education portals, career sites, and industry-specific websites. The University eliminated the use of third-party operated websites for marketing purposes in November 2015 in order to better manage its marketing message, improve its ability to identify those students more likely to persist in its educational programs, and reduce cost.
- *Brand.* Brand advertising is intended to increase potential students' awareness of the University's academic quality, commitment to service, academic outcomes, academic community achievements and connection of education to careers. The University's brand is advertised primarily through national and regional broadcast, radio, online video, social, and print media. Brand advertising also serves to expand the addressable market and establish brand consideration and familiarity with the University's colleges and programs on both a national and a local basis.
- *Relationships with Employers and Community Colleges.* We establish relationships with employers in part to provide the University with a source of potential working adults for particular programs. We also establish relationships with community colleges to connect their graduates with the University's degree programs and other educational programs.
- *Sponsorships, Corporate Social Responsibility and Other*. The University builds its presence in communities through sponsorships, advertising and event marketing to support specific activities, including local and national career events, academic lecture series, workshops and symposiums on various current topics of interest and through its corporate social responsibility outreach program.

Admissions

The University helps students understand the best fit with its programs by providing access to online tools and resources that answer key questions and concerns prior to admission. This includes assessments of a potential student's learning style, academic abilities and readiness to pursue higher education, a tuition calculator and information on careers.

Admission to University of Phoenix undergraduate degree programs requires a high school diploma or equivalent, and proficiency in English. Admission to master and doctoral degree programs requires an undergraduate degree, and generally for doctoral programs, a master's degree, from a regionally or nationally accredited college or university, a minimum grade point average and relevant work experience if applicable for the field of study. Additional admissions requirements may vary based on degree program. In addition, the University expects to implement enhanced admissions guidelines in fiscal year 2017.

Students

The following details University of Phoenix student enrollment for the respective periods:

	Fiscal Year 2014				Fiscal Year 2015				Fiscal Year 2016			
(Rounded to the nearest hundred)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Degreed Enrollment[(1), (2)]	263,000	250,300	241,900	233,500	227,400	213,800	206,900	190,700	176,900	162,400	155,600	142,500
New Degreed Enrollment[(3)]	41,700	32,500	33,900	38,600	39,600	28,300	29,400	26,500	24,500	17,200	17,900	19,400

[(1)] Represents students enrolled in a degree program who attended a credit bearing course during the quarter and had not graduated as of the end of the quarter; students who previously graduated from one degree program and started a new degree program in the quarter (e.g., a graduate of an associate's degree program returns for a bachelor's degree); and students participating in certain certificate programs of at least 18 credits with some course applicability into a related degree program.

[(2)] As described in Footnote 1, Degreed Enrollment includes students who attended a credit bearing course during the quarter and had not graduated as of the end of the quarter. The proportion of students included in Degreed Enrollment who have completed their academic work but not yet formally graduated ("academically complete students") increased during the third and fourth quarters of fiscal year 2016 compared to prior periods due to changes in the manner in which graduation applications are processed. We estimate that the number of academically complete students reflected in this increase is approximately 2,000 - 3,000 for both the third and fourth quarters of fiscal year 2016.

[(3)] Represents new students and students who have been out of attendance for more than 12 months who enroll in a degree program and start a credit bearing course in the quarter; students who have previously graduated from a degree program and start a new degree program in the quarter; and students who commence participation in certain certificate programs of at least 18 credits with some course applicability into a related degree program.

Apollo Global

Our schools outside of the U.S. offer programs ranging from career oriented, nondegree certificate programs to accredited graduate degrees. BPP, as discussed further below, represents our largest international operation and generated approximately half of Apollo Global's fiscal year 2016 net revenue. Our international institutions are spread throughout the world with locations in Europe, Australia, North America, South America, Africa and Asia. Apollo Global serves learners through the following:

Business and Headquarters	Principal Education Offerings	Students and Delivery Method
BPP; London, England	Substantially all of BPP's revenue is generated by undergraduate and graduate degree programs at BPP University, and its nondegree programs. BPP University includes the BPP Law School and BPP Business School, with the law school generating the substantial majority of BPP University's revenue. The nondegree programs primarily represent professional training and exam preparation.	Substantially all BPP students reside in the U.K., and fund their education with personal funds, private loans, government financial aid funding and, in some instances, tuition reimbursement or other forms of assistance from their employers. Depending on the program, students are offered flexible learning models through on-campus, online, or blended delivery methods.
Open Colleges; Sydney, Australia	Open Colleges offers nondegree programs that include certificates, diplomas and other qualifications in a diverse range of disciplines and industries. Open Colleges' revenue is not concentrated in any particular offering and its largest program areas are health and wellness, business management and services, and community services.	Substantially all Open Colleges students reside in Australia and fund their education with personal funds. Open Colleges' programs are delivered in an online, asynchronous format that provides students with the flexibility to complete programs at their convenience.
Career Partner; Munich, Germany	Career Partner offers undergraduate and graduate degrees primarily in business, and nondegree programs.	Substantially all Career Partner students reside in Germany and fund their education with personal funds. Depending on the program, students are offered flexible learning models through on-campus or online delivery methods.
ULA; Mexico City, Mexico	ULA offers graduate and undergraduate degrees, high school and executive education in medical, dental and communications programs through a mix of online and on-ground delivery at its campuses and learning centers, principally in Mexico City.	Substantially all ULA students reside in Mexico and fund their education with personal funds. Depending on the program, students are offered flexible learning models through on-campus, online or blended delivery methods.
FAEL; Curitiba, Brazil	FAEL offers undergraduate and graduate degrees, primarily in the areas of business, education and technology.	Substantially all FAEL students reside in Brazil, and fund their education with personal funds and, in some instances, fund a portion of their education with government financial aid programs. Depending on the program, students are offered flexible learning models through distance education, on-campus, online or blended delivery methods.
Apollo Global Chile; Santiago, Chile	Apollo Global Chile includes UNIACC and IACC, which offer degree programs and nondegree programs in a variety of program areas primarily focused on arts and technology.	Substantially all UNIACC and IACC students reside in Chile and fund their education with personal funds. Students are offered flexible learning models through on-campus or online delivery methods.
Milpark Education; Cape Town, South Africa	Milpark Education offers postsecondary education including undergraduate and graduate degrees, and nondegree programs. The substantial majority of Milpark Education's programs are in business.	Substantially all Milpark Education students reside in South Africa and fund their education with personal funds and, in some instances, tuition reimbursement or other forms of assistance from their employers. Depending on the program, students are offered flexible learning models through distance education and on-campus learning.
India Education Services; India	India Education Services, a 50:50 joint venture with HT Media Limited, an Indian media company, operates the Bridge School of Management, which offers nondegree management and business programs.	The Bridge School of Management is focused on attracting students that reside in India and offers flexible learning models through on-campus or online delivery methods.

Competition

Domestic

The U.S. higher education industry is highly fragmented with no single private or public institution having a significant market share. We compete primarily with traditional public and private degree-granting regionally accredited colleges and universities, other proprietary degree-granting regionally accredited schools and alternatives to higher education. In addition, we face increasing competition from various emerging non-traditional, credit-bearing and noncredit-bearing education programs, offered by both proprietary and not-for-profit providers. Some of our competitors have greater financial and nonfinancial resources than we have and are able to offer programs similar to ours at a lower tuition level for a variety of reasons, including the availability of direct and indirect government subsidies, government and foundation grants, large endowments, tax-deductible contributions and other financial resources not available to proprietary institutions, or by providing fewer student services or larger class sizes. For example, a typical community college is subsidized by local or state government and, as a result, tuition rates for associate's degree programs are much lower at community colleges than at University of Phoenix. Furthermore, various members of Congress have advocated for free or debt free post-secondary education at public universities, and the affordability of such education has been the subject of intense focus among candidates during the campaign leading up to the November 2016 elections in the U.S.

The nondegree sector of higher education is also highly fragmented and has substantially lower barriers to entry compared to degree granting institutions.

The higher education industry is changing at an increasing pace due to a challenging political and regulatory environment, technological developments, evolving needs and objectives of students and employers, economic constraints affecting educational institutions and students, price competition, increased focus on affordability and value, inconsistent quality of secondary education in the U.S. and other factors that challenge many of the core principles underlying the industry. Related to this, education providers are testing and adapting new education and operating models focused on reducing costs, time to complete and operational complexity. These recent innovations include competency based and adaptive learning, intensive and immersive skill focused bootcamps and career pathways, tools and services. In addition, one of our primary competitive advantages in the U.S. has been materially diminished as a significant and increasing number of traditional four-year and community colleges, which are subject to fewer regulatory constraints, offer an increasing array of distance learning and other online education programs, including programs that are offered wholly online and geared towards the needs of working adults. This trend has been accelerated by private companies that provide and/or manage online learning platforms for traditional four-year colleges and community colleges. As the proportion of traditional colleges and universities providing alternative learning modalities increases, we will face increased competition from these institutions, including those with highly regarded reputations, the degrees from which are perceived as more valuable in the workplace. Already, this type of competition is significant and has contributed to the substantial decline in University of Phoenix enrollment that began in late 2010.

Furthermore, as discussed above, University of Phoenix is piloting diagnostic tools for development of enhanced admissions guidelines expected to be implemented in fiscal year 2017. Many of the students who do not meet these enhanced admissions guidelines will not be eligible for admission to traditional four-year colleges and universities. Accordingly, these new admissions guidelines will increase the proportion of University of Phoenix's potential students for which the University competes directly with the traditional educational institutions, further intensifying competition.

We believe that the primary factors on which we compete are the following:

- Breadth of reliable and high-quality programs tied to careers;
- Active and relevant curriculum development that considers the needs of employers;
- The ability to provide flexible and/or convenient access to our programs and classes;
- Career assessment and planning, and connecting career opportunities at leading companies to our students and alumni;
- Cost and perceived value of our offerings;
- Reputation of the institution and its programs;
- Qualified and experienced faculty;
- Differentiated student support services; and
- Size of alumni network.

International

In general, we operate in international markets that are highly competitive. Our international schools compete with other proprietary companies and, in certain instances, with government supported schools and institutions. Competitive factors for our international schools vary by country and, in some cases, by program offering. For example, BPP's qualifications and law program offerings compete with other providers primarily based on reputation and student outcomes, including placement rates and exam pass rates. Competitive factors for all of our international offerings generally include the following:

- Active and relevant curriculum development that considers the needs of employers;
- Breadth of reliable and high-quality programs and classes;
- Qualified and experienced faculty;
- Reputation of programs and classes;
- The ability to provide flexible and/or convenient access to programs and classes; and
- Program affordability.

Employees

As of August 31, 2016, we had approximately 9,000 non-faculty employees, the substantial majority of whom were employed full-time. We also had approximately 19,000 faculty members as of August 31, 2016, of which approximately 16,000 are University of Phoenix faculty. The substantial majority of the University's faculty are adjunct faculty who have taught in the last twelve months and are eligible to teach future courses. We believe that our employee relations are satisfactory.

Accreditation and Jurisdictional Authorizations

Domestic

University of Phoenix is regionally accredited by the Higher Learning Commission ("HLC"), 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 student financial aid programs under Title IV of the Higher Education Act ("Title IV") (in combination with state higher education operating and degree granting authority); and
- Qualification for authority to operate 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, as a component of authorization to operate as a degree-granting institution.

In July 2013, the accreditation of University of Phoenix was reaffirmed by HLC, the University's principal accreditor, through the 2022-2023 academic year. The University is subject to the Standard Pathway reaffirmation process, pursuant to which the University will host a comprehensive evaluation visit in 2017 and will undergo its next reaffirmation process in 2022-2023.

Accreditation information for University of Phoenix and applicable programs is described below:

Institution/Program	Accrediting Body (Year Accredited)[1]	Status[1]
University of Phoenix	• The Higher Learning Commission (1978, reaffirmed in 1982, 1987, 1992, 1997, 2002 and 2013)	• Comprehensive evaluation visit scheduled for 2017
• Business programs	• Accreditation Council for Business Schools and Programs	• Reaffirmation visit expected in 2017
• Bachelor of Science in Nursing	• Commission on Collegiate Nursing Education (2005) • Previously accredited by National League for Nursing Accrediting Commission from 1989 to 2005	• Reaffirmation visit expected in 2020
• Master of Science in Nursing	• Commission on Collegiate Nursing Education (2005) • Previously accredited by National League for Nursing Accrediting Commission from 1996 to 2005	• Reaffirmation visit expected in 2020
• Master of Counseling in Clinical Mental Health (Arizona campuses)	• Council for Accreditation of Counseling and Related Educational Programs (2012)	• Reaffirmation visit expected in 2017 or 2018
• Master of Counseling in Mental Health Counseling (Utah campus)	• Council for Accreditation of Counseling and Related Educational Programs (2001, reaffirmed in 2010, and in 2012)	• Reaffirmation visit expected in 2017
• Master of Arts in Education with options in Elementary Teacher Education and Secondary Teacher Education	• National Council for Accreditation of Teacher Education (“NCATE”)	• The University has, or is pursuing, NCATE programmatic accreditation in those states where it is mandatory for operation

(1) The referenced years are on a calendar basis.

In addition to accreditation by independent accrediting bodies, our schools must be authorized to operate by the appropriate regulatory authorities in many of the jurisdictions in which they operate. Institutions that participate in Title IV programs must be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence. University of Phoenix is specifically authorized to operate in all of the domestic jurisdictions in which it operates. 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 licensure in states which require such licensure and where students are enrolled. Refer to *Regulatory Environment - U.S. Department of Education Rulemaking Initiatives* for additional information regarding current state authorization rulemaking initiatives and Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and to participate in Title IV programs there*.

Our other domestic institutions maintain accreditations and/or the requisite authorizations in the jurisdictions in which they operate, as applicable. This includes Western International University, which has been accredited by HLC since 1984, and College for Financial Planning, which has been accredited by HLC since 1994.

International

Our international businesses must be authorized by the relevant regulatory authorities under applicable local law, which in some cases requires accreditation, as described below:

- *BPP* - BPP University Limited has been awarded degree awarding powers by the U.K. Privy Council, and certain of its awards are accredited by professional bodies toward professional qualifications. This designation is expected to require renewal during the 2018-2019 school year. Additionally, BPP Professional Education is an accredited training provider for a number of professional bodies offering training toward those bodies' professional qualifications. BPP also has additional accreditations by country and/or program as applicable.
- *Open Colleges* - Open Colleges operates four registered training organizations as approved by the Australian Skills Quality Authority ("ASQA"), the national regulator of vocational education programs. All four registrations were most recently renewed for the maximum allowable period with the first expiring and requiring renewal in our fiscal year 2018.

  In mid-October 2016, Apollo Global's two primary registered training organizations in Australia, Open Colleges Pty Ltd., and Integrated Care & Management Training, Pty Ltd., each received a notice of noncompliance and intention to make a decision to impose sanctions from ASQA. The notice, which followed a recent compliance audit, identified several alleged compliance deficiencies and stated that ASQA intended to make a decision on whether to impose sanctions on the institutions which could include cancellation of registration or imposition of lesser sanctions. One of the findings involves a change in the interpretation of applicable course requirements and will require changes in our procedures for student workplace skills assessments used in connection with courses that represent a substantial portion of the Open Colleges institutions' enrollment.

  Implementing an updated workplace skills assessment model in order to address ASQA's concerns will require operational changes for these institutions and increase operating costs, perhaps substantially, and could have competitive implications.

  We have until November 7, 2016 to respond to this notice of noncompliance. We cannot currently predict the timing or ultimate outcome of this matter. See Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - Changes by a regulator in the interpretation of applicable course requirements could materially impact our Open Colleges business in Australia*.
- *Career Partner* - Career Partner operates under its registration with the German Council of Science and Humanities. This registration was renewed for a period of ten years and is expected to require renewal in 2019. Career Partner also operates under additional programmatic accreditations, as applicable.
- *ULA* - ULA is recognized as a University of Excellence, which is the highest level of institutional accreditation from the Mexican Federation of Private Institutions of Higher Education (Federación de Instituciones Mexicanas Particulares de Educación Superior). ULA operates under additional regional or programmatic regulators in Mexico, as applicable.
- *FAEL* - FAEL is institutionally accredited by the Brazilian Ministry of Education to provide on-site and distance learning programs and also holds the applicable authorizations for the programs it provides.
- *Apollo Global Chile* - UNIACC and IACC are regulated by the Chilean Ministry of Education (Ministerio de Educación de Chile) and have programmatic accreditations, as applicable. UNIACC and IACC are pursuing or expect to pursue institutional accreditation with the relevant accrediting body, but we cannot predict whether, or when, such accreditation may be granted.
- *Milpark Education* - Milpark Education is registered with the South African Department of Higher Education and Training as a Private Higher Education Institution.
- *Bridge School of Management* - The Bridge School of Management offers non-accredited programs.

Financial Aid Programs

Domestic

The principal source of federal student financial aid in the U.S. is Title IV of the Higher Education Act and regulations promulgated thereunder. We refer to the financial aid programs under this Act as "Title IV" programs. The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program. The most recent reauthorization of the Higher Education Act expired September 30, 2013, but Title IV student financial aid programs remain authorized and functioning. Congress continues to engage in discussion and activity regarding Higher Education Act reauthorization, but the timing and terms of any eventual reauthorization cannot be predicted.

Financial aid under Title IV programs is awarded annually to eligible students. Some Title IV programs award financial aid on the basis of financial need, generally defined as the difference between the cost of attending an educational institution and the amount the student and/or the student's family, as the case may be, can reasonably be expected to contribute to that cost. The amount of financial aid awarded to a student each academic year is based on many factors, including, but not limited to, program of study, grade level, Title IV annual loan limits, and financial need. We have substantially no control over the amount of Title IV student loans or grants sought by or awarded to our students. All recipients of Title IV program funds must maintain satisfactory academic progress within the guidelines published by the U.S. Department of Education to remain eligible. Refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - Action by the U.S. Congress to revise the laws governing federal student financial aid programs or reduce funding for these programs, including changes applicable only to proprietary educational institutions, could reduce our enrollment and increase our costs of operation*.

In addition to Title IV programs, qualifying U.S. active military and veterans and their family members are eligible for federal student aid from various Departments of Defense and Veterans Affairs programs. We refer to the financial aid programs administered by these Departments as "military benefit" programs.

During fiscal year 2016, 79% of University of Phoenix's cash basis revenue for eligible tuition and fees was derived from the receipt of Title IV program funds, as calculated under the *90/10 Rule* described in *Regulatory Environment* below. These Title IV program funds are principally comprised of federal student loans and Pell Grants:

- *Student loans* currently are the most significant component of Title IV program funds and are administered through the Federal Direct Loan Program. Annual and aggregate loan limits apply based on the student's grade level and other factors. Currently, the maximum annual loan amounts range from $3,500 to $12,500 for undergraduate students and $20,500 for graduate students. There are two types of federal student loans: subsidized loans, which are based on the statutory calculation of student need, and unsubsidized loans, which are not based on student need. Neither type of student loan is based on creditworthiness. Students are not responsible for interest on subsidized loans while enrolled in school. Graduate and professional students are not eligible for subsidized loans. Students are responsible for the interest on unsubsidized loans while enrolled in school, but have the option to defer payment while enrolled. Repayment on federal student loans begins six months after the date the student ceases to be enrolled. The loans are repayable over the course of 10 years and, in some cases, longer. During fiscal year 2016, student loans (both subsidized and unsubsidized) represented approximately 76% of the gross Title IV program funds received by University of Phoenix.
- *Federal Pell Grants* are awarded based on financial need and only to eligible undergraduate students who have not earned a bachelor's or professional degree. Unlike loans, Pell Grants do not have to be repaid. The maximum annual Pell Grant award is $5,815 for the 2016-2017 award year. During fiscal year 2016, Pell Grants represented approximately 24% of the gross Title IV program funds received by University of Phoenix. Because the federal Pell Grant program is one of the largest non-defense discretionary spending programs in the federal budget, it is a target for reduction as Congress addresses the competing demands for funding and the chronic and significant U.S. budget deficit. Furthermore, a recent study by the U.S. Federal Reserve System demonstrated a direct relationship between student financial aid increases, including Pell Grant increases, and tuition increases, which could impact future Pell Grant amounts. A reduction in the maximum annual Pell Grant amount or changes in eligibility could negatively impact enrollment and could result in increased student borrowing, which would make it more difficult for us to comply with other important regulatory requirements such as maintaining student loan cohort default rates below specified levels.

The remaining funding for tuition and other fees paid by our students primarily consists of military benefit programs, tuition assistance from employers and personal funds.

On January 15, 2016, University of Phoenix was notified by the U.S. Department of Defense ("DoD") that the University's probationary status in respect of its participation in the DoD Tuition Assistance Program for active duty military personnel had been lifted, effective immediately. The University had been placed on probation in October 2015 pending a review by the Department of the University's compliance with the DoD Voluntary Education Partnership Memorandum of Understanding with the University, which is the basis on which the University's active duty military students participate in the DoD Tuition Assistance Program.

The University will be subject to a heightened compliance review for a period of one-year following the removal of probationary status. During this period, the University will continue to engage with the DoD and complete the production of information and documents previously requested by the DoD. In addition, the University will be subject to an enhanced compliance review in fiscal year 2017.

In fiscal year 2016, funding under the DoD Tuition Assistance Program represented less than 1% of the University's net revenue.

Refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate.*

International

Although students enrolled at certain of our international institutions receive government financial aid funding, such funding is not a material component of our net revenue from international institutions.

Regulatory Environment

Domestic

Our domestic postsecondary institutions are subject to extensive U.S. federal and state regulations. The Higher Education Act, as reauthorized, and the related U.S. Department of Education regulations govern all higher education institutions participating in Title IV programs, and provide for a regulatory triad by mandating specific regulatory responsibilities for each of the following:

- 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.

To be eligible to participate in Title IV programs, a postsecondary institution must be accredited by an accrediting body recognized by the U.S. Department of Education, must comply with the Higher Education Act, as reauthorized, and all applicable regulations thereunder, and must be authorized to operate by the appropriate postsecondary regulatory authority in each state in which the institution operates, as applicable.

In addition to governance by the regulatory triad, there has been substantial and continuing increased focus in recent years by members of the U.S. Congress and federal agencies, including the Department of Education, the Consumer Financial Protection Bureau and the Federal Trade Commission, on the role that proprietary educational institutions play in higher education. Congressional hearings and roundtable discussions have been held regarding various aspects of the education industry, and reports have been issued that are highly critical of proprietary institutions and include a number of recommendations to be considered by Congress in connection with the upcoming reauthorization of the federal Higher Education Act. A group of influential U.S. senators has strongly and repeatedly encouraged the Departments of Education, Defense and Veterans Affairs to take action to limit or terminate the participation of proprietary educational institutions, including University of Phoenix, in existing tuition assistance programs.

The 2016 Democratic Party Platform for the November 2016 elections includes a plan highly critical of the proprietary education industry and vows to intensify the current focus on for-profit schools and to strengthen the gainful employment rules applicable to for-profit schools. The outcome of the November 2016 elections in the U.S. could increase the risk that the eligibility of proprietary schools to participate in Title IV student financial aid programs will be limited, perhaps materially.

In late 2014, the Department of Education formed an inter-agency task force focused on the proprietary sector involving multiple federal agencies and departments including the Federal Trade Commission, the U.S. Departments of Justice, Treasury and Veterans Affairs, the Consumer Financial Protection Bureau, the Securities and Exchange Commission, and numerous state Attorneys General, to coordinate activities and share information to protect students from unfair, deceptive and abusive policies and practices by proprietary higher education institutions. We expect that this challenging political and regulatory environment will continue for proprietary educational institutions, including University of Phoenix, for the foreseeable future, and may intensify.

In recent years, two major proprietary education institutions, together serving over 110,000 students, have ceased operations and filed for bankruptcy protection due to delays in or denial by the Department of Education of Title IV funding for students and requirements to post letters of credit, based in part on the existence of multiple investigations by various regulatory authorities. In neither case were the principal investigations completed nor were substantial enforcement actions commenced and prosecuted to conclusion. Accordingly, proprietary institutions are at risk of harmful delays or denial of Title IV funding for students due to investigations and other preliminary allegations, even if such investigations or allegations may ultimately be found to lack merit.

We have summarized below recent material activity in the regulatory environment affecting our business and the most significant regulatory requirements applicable to our domestic postsecondary operations. Changes in or new interpretations of applicable laws, rules, or regulations could have a material adverse effect on our eligibility to participate in Title IV programs, accreditation, authorization to operate in various states, permissible activities, and operating costs. The failure to maintain or renew any required regulatory approvals, accreditation, or state authorizations could have a material adverse effect on us. Refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate*.

Financial Aid Funding

The most recent reauthorization of the Higher Education Act expired September 30, 2013, but Title IV student financial aid programs remain authorized and functioning. Congress continues to engage in discussion and activity regarding Higher Education Act reauthorization, but the timing and terms of any eventual reauthorization cannot be predicted.

Title IV program funding is a potential target for reduction by Congress. Because the majority of our revenue is derived from Title IV programs, any action by Congress that reduces Title IV program funding, or which alters the eligibility of our institutions or students to participate in Title IV programs could have a material adverse effect on our enrollment and financial condition. Action by Congress or federal agencies could also require us to modify our practices in ways that increase our operating costs.

In addition to possible reductions in Title IV program funding, military benefit programs may be reduced as military branches address decreased funding. Reductions and/or changes in military benefit programs, or changes in our eligibility to participate in such programs, could result in increased student borrowing, decreased enrollment and adverse impacts on our 90/10 Rule percentage, as discussed below.

Eligibility and Certification Procedures

The Higher Education Act, as reauthorized, specifies the manner in which the U.S. Department of Education reviews institutions for eligibility and certification to participate in Title IV programs. Every educational institution involved in Title IV programs must be certified to participate and is required to periodically renew this certification, which is granted in a Program Participation Agreement with the institution.

University of Phoenix's Title IV Program Participation Agreement expired on December 31, 2012. The University has submitted necessary documentation for recertification and its eligibility continues on a month-to-month basis until the Department issues its decision on the application. We believe that the University's application will be renewed in due course. However, we cannot predict whether or to what extent the continued challenging political and regulatory climate, our pending merger, and other recent developments in general relating to the proprietary education sector and our business may have on the timing or outcome of the recertification process.

In February 2016, the Department notified the University that for the duration of the month-to-month continuation of the University's Program Participation Agreement, University of Phoenix must obtain from the Department prior approval of substantial changes, including (i) the establishment of additional locations, (ii) any increase in the level of academic offering beyond those listed in the Institution's Eligibility and Certification Approval Report and (iii) the addition of any educational program (including degree, nondegree, or short-term training programs). Some of these substantial changes include changes that previously could be implemented by the University upon notice to the Department and without prior approval.

Gainful Employment

Under the Higher Education Act, as reauthorized, proprietary schools are generally eligible to participate in Title IV programs only in respect of educational programs that lead to "gainful employment in a recognized occupation." In connection with this requirement, proprietary postsecondary institutions are required to provide information to prospective students about each eligible program, including the relevant recognized occupations, cost, completion rate, job placement rate, and median loan debt of program completers.

In October 2014, the U.S. Department of Education published final regulations, effective July 1, 2015, on the metrics for determining whether an academic program prepares students for gainful employment in a recognized occupation. Under the final regulations, which apply on a program-by-program basis, students enrolled in a program will be eligible for Title IV student financial aid only if that program satisfies at least one of two tests relating to student debt service-to-earnings ratios. The two tests specify minimum student loan debt service-to-earnings ratios calculated on the basis of the average earnings of program graduates: one test measures student loan debt service as a percentage of total earnings, and the other test measures student loan debt service as a percentage of deemed discretionary earnings. If a program fails to meet both of the minimum ratios for one year, the institution will be required to provide a warning notice to prospective and enrolled students advising that the program may lose Title IV eligibility based on the final student loan debt service-to-earnings ratios for the next year. Programs that fail to meet both of the minimum ratios for two out of three years will immediately cease to be Title IV eligible for a period of at least three years.

The Department has indicated that it plans to issue the official 2014 gainful employment debt service-to-earnings ratios by January 2017, and we anticipate the 2015 ratios will be issued in early fiscal year 2018. We believe it is likely that some of University of Phoenix's programs will be impacted by the gainful employment regulations. Beginning in September 2015 and continuing through early fiscal year 2017, the University ceased enrolling or plans to cease enrolling new students in programs it believes may be impacted in connection with its initiatives to transform itself into a more focused, higher retaining and less complex institution. As of August 31, 2016, students in such programs represented approximately 15% of the University's

Degreed Enrollment. Students who are currently enrolled in such programs, and who do not elect to enroll in a different University of Phoenix program, are being taught-out in due course.

Changes in student borrowing needs and practices, student loan interest rates, labor markets and other factors outside of our control could adversely impact compliance with these regulations for some of our programs in the future. The Department has not yet announced the future, annual protocol for calculating and disseminating the debt service-to-earnings ratios. We will not know of a program's failure to meet the minimum ratios until well after the measuring period, and therefore students enrolled in such a program could lose their access to federal financial aid before completing the program. Accordingly, we will not have the opportunity to make program changes for any programs that did not meet either of the minimum ratios for 2014. If those programs also do not meet either of the minimum ratios for 2015, they will lose eligibility to participate in Title IV financial aid programs at the time the official 2015 ratios are published, which we anticipate will occur in early fiscal year 2018.

U.S. Department of Education Rulemaking Initiatives

In recent years, the U.S. Department of Education has engaged in rulemaking discussions intended to develop new regulations focused on various topics. The negotiated rulemaking process typically begins with the Department issuing proposed regulations open for public comment after which the Department responds and publishes final regulations. We cannot predict the content of any new regulations that may emerge from the negotiated rulemaking process or the potential impact of such regulations on our domestic institutions.

A negotiated rulemaking committee was convened by the Department in January 2016 on the topic of the process and standards for discharge of student loans, commonly known as defense to repayment, and certain other matters. The committee failed to reach consensus. In June 2016, the Department issued a Notice of Proposed Rulemaking to establish a new federal standard and a process for determining whether a borrower has a defense to repayment on federal student loans based on an act or omission of a school.

The proposed regulations would provide repayment relief to borrowers in respect of student loans first disbursed on or after July 1, 2017 where:

- a school breaches contractual promises to a student;
- certain judgments based on any state or federal law are entered against a school related to the loan or the educational services after a contested proceeding; or
- the school makes substantial misrepresentations about the nature of its educational programs, financial charges or employability of graduates, or insubstantial misrepresentations where other factors are present, such as pressure to enroll quickly or taking advantage of students' distress or lack of knowledge or sophistication.

As proposed, there would be no limitation on claims to discharge future amounts owed by the borrower and a six-year limitation (from the date of the breach) on claims to discharge amounts already paid by the borrower. The proposed regulations also would allow the Department to identify and grant relief to groups of students where there are common facts, including students who have not requested relief.

The proposed borrower defense definitions would not apply for loans first disbursed prior to July 1, 2017, and these loans will remain subject to the current borrower defense definitions; however, under the proposed rules, these loans will follow the same claims process, individual and group, and time limitations.

As proposed, the Department would be entitled to seek reimbursement from the school in most cases in respect of loans discharged under the new procedure.

In addition, the proposed regulations specify early warning triggers regarding financial distress that would automatically require a school to post a letter of credit in the amount of at least 10% of the school's annual Title IV disbursements upon the occurrence of specified events including, but not limited to:

- the commencement of a major lawsuit by a state or federal government entity, such as a state Attorney General, the Consumer Financial Protection Bureau or the Federal Trade Commission;
- the filing of a substantial number of borrower defense claims;
- default by the school on its debt obligations;
- failure of the school to satisfy the 90/10 Rule;
- programs failing to meet gainful employment regulations;
- accrediting agency actions, including the requirement to submit teach-out plans or being placed on an accreditation status that could result in the school losing its accreditation; and/or
- any event or condition the Department determines is likely to have a material adverse effect on the business, financial condition or results of operations of the institution.

Each separate triggering event would result in a separate letter of credit requirement of at least 10% of annual Title IV disbursements. If a school experiences any of these triggers, the school would be required to warn prospective and current students that it has been required to provide enhanced financial protection to the Department.

Further, the proposed regulations would also institute a loan repayment rate for proprietary institutions and would require disclosure of such rate to prospective and enrolled students if such rate falls below specified levels.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise standards for student loan discharge may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of enforcement actions by state or federal government entities, or the filing of student claims for debt relief, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to administer the regulations, including fact-finding, and the subjective judgments regarding the triggers for debt relief of the letter of credit requirements may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness, and our flexibility in responding to state or federal and certain private lawsuits may be materially reduced because of the possible significant ancillary consequences of an adverse judgment or finding.

Recently, two major proprietary higher education institutions were forced to cease operations and seek bankruptcy protection due to delays in Title IV disbursements and requirements to post letters of credit imposed by the Department based in part on the existence of pending state and federal investigations and the Department's judgment regarding various subjective matters such as the institution's culture. These regulations, if adopted as proposed, would enhance the power of the Department to take summary action that could harm University of Phoenix and Apollo Education Group, perhaps materially, before we could effectively exercise our due process rights, even if the action is based on pending investigations or legal proceedings that ultimately are determined to lack merit.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017. More information can be found at http://www2.ed.gov/policy/highered/reg/hearulemaking/2016/index.html.

A separate negotiated rulemaking process was convened by the Department in November 2013 on a variety of topics. Included among the topics was the proposed establishment of requirements for state authorization of distance education programs in order to demonstrate eligibility for Title IV eligibility. A negotiated rulemaking committee was established and met in early 2014. The committee failed to reach consensus. In July 2016, the Department issued draft regulations to establish new federal requirements for such eligibility.

The proposed regulations would establish new requirements to maintain state authorization for Title IV eligibility for distance education programs. Major provisions include, but are not limited to:

- Requiring an institution offering distance education to have requisite state authority to offer such programs to state residents if required by the state;
- Defining and recognizing acceptable state authorization reciprocity agreements;
- Requiring institutions to document individualized state processes for resolving student complaints; and
- Requiring an institution to provide extensive public and individualized disclosures to enrolled and prospective students regarding its programs offered solely through distance education, including information concerning adverse actions filed against the school by state entities or accrediting bodies.

As proposed, the regulations could be interpreted to allow individual states to impose new and diverse requirements on institutions and thereby reduce the regulatory and operational efficiency that our schools use in operating under the current State Authorization Reciprocity Agreement ("SARA"), which currently allows our Title IV eligible programs to operate in those states that have adopted SARA with only home state regulatory approval. States that have adopted SARA now constitute the majority of domestic jurisdictions.

Also as proposed, the regulations could be interpreted to require extensive new public disclosures based upon certain actions by accreditors and state entities, including state Attorneys General. Under some interpretations, the regulations could require disclosure to current and prospective students upon the mere filing of an adverse action and long after the initial action was resolved, even if resolved in favor of the institution.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise regulatory scope and definitions for individualized state requirements and disclosures may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of adverse actions by government entities or accrediting bodies, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to interpret and administer the regulations may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017.

Standards of Financial Responsibility

To participate in Title IV programs, the U.S. Department of Education regulations specify that an eligible institution of higher education must satisfy specific measures of financial responsibility prescribed by the Department, or post a letter of credit in favor of the Department and accept other conditions on its participation in Title IV programs. Pursuant to the Title IV program regulations, each eligible institution must satisfy a measure of financial responsibility that is based on a weighted average of the following three annual ratios which assess the financial condition of the institution:

- Primary Reserve Ratio - measure of an institution’s financial viability and liquidity;
- Equity Ratio - measure of an institution’s capital resources and its ability to borrow; and
- Net Income Ratio - measure of an institution’s profitability.

These ratios provide three individual scores which are converted into a single composite score. The maximum composite score is 3.0. If an institution’s composite score is at least 1.5, it is considered financially responsible. If an institution’s composite score is less than 1.5 but is 1.0 or higher, it is still considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years under the Department’s “zone” alternative. Under the zone alternative, the Department may subject the institution to various operating or other requirements, which may include being transferred from the “advance” method of payment of Title IV program funds to the heightened cash monitoring payment method under which the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds from the Department for the amount of those disbursements, or being transferred to the more onerous reimbursement payment method under which an institution must submit to the Department documentation demonstrating the eligibility for each Title IV disbursement and wait for the Department’s approval before drawing down Title IV funds.

If an institution does not achieve a composite score of at least 1.0, it is subject to additional requirements in order to continue its participation in the Title IV programs, including submitting to the Department a letter of credit in an amount equal to at least ten percent, and at the Department’s discretion up to 50%, of the Title IV funds received by the institution during its most recently completed fiscal year, and being placed on provisional certification status, under which the institution must receive Department approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department.

In addition, under new regulations that took effect on July 1, 2016, institutions placed on either the heightened cash monitoring payment method or the reimbursement payment method must pay Title IV credit balances to students and parents before requesting Title IV funds from the Department and may not hold Title IV credit balances on behalf of students or parents, even if such balances are expected to be applied to future tuition payments.

The composite scores for Apollo Education Group and University of Phoenix, which are calculated as of the end of our fiscal year, were as follows for the indicated periods:

	Fiscal Year		
	2016	**2015**	**2014**
Apollo Education Group	1.8	2.6	2.5
University of Phoenix	2.9	2.9	2.3

The decline in our fiscal year 2016 consolidated composite score was principally attributable to our decline in profitability, which included $73.4 million of goodwill impairment charges. Refer to Note 8, Goodwill and Intangibles, in Part II, Item 8, *Financial Statements and Supplementary Data*.

We believe that we may be able to take certain corrective measures to maintain composite scores of 1.5 or greater, if we determine that there is increased risk that our composite scores will fall below that level, depending on the circumstances causing the expected decline. However, such measures, if available, may require material modifications to our business and strategy that would adversely impact our future revenue and profitability and/or may involve the issuance of equity or equity-linked securities under challenging circumstances that could result in material dilution to our existing shareholders.

For additional information, refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - A failure to demonstrate "financial responsibility" or "administrative capability" may result in the loss of eligibility to participate in Title IV programs and limit our access to liquidity, which would materially and adversely affect our business.*

90/10 Rule

University of Phoenix, and all other proprietary institutions of higher education, are subject to the so-called "90/10 Rule" under the Higher Education Act, as reauthorized. Under this rule, a proprietary institution will be ineligible to participate in Title IV programs for at least two fiscal years if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue, as defined in the rule, from Title IV programs. If an institution is determined to be ineligible, any disbursements of Title IV program funds made after the end of the second fiscal year in the measuring period must be repaid to the U.S. Department of Education. An institution that derives more than 90% of its cash basis revenue from Title IV programs for any single fiscal year will be automatically placed on provisional certification for two fiscal years and will be subject to possible additional sanctions determined to be appropriate under the circumstances by the Department. While the Department has broad discretion to impose additional sanctions on such an institution, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. For example, the Department could impose conditions in the provisional certification such as:

- Restrictions on the total amount of Title IV program funds that may be disbursed to students;
- Restrictions on programmatic and geographic expansion;
- Requirements to obtain and post letters of credit;
- Additional reporting requirements such as interim financial reporting; or
- Any other conditions deemed appropriate by the Department.

The 90/10 Rule percentages for University of Phoenix were as follows for the indicated periods:

	Year Ended August 31,		
	2016	**2015**	**2014**
University of Phoenix	79%	80%	81%

As the University's enrollment has declined in recent years, the proportion of its student body that uses a lower percentage of Title IV program funds for eligible tuition and fees, such as students that receive tuition assistance from employers or that participate in military benefit programs, has increased. The University has also implemented various other measures in recent years intended to reduce the percentage of its cash basis revenue attributable to Title IV program funds, including encouraging students to carefully evaluate the amount of necessary Title IV program borrowing and increased focus on nondegree continuing education programs. The University has no direct control over the amount of Title IV student loans and grants sought by or awarded to eligible students.

Based on recent trends, we do not expect the 90/10 Rule percentage for University of Phoenix to exceed 90% for fiscal year 2017. However, the 90/10 Rule percentage for the University remains high and could exceed 90% in the future depending on the impact of future changes in the University's enrollment mix, and regulatory and other factors outside our control, including any reduction in, or change in eligibility to participate in, military benefit programs or changes in the treatment of such funding for purposes of the 90/10 Rule calculation. On January 15, 2016, University of Phoenix was notified by the U.S. Department of Defense ("DoD") that the University's probationary status in respect of its participation in the DoD Tuition Assistance Program for active duty military personnel had been lifted, effective immediately. The University had been placed on probation in October 2015 pending a review by the Department of the University's compliance with the DoD Voluntary Education Partnership Memorandum of Understanding with the University, which is the basis on which the University's active duty military students participate in the DoD Tuition Assistance Program. The University will be subject to a heightened compliance review for a period of one-year following the removal of probationary status. During this period, the University will continue to engage with the DoD and complete the production of information and documents previously requested by the DoD. In addition, the University will be subject to an enhanced compliance review in fiscal year 2017. In fiscal year 2016, funding under the DoD Tuition Assistance Program represented less than 1% of the University's net revenue.

Various legislative proposals have been introduced in Congress that would heighten the requirements of the 90/10 Rule, including proposals that would reduce the 90% maximum under the rule to the pre-1998 level of 85%, cause tuition derived from military benefit programs to be included in the 90% or 85% portion under the rule instead of the 10% portion, as is the case today, and impose Title IV program ineligibility after one year of noncompliance rather than two. If these or similar proposals are adopted, University of Phoenix would be required to increase efforts and resources dedicated to reducing the percentage of cash basis revenue attributable to Title IV program funds.

Any necessary efforts to reduce the 90/10 Rule percentage for University of Phoenix, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures which reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. In addition, we may be required to make structural changes to our business in the future in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business and financial condition. Furthermore, these required changes could make it more difficult to comply with other important regulatory requirements, such as the student loan cohort default rate regulations, which are discussed below.

Student Loan Cohort Default Rates

To remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30) for a three-year measuring period. The cohort default rates are published by the U.S. Department of Education approximately 12 months after the end of the applicable measuring period. Thus, in September 2016, the Department published the cohort default rates for the 2013 cohort.

An educational institution loses eligibility to participate in Title IV programs if its cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years. If an institution's cohort default rate equals or exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate. We believe that our current repayment management efforts would meet these requirements.

Based on information published by the Department, the cohort default rates for University of Phoenix and for all proprietary postsecondary institutions for the applicable federal fiscal years were as follows:

	Cohort Default Rates for Cohort Years Ended September 30,		
	2013	**2012**	**2011**
University of Phoenix	13.3%	13.5%	19.0%
All proprietary postsecondary institutions	15.0%	15.8%	19.1%

We believe that our investment in student protection initiatives and repayment management services have favorably impacted our rates. As part of our repayment management initiatives, we engage third-party service providers to assist our students who are at risk of default. These service providers contact students and offer assistance, which includes providing students with specific loan repayment information such as repayment options and loan servicer contact information, and they attempt to transfer these students to the relevant loan servicer to resolve their delinquency. In addition, we are focused on enrolling students who are a better fit for our programs, in part because the rate of default is higher among students who do not complete their degree program compared to students who graduate. For additional information, refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - An increase in student loan default rates could result in the loss of eligibility to participate in Title IV programs, which would materially and adversely affect our business*.

Administrative Capability

The Higher Education Act, as reauthorized, 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 cause the Department to determine that the institution lacks administrative capability and, therefore, subject the institution to additional scrutiny or deny eligibility for Title IV programs.

State Authorization

Institutions that participate in Title IV programs must be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence. University of Phoenix is specifically authorized to operate in all of the domestic jurisdictions in which it operates. 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 licensure in states which require such licensure and where students are enrolled.

Refer to *U.S. Department of Education Rulemaking Initiatives* above for additional information regarding current state authorization rulemaking initiatives.

U.S. Department of Education Program Reviews

The U.S. Department of Education periodically reviews institutions participating in Title IV programs for compliance with applicable standards and regulations. In August 2014, the Department commenced an ordinary course program review of University of Phoenix's administration of Title IV programs covering federal financial aid years 2012-2013 and 2013-2014, as well as compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, the Drug-Free Schools and Communities Act and related regulations. During fiscal year 2015, the University received a Final Program Review Determination Letter with regard to this program review. All administrative matters are deemed by the Department to be resolved and/or closed, with the exception of findings regarding compliance with the Clery Act, which have been referred to the Department's Clery Team and to the Administrative Action and Appeals Division which is standard protocol in such matters.

Federal Trade Commission Investigation

In July 2015, we received a Civil Investigative Demand from the U.S. Federal Trade Commission (the "FTC") relating to an investigation to determine if certain unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing, or sale of secondary or postsecondary educational products or services or educational accreditation products or services. The Demand requires us to produce documents and information regarding a broad spectrum of the business and practices of University of Phoenix, including in respect of marketing, recruiting, enrollment, financial aid, tuition and fees, academic programs, academic advising, student retention, billing and debt collection, complaints, accreditation, training, military recruitment, and other compliance matters, for the time period of January 1, 2011 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

Attorney General Investigations

In August 2015, we received an Investigative Subpoena from the Office of the Attorney General of the State of California. The Subpoena requires us to produce documents and information regarding the business and practices of University of Phoenix relating to members and former members of the U.S. military and California National Guard, including marketing, recruiting, billing, financial aid, accommodation and other services for military personnel, compliance with federal Executive Order 13607 (Establishing Principles of Excellence for Educational Institutions Serving Service Members, Veterans, Spouses, and Other Family Members), and use of U.S. military logos and emblems in marketing, for the time period of July 1, 2010 to the present.

In February 2016, we received a Second Investigative Subpoena from the Office of the Attorney General of the State of California in the Matter of the Investigation of For-Profit Educational Institutions, following the Investigative Subpoena we received in August 2015. The Second Investigative Subpoena, which is not limited to matters involving military students, seeks the production of documents and information regarding a broad spectrum of the business and practices of Apollo and its subsidiaries, including University of Phoenix, relating to marketing, recruiting, compensation of enrollment advisors, complaints, financial aid, compliance, accreditation, other governmental investigations, private litigation and other matters, as well as additional information relating to marketing and services to members and former members of the U.S. military and California National Guard, for the time period of July 1, 2010 to the present.

We are cooperating with the California Attorney General in these investigative proceedings. We cannot predict the eventual scope, duration or outcome of the investigations at this time.

We are also subject to other Attorney General investigations. In addition, from time to time, we receive requests for information from state Attorneys General, accrediting bodies, state higher education regulatory bodies and other federal and state government agencies relating to investigations or inquiries being conducted by other state or federal agencies, pending litigation or specific complaints received from students or former students. These requests can be broad and time consuming to respond to, and there is a risk that they could expand and/or lead to a formal inquiry or investigation into our practices. Refer to Note 16, Commitments and Contingencies, in Part II, Item 8, *Financial Statements and Supplementary Data*.

Office of the Inspector General of the U.S. Department of Education ("OIG") Subpoena

On March 21, 2014, University of Phoenix received a subpoena from the Mid-Atlantic Region of the OIG. The subpoena seeks the production by the University of documents and detailed information regarding a broad spectrum of the activities conducted in the University's Centralized Service Center for the Northeast Region located in Columbia, Maryland, for the time period of January 1, 2007 to the present, including information relating to marketing, recruitment, enrollment, financial aid processing, fraud prevention, student retention, personnel training, attendance, academic grading and other matters. We are cooperating with these requests. We cannot predict the eventual scope, duration or outcome of this matter at this time.

Restricted Cash

The U.S. Department of Education places restrictions on Title IV program funds held for students for unbilled educational services. As a trustee of these Title IV program funds, we are required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the Department. These funds are included in *Restricted cash and cash equivalents* on our Consolidated Balance Sheets in Part II, Item 8, *Financial Statements and Supplementary Data*.

Branching and Classroom Locations

The Title IV regulations contain specific requirements governing the establishment of new locations at which the eligible institution offers, or could offer, 50% or more of an educational program. The U.S. Department of Education requires that the institution notify the Department of each location offering 50% or more of an educational program prior to disbursing Title IV program funds to students at that location. University of Phoenix has procedures in place to ensure timely notification and acquisition of all necessary location approvals prior to disbursing Title IV program funds to students attending any new location. In addition, the Higher Learning Commission and state regulators have requirements for the establishment of new locations.

There are also certain regulatory requirements associated with closing locations, including the requirement to teach-out existing students. In recent years, University of Phoenix has reduced the number of its ground locations throughout the U.S and has closed or is in the process of closing approximately 150 ground locations. Refer to Note 2, Restructuring and Impairment Charges, in Part II, Item 8, *Financial Statements and Supplementary Data*.

Change of Ownership or Control

Approximately 51% of our outstanding Class B voting shares, our only class of voting stock, is held by the Apollo Class B Voting Stock Trust No. 1 (the "Class B Trust"), an irrevocable trust of which the current trustees are Peter V. Sperling, Chairman of our Board of Directors, Ms. Terri Bishop, the Vice Chair of our Board of Directors, and Ms. Darby Shupp, a member of our Board of Directors.

Any change of ownership or control of Apollo Education Group could require recertification by the U.S. Department of Education, the reevaluation of accreditation by the Higher Learning Commission ("HLC") and the consent or reauthorization by state and foreign licensing agencies. If we experience a change of ownership or control, then University of Phoenix and certain of our other subsidiaries may cease to be eligible to participate in Title IV programs until recertified by the Department. There is no assurance that such recertification would be obtained on a timely basis. Under some circumstances, the Department may continue an institution's participation in Title IV programs on a provisional basis pending completion of the change in ownership approval process.

In addition, University of Phoenix is required to report any material change in stock ownership to its principal institutional accrediting body, HLC, and must obtain approval prior to undergoing any transaction that affects, or may affect, its corporate control or governance. In the event of any such change, HLC may undertake an evaluation of the effect of the change on the continuing operations of University of Phoenix for purposes of determining if continued accreditation is appropriate, which evaluation may include a comprehensive review.

In addition, some states in which University of Phoenix is licensed require approval (in some cases, advance approval) of changes in ownership or control in order to remain authorized to operate in those states, and participation in grant programs in some states may be interrupted or otherwise affected by a change in ownership or control.

Refer to Part I, Item 1A, *Risk Factors - Risks Related to the Control Over Our Voting Stock - Transactions involving a change of control of our company may impair our eligibility to participate in Title IV programs, our accreditation and our state licenses in a manner that materially and adversely affects our business.*

International

Governmental regulations in foreign countries significantly affect our international operations. In recent years, there has been increased focus on educational institutions in certain of the countries in which we operate.

In September 2015, Open Colleges received a Notice from the Australian Competition and Consumer Commission ("ACCC") requiring Open Colleges to produce information about student refunds upon withdrawal and related matters for the period of time since July 2014. In addition, Open Colleges receives inquiries and is subject to audits from time to time from governmental regulatory authorities, including an inquiry in October 2015 from the Australian Skills Quality Authority ("ASQA"), the national regulator of vocational education programs, regarding student complaints about marketing practices, refund policies and other matters (since concluded without material findings).

Following a recent compliance audit, Apollo Global's two primary registered training organizations in Australia, Open Colleges Pty Ltd., and Integrated Care & Management Training, Pty Ltd., each received a notice of noncompliance and intention to make a decision to impose sanctions from ASQA. The notice identified several alleged compliance deficiencies and stated that ASQA intended to make a decision on whether to impose sanctions on the institutions which could include cancellation of registration or imposition of lesser sanctions. One of the findings involves a change in the interpretation of applicable course requirements and will require changes in our procedures for student workplace skills assessments used in connection with courses that represent a substantial portion of the Open Colleges institutions' enrollment.

Implementing an updated workplace skills assessment model in order to address ASQA's concerns will require operational changes for these institutions and increase operating costs, perhaps substantially, and could have competitive implications.

We have until November 7, 2016 to respond to this notice of noncompliance. We cannot currently predict the timing or ultimate outcome of this matter. See Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - Changes by a regulator in the interpretation of applicable course requirements could materially impact our Open Colleges business in Australia*.

In addition, UNIACC has been subject to investigations and inquiries involving certain aspects of its operations. For further discussion of this matter, refer to Note 16, Commitments and Contingencies, in Item 8, *Financial Statements and Supplementary Data*.

New or revised interpretations of regulatory requirements could have a material adverse effect on us. Changes in existing or new interpretations of applicable laws, rules, or regulations in the foreign jurisdictions in which we operate could have a material adverse effect on our accreditation, authorization to operate, permissible activities, and costs of doing business outside of the U.S. The failure to maintain or renew any required regulatory approvals could have a material adverse effect on our international operations.

Available Information

We file annual, quarterly and current reports with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for information on the Public Reference Room. The Securities and Exchange Commission maintains a website that contains annual, quarterly and current reports that issuers file electronically with the Securities and Exchange Commission. The Securities and Exchange Commission's website is www.sec.gov.

Our website address is www.apollo.edu. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Information Statements on Schedule 14C, Forms 3, 4, and 5 filed on behalf of directors and executive officers, and all amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

Item 1A. *Risk Factors*

You should carefully consider the risks and uncertainties described below and all other information contained in this Annual Report on Form 10-K. In order to help assess the major risks in our business, we have identified many, but not all, of these risks, categorized as Risks Related to our Pending Merger, Risks Related to the Highly Regulated Industry in Which We Operate, Risks Related to our Business and Risks Related to the Control Over our Voting Stock. Due to the scope of our operations, a wide range of factors could materially affect future developments and performance.

If any of the following risks are realized, our business, financial condition, cash flows and/or results of operations could be materially and adversely affected, and as a result, the trading price of our Class A common stock could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Annual Report, including Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 8, *Financial Statements and Supplementary Data*, including the related *Notes to Consolidated Financial Statements*.

Risks Related to our Pending Merger

Our pending merger may not be consummated, which may adversely affect our business, and our business may suffer during the pendency of the merger as a result of uncertainty regarding consummation.

As described in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Pending Merger, on February 7, 2016, we entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with AP VIII Queso Holdings, L.P. ("Queso"), an affiliate of Apollo Management VIII, L.P., which is a fund managed by an affiliate of Apollo Global Management, LLC, none of which is, or has ever been, affiliated with us. At the effective time of the merger, which, subject to the satisfaction of the closing conditions, is anticipated to be on or before February 1, 2017, the date on which the contract becomes terminable by either party, each share of our issued and outstanding Class A and Class B common stock will be converted pursuant to the terms of the Merger Agreement into the right to receive $10.00 per share in cash. On May 6, 2016, the Merger Agreement was approved by the holders of our outstanding Class A and Class B common stock, each voting separately as a class.

Consummation of the merger is subject to customary and other conditions, including:

(i) the absence of certain conditions or restrictions in the response of the U.S. Department of Education to the pre-acquisition review application filed by University of Phoenix; and

(ii) the receipt of consents or approvals from other federal, state and foreign educational governing bodies, including the Higher Learning Commission ("HLC").

HLC has informed us that it does not intend to review our change of control application until after the Department of Education responds to our pending pre-acquisition review filing and Queso submits to the Department any required additional information. The Department's review is pending and we cannot predict how the Department will respond to our filing.

In addition, consummation of the merger is subject to our satisfying certain minimum operating metrics, measured as of the first or second month end preceding the closing date, depending on the day of the month on which closing occurs, as follows:

(i) Our aggregate cash, cash equivalents and marketable securities must not be less than the specified amount for the applicable month end;

(ii) University of Phoenix fiscal year-to-date new degreed enrollments as of the applicable month end must not have declined by more than 15% from forecasted levels (which are derived from the projections we prepared in December 2015 in connection with the merger, which we refer to as the December 2015 forecast);

(iii) University of Phoenix trailing twelve month net revenue as of the applicable month end shall not have declined by more than 10% from forecasted levels (which are derived from the December 2015 forecast); and

(iv) Our consolidated trailing twelve month adjusted earnings before interest, taxes, depreciation and amortization as of the applicable month end shall not have declined by more than $75 million from forecasted levels (which are derived from the December 2015 forecast).

We satisfied each of these minimum operating metrics as of September 30, 2016, which is the relevant measurement date for a closing on or prior to November 9, 2016. We currently expect to satisfy these metrics if the closing occurs on or prior to February 1, 2017, which is the date on which the contract becomes terminable by either party if the closing conditions have not been met.

There is no assurance that the conditions to the consummation of the merger will be satisfied in a timely manner or at all.

If the merger is not consummated, our stock price could fall to the extent that the current trading price is supported by an assumption that the merger will be consummated. Furthermore, if the merger is not consummated, we may suffer other consequences that could adversely affect our business and financial condition, including the following:

- we could be required to pay a termination fee of 2.75% of the aggregate per share merger consideration that would have been payable to the Company's shareholders upon closing of the merger (approximately $27.5 million) under certain specified circumstances, but not including a termination solely due to our failure to satisfy the minimum operating metrics described above, as provided in the Merger Agreement;
- a fall in our stock price could result in additional goodwill impairment charges that could result in our U.S. Department of Education fiscal year 2017 financial responsibility composite score falling below 1.5, which could severely stress our liquidity due to various regulatory consequences and could materially and adversely impact our strategy, operations and future profitability, as discussed in more detail in the risk factor below, *Risks Related to the Highly Regulated Industry in Which We Operate - A failure to demonstrate "financial responsibility" or "administrative capability" may result in the loss of eligibility to participate in Title IV programs and limit our access to liquidity, which would materially and adversely affect our business*;
- our ability to enroll and retain new students could be impaired because potential students may perceive the termination of the merger as a sign of financial distress or as otherwise raising questions about the future of University of Phoenix;
- we may not be able to take advantage of alternative business opportunities that we may have been able to pursue absent entering into the Merger Agreement;
- we may experience a decrease in employee morale and an increase in employee departures; and
- the failure of the merger to be consummated may result in negative publicity and may embolden the critics of the proprietary higher education sector generally and University of Phoenix specifically.

Also, the pendency of the merger could adversely impact our business and financial condition, including as a result of the following:

- the restrictions imposed in the Merger Agreement on our business and operations may prevent us from pursuing certain opportunities without approval of Queso;
- the challenging political and regulatory environment we face may intensify in response to the proposed merger;
- we may experience challenges in retaining and motivating current employees, and attracting and recruiting prospective employees;
- our relationships with current students and employers could be adversely affected due to concern about our future;
- due to activities related to the merger, the attention of our employees and management may be diverted from other opportunities that may have been beneficial to us; and
- we may incur material expenses and liabilities in connection with the various legal proceedings related to the merger that have been instituted against us, our directors and others.

In addition, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services, other transaction costs and employee retention costs in connection with the merger, and these fees and costs are payable by us regardless of whether the merger is consummated.

For additional information related to the merger and the Merger Agreement, please refer to the following:

- Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2016;
- Definitive Proxy Statement filed with the Commission on March 23, 2016;
- Supplement to the Definitive Proxy Statement filed with the Commission on May 2, 2016;
- Amendments to the Merger Agreement attached to our Current Report on Form 8-K filed with the Commission on May 2, 2016; and
- Quarterly Report on Form 10-Q filed with the Commission on July 8, 2016.

Risks Related to the Highly Regulated Industry in Which We Operate

If we fail to comply with the extensive regulatory requirements for our business, we could face significant monetary liabilities, fines and penalties, including loss of access to U.S. federal student loans and grants for our students.

Our domestic operations, including University of Phoenix, are subject to extensive U.S. federal and state regulation applicable to providers of postsecondary education. The principal federal regulatory regime is established under the Higher Education Act of 1965, as it is amended and reauthorized from time to time, and the regulations promulgated under the Act by the U.S. Department of Education. Among other matters, these regulations govern the participation by University of Phoenix in federal student financial aid programs under Title IV of the Higher Education Act (“Title IV”), which is the principal source of funding for students at the University. The majority of our fiscal year 2016 consolidated net revenue was derived from receipt of Title IV program funds disbursed to our students.

The Higher Education Act, as reauthorized, mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the U.S. Department of Education; (2) independent accrediting agencies recognized by the Department of Education; and (3) state higher education regulatory bodies.

The applicable regulatory requirements cover nearly all phases of our U.S. operations, including educational program offerings, branching and classroom locations, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, maintenance of restricted cash, acquisitions or openings of new schools, commencement of new or cessation of existing educational programs and changes in our corporate structure and ownership.

The applicable regulations, standards and policies of the various regulatory agencies frequently change and often are subject to interpretative uncertainty, particularly where they are crafted for traditional, academic term-based schools rather than our non-term academic delivery model. Changes in, or new interpretations of, applicable laws, regulations, standards or policies could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV programs, costs of doing business and our ability to implement beneficial changes in our academic or business model. We cannot predict how the requirements administered by these agencies will be applied or interpreted in the future, or whether our schools will be able to comply with any future changes in these requirements.

If we are found to have violated any applicable regulations, standards or policies, we may be subject to the following sanctions imposed by any one or more of the relevant regulatory agencies:

- Monetary fines or penalties;
- Limitation or termination of our operations or ability to grant degrees, diplomas and certificates;
- Restriction or revocation of our accreditation, licensure or other operating authority;
- Limitation, suspension or termination of our eligibility to participate in Title IV programs, military benefit programs or state financial aid programs;
- Imposition by the U.S. Department of Education of heightened cash monitoring which could include a delay in the disbursement of Title IV program funds or transfer from the Department's advance system of receiving Title IV program funds to its reimbursement system, under which a school must disburse its own funds to students and document the students' eligibility for Title IV program funds before receiving such funds from the Department;
- Repayment of funds received under Title IV programs or state financial aid programs;
- Requirement to post a letter of credit with the U.S. Department of Education;
- Other civil or criminal penalties; and/or
- Other forms of censure.

In addition, in some circumstances of noncompliance or alleged noncompliance, we may be subject to *qui tam* lawsuits under the Federal False Claims Act or various, similar state false claim statutes. In these actions, private plaintiffs seek to enforce remedies under the Act on behalf of the federal government and, if successful, are entitled to recover their costs and to receive a portion of any amounts recovered by the federal government in the lawsuit. These lawsuits can be prosecuted by a private plaintiff, even if the Department does not agree with plaintiff's theory of liability. In 2009, we settled a *qui tam* lawsuit relating to alleged payment of incentive compensation to our enrollment counselors for a total payment of $80.5 million, and we currently are subject to *qui tam* lawsuits, one of which alleges payment of improper incentive compensation in subsequent periods. For more information about the pending *qui tam* case, refer to Note 16, Commitments and Contingencies, in Part II, Item 8, *Financial Statements and Supplementary Data*.

The proprietary higher education industry is experiencing broad-based, intensifying scrutiny in the form of coordinated investigations and enforcement actions animated at least in part by influential members of Congress and the Obama Administration who seek to terminate the eligibility of for-profit institutions to participate in Title IV or other government financial aid programs. In October 2014, the Department of Education formed an inter-agency task force involving multiple federal agencies and departments including the Federal Trade Commission, the U.S. Departments of Justice, Treasury and Veterans Affairs, the Consumer Financial Protection Bureau, the Securities and Exchange Commission, and numerous state attorneys general, to coordinate activities and share information to protect students from unfair, deceptive and abusive policies and practices by proprietary higher education institutions. We believe that the recent investigations of University of Phoenix commenced by the Federal Trade Commission and the California Attorney General are related to this coordinated scrutiny of the industry and that this coordinated scrutiny could lead to the initiation of additional inquiries or claims against us either by participants in the inter-agency task force or other regulatory authorities, any of which could adversely affect our business and reputation. We expect that this challenging political and regulatory environment will continue for the foreseeable future, and may intensify.

Any of the penalties, funding delays, injunctions, restrictions, lawsuits or other forms of censure described above, and the associated reputational impact from ongoing investigations, could have a material adverse effect on our business and financial condition. In recent years, two major proprietary education institutions, together serving over 110,000 students, have ceased operations and filed for bankruptcy protection due to delays in or denial by the Department of Education of Title IV funding for students and requirements to post letters of credit, based in part on the existence of multiple investigations by various regulatory authorities. In neither case were the principal investigations completed nor were substantial enforcement actions commenced and prosecuted to conclusion. Accordingly, proprietary institutions are at risk of harmful delays or denial of Title IV funding for students due to investigations and other preliminary allegations, even if such investigations or allegations may ultimately be found to lack merit. If we lose our Title IV program eligibility, our business would not be sustainable. If our participation is materially conditioned or subject to material delays, we could experience a dramatic decline in revenue and we would be unable to continue our business as it currently is conducted.

The outcome of the November 2016 U.S. election could lead to a change in or elimination of our eligibility to participate in Title IV student financial aid programs, which could render our business unsustainable.

The outcome of the November 2016 elections in the U.S. could increase the risk of new legislation and changes in, or new interpretations of, existing laws, regulations, standards or policies, that would limit, perhaps materially, the eligibility of proprietary schools, such as University of Phoenix, to participate in Title IV student financial aid programs. Many such proposals have already been made by influential members of the Democratic Caucus in Congress. Furthermore, the passage of legislation implementing in whole or in part the Democratic Party Platform proposal to provide tuition free undergraduate education in the U.S. could significantly impact or render impractical our current domestic higher education business conducted by University of Phoenix.

If we fail to maintain our institutional accreditation, we would lose our ability to participate in Title IV programs, which would materially and adversely affect our business.

In July 2013, the accreditation of University of Phoenix was reaffirmed by the Higher Learning Commission ("HLC"), the University's principal accreditor, through the 2022-2023 academic year. At the same time, HLC placed the University on Notice status for a two-year period due to concerns regarding governance, student assessment and faculty scholarship/research for doctoral programs. Notice status is a sanction that means that HLC has determined that an institution is on a course of action that, if continued, could lead the institution to be out of compliance with one or more of the HLC Criteria for Accreditation or Core Components.

The University submitted a Notice Report to HLC in November 2014 providing evidence that the University has ameliorated the conditions that led to the Notice status and continues to meet relevant accreditation requirements. The HLC Board of Trustees subsequently removed the University from Notice status, effective June 25, 2015.

We believe that the imposition of the sanction of notice adversely impacted the reputation of University of Phoenix and may have contributed to the University's continuing decline in enrollment. In addition, the changes made by University of Phoenix to its corporate governance and administrative structure to address the concerns of HLC regarding independence have increased our operating costs and decreased our managerial flexibility to address the rapidly evolving and challenging postsecondary education market.

The University remains assigned by HLC to the Standard Pathway reaffirmation process, pursuant to which the University will host a comprehensive evaluation visit in 2017 and will undergo its next reaffirmation process in 2022-2023.

Continued institutional accreditation is critical to University of Phoenix's business and necessary for the University to continue participating in the Title IV programs. If the University should lose its institutional accreditation, our business would be substantially impaired and we would not be able to continue our business as it is presently conducted.

The U.S. Department of Education gainful employment regulations may limit the programs we can offer students and increase our cost of operations.

Under the Higher Education Act, as reauthorized, proprietary schools are generally eligible to participate in Title IV programs only in respect of educational programs that lead to "gainful employment in a recognized occupation." In connection with this requirement, proprietary postsecondary institutions are required to provide information to prospective students about each eligible program, including the relevant recognized occupations, cost, completion rate, job placement rate, and median loan debt of program completers. These reporting requirements increase our costs of operations and could adversely impact student enrollment, persistence and retention if our reported program information compares unfavorably with other reporting educational institutions.

In October 2014, the U.S. Department of Education published final regulations, effective July 1, 2015, on the metrics for determining whether an academic program prepares students for gainful employment in a recognized occupation. Under the final regulations, which apply on a program-by-program basis, students enrolled in a program will be eligible for Title IV student financial aid only if that program satisfies at least one of two tests relating to student debt service-to-earnings ratios. The two tests specify minimum student loan debt service-to-earnings ratios calculated on the basis of the average earnings of program graduates: one test measures student loan debt service as a percentage of total earnings, and the other test measures student loan debt service as a percentage of deemed discretionary earnings. If a program fails to meet both of the minimum ratios for one year, the institution will be required to provide a warning notice to prospective and enrolled students advising that the program may lose Title IV eligibility based on the final student loan debt service-to-earnings ratios for the next year. Programs that fail to meet both of the minimum ratios for two out of three years will immediately cease to be Title IV eligible for a period of at least three years.

The Department has indicated that it plans to issue the official 2014 gainful employment debt service-to-earnings ratios by January 2017, and we anticipate the 2015 ratios will be issued in early fiscal year 2018. We believe it is likely that some of University of Phoenix's programs will be impacted by the gainful employment regulations. Beginning in September 2015 and continuing through early fiscal year 2017, the University ceased enrolling or plans to cease enrolling new students in programs it believes may be impacted in connection with its initiatives to transform itself into a more focused, higher retaining and less complex institution. As of August 31, 2016, students in such programs represented approximately 15% of the University's Degreed Enrollment. Students who are currently enrolled in such programs, and who do not elect to enroll in a different University of Phoenix program, are being taught-out in due course.

Changes in student borrowing needs and practices, student loan interest rates, labor markets and other factors outside of our control could adversely impact compliance with these regulations for some of our programs in the future. The Department has not yet announced the future, annual protocol for calculating and disseminating the debt service-to-earnings ratios. We will not know of a program's failure to meet the minimum ratios until well after the measuring period, and therefore students enrolled in such a program could lose their access to federal financial aid before completing the program. Accordingly, we will not have the opportunity to make program changes for any programs that did not meet either of the minimum ratios for 2014. If those programs also do not meet either of the minimum ratios for 2015, they will lose eligibility to participate in Title IV financial aid programs at the time the official 2015 ratios are published, which we anticipate will occur in early fiscal year 2018.

Under these regulations, the continuing eligibility of our educational programs for Title IV funding is at risk due to factors beyond our control, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income, changes in the percentage of our former students who are current in repayment of their student loans, and other factors. The exposure to these external factors reduces our ability to confidently offer or continue certain types of programs for which there is market demand, and therefore adversely impacts our ability to maintain or grow our business.

In addition, if we are required to include a warning notice for any of our programs based on the debt service-to-earnings ratios, enrollment in those programs may decline materially, particularly in light of the recent widely-publicized difficulties experienced by students who were enrolled in schools that have closed. Accordingly, the inclusion of these required warnings could make continuation of the affected programs impractical, even if students in the programs are still eligible to participate in Title IV programs.

If any of our programs require a warning notice or cease to be eligible for Title IV student financial aid, we may incur substantial cost and expense, and lost revenue, in providing appropriate assistance to the affected students to complete their academic programs or transition to other programs inside or outside of our universities.

The Department of Education has proposed regulations setting forth new standards and procedures related to borrower defenses to repayment of Title IV loan obligations, the Department's right of recovery against institutions following a successful borrower defense, and institutional financial responsibility. If the regulations are adopted as proposed, our business would be subject to significant and unpredictable risks, including the requirement to post substantial letters of credit due to unproven allegations or pending investigations, whether or not meritorious.

In June 2016, the Department issued a Notice of Proposed Rulemaking to establish a new federal standard and a process for determining whether a borrower has a defense to repayment on federal student loans based on an act or omission of a school. The proposed regulations would provide repayment relief to borrowers in respect of student loans first disbursed on or after July 1, 2017 where:

- a school breaches contractual promises to a student;
- certain judgments based on any state or federal law are entered against a school related to the loan or the educational services after a contested proceeding; or
- the school makes substantial misrepresentations about the nature of its educational programs, financial charges or employability of graduates, or insubstantial misrepresentations where other factors are present, such as pressure to enroll quickly or taking advantage of students' distress or lack of knowledge or sophistication.

As proposed, there would be no limitation on claims to discharge future amounts owed by the borrower and a six-year limitation (from the date of the breach) on claims to discharge amounts already paid by the borrower. The proposed regulations also would allow the Department to identify and grant relief to groups of students where there are common facts, including students who have not requested relief.

The proposed borrower defense definitions would not apply for loans first disbursed prior to July 1, 2017, and these loans will remain subject to the current borrower defense definitions; however, under the proposed rules, these loans will follow the same claims process, individual and group, and time limitations.

As proposed, the Department would be entitled to seek reimbursement from the school in most cases in respect of loans discharged under the new procedure.

In addition, the proposed regulations specify early warning triggers regarding financial distress that would automatically require a school to post a letter of credit in the amount of at least 10% of the school's annual Title IV disbursements upon the occurrence of specified events including, but not limited to:

- the commencement of a major lawsuit by a state or federal government entity, such as a state Attorney General, the Consumer Financial Protection Bureau or the Federal Trade Commission;
- the filing of a substantial number of borrower defense claims;
- default by the school on its debt obligations;
- failure of the school to satisfy the 90/10 Rule;
- programs failing to meet gainful employment regulations;
- accrediting agency actions, including the requirement to submit teach-out plans or being placed on an accreditation status that could result in the school losing its accreditation; and/or
- any event or condition the Department determines is likely to have a material adverse effect on the business, financial condition or results of operations of the institution.

Each separate triggering event would result in a separate letter of credit requirement of at least 10% of annual Title IV disbursements. If a school experiences any of these triggers, the school would be required to warn prospective and current students that it has been required to provide enhanced financial protection to the Department.

Further, the proposed regulations would also institute a loan repayment rate for proprietary institutions and would require disclosure of such rate to prospective and enrolled students if such rate falls below specified levels.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise standards for student loan discharge may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of enforcement actions by state or federal government entities, or the filing of student claims for debt relief, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to administer the regulations, including fact-finding, and the subjective judgments regarding the triggers for debt relief or the letter of credit requirements may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness, and our flexibility in responding to state or federal and certain private lawsuits may be materially reduced because of the possible significant ancillary consequences of an adverse judgment or finding.

Recently, two major proprietary higher education institutions were forced to cease operations and seek bankruptcy protection due to delays in Title IV disbursements and requirements to post letters of credit imposed by the Department based in part on the existence of pending state and federal investigations and the Department's judgment regarding various subjective matters such as the institution's culture. These regulations, if adopted as proposed, would enhance the power of the Department to take summary action that could harm University of Phoenix and Apollo Education Group, perhaps materially, before we could effectively exercise our due process rights, even if the action is based on pending investigations or legal proceedings that ultimately are determined to lack merit.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017. More information can be found at http://www2.ed.gov/policy/highered/reg/hearulemaking/2016/index.html.

Action by the U.S. Congress to revise the laws governing federal student financial aid programs or reduce funding for these programs, including changes applicable only to proprietary educational institutions, could reduce our enrollment and increase our costs of operation.

The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program. The most recent reauthorization of the Higher Education Act expired September 30, 2013, but Title IV student financial aid programs remain authorized and functioning. Congress continues to engage in discussion and activity regarding Higher Education Act reauthorization, but the timing and terms of any eventual reauthorization cannot be predicted.

The federal Pell Grant program is one of the largest non-defense discretionary spending programs in the federal budget. Because of this, it is a target for reduction as Congress addresses the competing demands for funding and the chronic and significant U.S. budget deficit. Furthermore, a recent study by the U.S. Federal Reserve System demonstrated a direct relationship between student financial aid increases, including Pell Grant increases, and tuition increases, which could impact future Pell Grant amounts. A reduction in the maximum annual Pell Grant amount or changes in eligibility could negatively impact enrollment and could result in increased student borrowing, which would make it more difficult for us to comply with other important regulatory requirements, such as maintaining student loan cohort default rates, which are discussed below.

In addition to Congress's focus on the federal government's funding challenges, in recent years, there has been substantial and continuing increased focus by various members of the U.S. Congress and federal agencies, including the Department of Education, the Consumer Financial Protection Bureau and the Federal Trade Commission, on the role that proprietary educational institutions play in higher education. We expect this focus to continue and, as discussed above under *The outcome of the November 2016 U.S. election could lead to a change in or elimination of our eligibility to participate in Title IV student financial aid programs, which could render our business unsustainable*, the outcome of the November 2016 U.S. elections could materially impact the manner in which Congress addresses these matters. In recent years, Congressional hearings and roundtable discussions have been held regarding various aspects of the education industry, and reports have been issued that are highly critical of proprietary institutions and include a number of recommendations to be considered by Congress in connection with the upcoming reauthorization of the Higher Education Act as discussed above. A group of influential U.S. senators has strongly and repeatedly encouraged the Departments of Education, Defense and Veterans Affairs to take action to limit or terminate the participation of proprietary educational institutions, including University of Phoenix, in existing tuition assistance programs.

Because the majority of our revenue is derived from Title IV programs, any action by Congress that reduces Title IV program funding, or alters the eligibility of our institutions or students to participate in Title IV programs could have a material adverse effect on our enrollment and financial condition. Action by Congress or federal agencies could also require us to modify our practices in ways that increase our operating costs.

In addition to possible reductions in Title IV program funding, certain military benefit programs may be reduced as military branches address decreased funding. Reductions and/or changes in military benefit programs could result in increased student borrowing, decreased enrollment and adverse impacts on our 90/10 Rule percentage, as discussed below.

If Congress reduced the eligibility or amount of available Title IV program funding, we would attempt to arrange for alternative sources of financial aid for our students, which may include lending funds directly to our students. However, private sources would not be able to provide as much funding to our students or on terms comparable to Title IV programs and such programs are under intense scrutiny from the Consumer Financial Protection Bureau and other regulatory agencies. In addition, private funding sources could require us to guarantee all or part of this assistance and we might incur other additional costs. For these reasons, private, alternative sources of student financial aid would only partly offset, if at all, the impact on our business of reduced Title IV program eligibility or funding, and would not be a practical alternative in the case of a significant reduction in Title IV program eligibility or funding.

University of Phoenix's certification to participate in Title IV programs expired in December 2012 and continues on a month-to-month basis. If University of Phoenix is not recertified to participate in Title IV programs by the U.S. Department of Education, University of Phoenix would not be eligible to participate in Title IV programs and we could not conduct our business as it is currently conducted.

University of Phoenix is certified by the U.S. Department of Education to participate in Title IV programs. The University was recertified in November 2009 and its current certification expired in December 2012. University of Phoenix has submitted necessary documentation for recertification and its eligibility continues on a month-to-month basis until the Department issues its decision on the application. We believe that the University's application will be renewed in due course. However, we cannot predict whether or to what extent the continued challenging political and regulatory climate, our pending merger, and other recent developments in general relating to the proprietary education sector and our business may have on the timing or outcome of the recertification process.

In February 2016, the Department notified the University that for the duration of the month-to-month continuation of the University's Program Participation Agreement, University of Phoenix must obtain from the Department prior approval of substantial changes, including (i) the establishment of additional locations, (ii) any increase in the level of academic offering beyond those listed in the Institution's Eligibility and Certification Approval Report and (iii) the addition of any educational program (including degree, nondegree, or short-term training programs). Some of these substantial changes include changes that previously could be implemented by the University upon notice to the Department and without prior approval.

Continued Title IV program eligibility is critical to the operation of our business. If University of Phoenix becomes ineligible to participate in Title IV programs, or participation is materially limited, our business would be unsustainable.

A failure to demonstrate "financial responsibility" or "administrative capability" may result in the loss of eligibility to participate in Title IV programs and limit our access to liquidity, which would materially and adversely affect our business.

To participate in Title IV programs, the U.S. Department of Education regulations specify that an eligible institution of higher education must satisfy specific measures of financial responsibility prescribed by the Department, or post a letter of credit in favor of the Department and accept other conditions on its participation in Title IV programs. Pursuant to the Title IV program regulations, each eligible institution must satisfy a measure of financial responsibility that is based on a weighted average of the following three annual ratios which assess the financial condition of the institution:

- Primary Reserve Ratio - measure of an institution's financial viability and liquidity;
- Equity Ratio - measure of an institution's capital resources and its ability to borrow; and
- Net Income Ratio - measure of an institution's profitability.

These ratios provide three individual scores which are converted into a single composite score. The maximum composite score is 3.0. If an institution's composite score is at least 1.5, it is considered financially responsible. If an institution's composite score is less than 1.5 but is 1.0 or higher, it is still considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years under the Department's "zone" alternative. Under the zone alternative, the Department may subject the institution to various operating or other requirements, which may include:

(i) Being transferred from the "advance" method of payment of Title IV program funds to the heightened cash monitoring payment method under which the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds from the Department for the amount of those disbursements, or being transferred to the more onerous reimbursement payment method under which an institution must submit to the Department documentation demonstrating the eligibility for each Title IV disbursement and wait for the Department's approval before drawing down Title IV funds;

(ii) The imposition of additional reporting requirements regarding certain oversight and financial events;

(iii) Being required to submit to the Department its annual financial statements and Title IV compliance audits earlier than would otherwise be required;

(iv) Being required to submit information about current operations and future plans; and

(v) The imposition of additional obligations imposed by the Department.

If an institution does not achieve a composite score of at least 1.0, it is subject to additional requirements in order to continue its participation in the Title IV programs, including:

(i) Submitting to the Department a letter of credit in an amount equal to at least ten percent, and at the Department's discretion up to 50%, of the Title IV funds received by the institution during its most recently completed fiscal year;

(ii) Complying with the "zone" alternative requirements described above;

(iii) Being placed on provisional certification status, under which the institution must receive Department approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department;

(iv) Demonstrating that it is current on its outstanding debt obligations, as defined by the Department; and

(v) Complying with other requirements imposed by the Department.

In addition, under new regulations that took effect on July 1, 2016, institutions placed on either the heightened cash monitoring payment method or the reimbursement payment method must pay Title IV credit balances to students and parents before requesting Title IV funds from the Department and may not hold Title IV credit balances on behalf of students or parents, even if such balances are expected to be applied to future tuition payments.

The composite scores for Apollo Education Group and University of Phoenix, which are calculated as of the end of our fiscal year, were as follows for the indicated periods:

	Fiscal Year		
	2016	**2015**	**2014**
Apollo Education Group	1.8	2.6	2.5
University of Phoenix	2.9	2.9	2.3

The decline in our fiscal year 2016 consolidated composite score was principally attributable to our decline in profitability, which included $73.4 million of goodwill impairment charges. Refer to Note 8, Goodwill and Intangibles, in Part II, Item 8, *Financial Statements and Supplementary Data*.

We believe that we may be able to take certain corrective measures to maintain composite scores of 1.5 or greater, if we determine that there is increased risk that our composite scores will fall below that level, depending on the circumstances causing the expected decline. However, such measures, if available, may require material modifications to our business and strategy that would adversely impact our future revenue and profitability and/or may involve the issuance of equity or equity-linked securities under challenging circumstances that could result in material dilution to our existing shareholders.

If our composite score falls below 1.5, our liquidity could be subject to severe stress due to the following factors:

- Although not required solely due to participation in the zone alternative discussed above, we could be required by the Department of Education to submit a letter of credit in an amount of 10% or more of our annual Title IV receipts as a result of factors related to the cause of our composite score decline, which letter of credit likely would need to be cash collateralized.
- If the Department places University of Phoenix on the heightened cash monitoring payment method, we would need to deploy additional working capital to conduct our business due to the delay in receipt of Title IV funding. If University of Phoenix is placed on the reimbursement payment method, our working capital needs would increase significantly, the precise amount of which increase cannot be predicted because it would depend on the average length of time required by the Department to evaluate and approve our requests for reimbursement and the amount of any required letter of credit. In addition, under the new regulations that became effective July 1, 2016 regarding students' Title IV fund credit balances, we would be required to significantly alter the manner in which we process and disburse Title IV funds, which would increase our operating costs and could have unexpected and material negative impacts on our operations.

The combined effect of the above factors could cause our business to no longer be sustainable without a significant infusion of equity or other funding. Under current market conditions, there is no assurance that other funding sources would be available in sufficient amounts on terms acceptable to us or at all, and any available equity funding would necessarily involve substantial dilution to our current shareholders.

In addition to the composite score requirements, the Department regulations specify extensive criteria an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV programs. The failure of an institution to satisfy any of the criteria used to assess administrative capability may cause the Department to determine that the institution lacks administrative capability and, therefore, subject the institution to additional scrutiny or deny eligibility for Title IV programs. These criteria require, among other things, that the institution:

- Comply with all applicable Title IV program regulations;
- Have capable and sufficient personnel to administer the Title IV programs;
- Have acceptable methods of defining and measuring the satisfactory academic progress of its students;
- Not have student loan cohort default rates above specified levels;
- Have procedures in place for safeguarding federal funds;
- Not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;
- Provide financial aid counseling to its students;
- Refer to the Office of Inspector General any credible information indicating that any applicant, student, employee or agent of the institution has been engaged in any fraud or other illegal conduct involving Title IV programs;
- Submit in a timely manner all reports and financial statements required by the regulations; and
- Not otherwise appear to lack administrative capability.

If we, or our schools eligible to participate in Title IV programs fail to maintain administrative capability or financial responsibility, as defined by the Department, our schools could lose their eligibility to participate in Title IV programs or have that eligibility adversely conditioned, which could significantly reduce the enrollments and revenues of our schools eligible to participate in Title IV programs and materially and adversely affect our business and financial condition.

Our schools and programs would lose their eligibility to participate in federal student financial aid programs if the percentage of revenue derived from those programs is too high, in which event we could not conduct our business as it is currently conducted.

University of Phoenix, and all other proprietary institutions of higher education, are subject to the so-called "90/10 Rule" under the Higher Education Act, as reauthorized. Under this rule, a proprietary institution will be ineligible to participate in Title IV programs for at least two fiscal years if for any two consecutive fiscal years it derives more than 90% of its cash basis revenue, as defined in the rule, from Title IV programs. If an institution is determined to be ineligible, any disbursements of Title IV program funds made after the end of the second fiscal year in the measuring period must be repaid to the U.S. Department of Education. An institution that derives more than 90% of its cash basis revenue from Title IV programs for any single fiscal year will be automatically placed on provisional certification for two fiscal years and will be subject to possible additional sanctions determined to be appropriate under the circumstances by the Department. While the Department has broad discretion to impose additional sanctions on such an institution, there is only limited precedent available to predict what those sanctions might be, particularly in the current regulatory environment. For example, the Department could impose conditions in the provisional certification such as:

- Restrictions on the total amount of Title IV program funds that may be disbursed to students;
- Restrictions on programmatic and geographic expansion;
- Requirements to obtain and post letters of credit;
- Additional reporting requirements such as interim financial reporting; or
- Any other conditions deemed appropriate by the Department.

The 90/10 Rule percentages for University of Phoenix were as follows for the indicated periods:

	Year Ended August 31,		
	2016	**2015**	**2014**
University of Phoenix	79%	80%	81%

See the discussion of the 90/10 Rule in Part I, Item 1, *Business - Regulatory Environment*, above.

Any necessary efforts to reduce the 90/10 Rule percentage for University of Phoenix, especially if the percentage exceeds 90% for a fiscal year, may involve taking measures which reduce our revenue, increase our operating expenses, or both, in each case perhaps significantly. In addition, we may be required to make structural changes to our business in the future in order to remain in compliance, which changes may materially alter the manner in which we conduct our business and materially and adversely impact our business and financial condition. Furthermore, these required changes could make it more difficult to comply with other important regulatory requirements, such as the student loan cohort default rate regulations, which are discussed below.

In recent years, Congress has increased its focus on military benefit programs used for education at proprietary institutions. These military benefit programs are not part of Title IV, and therefore funding under these programs is not included in the 90% portion of the 90/10 Rule. Various bills have been introduced in Congress that would revise the 90/10 Rule to count Department of Defense tuition assistance and Department of Veterans Affairs Post-9/11 GI Bill veterans educational benefits toward the 90% limit, and to reduce the threshold to 85%. We cannot predict the likelihood that Congress will amend the 90/10 Rule in either manner. If all military benefit program funding was included in the 90% portion of the rule calculation, University of Phoenix's fiscal year 2016 90/10 Rule percentage would have been higher.

An increase in student loan default rates could result in the loss of eligibility to participate in Title IV programs, which would materially and adversely affect our business.

To remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. Each cohort is the group of students who first enter into student loan repayment during a federal fiscal year (ending September 30) for a three-year measuring period.

An educational institution loses eligibility to participate in Title IV programs if its cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years. If an institution's cohort default rate equals or exceeds 30% for any given year, it must establish a default prevention task force and develop a default prevention plan with measurable objectives for improving the cohort default rate.

Based on information published by the Department, the cohort default rates for University of Phoenix and for all proprietary postsecondary institutions for the applicable federal fiscal years were as follows:

	Cohort Default Rates for Cohort Years Ended September 30,		
	2013	**2012**	**2011**
University of Phoenix	13.3%	13.5%	19.0%
All proprietary postsecondary institutions	15.0%	15.8%	19.1%

See the discussion of cohort default rates in Part I, Item 1, *Business - Regulatory Environment*, above.

If our student loan default rates approach the applicable limits in the future, we may be required to increase efforts and resources dedicated to improving these default rates. This is challenging because most borrowers who are in default or at risk of default are no longer students, and we may have only limited contact with them. Furthermore, continued increased attention has been given by members of Congress and others on default aversion activities of proprietary education institutions. If such attention leads to congressional or regulatory action restricting the types of default aversion assistance that educational institutions are permitted to provide, the default rates of our former students may be negatively impacted. Such attention could also lead to Congressional proposals to increase the measuring period, which could negatively impact our default rates. Accordingly, there is no assurance that we would be able to effectively improve our default rates or improve them in a timely manner to meet the requirements for continued participation in Title IV programs if we experience a substantial increase in our student loan default rates.

If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and to participate in Title IV programs there.

Institutions that participate in Title IV programs must be authorized to operate by the appropriate postsecondary regulatory authority in each state where the institution has a physical presence. Prior to July 1, 2011, such authorization was not specifically required for the institution’s students to become eligible for Title IV programs. Under the program integrity rules adopted by the Department effective July 1, 2011, institutions are required to obtain specific regulatory approval to operate in such states. University of Phoenix is specifically authorized to operate in all of the domestic jurisdictions in which it operates. 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 licensure in states which require such licensure and where students are enrolled.

A separate negotiated rulemaking process was convened by the Department in November 2013 on a variety of topics. Included among the topics was the proposed establishment of requirements for state authorization of distance education programs in order to demonstrate eligibility for Title IV eligibility. A negotiated rulemaking committee was established and met in early 2014. The committee failed to reach consensus. In July 2016, the Department issued draft regulations to establish new federal requirements for such eligibility.

The proposed regulations would establish new requirements to maintain state authorization for Title IV eligibility for distance education programs. Major provisions include, but are not limited to:

- Requiring an institution offering distance education to have requisite state authority to offer such programs to state residents if required by the state;
- Defining and recognizing acceptable state authorization reciprocity agreements;
- Requiring institutions to document individualized state processes for resolving student complaints; and
- Requiring an institution to provide extensive public and individualized disclosures to enrolled and prospective students regarding its programs offered solely through distance education, including information concerning adverse actions filed against the school by state entities or accrediting bodies.

As proposed, the regulations could be interpreted to allow individual states to impose new and diverse requirements on institutions and thereby reduce the regulatory and operational efficiency that our schools use in operating under the current State Authorization Reciprocity Agreement (“SARA”), which currently allows our Title IV eligible programs to operate in those states that have adopted SARA with only home state regulatory approval. States that have adopted SARA now constitute the majority of domestic jurisdictions.

Also as proposed, the regulations could be interpreted to require extensive new public disclosures based upon certain actions by accreditors and state entities, including state Attorneys General. Under some interpretations, the regulations could require disclosure to current and prospective students upon the mere filing of an adverse action and long after the initial action was resolved, even if resolved in favor of the institution.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise regulatory scope and definitions for individualized state requirements and disclosures may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of adverse actions by government entities or accrediting bodies, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to interpret and administer the regulations may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017.

If our institutional accrediting body loses recognition by the U.S. Department of Education, we could lose our ability to participate in Title IV programs, which would materially and adversely affect our business.

University of Phoenix is institutionally accredited by the Higher Learning Commission ("HLC"), one of the six regional accrediting agencies recognized by the U.S. Department of Education. Accreditation by an accrediting agency recognized by the Department is required in order for an institution to become and remain eligible to participate in Title IV student financial aid programs.

If the Department ceased to recognize HLC for any reason, University of Phoenix would not be eligible to participate in Title IV programs beginning 18 months after the date such recognition ceased unless HLC was again recognized or our institutions were accredited by another accrediting body recognized by the Department. In June 2013, the National Advisory Committee on Institutional Quality and Integrity, a Committee that advises the Secretary of Education on matters related to postsecondary accreditation and eligibility, recommended to the Secretary that HLC have continuing recognition as an eligible accreditor with certain conditions and required reports.

If HLC ceased to be recognized by the Department and our affected schools failed to timely obtain replacement accreditation, our schools would cease to be eligible to participate in Title IV programs and our business would no longer be sustainable in its current form.

Non-U.S. Operations

Changes by a regulator in the interpretation of applicable course requirements could materially impact our Open Colleges business in Australia.

In mid-October 2016, Apollo Global's two primary registered training organizations in Australia, Open Colleges Pty Ltd., and Integrated Care & Management Training, Pty Ltd., each received a notice of noncompliance and intention to make a decision to impose sanctions from the Australian Skills Quality Authority ("ASQA"), the national regulator of vocational education programs. The notice, which followed a recent compliance audit, identified several alleged compliance deficiencies and stated that ASQA intended to make a decision on whether to impose sanctions on the institutions which could include cancellation of registration or imposition of lesser sanctions. One of the findings involves a change in the interpretation of applicable course requirements and will require changes in our procedures for student workplace skills assessments used in connection with courses that represent a substantial portion of the Open Colleges institutions' enrollment.

Implementing an updated workplace skills assessment model in order to address ASQA's concerns will require operational changes for these institutions and increase operating costs, perhaps substantially. Furthermore, any resulting increases in tuition prices due to these changes could make our vocational training programs less competitive relative to available alternatives, especially traditional on-ground programs in large metropolitan areas.

Continued ASQA registration is critical to the continued operation of the Open Colleges and Integrated Care & Management Training businesses in Australia. If ASQA terminates the registration of these institutions or materially limits their participation, it could materially and adversely impact their and our business and operations.

We have until November 7, 2016 to respond to this notice of noncompliance. We cannot currently predict the timing or ultimate outcome of this matter.

Our non-U.S. operations are subject to risks not inherent in our U.S. operations, which could adversely affect our business.

We operate educational institutions in the United Kingdom, Australia, Germany, Mexico, South Africa, Brazil, Chile and elsewhere, and in India we offer educational programs through a joint venture. Our operations in each of the relevant foreign jurisdictions are subject to regulatory requirements relating to education providers, as well as foreign businesses. Many foreign countries have not fully embraced the proprietary education model, and in other countries, proprietary education remains controversial. As a result, our foreign operations are subject to the political risk that existing regulations will be interpreted unfavorably or new regulations will be adopted that have a significant negative impact on our business model or render it impractical. In addition, our non-U.S. operations are subject to the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act which require extensive compliance vigilance on our part and, in some cases, puts our foreign operations at a competitive disadvantage with local companies. If one or more of our foreign operations ceases to be economically practical, we may be forced to discontinue such operations or seek a buyer, either of which might result in a substantial loss of value to Apollo Education Group.

Risks Related to Our Business

We face intense and increasing competition in the postsecondary education market from both public and private educational institutions, which has adversely affected our business.

Postsecondary education in our existing and new market areas is highly competitive and is becoming increasingly so as the industry is undergoing profound change at an unprecedented rate. We compete primarily with traditional public and private degree-granting regionally accredited colleges and universities, other proprietary degree-granting regionally accredited schools and alternatives to higher education. In addition, we face increasing competition from various emerging non-traditional, credit-bearing and noncredit-bearing education programs, offered by both proprietary and not-for-profit providers. Some of our competitors have greater financial and nonfinancial resources than we have and are able to offer programs similar to ours at a lower tuition level for a variety of reasons, including the availability of direct and indirect government subsidies, government and foundation grants, large endowments, tax-deductible contributions and other financial resources not available to proprietary institutions, or by providing fewer student services or larger class sizes. For example, a typical community college is subsidized by local or state government and, as a result, tuition rates for associate's degree programs are much lower at community colleges than at University of Phoenix. Furthermore, various members of Congress have advocated for free or debt free post-secondary education at public universities, and the affordability of such education has been the subject of intense focus among candidates during the campaign leading up to the November 2016 elections in the U.S.

Also, like University of Phoenix, other proprietary educational institutions have begun to deploy pricing incentives to impact demand. We believe that price competition through targeted programs involving student scholarships and otherwise will continue throughout the industry. We have implemented scholarships and discounts which reduce the amount of tuition we receive, and further downward pressure on our tuition rates may cause us to implement further pricing incentives, which will adversely affect our revenue.

In addition, one of our primary competitive advantages in the U.S. has been materially diminished as a significant and increasing number of traditional four-year and community colleges, which are subject to fewer regulatory constraints, offer an increasing array of distance learning and other online education programs, including programs that are offered wholly online and geared towards the needs of working adults. This trend has been accelerated by private companies that provide and/or manage online learning platforms for traditional four-year colleges and community colleges. As the proportion of traditional colleges and universities providing alternative learning modalities increases, we will face increased competition from these institutions, including those with highly regarded reputations, the degrees from which are perceived as more valuable in the workplace. Already, this type of competition is significant and has contributed to the substantial decline in University of Phoenix enrollment that began in late 2010.

This intense competition makes it more challenging for us to enroll students who are likely to succeed in our educational programs, and has contributed to the substantial decline in University of Phoenix enrollment that began in late 2010 and put downward pressure on our tuition rates. We must adapt our business to meet these competitive challenges. The current initiative to transform University of Phoenix, as discussed below, is intended to address these competitive challenges.

We have launched a set of initiatives to transform University of Phoenix into a more focused institution; these initiatives will further reduce the University's enrollment in the short-term and may not be successful in improving enrollment and retention in the longer term.

We are working to transform University of Phoenix into a more focused, higher retaining and less complex institution in order to improve student outcomes and stabilize enrollment. In furtherance of this, the University is implementing several important initiatives, as described in Part I, Item 1*, Business - University of Phoenix*. These initiatives require significant time, energy and resources, and involve many significant interrelated and simultaneous changes in the University's processes and programs. We believe that some of the initiatives to transform University of Phoenix have accelerated the near term rate of decline in the University's enrollment and revenue, which has increased the amount of necessary cost reductions. We have significantly reduced our operating costs over recent periods and further significant reductions are increasingly challenging. There is no assurance that we will be able to reduce costs to align with University of Phoenix's reduced enrollment and revenue, especially if the University's near term enrollment declines more than anticipated. Although we seek to effect these cost reductions in a manner that does not adversely impact the quality of our services to students, given the magnitude of these changes, they could result in near term disruption to our business which may further decrease our enrollment and revenues. Additionally, our fiscal year 2017 Department of Education financial responsibility composite score will be adversely impacted if we are not successful in reducing costs sufficiently during fiscal year 2017, whether due to our inability to effectuate planned cost reductions, greater than anticipated declines in our enrollment and revenue or other factors.

Our financial performance depends on our ability to develop favorable awareness among, and enroll and retain students; adverse publicity has negatively impacted demand for our programs.

Building favorable awareness of our schools and the programs we offer is critical to our ability to attract prospective students. We expend significant resources on marketing. To the extent that our schools are unable to successfully market and advertise their educational programs, our schools' ability to attract and enroll prospective students in such programs will be adversely affected. It is also critical to our success that we convert these prospective students to enrolled students in a cost-effective manner and that these enrolled students remain active in our programs.

During fiscal year 2016, University of Phoenix eliminated its use of third-party operated websites for marketing purposes in order to better manage the University's marketing message, improve its ability to identify those students more likely to persist in its educational programs, and reduce cost. We believe that this change negatively impacted New Degreed Enrollment in fiscal year 2016.

The proprietary postsecondary education sector is under intense regulatory and other scrutiny which has led to media attention that has portrayed the sector in an unflattering light. This negative media attention has caused and may continue to cause some prospective students to choose educational alternatives outside of the proprietary sector or proprietary alternatives other than University of Phoenix, either of which could continue to negatively impact our new enrollments.

Some of the additional factors that could prevent us from successfully enrolling and retaining students in our programs include:

- Increased competition from schools offering distance learning and other online educational programs;
- A decrease in the perceived or actual economic benefits that students derive from our programs or education in general;
- A decrease in or perceived low student pass rates for professional licenses and other examinations necessary for students to work in their chosen field;
- Regulatory investigations or enforcement proceedings that may damage our or the industry's reputation;
- Increased regulation of online education, including in states in which we do not have a physical presence;
- Litigation that may damage our reputation;
- Inability to continue to recruit, train and retain quality faculty;
- Student or employer dissatisfaction with the quality of our services and programs;
- Tuition rate reductions by competitors that we are unwilling or unable to match;
- A decline in the acceptance of online education;
- Unavailability of ground locations where students want to attend; and
- Disruptions to our information technology systems.

If one or more of these factors reduces demand for our programs, our enrollment could be further negatively affected or our costs associated with each new enrollment could increase, or both, either of which could have a material adverse impact on our business and financial condition.

Our financial performance depends, in part, on our ability to keep pace with changing education market needs; if we fail to keep pace or fail in implementing or adapting to new educational offerings and technologies, our business may be adversely affected.

The nature of the skills required by employers can evolve rapidly in today's changing economic and technological environment. Accordingly, it is important for our schools' educational programs to evolve in response to economic and technological changes. The expansion of existing programs and the development of new programs, including the changes discussed above to transform University of Phoenix, may not be accepted by current or prospective students or the employers of our graduates. Even if our schools are able to develop acceptable new programs, our schools may not be able to begin offering those new programs as quickly as required by prospective employers or as quickly as our competitors offer similar programs. In addition, we may be unable to obtain specialized accreditations or licensures that may make certain programs desirable to students. To offer a new academic program, we may be required to obtain federal, state and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible for Title IV programs, a new academic program may need to be certified by the U.S. Department of Education. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes, or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could suffer, and our business and financial condition could be adversely affected.

Establishing new academic programs or modifying existing programs requires us to make investments, incur marketing expenses and reallocate other resources. We may have limited experience with the courses in new areas and may need to modify our systems and strategy or enter into arrangements with other educational institutions to provide new programs effectively and profitably. If we are unable to offer new programs in a cost-effective manner, or are otherwise unable to manage effectively the operations of newly established academic programs, our business, financial condition and results of operations could be adversely affected.

If we do not maintain existing, and develop additional, relationships with employers, our business may be impaired.

We currently have relationships with large employers to provide their employees with the opportunity to obtain degrees and professional development certificates through us while continuing their employment. These relationships are an important part of our strategy as they provide us with potential working adults for particular programs and also serve to increase our reputation among high-profile employers. In addition, degree-granting programs in which employers directly pay tuition have a beneficial impact on our 90/10 Rule percentage calculation by reducing the proportion of our cash basis revenues attributable to Title IV program funds. If we are unable to develop new relationships or further develop our existing relationships, if our existing relationships deteriorate or end, or if we are unable to offer programs that teach skills demanded by employers, our efforts to seek these sources of potential working adults may be impaired, and this could materially and adversely affect our business and financial condition and our compliance with applicable regulations.

Our acquisitions may not be successful and may result in additional debt or dilution to our shareholders, which could adversely affect our business.

We have acquired and may in the future acquire additional proprietary educational institutions that complement our strategic direction. Any acquisition involves significant risks and uncertainties, including:

- Inability to successfully integrate the acquired operations, including the information technology systems, into our institutions and maintain uniform standards, controls, policies and procedures;
- Inability to successfully operate and grow the acquired businesses;
- Distraction of management's attention from normal business operations;
- Challenges retaining the key employees of the acquired operation;
- Operating, market or other challenges causing operating results to be less than projected;
- Expenses associated with the acquisition;
- Noncontrolling shareholder options that could require us to purchase shares in certain of our businesses that we do not wholly-own;
- Challenges relating to conforming non-compliant financial reporting procedures to those required of a subsidiary of a U.S. reporting company, including procedures required by the Sarbanes-Oxley Act; and
- Unidentified issues not discovered in our due diligence process, including commitments and/or contingencies.

Acquisitions are inherently risky. We have experienced many challenges in connection with our previous acquisitions and cannot be certain that any future acquisitions will be successful and will not materially adversely affect our business and financial condition. We may not be able to identify suitable acquisition opportunities, acquire institutions on favorable terms, or successfully integrate or profitably operate acquired institutions. Future transactions may involve use of our cash resources, issuance of equity or debt securities, incurrence of other forms of debt or a significant increase in our financial leverage, which could adversely affect our business and financial condition, especially if the cash flows associated with any acquisition are not sufficient to cover the additional debt service and could negatively impact our compliance with the U.S. Department of Education composite score measure of financial responsibility. If we issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share may be diluted. In addition, our acquisition of an educational institution could be considered a change in ownership and control of the acquired institution under applicable regulatory standards. For such an acquisition in the U.S., we may need approval from the U.S. Department of Education and applicable state agencies and accrediting agencies and possibly other regulatory bodies. Our inability to obtain such approvals with respect to a completed acquisition could have a material adverse effect on our business and financial condition.

Our expansion into new markets outside the U.S. subjects us to risks inherent in international operations.

As part of our growth strategy, we have acquired, and may continue to acquire schools and universities outside the U.S., and otherwise intend to grow our international operations. We will face risks that are inherent in international operations, including:

- Complexity of operations across borders;
- Compliance with foreign regulatory environments, including laws and regulations hindering proprietary education enterprises;
- Changes in existing laws to prohibit or restrict proprietary education, whether arising from public discontent or otherwise;
- Currency exchange rate fluctuations and/or price controls or restrictions on exchange of foreign currencies;
- Monetary policy risks, such as inflation, hyperinflation and deflation;
- Potential political and economic instability in the countries in which we operate;
- Expropriation of assets by local governments;
- Multiple and possibly overlapping and conflicting tax laws;
- Compliance with anti-corruption regulations such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act of 2010;
- Potential unionization of employees under local labor laws and local labor laws that make it more expensive and complex to negotiate with, retain or terminate employees;
- Greater difficulty in utilizing and enforcing any acquired intellectual property and contract rights;
- Investment and execution missteps due to a failure to understand the local culture and market;
- Limitations on the repatriation of funds; and
- Increased risk of acts of terrorism and war, epidemics and natural disasters.

Any one or more of these risks could negatively impact our non-U.S. operations and materially and adversely impact our business and financial condition.

Our current credit facility expires in April 2017. If we cannot arrange a replacement facility prior to that time, or at all, our available liquidity will be reduced which could limit our business operations.

Our existing syndicated $625 million unsecured revolving credit facility (the "Revolving Credit Facility") expires in April 2017. Due to the current challenging business and regulatory climate for the proprietary education sector and the continued decline in our operating performance, we expect that any subsequent credit facility, if one can be arranged, will be substantially smaller and more expensive than our current facility. We believe that a number of lenders, including members of our Revolving Credit Facility syndicate, have made a decision to exit the proprietary education sector. Accordingly, there is no assurance that we will be able to timely arrange a replacement credit facility on terms acceptable to us or at all, and much will depend on near-term developments in our business and the proprietary education sector generally.

As of August 31, 2016, we had $30 million of outstanding borrowings under the Revolving Credit Facility and approximately $29 million of outstanding letters of credit. Also as of that date, we had $681 million of unrestricted cash and cash equivalents, and marketable securities. If we cannot replace the Revolving Credit Facility, our available liquidity will be reduced, and we may be required to post cash deposits to replace any outstanding letters of credit. In addition, the lack of a credit facility of an adequate size would limit our flexibility to operate our business, perhaps materially, which could adversely impact our future financial condition and operating results.

Brexit and related negative developments in the European Union could adversely impact our business and financial results.

The June 2016 referendum in the United Kingdom ("U.K.") approving the exit of the U.K. from the European Union ("E.U.") (widely referred to as "Brexit") could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future students and employees, which could have an adverse effect on our business, financial results and operations. The Referendum is non-binding; however, if passed into law, negotiations would commence to determine the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. These measures could impact the markets we serve and the tax jurisdictions in which we operate, and may cause us to lose students and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and education-related regulations as the U.K. determines which E.U. laws to replace or replicate.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against the British pound. The strengthening of the U.S. dollar relative to other currencies may adversely affect our results of operations, because we translate revenue and expense denominated in foreign currencies into U.S. dollars for our consolidated financial statements.

System disruptions to our computer networks or phone systems could have a material adverse effect on our business.

The performance and reliability of our computer network and phone systems infrastructure at our schools, including our online programs, is critical to our operations, reputation and ability to attract and retain students. From time to time we experience intermittent outages of the information technology systems used by our students and by our employees, including system-wide outages. Any computer system error or failure, regardless of cause, could result in a substantial outage that materially disrupts our online and ground operations. Not all of our critical systems are protected by a validated formal disaster recovery plan and redundant disaster recovery infrastructure at a geographically remote data center. We are continuing execution of our plan to implement disaster recovery infrastructure for our remaining critical systems to allow timely recovery from catastrophic failure. For those systems not yet protected, a catastrophic failure or unavailability for any reason of our principal data center may require us to replicate the function of this data center at our existing remote data facility or elsewhere, and could result in the loss of data. An event such as this may require service restoration activities that could take up to several weeks to complete.

We have upgraded or are in the process of upgrading a substantial portion of our key IT systems, including our online student classroom, student relationship and communications management platform, and corporate applications, and retiring the related legacy systems. Although these new systems are expected to improve the productivity, scalability, reliability and sustainability of our IT infrastructure, the transition from the legacy systems entails risk of unanticipated disruption or failure to fully replicate all necessary data processing and reporting functions, including in our core business functions.

Any disruption in our IT systems, including any disruptions and system malfunctions that may arise from our substantial IT systems upgrade initiative currently underway or outsourcing initiatives, could significantly impact our operations, reduce student and prospective student confidence in our educational institutions, adversely affect our compliance with applicable regulations and accrediting body standards and have a material adverse effect on our business and financial condition. Although we maintain insurance in respect of some types of these disruptions, there is no assurance that available insurance proceeds would be adequate to compensate us for damages sustained due to these disruptions.

Security threats to our computer systems, including breach of the personal information that we collect, could have a material adverse effect on our business.

We face an ever increasing number of threats to our computer systems, including unauthorized activity and access, malicious penetration, system viruses, malicious code and organized cyber-attacks, which could breach our security and disrupt our systems. These risks increase when we are making changes to our IT systems, such as our substantial IT systems upgrade initiative currently underway and our frequent updates to enable instructional innovation and address new student populations. Our size makes us a prominent target for hacking and other cyber-attacks within the education industry. From time to time we experience security events and incidents, and these reflect an increasing level of malicious sophistication, organization and innovation. We have devoted and will continue to devote significant resources to the security of our computer systems, but they may still be vulnerable to these threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations, perhaps over an extended period of time prior to detection. As a result, we may be required to expend significant additional resources to protect against the threat of or alleviate problems caused by these system disruptions and security breaches. Any of these events could have a material adverse effect on our business and financial condition. Although we maintain insurance in respect of these types of events, there is no assurance that available insurance proceeds would be adequate to compensate us for damages sustained due to these events.

In addition, possession and use of personal information in our operations subjects us to risks and costs that could harm our business. Our educational institutions collect, use and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information and personal and family financial data. We also collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and managed by certain of our vendors. Although we use security and business controls to limit access and use of personal information, a third-party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy, and the increased availability and use of mobile data devices by our employees and students increases the risk of unintentional disclosure of personal information. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches and restrict our use of personal information. We cannot ensure that a breach, loss or theft of personal information will not occur. A breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under state and federal privacy statutes and legal actions by state attorneys, general and private litigants, and any of which could have a material adverse effect on our business and financial condition.

If we cannot attract qualified new personnel or retain our existing senior management team, our business could be adversely affected.

Our future performance depends on the continued services and continuing contributions of our senior management to execute on our business plan and to identify and pursue new opportunities. Our future success also depends in large part on our continued ability to attract and retain qualified personnel. The loss of the services of our senior management for any reason could adversely affect our business and results of operations.

We have experienced a number of changes in senior management in recent years. A lack of management continuity could result in operational and administrative inefficiencies, make achievement of our strategic and management objectives more challenging and may make recruiting for future management positions more difficult. If we are unable to effectively manage our business through these management transitions, our business and results of operation could be adversely affected.

To effectively educate our students, we must continue to attract and retain qualified faculty members.

Our educational institutions employ approximately 19,000 faculty members, of which the substantial majority are adjunct, part-time faculty. In order to effectively educate our students, we must recruit and train a large number of faculty on an ongoing basis and keep our faculty engaged and focused on the mission of delivering quality education. If we cannot attract and retain sufficient qualified faculty members, or we fail to adequately train new faculty members, or our relations with faculty members deteriorate and lead to work stoppages or other disruptions, our ability to serve our students would be impaired and we may be required to reduce the scope or number of the classes available to our students, any of which could have a material adverse impact our business.

If we are unable to successfully conclude pending litigation and governmental inquiries, our business and financial condition could be adversely affected.

We, certain of our subsidiaries, and certain of our current and former directors and executive officers have been named as defendants in various lawsuits and we have received various governmental inquiries. Refer to Note 16, Commitments and Contingencies, and Note 17, Regulatory Matters, in Part II, Item 8, *Financial Statements and Supplementary Data*, for further discussion of pending litigation and other proceedings. In addition, changes in our business and pending actions by regulators and accreditors may increase the risk of claims.

We cannot predict the ultimate outcome of these matters and expect to incur significant defense costs and other expenses in connection with them. Such costs and expenses could have a material adverse effect on our financial condition and the market price of our common stock. We may be required to pay substantial damages or settlement costs in excess of our insurance coverage related to these matters, or may be required to pay substantial fines or penalties, any of which could have a further material adverse effect on our financial condition. An adverse outcome in any of these matters could also materially and adversely affect our licenses, accreditations and eligibility to participate in Title IV programs.

We rely on proprietary rights and intellectual property that may not be adequately protected under current laws, and we encounter disputes from time to time relating to our use of intellectual property.

Our success depends in part on our ability to protect our proprietary rights and intellectual property. We rely on a combination of copyrights, trademarks, trade secrets, patents, domain names and contractual agreements to protect our proprietary rights. For example, we rely on trademark protection in the U.S. and various foreign jurisdictions to protect our rights to various marks as well as distinctive logos and other marks associated with our services. We also rely on agreements under which we obtain intellectual property to own or license rights to use intellectual property developed by faculty members, content experts and other third-parties. We cannot assure that these measures are adequate, that we have secured, or will be able to secure, appropriate permissions or protections for all of the intellectual property rights we use or claim rights to in the U.S. or various foreign jurisdictions, or that third parties will not terminate our license rights or infringe upon or otherwise violate our intellectual property rights or the intellectual property rights of others. Despite our efforts to protect these rights, unauthorized third parties may attempt to use, duplicate or copy the proprietary aspects of our student recruitment and educational delivery methods and systems, curricula, online resource material or other content. Our management's attention may be diverted by these attempts and we may need to use funds in litigation to protect our proprietary rights against any infringement or violation, which could have a material adverse affect on our business and financial condition.

We may become party to disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. For example, third parties may allege that we have infringed upon or not obtained sufficient rights in the technologies used in our educational delivery systems, the content of our courses or other training materials or in our ownership or uses of other intellectual property claimed by that third-party. Some third-party intellectual property rights may prove to be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid violating those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit. Our various liability insurance coverages, if any, may not cover potential claims of this type adequately or at all, and we may be required to alter the design and operation of our systems or the content of our courses or pay monetary damages or license fees to third parties, which could have a material adverse affect on our business and financial condition.

We may incur liability for the unauthorized duplication, distribution or other use of materials posted online.

In some instances, our employees, including faculty members, or our students may post various articles or other third-party content online in class discussion boards or in other venues including Facebook, PhoenixConnect, University of Phoenix's proprietary academic social media network, and other social networks. The laws governing the fair use of these third-party materials are imprecise and adjudicated on a case-by-case basis, which makes it challenging to adopt and implement appropriately balanced institutional policies governing these practices. As a result, we could incur liability to third parties for the unauthorized duplication, distribution or other use of this material. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. Our various liability insurance coverages, if any, may not cover potential claims of this type adequately or at all, and we may be required to alter or cease our uses of such material, which may include changing or removing content from our courses, or pay monetary damages, which could have a material adverse affect on our business and financial condition.

We may have unanticipated tax liabilities that could adversely impact our results of operations and financial condition.

We are subject to multiple types of taxes in the U.S., United Kingdom and various other foreign jurisdictions. The determination of our worldwide provision for income taxes and other tax accruals involves various judgments, and therefore the ultimate tax determination is subject to uncertainty. In addition, changes in tax laws, regulations, or rules may adversely affect our future reported financial results, may impact the way in which we conduct our business, or may increase the risk of audit by the Internal Revenue Service ("IRS") or other tax authorities.

During fiscal year 2015, the IRS completed its review of our U.S. federal income tax return for fiscal year 2014. Our federal income tax return for fiscal year 2013 is currently open for review by the IRS and we are also participating in the IRS's Compliance Assurance Process for fiscal years 2015, 2016 and 2017, which is a voluntary program in which taxpayers seek to resolve all or most issues with the IRS prior to or soon after filing their U.S. federal income tax returns. Additionally, we are subject to numerous ongoing audits by state, local and foreign tax authorities with various tax years as early as 2007 that remain subject to examination.

Although we believe our tax accruals are reasonable, the final determination of tax returns under review or returns that may be reviewed in the future and any related litigation could result in tax liabilities that materially differ from our historical income tax provisions and accruals.

In addition, an increasing number of states and localities are adopting new laws or changing their interpretation of existing laws regarding the apportionment of service revenues for corporate income tax purposes in a manner that could result in a larger proportion of our income being taxed by the states into which we sell services. These legislative and administrative changes could have a material adverse effect on our business and financial condition.

Risks Related to the Control Over Our Voting Stock

Our Class A common stock has no voting rights. The Apollo Class B Voting Stock Trust No. 1 holds approximately 51% of our voting stock and controls substantially all actions requiring the vote or consent of our shareholders, which may discourage or make impractical a takeover and may have an adverse effect on the trading price of our Class A common stock.

Approximately 51% of our outstanding Class B voting shares, our only class of voting stock, is held by the Apollo Class B Voting Stock Trust No. 1 (the "Class B Trust"), an irrevocable trust of which the current trustees are Peter V. Sperling, Chairman of our Board of Directors, Ms. Terri Bishop, the Vice Chair of our Board of Directors, and Ms. Darby Shupp, a member of our Board of Directors. Mr. Peter Sperling owns the remaining 49% of our outstanding Class B voting stock through a revocable grantor trust. Accordingly, the Class B Trust and Mr. Peter Sperling together control the election of all members of our Board of Directors and substantially all other actions requiring a vote of our shareholders, except in certain limited circumstances. Holders of our outstanding Class A common stock do not have the right to vote for the election of directors or for substantially any other action requiring a vote of shareholders. The trustees of the Class B Trust have the sole power to appoint successor and additional trustees.

The control of a majority of our voting stock by the Class B Trust makes it impossible for a third-party to acquire voting control of us without the approval of a majority of the trustees of the Class B Trust. There is no assurance that the Apollo Education Group Class B shareholders, or the trustees of the Class B Trust, will exercise their control of Apollo Education Group in the same manner that a majority of the outstanding Class A shareholders would if they were entitled to vote on actions currently reserved exclusively for our Class B shareholders.

We are a "Controlled Company" under the Nasdaq Listing Rules and therefore are exempt from certain corporate governance requirements, which could reduce the influence of independent directors on our management and strategic direction.

We are a "Controlled Company" as defined in Rule 5615(c)(1) of the Nasdaq Listing Rules, because more than 50% of the voting power of our outstanding stock is controlled by the Class B Trust. As a consequence, we are exempt from certain requirements of Nasdaq Listing Rule 5605, including that:

- Our Board be composed of a majority of Independent Directors (as defined in Nasdaq Listing Rule 5605(a)(2));
- The compensation of our officers be determined by a majority of the independent directors or a compensation committee composed solely of independent directors; and
- Nominations to the Board of Directors be made by a majority of the independent directors or a nominations committee composed solely of independent directors.

However, Nasdaq Listing Rule 5605(b)(2) does require that our independent directors have regularly scheduled meetings at which only independent directors are present ("executive sessions"). In addition, Internal Revenue Code Section 162(m) requires that a compensation committee of outside directors (within the meaning of Section 162(m)) approve performance-based compensation awards to executive officers in order for us to claim deductions for the compensation expense attributable to such awards. Notwithstanding the foregoing exemptions, we do have a majority of independent directors on our Board of Directors and we do have an Audit Committee, a Compensation Committee and a Nominating and Governance Committee composed entirely of independent directors.

The charters for the Compensation Committee, Audit Committee and Nominating and Governance Committee have been adopted by the Board of Directors and are available on our website, www.apollo.edu. These charters provide, among other items, that each member must be independent as such term is defined by the rules of the Nasdaq Stock Market LLC and the Securities and Exchange Commission.

If in the future our Board of Directors elects to rely on the exemptions permitted by the Nasdaq Listing Rules and reduce the number or proportion of independent directors on our Board and its key committees, the influence of independent directors on our management and strategy would be reduced and the influence of the holders of our Class B voting common stock on our management and strategy would increase.

Transactions involving a change of control of our company may impair our eligibility to participate in Title IV programs, our accreditation and our state licenses in a manner that materially and adversely affects our business.

A change of ownership or control of Apollo Education Group could require recertification by the U.S. Department of Education, the reevaluation of accreditation by HLC and the consent or reauthorization by state and foreign licensing agencies. If we experience a change of ownership or control, then University of Phoenix and certain of our other subsidiaries may cease to be eligible to participate in Title IV programs until recertified by the Department. The continuing participation of University of Phoenix in Title IV programs is critical to our business.

In addition, University of Phoenix is required to report any material change in stock ownership to its principal institutional accrediting body, HLC, and must obtain approval prior to undergoing any transaction that affects, or may affect, its corporate control or governance. In the event of any such change, HLC may undertake an evaluation of the effect of the change on the continuing operations of University of Phoenix for purposes of determining if continued accreditation is appropriate, which evaluation may include a comprehensive review. If accreditation by HLC is suspended or withdrawn, University of Phoenix would not be eligible to participate in Title IV programs until the accreditation is reinstated by the Commission or is obtained from another appropriate accrediting body.

In addition, some states in which University of Phoenix is licensed require approval (in some cases, advance approval) of changes in ownership or control in order to remain authorized to operate in those states, and participation in grant programs in some states may be interrupted or otherwise affected by a change in ownership or control.

In connection with our pending merger transaction, we have obtained or are seeking the necessary regulatory approvals.

As discussed above, approximately 51% of our outstanding Class B voting stock, our only class of voting stock, is held by the Class B Trust, and Mr. Peter Sperling beneficially owns the remaining 49% of such shares. If our pending merger transaction is not consummated, a future change in trustees of the Class B Trust, whether resulting from resignation, death, disability or otherwise, may be considered to be a change of control by the Department of Education, HLC or other regulatory authorities, depending on the circumstances.

We cannot prevent a change of ownership or control that would arise from a transfer of voting stock by the Class B Trust or Mr. Peter Sperling, including a transfer that may occur or be deemed to occur upon the resignation, death or incompetency of one or more of the trustees of the Class B Trust.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

We lease and own real estate primarily in connection with providing educational programs and services. Our principal executive offices are located in Phoenix, Arizona, and we also maintain senior executive offices in Chicago, Illinois. Our properties consist of the following as of August 31, 2016:

	Leased[4]		Owned	
	Square Feet	# of Properties	Square Feet	# of Properties
University of Phoenix[1]	3,935,000	134	—	—
Apollo Global[2]	940,000	73	572,000	17
Other[3]	1,074,000	29	3,000	1
	5,949,000	236	575,000	18

(1) University of Phoenix has closed or is in the process of closing approximately 150 ground locations, as further discussed in Note 2, Restructuring and Impairment Charges, in Part II, Item 8, *Financial Statements and Supplementary Data*. The University continues to offer many of its academic programs at ground locations in selected major metropolitan areas throughout the U.S.

(2) Apollo Global's properties are principally located in the United Kingdom, Mexico, Germany, Chile, South Africa, Australia and Brazil.

(3) The substantial majority of Other represents office space located in the U.S.

(4) We are rationalizing certain of our real estate facilities and ground locations in connection with our restructuring activities. The properties in the above table include 2.9 million of square feet we are exiting as part of our restructuring activities for which we still have a remaining lease obligation as of August 31, 2016.

Our properties consist of both office and dual purpose space, which includes classroom and office facilities. Leases generally range from five to ten years and often have 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. We periodically evaluate the current utilization of our educational facilities, projected enrollment and other relevant data to determine facility needs.

Item 3. ***Legal Proceedings***

We are subject to various claims and contingencies that arise from time to time in the ordinary course of business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. While the outcomes of these matters are uncertain, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

A description of pending litigation, settlements, and other proceedings that fall outside the scope of ordinary and routine litigation incidental to our business is provided under Note 16, Commitments and Contingencies, in Item 8, *Financial Statements and Supplementary Data*, which is incorporated herein by reference.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market and Shareholders

Our Class A common stock is traded on the Nasdaq Global Select Market under the symbol "APOL." As of August 31, 2016, there were 202 registered holders of record of our Class A common stock, none of which are entitled to any voting rights. Because many of our shares of Class A common stock are held by banks, brokers and other financial institutions on behalf of shareholders, there are a substantially greater number of shareholders represented by these registered holders.

The following sets forth the high and low sales prices per share for our Class A common stock as reported by the Nasdaq Global Select Market during each quarter of the two most recent fiscal years:

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	High	Low	High	Low	High	Low	High	Low
Fiscal Year 2016	$ 9.26	$ 8.81	$ 9.34	$ 7.10	$ 8.94	$ 6.31	$ 12.43	$ 6.83
Fiscal Year 2015	$ 17.36	$ 10.20	$ 28.53	$ 16.05	$ 34.55	$ 24.82	$ 31.44	$ 23.30

There is no established public trading market for our Class B common stock and all shares of our Class B common stock are beneficially owned by three registered affiliate holders.

Dividends

Although we are permitted to pay dividends on our Class A and Class B common stock, we have never paid cash dividends on our common stock. Dividends are payable at the discretion of the Board of Directors, and the Articles of Incorporation treat the declaration of dividends on the Class A and Class B common stock in an identical manner as follows: holders of our Class A and Class B common stock are entitled to receive cash dividends, if and to the extent declared by the Board of Directors, payable to the holders of either class or both classes of common stock in equal or unequal per share amounts, at the discretion of the Board of Directors. We do not expect to pay dividends in the foreseeable future. The decision of our Board of Directors to pay future dividends will depend on general business conditions, the effect of a dividend payment on our financial condition and other factors the Board of Directors may consider relevant. We are prohibited from paying dividends under the agreements associated with our pending merger, as described further in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Pending Merger.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is provided under Part III, Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,* which is incorporated herein by reference.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized us to repurchase outstanding shares of our Class A common stock from time to time depending on market conditions and other considerations. During fiscal year 2013, our Board of Directors authorized an increase in the amount available under our share repurchase program up to an aggregate amount of $250 million, of which $52.2 million remained available as of August 31, 2016. There is no expiration date on the repurchase authorizations and the amount and timing of future share repurchase authorizations and repurchases, if any, will be made as market and business conditions warrant. Repurchases occur at our discretion and may be made on the open market through various methods including but not limited to accelerated share repurchase programs, or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules, and may include repurchases pursuant to Securities and Exchange Commission Rule 10b5-1 nondiscretionary trading programs. We are prohibited from repurchasing shares under the agreements associated with our pending merger, as described further in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Pending Merger.

We did not repurchase shares of our Class A common stock during the three months ended August 31, 2016, and the following details changes in our treasury stock during the three months ended August 31, 2016:

(In thousands, except per share data)	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Value of Shares Available for Repurchase Under the Plans or Programs
Treasury stock as of May 31, 2016	79,814	$ 49.06	79,814	$ 52,224
New authorizations	—	—	—	—
Share repurchases	—	—	—	—
Share reissuances	(25)	49.06	(25)	—
Treasury stock as of June 30, 2016	79,789	$ 49.06	79,789	$ 52,224
New authorizations	—	—	—	—
Share repurchases	—	—	—	—
Share reissuances	(150)	49.06	(150)	—
Treasury stock as of July 31, 2016	79,639	$ 49.06	79,639	$ 52,224
New authorizations	—	—	—	—
Share repurchases	—	—	—	—
Share reissuances	(782)	49.06	(782)	—
Treasury stock as of August 31, 2016	78,857	$ 49.06	78,857	$ 52,224

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Company Stock Performance

The following graph compares the five-year cumulative total return attained by shareholders on our Class A common stock relative to the cumulative total returns of the S&P 500 index and a customized peer group, which we modified in fiscal year 2016 as discussed below. Our Old Peer group consists of the following:

Old Peer Group

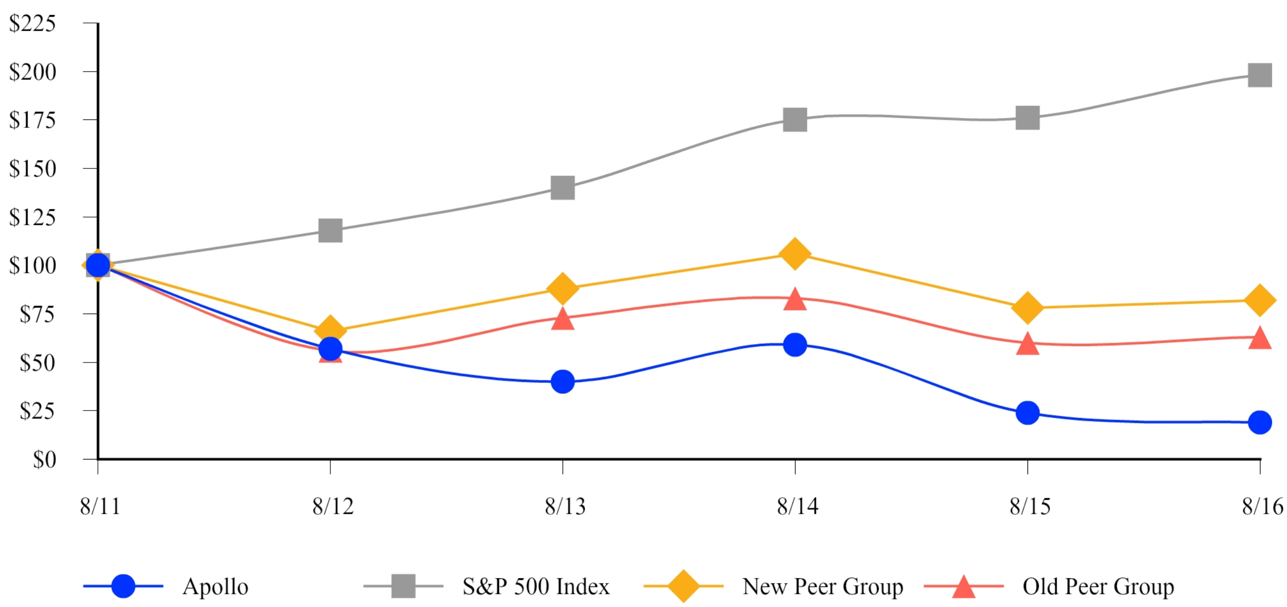
American Public Education, Inc.	Capella Education Company	DeVry Education Group Inc.	ITT Educational Services, Inc.[1]
Bridgepoint Education, Inc.	Career Education Corporation	Grand Canyon Education, Inc.	Strayer Education, Inc.

[1] In September 2016, ITT Educational Services, Inc.'s common stock was suspended from trading following a notification that proceedings had commenced to delist their common stock. Accordingly, we modified our peer group to remove ITT Educational Services, Inc. to better represent the companies included in our industry. We believe the New Peer Group, which is the same as the Old Peer Group detailed above, excluding ITT Educational Services, Inc., provides a more meaningful comparison to our overall business and operations.

An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our Class A common stock, in the S&P 500 Index, and in the old and new peer groups on August 31, 2011, and its relative performance is tracked through August 31, 2016. The stock price performance included in this graph is based on historical results and is not necessarily indicative of future stock price performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*

Among Apollo, the S&P 500 Index and Peer Groups



* $100 invested on August 31, 2011 in stock, index and peer groups, including reinvestment of dividends.
Source: Standard & Poor's.

	Fiscal Year Ending August 31,					
	2011	2012	2013	2014	2015	2016
Apollo	$ 100	$ 57	$ 40	$ 59	$ 24	$ 19
S&P 500 Index	100	118	140	175	176	198
New Peer Group	100	66	88	106	78	82
Old Peer Group	100	56	73	83	60	63

The information contained in the performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall such information be deemed incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. *Selected Financial Data*

The following selected financial data is derived from our consolidated financial statements and is qualified by reference to and should be read in conjunction with Item 8, *Financial Statements and Supplementary Data,* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* to fully understand factors that may affect the comparability of the information. The historical results are not necessarily indicative of the results to be expected in any future period.

	As of August 31,				
($ in thousands)	2016	2015	2014	2013	2012
Cash and cash equivalents	$ 464,024	$ 503,705	$ 1,228,813	$ 1,414,485	$ 1,276,375
Restricted cash and cash equivalents	142,170	198,369	224,135	259,174	318,334
Current marketable securities	197,886	194,676	187,472	105,809	—
Noncurrent marketable securities	18,758	95,815	87,811	43,941	5,946
Total assets[(1)]	2,012,906	2,201,064	3,081,045	2,996,475	2,868,848
Total debt	90,795	45,646	657,096	692,054	719,911
Total liabilities[(1)]	936,312	1,044,091	1,835,716	1,878,466	1,944,525
Redeemable noncontrolling interests	5,860	11,915	64,527	—	—
Total equity	1,070,734	1,145,058	1,180,802	1,118,009	924,323

	Year Ended August 31,				
(In thousands, except per share data)	2016	2015	2014	2013	2012
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865	$ 3,613,851	$ 4,183,307
Operating (loss) income[(2)]	(65,593)	114,944	354,964	455,979	700,928
(Loss) income from continuing operations	(81,339)	47,480	221,430	267,477	397,553
Net (loss) income	(91,030)	24,295	204,798	248,965	417,006
Net (loss) income attributable to Apollo	(84,554)	29,755	209,304	248,526	422,678
(Loss) earnings per share - Basic:					
Continuing operations attributable to Apollo	$ (0.69)	$ 0.49	$ 2.03	$ 2.37	$ 3.36
Discontinued operations attributable to Apollo	(0.09)	(0.21)	(0.15)	(0.17)	0.12
Basic (loss) income per share attributable to Apollo	$ (0.78)	$ 0.28	$ 1.88	$ 2.20	$ 3.48
(Loss) earnings per share - Diluted:					
Continuing operations attributable to Apollo	$ (0.69)	$ 0.49	$ 2.01	$ 2.36	$ 3.34
Discontinued operations attributable to Apollo	(0.09)	(0.22)	(0.15)	(0.17)	0.11
Diluted (loss) income per share attributable to Apollo	$ (0.78)	$ 0.27	$ 1.86	$ 2.19	$ 3.45
Basic weighted average shares outstanding	108,660	108,092	111,354	112,712	121,607
Diluted weighted average shares outstanding	108,660	109,038	112,610	113,285	122,357

[(1)] Total assets and total liabilities for prior years have been updated to reflect the impact of the retrospective adoption of a new accounting standard during fiscal year 2016, which requires deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. Refer to Note 1, Nature of Operations and Significant Accounting Policies, in Item 8, *Financial Statements and Supplementary Data*.

[(2)] Operating (loss) income includes:

- *Restructuring and impairment charges* of $159.1 million, $81.8 million, $85.3 million, $197.0 million and $55.5 million in fiscal years 2016, 2015, 2014, 2013 and 2012, respectively;
- *Merger, acquisition and other related costs, net* of $21.8 million, $6.2 million and $19.8 million in fiscal years 2016, 2015 and 2014, respectively; and
- *Litigation charges (credits)* of $0.1 million, $13.9 million, $(24.6) million, and $4.7 million in fiscal years 2015, 2014, 2013 and 2012, respectively.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our results of operations, financial condition and present business environment. The MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and related notes included in Item 8, *Financial Statements and Supplementary Data*.

Overview

Apollo Education Group, Inc. is a private education provider serving students since 1973. We believe that our success depends on providing high quality education and career-focused pathways, tools and services to students to maximize the benefits of their educational experience. We offer undergraduate, graduate, certificate and nondegree educational programs and services, online and on-campus, principally to working adults in the U.S. and abroad.

Substantially all of our net revenue is composed of tuition and fees for educational services. In fiscal year 2016, University of Phoenix generated 78% of our consolidated net revenue.

Pending Merger

On February 7, 2016, we entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with AP VIII Queso Holdings, L.P., a Delaware limited partnership ("Queso") and Socrates Merger Sub, Inc., an Arizona corporation and a wholly owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Queso. Queso is an affiliate of Apollo Management, L.P., a fund managed by an affiliate of Apollo Global Management, LLC, none of which is, or has ever been, affiliated with us. The Vistria Group, LP is a co-investor in Queso. Najafi Companies, LLC is a potential co-investor in Queso. At the effective time of the merger, which, subject to the satisfaction of the closing conditions, is anticipated to be on or before February 1, 2017, the date on which the contract becomes terminable by either party, each share of our issued and outstanding Class A and Class B common stock (other than shares owned by Queso and its subsidiaries and shares owned by us and our subsidiaries) will be converted pursuant to the terms of the Merger Agreement into the right to receive $10.00 per share in cash. On May 6, 2016, the Merger Agreement was approved by the holders of our outstanding Class A and Class B common stock, each voting separately as a class.

Consummation of the Merger is subject to customary and other conditions, including:

- (i) the absence of certain conditions or restrictions in the response of the U.S. Department of Education to the pre-acquisition review application filed by University of Phoenix; and
- (ii) the receipt of consents or approvals from other federal, state and foreign educational governing bodies, including the Higher Learning Commission ("HLC").

HLC has informed us that it does not intend to review our change of control application until after the Department of Education responds to our pending pre-acquisition review filing and Queso submits to the Department any required additional information. The Department's review is pending and we cannot predict how the Department will respond to our filing.

In addition, consummation of the Merger is subject to our satisfying certain minimum operating metrics, measured as of the first or second month end preceding the closing date, depending on the day of the month on which closing occurs, as follows:

- (i) Our aggregate cash, cash equivalents and marketable securities must not be less than the specified amount for the applicable month end;
- (ii) University of Phoenix fiscal year-to-date new degreed enrollments as of the applicable month end must not have declined by more than 15% from forecasted levels (which are derived from the projections we prepared in December 2015 in connection with the Merger, which we refer to as the December 2015 forecast);
- (iii) University of Phoenix trailing twelve month net revenue as of the applicable month end shall not have declined by more than 10% from forecasted levels (which are derived from the December 2015 forecast); and
- (iv) Our consolidated trailing twelve month adjusted earnings before interest, taxes, depreciation and amortization as of the applicable month end shall not have declined by more than $75 million from forecasted levels (which are derived from the December 2015 forecast).

We satisfied each of these minimum operating metrics as of September 30, 2016, which is the relevant measurement date for a closing on or prior to November 9, 2016. We currently expect to satisfy these metrics if the closing occurs on or prior to February 1, 2017, which is the date on which the contract becomes terminable by either party if the closing conditions have not been met.

There is no assurance that the conditions to the consummation of the Merger will be satisfied in a timely manner or at all.

The Merger Agreement may be terminated by each of us and Queso under certain circumstances, including if the Merger is not consummated by 5:00 pm Eastern time on February 1, 2017. Upon termination of the Merger Agreement under certain specified circumstances, but not including a termination solely due to our failure to satisfy the minimum operating metrics described above, we will be required to pay Queso a termination fee of 2.75% of the aggregate per share merger consideration that would have been payable to the Company's shareholders upon closing of the Merger (approximately $27.5 million), and under other specified circumstances, Queso will be required to pay us a reverse termination fee of $25.0 million. For additional information about some of the consequences that could arise from the failure to consummate the Merger, see Part I, Item 1A, *Risk Factors - Risks Related to our Pending Merger - Our pending merger may not be consummated, which may adversely affect our business, and our business may suffer during the pendency of the merger as a result of uncertainty regarding consummation*.

Assuming timely receipt of required regulatory approvals and the satisfaction or waiver of all other closing conditions, we anticipate that the Merger will be completed on or before February 1, 2017, the date on which the contract becomes terminable by either party.

On July 7, 2016, HLC formally notified us that the HLC Board of Trustees had voted to defer action on our change of control application until such time as the Department of Education provides us and HLC with a written response to the pre-acquisition applications filed by University of Phoenix and Western International University, and we and/or Queso has filed a substantive response to any requirements stipulated in the Department's response. HLC indicated that it would consider the matter at a special meeting to be convened within 30 days of receiving the specified information, and that should such information not be received before September 28, 2016, the matter would automatically be scheduled for the November 2016 Board of Trustees meeting. In mid-October, HLC also requested that we update select information in our application for change of control so that HLC would have more current information, as well as requiring us to provide the previously requested Department of Education response and our response to it. We expect the Commission to take substantive action on the application after all such materials have been submitted.

For additional information related to the Merger and the Merger Agreement, please refer to the following:

- Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2016;
- Definitive Proxy Statement filed with the Commission on March 23, 2016;
- Supplement to the Definitive Proxy Statement filed with the Commission on May 2, 2016;
- Amendments to the Merger Agreement attached to our Current Report on Form 8-K filed with the Commission on May 2, 2016; and
- Quarterly Report on Form 10-Q filed with the Commission on July 8, 2016.

Key Trends, Developments and Challenges

The following developments and trends present opportunities, challenges and risks relating to our business. For a more detailed discussion of our business, industry and risks, refer to Part I, Item 1, *Business*, and Part I, Item 1A, *Risk Factors*.

Rapidly Evolving and Highly Competitive Education Industry

The higher education industry is changing at an increasing pace due to a challenging political and regulatory environment (discussed further below), technological developments, evolving needs and objectives of students and employers, economic constraints affecting educational institutions and students, price competition, increased focus on affordability and value, inconsistent quality of secondary education in the U.S. and other factors that challenge many of the core principles underlying the industry. In addition, one of our primary competitive advantages in the U.S. has been materially diminished as a significant and increasing number of traditional four-year and community colleges, which are subject to fewer regulatory constraints, offer an increasing array of distance learning and other online education programs, including programs that are offered wholly online and geared towards the needs of working adults. In recent years we have not competed successfully with these traditional schools and this has contributed to the substantial decline in University of Phoenix enrollment that began in late 2010. See further discussion of enrollment in *Results of Operations* below.

University of Phoenix Transformation

The University's vision is to be recognized as the most trusted provider of career-relevant higher education for working adults. In furtherance of this, the University offers career focused programs and an instructional model designed specifically to meet the educational needs of working adults.

Due in part to the rapidly changing higher education environment, particularly for proprietary institutions, and the competitive factors described above, the University's enrollment has substantially declined since late 2010. The University is working to stabilize enrollment in the longer term by transforming itself into a more focused, higher retaining and less complex institution, including through:

- Student outcomes initiatives designed to better prepare incoming students and to help existing students progress in their programs to completion. This includes tailoring initial course sequences to match the academic capabilities of students when they first enroll, continuing to assess our programs to retire or improve those which have lower retention rates or are less career relevant, adding more career-focused pathways that offer certificates and four-year bachelor's degrees in key growth areas of the employment market, and piloting diagnostic tools for development of enhanced admissions guidelines and pathways expected to be implemented in fiscal year 2017.
- Student experience initiatives such as concentrating on fewer ground locations in selected major metropolitan areas throughout the U.S. while maintaining a regional presence for both on-ground and online students, and continuing to improve the classroom experience by offering student cohort start dates approximately every five weeks for most programs to optimize class size and classroom dynamics.
- Brand health and outreach initiatives designed to better manage the University's marketing message, improve its ability to identify those students more likely to persist in its educational programs, and build on the University's move away from third-party operated websites for marketing purposes.
- Operational excellence initiatives designed to reduce costs, improve operations and facilitate future systems upgrades such as continuing the transition of technology systems from proprietary and legacy systems to commercial software and software as a service. This includes the University's online classroom and developing increased student self-service capabilities in admissions, financial aid, academic planning and class scheduling.

We have experienced significant challenges in accurately predicting the effects on enrollment and retention of the various initiatives that we have developed and deployed in recent years. Accordingly, there is no assurance that our current transformation plan will stabilize enrollment, improve retention or achieve the other intended results, and the broad scope and number of simultaneous changes increases the risk of unexpected challenges and unintended consequences. Some of these initiatives have accelerated the enrollment decline at University of Phoenix in recent years, as discussed further below in *Results of Operations*. Further, we expect that the University's enrollment will continue declining as we implement the initiatives; however, we expect the rate of decline to moderate as compared to the rate we experienced during 2016 and that enrollment will not increase prior to fiscal year 2019.

Cost Reductions

We are intensely focused on reengineering our business processes and educational delivery systems to improve efficiencies and reduce costs to align with our declining enrollment and revenue in a manner that does not adversely impact the quality of our services to students. As discussed above, some of the initiatives to transform University of Phoenix have accelerated the near term rate of decline in the University's enrollment and revenue, which has increased the amount of necessary cost reductions. In furtherance of this, we are closing underutilized or unnecessary University of Phoenix campus locations, reducing our workforce as necessary, streamlining and, where appropriate, automating our administrative and student facing services, outsourcing administrative and other services, evaluating the scope of our academic programs and delaying the implementation of certain of University of Phoenix's transformation initiatives. Also, we have engaged outside advisors to assist us in identifying and effectuating these cost reduction initiatives. We have significantly reduced our operating costs over recent periods and further significant reductions are increasingly challenging. There is no assurance that we will be able to reduce costs to align with University of Phoenix's reduced enrollment and revenue, especially if the University's near term enrollment declines more than anticipated. Although we seek to effect these cost reductions in a manner that does not adversely impact the quality of our services to students, given the magnitude of these changes, they could result in near term disruption to our business which may further decrease our enrollment and revenues. Additionally, our fiscal year 2017 Department of Education financial responsibility composite score will be adversely impacted if we are not successful in reducing costs sufficiently during fiscal year 2017, whether due to our inability to effectuate planned cost reductions, greater than anticipated declines in our enrollment and revenue or other factors. See further discussion under *Regulatory Environment - Financial Responsibility Composite Score* and *Results of Operations* below.

Political and Regulatory Environment

In recent years, there has been substantial and continuing increased focus by various members of the U.S. Congress and federal agencies, including the Department of Education, the Consumer Financial Protection Bureau and the Federal Trade Commission, on the role that proprietary educational institutions play in higher education. Congressional hearings and roundtable discussions have been held regarding various aspects of the education industry, and reports have been issued that are highly critical of proprietary institutions and include a number of recommendations to be considered by Congress in connection with the upcoming reauthorization of the Higher Education Act. A group of influential U.S. senators has strongly and repeatedly encouraged the Departments of Education, Defense and Veterans Affairs to take action to limit or terminate the participation of proprietary educational institutions, including University of Phoenix, in existing tuition assistance programs.

The 2016 Democratic Party Platform for the November 2016 elections includes a plan highly critical of the proprietary education industry and vows to intensify the current focus on for-profit schools and to strengthen the gainful employment rules applicable to for-profit schools. The outcome of the November 2016 elections in the U.S. could increase the risk that the eligibility of proprietary schools to participate in Title IV student financial aid programs will be limited, perhaps materially.

In late 2014, the Department of Education formed an inter-agency task force focused on the proprietary sector involving multiple federal agencies and departments including the Federal Trade Commission, the U.S. Departments of Justice, Treasury and Veterans Affairs, the Consumer Financial Protection Bureau, the Securities and Exchange Commission, and numerous state Attorneys General, to coordinate activities and share information to protect students from unfair, deceptive and abusive policies and practices by proprietary higher education institutions. We expect that this challenging political and regulatory environment will continue for proprietary educational institutions, including University of Phoenix, for the foreseeable future, and may intensify.

In recent years, two major proprietary education institutions, together serving over 110,000 students, have ceased operations and filed for bankruptcy protection due to delays in or denial by the Department of Education of Title IV funding for students and requirements to post letters of credit, based in part on the existence of multiple investigations by various regulatory authorities. In neither case were the principal investigations completed nor were substantial enforcement actions commenced and prosecuted to conclusion. Accordingly, proprietary institutions are at risk of harmful delays or denial of Title IV funding for students due to investigations and other preliminary allegations, even if such investigations or allegations may ultimately be found to lack merit.

The following summarizes additional significant political or regulatory matters applicable to our business.

- *Gainful Employment*

  Under the Higher Education Act, as reauthorized, proprietary schools are generally eligible to participate in Title IV programs only in respect of educational programs that lead to “gainful employment in a recognized occupation.” In connection with this requirement, proprietary postsecondary institutions are required to provide information to prospective students about each eligible program, including the relevant recognized occupations, cost, completion rate, job placement rate, and median loan debt of program completers.

  In October 2014, the U.S. Department of Education published final regulations, effective July 1, 2015, on the metrics for determining whether an academic program prepares students for gainful employment in a recognized occupation. Under the final regulations, which apply on a program-by-program basis, students enrolled in a program will be eligible for Title IV student financial aid only if that program satisfies at least one of two tests relating to student debt service-to-earnings ratios. The two tests specify minimum student loan debt service-to-earnings ratios calculated on the basis of the average earnings of program graduates: one test measures student loan debt service as a percentage of total earnings, and the other test measures student loan debt service as a percentage of deemed discretionary earnings. If a program fails to meet both of the minimum ratios for one year, the institution will be required to provide a warning notice to prospective and enrolled students advising that the program may lose Title IV eligibility based on the final student loan debt service-to-earnings ratios for the next year. Programs that fail to meet both of the minimum ratios for two out of three years will immediately cease to be Title IV eligible for a period of at least three years.

  The Department has indicated that it plans to issue the official 2014 gainful employment debt service-to-earnings ratios by January 2017, and we anticipate the 2015 ratios will be issued in early fiscal year 2018. We believe it is likely that some of University of Phoenix’s programs will be impacted by the gainful employment regulations. Beginning in September 2015 and continuing through early fiscal year 2017, the University ceased enrolling or plans to cease enrolling new students in programs it believes may be impacted in connection with its initiatives to transform itself into a more focused, higher retaining and less complex institution. As of August 31, 2016, students in such programs represented approximately 15% of the University’s Degreed Enrollment. Students who are currently enrolled in such programs, and who do not elect to enroll in a different University of Phoenix program, are being taught-out in due course.

Changes in student borrowing needs and practices, student loan interest rates, labor markets and other factors outside of our control could adversely impact compliance with these regulations for some of our programs in the future. The Department has not yet announced the future, annual protocol for calculating and disseminating the debt service-to-earnings ratios. We will not know of a program's failure to meet the minimum ratios until well after the measuring period, and therefore students enrolled in such a program could lose their access to federal financial aid before completing the program. Accordingly, we will not have the opportunity to make program changes for any programs that did not meet either of the minimum ratios for 2014. If those programs also do not meet either of the minimum ratios for 2015, they will lose eligibility to participate in Title IV financial aid programs at the time the official 2015 ratios are published, which we anticipate will occur in early fiscal year 2018.

- *U.S. Department of Education Rulemaking Initiatives*

A negotiated rulemaking committee was convened by the Department in January 2016 on the topic of the process and standards for discharge of student loans, commonly known as defense to repayment, and certain other matters. The committee failed to reach consensus. In June 2016, the Department issued a Notice of Proposed Rulemaking to establish a new federal standard and a process for determining whether a borrower has a defense to repayment on federal student loans based on an act or omission of a school.

The proposed regulations would provide repayment relief to borrowers in respect of student loans first disbursed on or after July 1, 2017 where:

- a school breaches contractual promises to a student;
- certain judgments are entered against a school related to the loan or the educational services after a contested proceeding; or
- the school makes substantial misrepresentations about the nature of its educational programs, financial charges or employability of graduates, or insubstantial misrepresentations where other factors are present, such as pressure to enroll quickly or taking advantage of students' distress or lack of knowledge or sophistication.

As proposed, there would be no limitation on claims to discharge future amounts owed by the borrower and a six-year limitation (from the date of the breach) on claims to discharge amounts already paid by the borrower. The proposed regulations also would allow the Department to identify and grant relief to groups of students where there are common facts, including students who have not requested relief.

The proposed borrower defense definitions would not apply for loans first disbursed prior to July 1, 2017, and these loans will remain subject to the current borrower defense definitions; however, under the proposed rules, these loans will follow the same claims process, individual and group, and time limitations.

As proposed, the Department would be entitled to seek reimbursement from the school in most cases in respect of loans discharged under the new procedure.

In addition, the proposed regulations specify early warning triggers regarding financial distress that would automatically require a school to post a letter of credit in the amount of at least 10% of the school's annual Title IV disbursements upon the occurrence of specified events including, but not limited to:

- the commencement of a major lawsuit by a state or federal government entity, such as a state Attorney General, the Consumer Financial Protection Bureau or the Federal Trade Commission;
- the filing of a substantial number of borrower defense claims;
- default by the school on its debt obligations;
- failure of the school to satisfy the 90/10 Rule;
- programs failing to meet gainful employment regulations;
- accrediting agency actions, including the requirement to submit teach-out plans or being placed on an accreditation status that could result in the school losing its accreditation; and/or
- any event or condition the Department determines is likely to have a material adverse effect on the business, financial condition or results of operations of the institution.

Each separate triggering event would result in a separate letter of credit requirement of at least 10% of annual Title IV disbursements. If a school experiences any of these triggers, the school would be required to warn prospective and current students that it has been required to provide enhanced financial protection to the Department.

Further, the proposed regulations would also institute a loan repayment rate for proprietary institutions and would require disclosure of such rate to prospective and enrolled students if such rate falls below specified levels.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise standards for student loan discharge may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of enforcement actions by state or federal government entities, or the filing of student claims for debt relief, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to administer the regulations, including fact-finding, may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness, and our flexibility in responding to state or federal and certain private lawsuits may be materially reduced because of the possible significant ancillary consequences of an adverse judgment or finding.

Recently, two major proprietary higher education institutions were forced to cease operations and seek bankruptcy protection due to delays in Title IV disbursements and requirements to post letters of credit imposed by the Department based in part on the existence of pending state and federal investigations and the Department's judgment regarding various subjective matters such as the institution's culture. These regulations, if adopted as proposed, would enhance the power of the Department to take summary action that could harm University of Phoenix and Apollo Education Group, perhaps materially, before we could effectively exercise our due process rights, even if the action is based on pending investigations or legal proceedings that ultimately are determined to lack merit.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017. More information can be found at http://www2.ed.gov/policy/highered/reg/hearulemaking/2016/index.html.

A separate negotiated rulemaking process was convened by the Department in November 2013 on a variety of topics. Included among the topics was the proposed establishment of requirements for state authorization of distance education programs in order to demonstrate eligibility for Title IV eligibility. A negotiated rulemaking committee was established and met in early 2014. The committee failed to reach consensus. In July 2016, the Department issued draft regulations to establish new federal requirements for such eligibility.

The proposed regulations would establish new requirements to maintain state authorization for Title IV eligibility for distance education programs. Major provisions include, but are not limited to:

- Requiring an institution offering distance education to have requisite state authority to offer such programs to state residents if required by the state;
- Defining and recognizing acceptable state authorization reciprocity agreements;
- Requiring institutions to document individualized state processes for resolving student complaints; and
- Requiring an institution to provide extensive public and individualized disclosures to enrolled and prospective students regarding its programs offered solely through distance education, including information concerning adverse actions filed against the school by state entities or accrediting bodies.

As proposed, the regulations could be interpreted to allow individual states to impose new and diverse requirements on institutions and thereby reduce the regulatory and operational efficiency that our schools use in operating under the current State Authorization Reciprocity Agreement ("SARA"), which currently allows our Title IV eligible programs to operate in those states that have adopted SARA with only home state regulatory approval. States that have adopted SARA now constitute the majority of domestic jurisdictions.

Also as proposed, the regulations could be interpreted to require extensive new public disclosures based upon certain actions by accreditors and state entities, including state Attorneys General. Under some interpretations, the regulations could require disclosure to current and prospective students upon the mere filing of an adverse action and long after the initial action was resolved, even if resolved in favor of the institution.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise regulatory scope and definitions for individualized state requirements and disclosures may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of adverse actions by government entities or accrediting bodies, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to interpret and administer the regulations may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017.

- *Financial Responsibility Composite Score*

To participate in Title IV programs, the U.S. Department of Education regulations specify that an eligible institution of higher education must satisfy specific measures of financial responsibility prescribed by the Department, or post a letter of credit in favor of the Department and accept other conditions on its participation in Title IV programs. Pursuant to the Title IV program regulations, each eligible institution must satisfy a measure of financial responsibility that is based on a weighted average of the following three annual ratios which assess the financial condition of the institution:

- Primary Reserve Ratio - measure of an institution's financial viability and liquidity;
- Equity Ratio - measure of an institution's capital resources and its ability to borrow; and
- Net Income Ratio - measure of an institution's profitability.

These ratios provide three individual scores which are converted into a single composite score. The maximum composite score is 3.0. If an institution's composite score is at least 1.5, it is considered financially responsible. If an institution's composite score is less than 1.5 but is 1.0 or higher, it is still considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years under the Department's "zone" alternative. Under the zone alternative, the Department may subject the institution to various operating or other requirements, which may include being transferred from the "advance" method of payment of Title IV program funds to the heightened cash monitoring payment method under which the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds from the Department for the amount of those disbursements, or being transferred to the more onerous reimbursement payment method under which an institution must submit to the Department documentation demonstrating the eligibility for each Title IV disbursement and wait for the Department's approval before drawing down Title IV funds.

If an institution does not achieve a composite score of at least 1.0, it is subject to additional requirements in order to continue its participation in the Title IV programs, including submitting to the Department a letter of credit in an amount equal to at least ten percent, and at the Department's discretion up to 50%, of the Title IV funds received by the institution during its most recently completed fiscal year, and being placed on provisional certification status, under which the institution must receive Department approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department.

In addition, under new regulations that took effect on July 1, 2016, institutions placed on either the heightened cash monitoring payment method or the reimbursement payment method must pay Title IV credit balances to students and parents before requesting Title IV funds from the Department and may not hold Title IV credit balances on behalf of students or parents, even if such balances are expected to be applied to future tuition payments.

The composite scores for Apollo Education Group and University of Phoenix, which are calculated as of the end of our fiscal year, were as follows for the indicated periods:

	Fiscal Year		
	2016	**2015**	**2014**
Apollo Education Group	1.8	2.6	2.5
University of Phoenix	2.9	2.9	2.3

The decline in our fiscal year 2016 consolidated composite score was principally attributable to our decline in profitability, which included $73.4 million of goodwill impairment charges. Refer to Note 8, Goodwill and Intangibles, in Item 8, *Financial Statements and Supplementary Data*.

We believe that we may be able to take certain corrective measures to maintain composite scores of 1.5 or greater, if we determine that there is increased risk that our composite scores will fall below that level, depending on the circumstances causing the expected decline. However, such measures, if available, may require material modifications to our business and strategy that would adversely impact our future revenue and profitability and/or may involve the issuance of equity or equity-linked securities under challenging circumstances that could result in material dilution to our existing shareholders.

- *U.S. Department of Education Program Participation Agreement*

  University of Phoenix's Title IV Program Participation Agreement expired on December 31, 2012. The University has submitted necessary documentation for recertification and its eligibility continues on a month-to-month basis until the Department issues its decision on the application. We believe that the University's application will be renewed in due course. However, we cannot predict whether or to what extent the continued challenging political and regulatory climate, our pending merger, and other recent developments in general relating to the proprietary education sector and our business may have on the timing or outcome of the recertification process.

  In February 2016, the Department notified the University that for the duration of the month-to-month continuation of the University's Program Participation Agreement, University of Phoenix must obtain from the Department prior approval of substantial changes, including (i) the establishment of additional locations, (ii) any increase in the level of academic offering beyond those listed in the Institution's Eligibility and Certification Approval Report and (iii) the addition of any educational program (including degree, nondegree, or short-term training programs). Some of these substantial changes include changes that previously could be implemented by the University upon notice to the Department and without prior approval.

  Continued Title IV program eligibility is critical to the operation of our business. If University of Phoenix becomes ineligible to participate in Title IV programs, or participation is materially limited, our business would be unsustainable.

- *Federal Trade Commission Investigation*

  In July 2015, we received a Civil Investigative Demand from the U.S. Federal Trade Commission (the "FTC") relating to an investigation to determine if certain unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing, or sale of secondary or postsecondary educational products or services or educational accreditation products or services. The Demand requires us to produce documents and information regarding a broad spectrum of the business and practices of University of Phoenix, including in respect of marketing, recruiting, enrollment, financial aid, tuition and fees, academic programs, academic advising, student retention, billing and debt collection, complaints, accreditation, training, military recruitment, and other compliance matters, for the time period of January 1, 2011 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

- *Military Benefit Programs*

  U.S. Department of Defense Tuition Assistance Program

  On January 15, 2016, University of Phoenix was notified by the U.S. Department of Defense ("DoD") that the University's probationary status in respect of its participation in the DoD Tuition Assistance Program for active duty military personnel had been lifted, effective immediately. The University had been placed on probation in October 2015 pending a review by the Department of the University's compliance with the DoD Voluntary Education Partnership Memorandum of Understanding with the University, which is the basis on which the University's active duty military students participate in the DoD Tuition Assistance Program.

  The University will be subject to a heightened compliance review for a period of one-year following the removal of probationary status. During this period, the University will continue to engage with the DoD and complete the production of information and documents previously requested by the DoD. In addition, the University will be subject to an enhanced compliance review in fiscal year 2017.

  In fiscal year 2016, funding under the DoD Tuition Assistance Program represented less than 1% of the University's net revenue.

  U.S. Department of Veterans Affairs Educational Benefits

  University of Phoenix participates in the Department of Veterans Affairs educational benefits programs ("VA Programs") for eligible veterans. Under these VA Programs, the educational locations serving veterans are subject to a compliance survey each year. Following the notice of probation in October 2015 from the Department of Defense, which has been subsequently lifted as described above, the Veterans Administration announced the commencement of the annual compliance survey, with an accelerated schedule and increased scope relative to prior years. The annual compliance review was completed with no adverse action imposed on the University. In fiscal year 2016, funding under VA Programs represented approximately 10% of University of Phoenix's cash basis revenue, calculated on the same basis as for the 90/10 Rule.

- *California Attorney General Investigations*

  In August 2015, we received an Investigative Subpoena from the Office of the Attorney General of the State of California. The Subpoena requires us to produce documents and information regarding the business and practices of University of Phoenix relating to members and former members of the U.S. military and California National Guard, including marketing, recruiting, billing, financial aid, accommodation and other services for military personnel, compliance with federal Executive Order 13607 (Establishing Principles of Excellence for Educational Institutions Serving Service Members, Veterans, Spouses, and Other Family Members), and use of U.S. military logos and emblems in marketing, for the time period of July 1, 2010 to the present.

  In February 2016, we received a Second Investigative Subpoena from the Office of the Attorney General of the State of California in the Matter of the Investigation of For-Profit Educational Institutions, following the Investigative Subpoena we received in August 2015. The Second Investigative Subpoena, which is not limited to matters involving military students, seeks the production of documents and information regarding a broad spectrum of the business and practices of Apollo and its subsidiaries, including University of Phoenix, relating to marketing, recruiting, compensation of enrollment advisors, complaints, financial aid, compliance, accreditation, other governmental investigations, private litigation and other matters, as well as additional information relating to marketing and services to members and former members of the U.S. military and California National Guard, for the time period of July 1, 2010 to the present.

  We are cooperating with the California Attorney General in these investigative proceedings. We cannot predict the eventual scope, duration or outcome of the investigations at this time.

- *Financial Aid Funding Levels*

  The most recent reauthorization of the Higher Education Act expired September 30, 2013, but Title IV student financial aid programs remain authorized and functioning. Congress continues to engage in discussion and activity regarding Higher Education Act reauthorization, but the timing and terms of any eventual reauthorization cannot be predicted.

  Title IV program funding is a potential target for reduction by Congress. Because the majority of our revenue is derived from Title IV programs, any action by Congress that reduces Title IV program funding, or which alters the eligibility of our institutions or students to participate in Title IV programs could have a material adverse effect on our enrollment and financial condition. Action by Congress or federal agencies could also require us to modify our practices in ways that increase our operating costs.

  In addition to possible reductions in Title IV program funding, military benefit programs may be reduced as military branches address decreased funding. Reductions and/or changes in military benefit programs, or changes in our eligibility to participate in such programs, could result in increased student borrowing, decreased enrollment and adverse impacts on our 90/10 Rule percentage.

Expansion of Global Operations

We have operations on six continents and recently expanded our global operations through the acquisition of Career Partner in the second quarter of fiscal year 2016 as discussed in *Other Events* below. The integration and operation of acquired businesses in foreign jurisdictions entails substantial regulatory, market and execution risks and, consistent with our experience to date, such acquisitions may not be accretive for an extended period of time. Furthermore, there has been increased focus in recent years on educational institutions in certain of the countries in which we operate.

In mid-October 2016, Apollo Global's two primary registered training organizations in Australia, Open Colleges Pty Ltd., and Integrated Care & Management Training, Pty Ltd., each received a notice of noncompliance and intention to make a decision to impose sanctions from the Australian Skills Quality Authority ("ASQA"), the national regulator of vocational education programs. The notice, which followed a recent compliance audit, identified several alleged compliance deficiencies and stated that ASQA intended to make a decision on whether to impose sanctions on the institutions which could include cancellation of registration or imposition of lesser sanctions. One of the findings involves a change in the interpretation of applicable course requirements and will require changes in our procedures for student workplace skills assessments used in connection with courses that represent a substantial portion of the Open Colleges institutions' enrollment.

Implementing an updated workplace skills assessment model in order to address ASQA's concerns will require operational changes for these institutions and increase operating costs, perhaps substantially, and could have competitive implications.

We have until November 7, 2016 to respond to this notice of noncompliance. We cannot currently predict the timing or ultimate outcome of this matter. See Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate - Changes by a regulator in the interpretation of applicable course requirements could materially impact our Open Colleges business in Australia*.

Professional Development and Other Nondegree Programs

Although degree programs represent the substantial majority of our revenue, we have increased our professional development and other nondegree programs, which includes business-to-business product and service offerings, and immersive bootcamp programs in various locations in the U.S. We are focused on expanding these programs both domestically and internationally through our subsidiaries.

Other Events

In addition to the above items, we experienced the following other events during fiscal year 2016:

- *Executive Management Changes* - Gregory J. Iverson was appointed as our Chief Financial Officer effective October 26, 2015 replacing Joseph L. D'Amico, who served as our Interim Chief Financial Officer since May 2015.
- *Career Partner GmbH Acquisition* - On December 10, 2015, we acquired all of the outstanding shares of Career Partner GmbH ("Career Partner"), a provider of education and training programs in Germany. Refer to Note 4, Acquisitions, in Item 8, *Financial Statements and Supplementary Data*.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these consolidated financial statements in accordance with GAAP requires management to make certain estimates, assumptions and judgments that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although we believe our estimates, assumptions and judgments are reasonable, actual results may differ from our estimates under different assumptions, judgments or conditions.

Our significant accounting policies, which are detailed in Note 1, Nature of Operations and Significant Accounting Policies, in Item 8, *Financial Statements and Supplementary Data*, describe the significant accounting policies and methods used in the preparation of our consolidated financial statements. Of our significant accounting policies, we consider the following policies to be critical as they involve a higher degree of subjective or complex judgments and assumptions, often as a result of the need to make estimates about the effect of inherently uncertain matters: (i) Revenue Recognition, (ii) Allowance for Doubtful Accounts, (iii) Goodwill and Intangibles, (iv) Other Long-Lived Asset Impairments, (v) Restructuring and Impairment Charges, (vi) Loss Contingencies, and (vii) Income Taxes.

Revenue Recognition

Substantially all of our net revenue is composed of tuition and fees from educational programs that range in length from one-day seminars to degree and nondegree programs lasting multiple years. University of Phoenix generated the substantial majority of our consolidated net revenue, and substantially all of the University's net revenue is generated from degree programs. University of Phoenix students fund their education through loans and/or grants from U.S. federal financial aid programs established by Title IV of the Higher Education Act and regulations promulgated thereunder ("Title IV"), military benefit programs, tuition assistance from their employers, or personal funds.

Our net revenue generally varies from period to period based on several factors, including the aggregate number of students attending educational programs, the number of programs or classes held during the period, and the tuition price per program. The following summarizes our net revenue for the respective periods:

	Year Ended August 31,					
($ in thousands)	2016		2015		2014	
Tuition and educational services[1]	$ 2,147,029	102 %	$ 2,646,447	103 %	$ 3,030,064	101 %
Educational materials	186,240	9 %	224,434	9 %	219,085	7 %
Other	35,564	2 %	21,045	1 %	22,715	1 %
Gross revenue	2,368,833	113 %	2,891,926	113 %	3,271,864	109 %
Discounts	(266,983)	(13)%	(325,649)	(13)%	(274,999)	(9)%
Net revenue	$ 2,101,850	100 %	$ 2,566,277	100 %	$ 2,996,865	100 %

[1] Tuition and educational services revenue includes $17.4 million, $24.2 million and $32.3 million of tuition benefits for our employees and their eligible dependents during fiscal years 2016, 2015 and 2014, respectively. Such benefits are also included in instructional and student advisory expenses.

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, our fee or price to the customer is fixed or determinable, and collectibility is reasonably assured.

- *Tuition and educational services* encompasses all educational delivery modes (i.e., online, on-ground, etc.), and we recognize revenue over the period of instruction as services are delivered to students, which may vary depending on the program structure.

  Under University of Phoenix's non-term academic delivery model, students generally enroll in a program of study encompassing a series of five- to nine-week courses taken consecutively over the length of the program. Students are billed separately for each course when the student first attends a course, resulting in the recording of a receivable from the student and deferred revenue in the amount of the billing. The University generally recognizes revenue evenly over the period of instruction (e.g., five weeks for a five-week course) as services are delivered to the student. For students who participate in the University's risk-free, three-week program during their first credit-bearing course, the University does not recognize revenue for the risk-free period until students decide to continue beyond the risk-free period, which is when the tuition and fees become fixed and determinable.

  University of Phoenix's refund policy permits students who attend 60% or less of a course to be eligible for a refund for the portion of the course they did not attend. Accordingly, the University ceases revenue recognition for the remainder of a course if a student withdraws prior to the tuition refund period elapsing, and refunds result in a reduction of deferred revenue in the period that a student withdraws. This refund policy applies to students in most, but not all states, as some states require different policies. Additionally, the University reassesses collectibility throughout the period revenue is recognized when there are changes in facts or circumstances that indicate collectibility is no longer reasonably assured, including when the University determines that a student has withdrawn.

  Tuition revenue for our Apollo Global operations is generally recognized over the length of the course and/or program. However, we recognize revenue associated with certain online programs, including Open Colleges' offerings and certain programs at Career Partner, over the contractual period, or the period of time it takes students to complete their program, if shorter. As a result, revenue recognition for such programs generally extends beyond one year.

- *Educational materials* encompasses online course materials delivered to students over the period of instruction, and various textbooks and other learning materials. We recognize revenue associated with online materials over the period of the related course to correspond with delivery of the materials to students. We recognize revenue for other educational materials when they have been delivered to and accepted by students or other customers.

- *Other* includes non-tuition revenues such as fees students pay when submitting an enrollment application.

- *Discounts* represent institutional scholarships, grants and promotions. This includes reductions in charges for tuition or other fees from our standard rates typically provided to military, corporate and other employer students. Discounts are generally recognized over the period of instruction in the same manner as the related revenue to which the discount relates.

  University of Phoenix offers scholarship programs designed to improve the value proposition for students by providing the opportunity to earn increased tuition discounts as they progress in their programs. We estimate the amount of these future discounts based on our historical experience with student persistence and recognize the associated amount either over the period the discount is earned by the student or when the student is no longer eligible, as applicable. As of August 31, 2016 and 2015, we had $43.3 million and $44.7 million, respectively, of student discounts, grants and scholarships liabilities on our Consolidated Balance Sheets, the substantial majority of which represents the estimated amount of future discounts associated with these programs. We routinely evaluate our estimation methodology for these programs and modify them as necessary.

Sales and other indirect taxes collected from students and remitted to governmental authorities are excluded from net revenue. Collected but unremitted sales and other indirect taxes are included as a liability on our Consolidated Balance Sheets and are not material to our consolidated financial statements.

Allowance for Doubtful Accounts

We reduce our accounts receivable by an allowance for amounts that we expect to be uncollectible. We use estimates that are subjective and require judgment in determining the allowance for doubtful accounts, and estimates may vary depending on the institution or educational program that generated the accounts receivable. In general, our estimates are based on historical collection experience and write-offs, the aging of our receivables, and current trends. Our accounts receivable are written off once the account is deemed to be uncollectible, which typically occurs after outside collection agencies have pursued collection for approximately six months.

For our Title IV eligible institutions, program participation rules determine if we are required to return a portion of the funds to the U.S. Department of Education when a student with Title IV program funds withdraws. We are then entitled to collect these funds from the students, but collection rates for these types of receivables are significantly lower than our collection rates for receivables from students who remain in our educational programs.

We estimate our allowance for doubtful accounts for University of Phoenix's receivables by considering a number of factors that we believe impact whether receivables will become uncollectible based on our collections experience. These factors include, but are not limited to, the student's academic performance and previous college experience, as well as other student characteristics such as credit hours earned and method of payment. We also monitor and consider external factors such as changes in the economic and regulatory environment.

As of August 31, 2016, accounts receivable at our Apollo Global institutions represented approximately 50% of our consolidated gross accounts receivable. Our Apollo Global institutions estimate their respective allowance for doubtful accounts primarily based on historical collection experience and the aging of their receivables.

We routinely evaluate our estimation methodologies for all our institutions and educational programs for adequacy and modify them as necessary. In doing so, we believe our allowance for doubtful accounts reflects the amount of receivables that will become uncollectible by considering our most recent collections experience, changes in trends and other relevant facts.

We recorded bad debt expense of $55.9 million, $59.2 million and $53.8 million during fiscal years 2016, 2015 and 2014, respectively. Our allowance for doubtful accounts was $48.7 million and $42.3 million as of August 31, 2016 and 2015, respectively, which approximated 19% and 18% of gross student receivables as of the respective dates. For the purpose of sensitivity:

- A one percent change in our allowance for doubtful accounts as a percentage of gross student receivables as of August 31, 2016 would have resulted in a pre-tax change in income of $2.6 million; and
- If our bad debt expense were to change by one percent of net revenue for the fiscal year ended August 31, 2016, we would have recorded a pre-tax change in income of approximately $21.0 million.

Goodwill and Intangibles

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. We allocate assets acquired, including goodwill, and liabilities assumed in business combinations to our respective reporting units. We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components.

Our intangibles principally consist of trademarks, regulatory accreditations and designations, and course curriculum. We assign indefinite lives to intangibles that we believe have the continued ability to generate cash flows indefinitely; have no legal, regulatory, contractual, economic or other factors limiting the useful life of the respective intangible; and we intend to renew the respective intangible, as applicable, and renewal can be accomplished at little cost.

Finite-lived intangibles are amortized on either a straight-line basis or using an accelerated method to reflect the pattern in which the economic benefits of the asset are expected to be consumed. The weighted average original useful life of our $40.5 million of finite-lived intangibles as of August 31, 2016 was 6.7 years.

We assess goodwill and indefinite-lived intangibles for impairment annually, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit or indefinite-lived intangible below its carrying amount. We perform our annual indefinite-lived intangibles impairment tests on the same dates that we perform our annual goodwill impairment tests for the respective reporting units. In performing our impairment tests, we first consider the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit or intangible, as applicable, is less than its carrying amount. If we conclude that it is more likely than not that the fair value is less than the carrying amount based on our qualitative assessment, or that a qualitative assessment should not be performed, we proceed with the following quantitative impairment tests:

- *Goodwill* - We compare the estimated fair value of the reporting unit to the carrying value of its net assets. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired. If the carrying value of the net assets of the reporting unit exceeds the fair value of the reporting unit, we perform a hypothetical purchase price allocation to determine the implied fair value of the goodwill and compare it to the carrying value of the goodwill. An impairment loss is recognized to the extent the implied fair value of the goodwill is less than the carrying amount of the goodwill.
- *Indefinite-lived intangibles* - We compare the estimated fair value of the intangible with its carrying value. If the carrying value of the intangible exceeds its fair value, an impairment loss is recognized in the amount of that excess.

Our goodwill and indefinite-lived intangibles for our reporting units within our reportable segments are summarized below:

($ in thousands)	Annual Impairment Test Date	Goodwill as of August 31, 2016	Goodwill as of August 31, 2015	Indefinite-lived Intangibles as of August 31, 2016	Indefinite-lived Intangibles as of August 31, 2015
University of Phoenix	May 31	$ —	$ 71,812	$ —	$ —
Apollo Global[1]:					
Open Colleges	July 1	109,002	103,002	—	—
Career Partner	July 1	94,493	—	59,632	—
BPP	July 1	—	—	71,553	84,401
Milpark Education	July 1	16,156	17,760	5,129	5,638
FAEL	July 1	11,421	10,401	11,912	10,849
ULA	May 31	10,429	11,436	1,674	1,835
UNIACC	May 31	—	—	713	665
Other:					
The Iron Yard	July 1	15,888	15,888	—	—
College for Financial Planning	August 31	15,310	15,310	—	—
Western International University	May 31	—	1,581	—	—
Total		$ 272,699	$ 247,190	$ 150,613	$ 103,388

[1] The functional currencies of our foreign subsidiaries are generally the local currencies. Accordingly, the goodwill and intangibles of our foreign subsidiaries are adjusted for translation into U.S. dollars using exchange rates in effect at the balance sheet dates. The balances will change in the future as a result of foreign currency translation adjustments.

The process of evaluating goodwill and indefinite-lived intangibles for impairment is subjective and requires significant judgment at many points during the analysis. If we elect to perform an optional qualitative analysis, we consider many factors including, but not limited to, general economic conditions, industry and market conditions, financial performance and key business drivers, long-term operating plans, and potential changes to significant assumptions used in the most recent fair value analysis for either the reporting unit or respective intangible.

When performing a quantitative goodwill or indefinite-lived intangibles impairment test, we generally determine fair value using an income-based approach, a market-based approach or a combination of both methods. The fair value determination consists primarily of using significant unobservable inputs (Level 3) under the fair value measurement standards. We believe the most critical assumptions and estimates in determining the estimated fair value of our reporting units or indefinite-lived intangibles include, but are not limited to, the amounts and timing of expected future cash flows, the discount rate applied to those cash flows, terminal growth rates, selection of comparable market multiples, assumed control premiums and applying weighting factors when multiple valuation methods are used. The assumptions used in determining our expected future cash flows consider various factors such as historical operating trends and long-term operating strategies and initiatives. The discount rate used by each reporting unit is based on our assumption of a prudent investor's required rate of return of assuming the risk of investing in a particular company in a specific country. The terminal growth rate reflects the sustainable operating income a reporting unit could generate in a perpetual state as a function of revenue growth, inflation and future margin expectations.

Fiscal Year 2016 Impairment Testing

Our market capitalization declined significantly during the first quarter of fiscal year 2016 after we reported our fourth quarter fiscal year 2015 results and our business outlook for fiscal year 2016. We believe the decline in the first quarter of fiscal year 2016 was attributable to University of Phoenix's lower enrollment, increasing risk associated with the proprietary education sector, and uncertainty associated with its strategy to transform into a more focused, higher retaining and less complex institution. Additionally, some of the initiatives associated with the University's new strategy have accelerated the enrollment decline at the University and negatively impacted its cash flows in the short-term. Based on the decline in market capitalization, we performed an interim goodwill impairment analysis for University of Phoenix in the first quarter of fiscal year 2016.

University of Phoenix represents the substantial majority of our consolidated operating results and, as discussed above, we believe our market capitalization decline in the first quarter of fiscal year 2016 was attributable to the University. Accordingly, we estimated the fair value of our University of Phoenix reporting unit using a market-based valuation approach, which incorporated assumptions that we believe would be a reasonable market participant's view of the increased risk and uncertainty associated with the University and its expected future cash flows. The market-based approach included multiples derived from comparable companies with consideration of the University's current operating trends and transformational strategy in relation to the other companies. Our interim step one goodwill impairment analysis resulted in a lower estimated fair value for University of Phoenix compared to its carrying value. Based on the University's estimated fair value and a hypothetical purchase price allocation, we determined the University had no implied goodwill. Accordingly, we recorded a $71.8 million impairment charge in the first quarter of fiscal year 2016 representing the University's entire goodwill balance. We did not record an income tax benefit associated with this charge as the University's goodwill is not deductible for tax purposes.

During the first quarter of fiscal year 2016, we also recorded a $1.6 million goodwill impairment charge representing the entire goodwill balance for our Western International University reporting unit. Western International University operates in the same sector of the U.S. proprietary education industry as University of Phoenix.

We did not record any impairment charges associated with our other reporting units as the estimated fair value of each of the reporting units exceeded the carrying value of their respective net assets as of their annual impairment test dates. We elected to perform qualitative assessments for certain of our reporting units. We tested Open Colleges and Milpark Education using a quantitative approach and their estimated fair values exceeded their respective carrying values by margins of approximately 20% and 15%, respectively. We determined the fair values of both Open Colleges and Milpark Education using a combination of the discounted cash flow method and market-based approaches. If the critical assumptions used in our impairment testing for these reporting units deteriorate or are otherwise adversely impacted, a lower fair value estimate may result. In particular, if these or other reporting units do not achieve our forecasts, which could result from increased competition or changes in the applicable regulatory environment, the goodwill could be impaired in the future.

As part of our goodwill impairment evaluations in fiscal year 2016, we compared the sum of the estimated fair values of our reporting units to our market capitalization, plus an assumed control premium to acquire a controlling interest in Apollo. We considered the purchase price associated with our pending merger in estimating an assumed control premium. Based on our evaluation, the fair values of our reporting units were reasonable in relation to our market capitalization. However, we may be required to record additional goodwill impairment charges in the future if our critical assumptions deteriorate or our market capitalization declines further.

The BPP and Career Partner trademarks represent the substantial majority of our indefinite-lived intangibles. We tested the BPP trademark using a quantitative approach and estimated its fair value using the relief-from-royalty method, which represents the benefit of owning the trademark rather than paying royalties for its use. The estimated fair value of the BPP trademark exceeded its carrying value by a margin representing more than 30% of its fair value. We elected to perform a qualitative assessment for the Career Partner trademark, which considered the factors discussed above, including Career Partner's operating performance following the acquisition in December 2015.

Other Long-Lived Asset Impairments

We evaluate the carrying amount of our other long-lived assets, including property and equipment and finite-lived intangibles, whenever changes in circumstances or events indicate that the carrying value of such assets may not be recoverable. If such circumstances or events occur, we assess recoverability by comparing the estimated undiscounted future cash flows expected to be generated by the assets with their carrying value. If the carrying value of the assets exceeds the estimated undiscounted future cash flows expected to be generated by the assets, an impairment loss is recognized for the difference between the estimated fair value of the assets and their carrying value.

During fiscal year 2016, we recorded $2.5 million of long-lived asset impairment charges that are included in *Restructuring and impairment charges* on our Consolidated Statements of Operations. Refer to Note 2, Restructuring and Impairment Charges in Item 8, *Financial Statements and Supplementary Data*.

As of August 31, 2016, we believe the carrying amounts of our remaining other long-lived assets are recoverable and no impairment exists. However, we are continuing to reduce costs to align with our declining enrollment and revenue, and changes to our business or other circumstances could lead to potential impairments in the future.

Restructuring and Impairment Charges

Restructuring and impairment charges principally consist of expense associated with non-cancelable lease obligations, severance and other employee separation costs, other related costs and certain goodwill and other long-lived asset impairments. We recognize restructuring obligations and liabilities for exit and disposal activities at fair value in the period the liability is incurred. Measuring fair value and recognizing the associated liabilities is subjective and requires significant judgment. For our non-cancelable lease obligations, we record the obligation when we terminate the contract in accordance with the contract terms or when we cease using the right conveyed by the contract. Our employee severance costs are expensed on the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed over the future service period.

We generally estimate the fair value of restructuring obligations using significant unobservable inputs (Level 3) based on the best available information. For non-cancelable lease obligations, the fair value estimate is based on the contractual lease costs over the remaining terms of the leases, partially offset by estimated future sublease rental income. Our estimate of the amount and timing of sublease rental income considers subleases we have executed or expect to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of sublease agreements.

Changes to restructuring obligations in periods subsequent to the initial fair value measurement are not measured at fair value. We record a cumulative adjustment resulting from changes in the estimated timing or amount of cash flows associated with restructuring obligations in the period of change using the same discount rate that was initially used to measure the obligation's fair value. Changes in restructuring obligations resulting from the passage of time are recorded as accretion expense. Adjustments to restructuring obligations, including accretion expense, are included in *Restructuring and impairment charges* on our Consolidated Statements of Operations.

We have implemented various restructuring activities during prior fiscal years and remain focused on reengineering our business processes and educational delivery systems to improve efficiency and reduce costs to align with our declining enrollment and revenue. As detailed further in *Results of Operations* in this MD&A, we have incurred $51.1 million, $71.9 million and $85.3 million of restructuring expense in fiscal years 2016, 2015 and 2014, respectively, associated with restructuring activities initiated prior to fiscal year 2016. We incurred $32.1 million of additional restructuring expense in fiscal year 2016 for new restructuring activities initiated during the fiscal year. The following details the changes in our restructuring obligations by type of cost during fiscal year 2016:

	Lease and Related Costs, Net		Severance and Other Employee Separation Costs		Other Restructuring Related Costs		
($ in thousands)	2016 Restructuring	Prior Year Restructuring	2016 Restructuring	Prior Year Restructuring	2016 Restructuring	Prior Year Restructuring	Total
August 31, 2015	$ —	$ 74,990	$ —	$ 8,210	$ —	$ 90	$ 83,290
Expense[(1)]	—	41,237	30,348	2,475	1,774	7,318	83,152
Other[(2)]	—	(6,338)	(577)	—	(155)	(5,431)	(12,501)
Payments	—	(45,230)	(26,997)	(9,625)	(1,584)	(1,901)	(85,337)
August 31, 2016[(3)]	$ —	$ 64,659	$ 2,774	$ 1,060	$ 35	$ 76	$ 68,604

(1) *Restructuring and impairment charges* on our Consolidated Statements of Operations for fiscal year 2016 also includes $73.4 million of goodwill impairment charges and $2.5 million of property and equipment impairment charges.

(2) Other primarily includes accelerated depreciation, share-based compensation and adjustments to certain lease related liabilities such as deferred rent.

(3) The gross, undiscounted obligation associated with our restructuring liabilities as of August 31, 2016 was approximately $130 million, which principally represents lease costs for non-cancelable leases that will be paid over the respective lease terms through fiscal year 2023.

Loss Contingencies

We are subject to various claims and contingencies that arise from time to time in the ordinary course of business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. When we become aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount of the loss or range of loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs incurred to date and future legal costs to the point in the legal matter where we believe a conclusion to the matter will be reached. The liability excludes any anticipated loss recoveries from third parties such as insurers, which we record as a receivable if we determine recovery is probable. If the loss is not probable or the amount of the loss or range of loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. For matters where no loss contingency is recorded, we expense legal fees as incurred. The assessment of the likelihood of a potential loss and the estimation of the amount of a loss or range of loss are subjective and require judgment. Refer to Note 16, Commitments and Contingencies, in Item 8, *Financial Statements and Supplementary Data*, for additional information regarding contingencies.

Income Taxes

We are subject to the income tax laws of the U.S. and the foreign jurisdictions in which we have significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. As a result, significant judgments and interpretations are required in determining our provision for income taxes and evaluating our uncertain tax positions.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted. We record a valuation allowance to reduce deferred tax assets to the amount that we believe is more likely than not to be realized.

We have not provided deferred taxes on unremitted earnings attributable to international subsidiaries that have been considered permanently reinvested. As of August 31, 2016, the unremitted earnings from these operations were not significant.

We evaluate and account for uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Derecognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more likely than not threshold of being sustained. We classify interest and penalties accrued in connection with unrecognized tax benefits as income tax expense on our Consolidated Statements of Operations. Our total unrecognized tax benefits, excluding interest and penalties, were $10.4 million and $14.8 million as of August 31, 2016 and 2015, respectively. Refer to Note 12, Income Taxes, in Item 8, *Financial Statements and Supplementary Data.*

New Accounting Standards

For discussion of new accounting standards, refer to Note 1, Nature of Operations and Significant Accounting Policies, in Item 8, *Financial Statements and Supplementary Data*.

Results of Operations

We have included below a discussion of our operating results and significant items explaining the material changes in our operating results during fiscal years 2016, 2015 and 2014.

As discussed in the *Overview* of this MD&A, the U.S. higher education industry is changing at an increasing pace, including significant and increasing competition for the proprietary sector from public and private colleges and universities as these institutions continue to expand their online education programs. These developments have contributed to the substantial decline in University of Phoenix enrollment that began in late 2010.

Our operations are generally subject to seasonal trends, which vary depending on the subsidiary. We have historically experienced, and expect to continue to experience, fluctuations in our results of operations as a result of seasonal variations in the level of our institutions' enrollments including, but not limited to, the following:

- *University of Phoenix* - University of Phoenix generally has lower net revenue in our second fiscal quarter (December through February) compared to other quarters due to holiday breaks.
- *Apollo Global* - Our Apollo Global subsidiaries experience seasonality associated with the timing of when courses begin, exam dates, the timing of their respective holidays and other factors. These factors have historically resulted in lower net revenue in our second and fourth fiscal quarters, particularly for BPP, which also results in substantially lower operating results during these quarters due to BPP's relatively fixed cost structure.

We categorize our operating expenses principally as follows:

- *Instructional and student advisory* - consist primarily of costs related to the delivery and administration of our educational programs and include costs related to faculty, student advisory and administrative compensation, classroom and administration lease expenses (including facilities that are shared and support both instructional and other functions), financial aid processing costs, costs related to the development and enhancement of our educational programs and other related costs. Tuition benefits for our employees and their eligible dependents are recorded as an expense within instructional and student advisory.
- *Marketing* - the substantial majority of costs consist of advertising expenses and compensation for marketing personnel. The category also includes other costs directly related to marketing functions.
- *Admissions advisory* - the substantial majority of costs consist of compensation for admissions personnel. The category also includes other costs directly related to admissions advisory functions.
- *General and administrative* - consist primarily of corporate compensation, legal and professional fees, rent expense, information technology infrastructure costs and other related costs.
- *Depreciation and amortization* - consist of depreciation expense on our property and equipment and amortization of our finite-lived intangibles.
- *Provision for uncollectible accounts receivable* - consist of expense charged to reduce our accounts receivable to our estimate of the amount we expect to collect.

Analysis of Consolidated Statements of Operations

The following details our consolidated results of operations. For a more detailed discussion of our operating results by reportable segment, refer to *Analysis of Operating Results by Reportable Segment* below.

	Year Ended August 31,							
				% of Net Revenue			% Change	% Change
($ in thousands)	2016	2015	2014	2016	2015	2014	2016 versus 2015	2015 versus 2014
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865	100.0 %	100.0 %	100.0 %	(18.1)%	(14.4)%
Costs and expenses:								
Instructional and student advisory	1,097,155	1,207,535	1,283,194	52.2 %	47.0 %	42.8 %	(9.1)%	(5.9)%
Marketing	354,757	487,759	545,596	16.9 %	19.0 %	18.2 %	(27.3)%	(10.6)%
Admissions advisory	122,662	209,768	215,196	5.8 %	8.2 %	7.2 %	(41.5)%	(2.5)%
General and administrative	246,157	273,662	286,206	11.7 %	10.7 %	9.6 %	(10.1)%	(4.4)%
Depreciation and amortization	109,938	125,303	138,810	5.2 %	4.9 %	4.6 %	(12.3)%	(9.7)%
Provision for uncollectible accounts receivable	55,882	59,205	53,819	2.7 %	2.3 %	1.8 %	(5.6)%	10.0 %
Restructuring and impairment charges	159,057	81,800	85,343	7.6 %	3.2 %	2.8 %	*	*
Merger, acquisition and other related costs, net	21,835	6,201	19,837	1.0 %	0.2 %	0.7 %	*	*
Litigation charges	—	100	13,900	— %	— %	0.5 %	*	*
Total costs and expenses	2,167,443	2,451,333	2,641,901	103.1 %	95.5 %	88.2 %	(11.6)%	(7.2)%
Operating (loss) income	(65,593)	114,944	354,964	(3.1)%	4.5 %	11.8 %	*	(67.6)%
Interest income	4,017	3,050	2,230	0.2 %	0.1 %	0.1 %	31.7 %	36.8 %
Interest expense	(6,722)	(6,595)	(7,914)	(0.3)%	(0.3)%	(0.3)%	1.9 %	(16.7)%
Other loss, net	(3,212)	(5,756)	(560)	(0.2)%	(0.2)%	— %	*	*
(Loss) income from continuing operations before income taxes	(71,510)	105,643	348,720	(3.4)%	4.1 %	11.6 %	*	(69.7)%
Provision for income taxes	(9,829)	(58,163)	(127,290)	(0.5)%	(2.2)%	(4.2)%	(83.1)%	(54.3)%
(Loss) income from continuing operations	(81,339)	47,480	221,430	(3.9)%	1.9 %	7.4 %	*	(78.6)%
Loss from discontinued operations, net of tax	(9,691)	(23,185)	(16,632)	(0.4)%	(1.0)%	(0.6)%	*	*
Net (loss) income	(91,030)	24,295	204,798	(4.3)%	0.9 %	6.8 %	*	(88.1)%
Net loss attributable to noncontrolling interests	6,476	5,460	4,506	0.3 %	0.3 %	0.2 %	18.6 %	21.2 %
Net (loss) income attributable to Apollo	$ (84,554)	$ 29,755	$ 209,304	(4.0)%	1.2 %	7.0 %	*	(85.8)%

* Not meaningful

Net Revenue

Our net revenue decreased $464.4 million and $430.6 million, or 18.1% and 14.4%, in fiscal years 2016 and 2015 compared to the respective prior years. The decreases were attributable to net revenue declines at University of Phoenix of 24.1% and 18.4% during the respective periods, principally due to lower enrollment. See discussion of the enrollment decline in *Analysis of Operating Results by Reportable Segment - University of Phoenix* below. This was partially offset by increases in Apollo Global net revenue.

Instructional and Student Advisory

Instructional and student advisory decreased $110.4 million and $75.7 million, or 9.1% and 5.9%, in fiscal years 2016 and 2015 compared to the respective prior years. This resulted in such expenses increasing as a percentage of net revenue by 520 and 420 basis points, respectively. The decreases in expense were primarily due to lower costs that are more variable in nature such as faculty and curriculum associated with University of Phoenix's enrollment decline, and lower costs including rent and compensation attributable to our restructuring activities. This was partially offset by costs attributable to Apollo Global's recent acquisitions.

Marketing

Marketing decreased $133.0 million, or 27.3%, in fiscal year 2016 compared to the prior year, which resulted in a 210 basis point decrease as a percentage of net revenue. The decreases were principally attributable to lower advertising and related costs associated with University of Phoenix eliminating the use of third-party operated websites for marketing purposes in November 2015. The decreases were also attributable to lower headcount as a result of our restructuring activities.

Marketing decreased $57.8 million, or 10.6%, in fiscal year 2015 compared to the prior year, which resulted in an 80 basis point increase as a percentage of net revenue. The decrease in expense was principally attributable to lower headcount due in part to our restructuring activities, and lower advertising. This was partially offset by advertising costs attributable to Open Colleges, which was acquired in the second quarter of fiscal year 2014.

Admissions Advisory

Admissions advisory decreased $87.1 million and $5.4 million, or 41.5% and 2.5%, in fiscal years 2016 and 2015 compared to the respective prior years. This represented a decrease as a percentage of net revenue of 240 basis points in fiscal year 2016 compared to fiscal year 2015, and an increase of 100 basis points in fiscal year 2015 compared to the prior year. The decreases in expense were principally attributable to lower University of Phoenix headcount as a result of our restructuring activities.

General and Administrative

General and administrative decreased $27.5 million and $12.5 million, or 10.1% and 4.4%, in fiscal years 2016 and 2015 compared to the respective prior years. This resulted in such expenses increasing as a percentage of net revenue by 100 and 110 basis points, respectively. The decreases in expense were primarily due to lower costs attributable to our restructuring activities. The decrease in fiscal year 2016 was partially offset by an increase in expenses in connection with legal and regulatory matters, and the decreases in both fiscal years were partially offset by costs attributable to Apollo Global's recent acquisitions.

Depreciation and Amortization

Depreciation and amortization decreased $15.4 million and $13.5 million, or 12.3% and 9.7%, in fiscal years 2016 and 2015 compared to the respective prior years. This resulted in such expenses increasing as a percentage of net revenue by 30 basis points in each period. The decreases in expense were principally attributable to lower depreciation expense resulting from a decline in depreciable assets due in part to our restructuring activities. The fiscal year 2015 decrease was also due to reduced amortization expense following the write-off of technology intangibles in the second quarter of fiscal year 2015.

Provision for Uncollectible Accounts Receivable

Provision for uncollectible accounts receivable decreased $3.3 million, or 5.6%, in fiscal year 2016 compared to the prior year, which resulted in an increase as a percentage of net revenue of 40 basis points. The decrease in expense was primarily due to lower University of Phoenix enrollment and associated receivables.

Provision for uncollectible accounts receivable increased $5.4 million, or 10.0%, in fiscal year 2015 compared to the prior year, which resulted in an increase as a percentage of net revenue of 50 basis points. The increase principally occurred at Open Colleges as a result of the timing of the acquisition during the second quarter of fiscal year 2014 and its increased enrollment since the acquisition.

Restructuring and Impairment Charges

Restructuring and impairment charges includes the following for the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Restructuring charges	$ 83,152	$ 71,921	$ 85,343
Goodwill impairments[(1)]	73,393	—	—
Property and equipment impairment[(2)]	2,512	9,879	—
Restructuring and impairment charges	$ 159,057	$ 81,800	$ 85,343

[(1)] Refer to Note 8, Goodwill and Intangibles, in Item 8, *Financial Statements and Supplementary Data*, for a discussion of goodwill impairment charges recorded during fiscal year 2016.

[(2)] During fiscal years 2016 and 2015, we recorded property and equipment impairment charges associated with University of Phoenix's remaining ground locations and from our abandonment of certain software.

We have implemented various restructuring activities during prior fiscal years and remain focused on reengineering our business processes and educational delivery systems to improve efficiency and reduce costs to align with our declining enrollment and revenue. The activities initiated in prior years and those initiated in fiscal year 2016 are described below. Additionally, we intend to further reduce costs in future periods to align with our declining enrollment and revenue, and expect to incur material charges associated with other future restructuring activities.

The following summarizes the restructuring charges in our segment reporting format for the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
University of Phoenix	$ 53,174	$ 40,446	$ 61,899
Apollo Global	660	585	6,091
Other	29,318	30,890	17,353
Restructuring charges	$ 83,152	$ 71,921	$ 85,343

Our restructuring activities initiated prior to fiscal year 2016 principally included closing approximately 150 University of Phoenix ground locations, rationalizing our leased administrative office facilities, and workforce reductions. During fiscal year 2016, we incurred $51.0 million of expense for these prior year activities. The majority of the expense represents initial charges for the estimated fair value of future contractual operating lease obligations which are recorded when we cease using the respective facility, and an increase in our estimated future cash payments associated with exiting additional space at other locations included in the rationalization plan. We measure lease obligations at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The significant unobservable inputs principally include estimated future cash flows and discount rates, which have ranged between 3%-7% for our lease obligations. The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining terms of the leases, partially offset by estimated future sublease rental income, which involves significant judgment. Our estimate of the amount and timing of sublease rental income considers subleases that we have executed or expect to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of additional sublease agreements. As of August 31, 2016, we have recorded adjustments to our initial lease obligation liabilities for interest accretion and adjustments for changes in estimated sublease income.

Lease and related costs, net also includes accelerated depreciation associated with revising the useful lives of the fixed assets at the facilities we are closing through their expected closure dates. Prior to revising the useful lives, we perform a recoverability analysis for the facilities' fixed assets by comparing the estimated undiscounted cash flows of the locations through their expected closure dates to the carrying amount of the locations' fixed assets. Based on such analyses, we have not recorded material impairment charges associated with the facilities we are closing.

As of August 31, 2016, we had approximately $48 million of remaining lease obligations associated with the locations that we expect to close as University of Phoenix obtains the necessary regulatory approvals and completes its teach-out obligations. We will incur lease obligation charges for these locations when we cease using the respective facilities. We will also continue to incur interest accretion, and may record additional adjustments in future periods for the estimated obligations associated with facilities we have already exited.

We have implemented workforce reductions and expense such costs on the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed over the future service period. Many of the employees at ground locations we are closing continue to provide services until we complete the respective teach-out obligations. For workforce reductions initiated prior to fiscal year 2016, we have incurred $2.5 million, $30.0 million, and $33.2 million of severance and other employee separation costs in fiscal years 2016, 2015 and 2014, respectively.

For new restructuring activities initiated during fiscal year 2016, we incurred $32.1 million of expense. Substantially all of the expense represents severance and other employee separation costs associated with the elimination of approximately 1,500 positions. The expense associated with these activities is reflected in our segment reporting as follows: $17.2 million in University of Phoenix, $2.3 million in Apollo Global and $12.6 million in Other.

Refer to Note 2, Restructuring and Impairment Charges, in Item 8, *Financial Statements and Supplementary Data*, which is incorporated herein by reference, for further information on our restructuring activities.

Merger, Acquisition and Other Related Costs, Net

Merger, acquisition and other related costs, net includes costs related to our potential merger, transaction costs to complete our acquisitions, costs related to other potential acquisitions that were not completed and changes in the fair value of contingent consideration associated with our acquisitions.

The $21.8 million of net expense in fiscal year 2016 principally represents professional fees associated with our pending merger discussed further in the *Overview* of this MD&A. We also incurred transaction costs associated with our acquisition of Career Partner completed in December 2015. This was partially offset by a decrease in the estimated fair value of certain of our contingent consideration arrangements. Refer to Note 9, Fair Value Measurements, in Item 8, *Financial Statements and Supplementary Data*.

The $6.2 million of expense in fiscal year 2015 was primarily attributable to our acquisitions of The Iron Yard and FAEL, and costs related to other potential acquisitions that were not completed.

The substantial majority of the $19.8 million of expense in fiscal year 2014 was attributable to the increase in our Open Colleges estimated contingent consideration liability subsequent to the acquisition.

Litigation Charges

During fiscal years 2015 and 2014, we recorded charges of $0.1 million and $13.9 million, respectively, associated with our legal matters. Refer to Note 16, Commitments and Contingencies, in Item 8, *Financial Statements and Supplementary Data*.

Provision for Income Taxes

We generated a pre-tax loss for fiscal year 2016, and our corresponding effective income tax rate for continuing operations was significantly impacted by the $71.8 million University of Phoenix goodwill impairment charge. This impairment charge was not deductible for tax purposes.

Our effective income tax rate for continuing operations was 55.1% and 36.5% for fiscal years 2015 and 2014, respectively. The increase in our fiscal year 2015 effective tax rate compared to the prior year was principally attributable to the following:

- A $10.1 million valuation allowance recorded in fiscal year 2015 associated with Open Colleges' deferred taxes;
- Nondeductible items, including costs associated with recent acquisitions, and foreign losses for which we cannot take a tax benefit, which have a more significant impact on our fiscal year 2015 effective income tax rate due to our lower pre-tax income; and
- Tax benefits in fiscal year 2014 consisting of a $10.2 million benefit from resolution with the Internal Revenue Service related to the deductibility of certain costs for our foreign subsidiaries, and a $2.8 million benefit resulting from tax reform in Mexico.

Refer to Note 12, Income Taxes, in Item 8, *Financial Statements and Supplementary Data*, for a reconciliation of our effective income tax rate for continuing operations for each fiscal year to the statutory U.S. federal income tax rate.

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations, net of tax includes Carnegie Learning, Inc. and Institute for Professional Development. Refer to Note 3, Discontinued Operations, in Item 8, *Financial Statements and Supplementary Data*.

Analysis of Operating Results by Reportable Segment

The following details our operating results by reportable segment for the respective periods:

	Year Ended August 31,			2016 versus 2015		2015 versus 2014	
($ in thousands)	2016	2015	2014	$ Change	% Change	$ Change	% Change
Net revenue:							
University of Phoenix	$ 1,631,412	$ 2,148,312	$ 2,632,949	$ (516,900)	(24.1)%	$ (484,637)	(18.4)%
Apollo Global	433,700	391,217	338,008	42,483	10.9 %	53,209	15.7 %
Other	36,738	26,748	25,908	9,990	37.3 %	840	3.2 %
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865	$ (464,427)	(18.1)%	$ (430,588)	(14.4)%
Operating (loss) income:							
University of Phoenix	$ 80,226	$ 257,366	$ 499,699	$ (177,140)	(68.8)%	$ (242,333)	(48.5)%
Apollo Global	(37,895)	(49,527)	(74,189)	11,632	23.5 %	24,662	33.2 %
Other	(107,924)	(92,895)	(70,546)	(15,029)	(16.2)%	(22,349)	(31.7)%
Operating (loss) income	$ (65,593)	$ 114,944	$ 354,964	$ (180,537)	*	$ (240,020)	(67.6)%

* Not meaningful

University of Phoenix

University of Phoenix's net revenue decreased $516.9 million and $484.6 million, or 24.1% and 18.4%, in fiscal years 2016 and 2015, respectively, compared to the prior years. The decreases in both fiscal years were principally attributable to lower Average Degreed Enrollment as discussed below. The University's revenue also decreased in fiscal year 2016 due to its transition to a reduced number of student cohort start dates, which resulted in students taking fewer courses during fiscal year 2016 as the new start dates were phased in, and the University's increased use of discounts, grants and scholarships. Discounts, grants and scholarships increased 90 and 330 basis points as a percentage of the University's gross revenue in fiscal years 2016 and 2015, respectively, compared to the prior years.

The University's future net revenue will be impacted by pricing changes, changes in enrollment and student mix within programs, and discounts, grants and scholarships.

The following details University of Phoenix student enrollment for the respective periods:

	Average Degreed Enrollment[1], [2]					Aggregate New Degreed Enrollment[1], [3]				
	Year Ended August 31,			% Change		Year Ended August 31,			% Change	
(Rounded to the nearest hundred)	2016[4]	2015	2014	2016-2015	2015-2014	2016	2015	2014	2016-2015	2015-2014
Students	165,600	214,500	251,500	(22.8)%	(14.7)%	79,000	123,800	146,700	(36.2)%	(15.6)%

(1) Refer to Part I, Item 1, *Business - University of Phoenix*, for definitions of Degreed Enrollment and New Degreed Enrollment, and the related quarterly trends.

(2) Represents the average of quarterly Degreed Enrollment from the beginning to the end of the respective fiscal years.

(3) Represents the sum of the four quarters of New Degreed Enrollment in the respective fiscal years.

(4) As described in Part I, Item 1, *Business - University of Phoenix*, Degreed Enrollment includes students who attended a credit bearing course during the quarter and had not graduated as of the end of the quarter. The proportion of students included in Degreed Enrollment who have completed their academic work but not yet formally graduated ("academically complete students") increased during the third and fourth quarters of fiscal year 2016 compared to prior periods due to changes in the manner in which graduation applications are processed. We estimate that the number of academically complete students reflected in this increase is approximately 2,000 - 3,000 for both the third and fourth quarters of fiscal year 2016.

University of Phoenix Average Degreed Enrollment decreased 22.8% and 14.7% in fiscal years 2016 and 2015 compared to the respective prior years primarily due to the continued decline in New Degreed Enrollment. We believe the following factors, some of which are discussed in more detail in the *Overview* of this MD&A, contributed to the decrease:

- University of Phoenix enrollment continues to be adversely impacted by the rapidly evolving and highly competitive education industry, which includes adverse publicity associated with the challenging political and regulatory environment, particularly for the proprietary education sector; and
- Recently launched initiatives as part of the University's transformation strategy, including eliminating the use of third-party operated websites for marketing purposes and the retiring of a number of lower retaining associate's degree programs. Some of these initiatives have accelerated the enrollment decline at University of Phoenix in recent years, and we expect that the University's enrollment will continue declining in the near term.

University of Phoenix's operating income decreased $177.1 million and $242.3 million, or 68.8% and 48.5%, in fiscal years 2016 and 2015 compared to the respective prior years. The University's operating results were impacted by restructuring and impairment charges of $125.0 million, $50.3 million and $61.9 million in fiscal years 2016, 2015 and 2014, respectively.

The University's operating results declined in both fiscal years compared to the respective prior years due to lower net revenue, which was partially offset by lower costs attributable to our restructuring activities, lower advertising expense, and decreases in costs that are more variable in nature.

Apollo Global

Apollo Global's net revenue increased $42.5 million and $53.2 million, or 10.9% and 15.7%, in fiscal years 2016 and 2015 compared to the respective prior years. The increases in both fiscal years were primarily due to revenue from recent acquisitions and higher enrollment at international institutions, which were partially offset by the impact of foreign exchange rates (approximately $40 million and $34 million for the respective periods).

Apollo Global's operating loss decreased $11.6 million and $24.7 million in fiscal years 2016 and 2015 compared to the respective prior years. Apollo Global's operating results include the following during the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Depreciation and amortization	$ 38,807	$ 39,376	$ 38,168
Merger, acquisition and other related costs, net	3,914	1,299	18,990
Restructuring and impairment charges	660	585	6,091
Foreign indirect tax assessment reversal[1]	—	—	(11,173)

(1) This is included in *Instructional and student advisory* on our Consolidated Statements of Operations.

Other

Other net revenue increased $10.0 million and $0.8 million in fiscal years 2016 and 2015 compared to the respective prior years primarily due to revenue from The Iron Yard, which we acquired in the fourth quarter of fiscal year 2015.

Other operating losses increased $15.0 million and $22.3 million in fiscal years 2016 and 2015 compared to the respective prior years. The increase in fiscal year 2016 was primarily due to an increase in *Merger, acquisition and other related costs, net* (mainly costs associated with our pending merger) and an increase in expenses in connection with legal and regulatory matters. The increase in fiscal year 2015 was principally attributable to an increase in restructuring charges.

Liquidity, Capital Resources, and Financial Position

We believe that our cash and cash equivalents and available liquidity will be adequate to satisfy our working capital and other liquidity requirements associated with our existing operations through at least the next 12 months. Our ability to deploy currently available liquidity is constrained by our need to maintain U.S. Department of Education financial responsibility composite scores of at least 1.5, and, if the scores fall below 1.5, would adversely impact our ability to finance the operation of our business. Additionally, our existing $625 million Revolving Credit Facility described below expires in April 2017. Furthermore, access to the credit markets and other sources of liquidity, including utilization of our Revolving Credit Facility described below, may be adversely affected if we experience regulatory compliance challenges, reduced availability of Title IV program funding, or other adverse effects on our business from regulatory or legislative changes. For a detailed discussion of the regulatory environment and related risks, refer to Part I, Item 1A, *Risk Factors - Risks Related to the Highly Regulated Industry in Which We Operate*.

Our existing syndicated $625 million credit facility expires in April 2017. Due to the current challenging business and regulatory climate for the proprietary education sector and the continued decline in our operating performance, we expect that any subsequent credit facility, if one can be arranged, will be substantially smaller and more expensive than our current facility. We believe that a number of lenders, including members of our Revolving Credit Facility syndicate, have made a decision to exit the proprietary education sector. Accordingly, there is no assurance that we will be able to timely arrange a replacement credit facility on terms acceptable to us or at all, and much will depend on near-term developments in our business and the proprietary education sector generally.

Cash and Cash Equivalents, Restricted Cash and Cash Equivalents and Marketable Securities

The substantial majority of our cash and cash equivalents, including restricted cash and cash equivalents, are held by our domestic operations and placed with high-credit-quality financial institutions. The following provides a summary of these financial instruments as of the respective period ends:

	August 31,			% of Total Assets at August 31,	
($ in thousands)	**2016**	**2015**	**% Change**	**2016**	**2015**
Cash and cash equivalents	$ 464,024	$ 503,705	(7.9)%	23.1%	22.9%
Restricted cash and cash equivalents	142,170	198,369	(28.3)%	7.1%	9.0%
Current marketable securities	197,886	194,676	1.6 %	9.8%	8.8%
Noncurrent marketable securities	18,758	95,815	(80.4)%	0.9%	4.4%
Total	$ 822,838	$ 992,565	(17.1)%	40.9%	45.1%

Cash and cash equivalents (excluding restricted cash) decreased $39.7 million primarily due to $97.3 million paid to acquire Career Partner and $73.1 million for capital expenditures. These items were partially offset by $68.8 million of marketable securities maturities and sales (net of purchases), $45.1 million of cash provided by operations and $20.7 million of proceeds from borrowings (net of payments on borrowings).

We consider the unremitted earnings attributable to certain of our foreign subsidiaries to be permanently reinvested. As of August 31, 2016, the unremitted earnings from these operations were not significant.

As of August 31, 2016, our cash and restricted cash equivalents included $66.3 million of money market funds that we measure at fair value. We determine fair value of these funds using a market approach with Level 1 inputs that primarily consist of real-time quotes for transactions in active exchange markets involving identical assets. Our remaining cash and cash equivalents approximate fair value because of the short-term nature of the financial instruments.

Our marketable securities, which principally include corporate bonds and tax-exempt municipal bonds, have original maturities to us greater than three months, and contractual maturities that will occur within two years. Our marketable securities are classified as available-for-sale and are measured at fair value. We determine the fair value of these investments using a market approach with Level 2 observable inputs including quoted prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active. Refer to Note 5, Financial Instruments, in Item 8, *Financial Statements and Supplementary Data*.

Debt

In fiscal year 2012, we entered into a syndicated $625 million unsecured revolving credit facility (the "Revolving Credit Facility"), which expires in April 2017. The Revolving Credit Facility is used for general corporate purposes, which may include acquisitions and share repurchases, and can also be used for borrowings in certain foreign currencies and letters of credit, in each case up to specified sublimits.

As of August 31, 2016, we had $30 million of outstanding borrowings under the Revolving Credit Facility and approximately $29 million of outstanding letters of credit. We repaid the entire amount borrowed under the Revolving Credit Facility as of August 31, 2016 subsequent to fiscal year end, and the outstanding borrowings as of August 31, 2016 are included in *Short-term borrowings and current portion of long-term debt* on our Consolidated Balance Sheets. We also borrowed $50 million under the Revolving Credit Facility during the second quarter of fiscal year 2016, but subsequently repaid the amount later in the same quarter.

As of August 31, 2015, we had approximately $41 million of outstanding letters of credit and no outstanding borrowings under the Revolving Credit Facility.

The Revolving Credit Facility fees are determined based on a pricing grid that varies according to our leverage ratio. The Revolving Credit Facility fee ranges from 25 to 40 basis points. Incremental fees for borrowings under the facility generally range from Prime + 25 to 85 basis points. The weighted average interest rate on outstanding short-term borrowings under the Revolving Credit Facility at August 31, 2016 was 3.8%.

The Revolving Credit Facility contains various customary representations, covenants and other provisions, including a material adverse event clause and the following financial covenants: maximum leverage ratio, minimum interest and rent expense coverage ratio, and U.S. Department of Education financial responsibility composite score requirements. We were in compliance with all applicable covenants related to the Revolving Credit Facility at August 31, 2016 and 2015.

Other debt principally includes debt at subsidiaries of Apollo Global and other obligations. The weighted average interest rate on our outstanding other debt at August 31, 2016 and 2015 was 6.0% and 5.6%, respectively.

The carrying value of our debt, excluding capital leases, approximates fair value based on the nature of our debt, which includes consideration of the portion that is variable-rate.

Cash Flows

Operating Activities

The following provides a summary of our operating cash flows during the respective fiscal years:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Net (loss) income	$ (91,030)	$ 24,295	$ 204,798
Non-cash items	292,972	287,385	241,109
Changes in assets and liabilities, excluding the impact of acquisitions and disposition	(156,858)	(143,098)	(70,000)
Net cash provided by operating activities	$ 45,084	$ 168,582	$ 375,907

Fiscal Year 2016 - Our non-cash items primarily consisted of $109.9 million of depreciation and amortization, $77.6 million of impairment charges and losses on asset dispositions, a $55.9 million provision for uncollectible accounts receivable, $32.9 million of share-based compensation, and $15.8 million of restructuring accelerated depreciation. The changes in assets and liabilities primarily consisted of the following:

- An $85.7 million use of cash related to the change in accounts receivable, excluding the provision for uncollectible accounts receivable;
- A $65.8 million decrease in student deposits principally attributable to the enrollment decline at University of Phoenix, which was partially offset by a corresponding decrease in restricted cash and cash equivalents at University of Phoenix;
- A $63.4 million decrease in accrued and other liabilities principally attributable to the timing of our payroll cycle and a decrease in our restructuring liabilities; and
- A $25.7 million decrease in current deferred revenue principally attributable to the enrollment decline at University of Phoenix.

We monitor University of Phoenix accounts receivable through a variety of metrics, including days sales outstanding. We calculate the University's days sales outstanding by determining average daily student revenue based on a rolling twelve month analysis and divide it into its gross student accounts receivable balance as of the end of the period. As of August 31, 2016, University of Phoenix's days sales outstanding was 30 days compared to 21 days as of August 31, 2015. The increase in days sales outstanding was principally attributable to higher University of Phoenix gross student receivables as of August 31, 2016 primarily due to the timing of student cohort start dates and financial aid funds received by the University at the end of the respective fiscal years.

Fiscal Year 2015 - Our non-cash items primarily consisted of $132.0 million of depreciation and amortization, a $59.2 million provision for uncollectible accounts receivable, $39.8 million of impairment charges and losses on asset dispositions, $38.7 million of share-based compensation, and $12.8 million of restructuring accelerated depreciation. The changes in assets and liabilities primarily consisted of the following:

- A $79.0 million decrease in accrued and other liabilities principally attributable to the payment of accrued bonus, a decrease in our restructuring liabilities, and the payment of the Open Colleges contingent consideration;
- A $74.5 million use of cash related to the change in accounts receivable, excluding the provision for uncollectible accounts receivable; and
- A $32.3 million decrease in student deposits principally due to the enrollment decline at University of Phoenix, which was partially offset by a corresponding decrease in restricted cash and cash equivalents at University of Phoenix.

Fiscal Year 2014 - Our non-cash items primarily consisted of $150.6 million of depreciation and amortization, a $53.8 million provision for uncollectible accounts receivable, and $42.8 million of share-based compensation. These items were partially offset by $13.9 million of deferred income taxes. The changes in assets and liabilities primarily consisted of the following:

- A $61.4 million use of cash related to the change in accounts receivable, excluding the provision for uncollectible accounts receivable; and
- A $30.7 million decrease in student deposits principally due to the enrollment decline at University of Phoenix, which was offset by a corresponding decrease in restricted cash and cash equivalents at University of Phoenix.

Investing Activities

The following provides a summary of our investing cash flows during the respective fiscal years:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Acquisitions, net of cash acquired	$ (97,277)	$ (31,705)	$ (119,454)
Capital expenditures	(73,074)	(97,961)	(100,666)
Maturities and sales (purchases) of marketable securities, net	68,805	(20,007)	(130,803)
Other	(3,440)	(4,628)	606
Net cash used in investing activities	$ (104,986)	$ (154,301)	$ (350,317)

Fiscal Year 2016 - Cash used in investing activities primarily consisted of $97.3 million paid to acquire Career Partner and $73.1 million used for capital expenditures. This was partially offset by $68.8 million of marketable securities maturities and sales (net of purchases).

Fiscal Year 2015 - Cash used in investing activities primarily consisted of $98.0 million used for capital expenditures, $31.7 million used to acquire FAEL and The Iron Yard, and $20.0 million of marketable securities purchases (net of maturities and sales).

Fiscal Year 2014 - Cash used in investing activities primarily consisted of $130.8 million of marketable securities purchases (net of maturities and sales), $119.5 million used to acquire Open Colleges and Milpark Education, and $100.7 million used for capital expenditures.

Financing Activities

The following provides a summary of our financing cash flows during the respective fiscal years:

($ in thousands)	Year Ended August 31, 2016	2015	2014
Proceeds from (payments on) borrowings, net	$ 20,737	$ (608,935)	$ (36,691)
Share repurchases	(4,454)	(44,723)	(172,709)
Purchase of noncontrolling interests	—	(51,485)	(893)
Payment for contingent consideration	—	(21,371)	—
Share reissuances	1,174	1,538	1,793
Other	—	236	(2,858)
Net cash provided by (used in) financing activities	$ 17,457	$ (724,740)	$ (211,358)

Fiscal Year 2016 - Cash provided by financing activities primarily consisted of $20.7 million of proceeds from borrowings (net of payments on borrowings). The share repurchases during fiscal year 2016 related to tax withholding requirements on share-based awards. We did not repurchase shares under our share repurchase program during fiscal year 2016.

As of August 31, 2016, we had $52.2 million available under our share repurchase authorization. There is no expiration date on the repurchase authorization and the amount and timing of future share repurchase authorizations and repurchases, if any, will be made as market and business conditions warrant. Repurchases occur at our discretion and may be made on the open market through various methods including but not limited to accelerated share repurchase programs, or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules, and may include repurchases pursuant to Securities and Exchange Commission Rule 10b5-1 nondiscretionary trading programs. We are prohibited from repurchasing shares under the agreements associated with our pending merger, as described in the *Overview* of this MD&A.

Fiscal Year 2015 - Cash used in financing activities primarily consisted of $608.9 million used for payments on borrowings (net of proceeds from borrowings), $51.5 million for the purchase of the noncontrolling interests in Open Colleges, $44.7 million used for share repurchases and $21.4 million representing the financing portion of our Open Colleges contingent consideration payment. Share repurchases consisted of $38.1 million used to repurchase 1.4 million shares at a weighted average purchase price of $26.45 per share, and additional repurchases related to tax withholding requirements on share-based awards.

Fiscal Year 2014 - Cash used in financing activities primarily consisted of $172.7 million used for share repurchases and $36.7 million used for payments on borrowings (net of proceeds from borrowings). Share repurchases consisted of $159.7 million used to repurchase 5.4 million shares at a weighted average purchase price of $29.78 per share, and additional repurchases related to tax withholding requirements on share-based awards.

Contractual Obligations and Other Commercial Commitments

The following summarizes our contractual obligations and other commercial commitments as of August 31, 2016:

($ in thousands)	Payments Due by Fiscal Year 2017	2018-2019	2020-2021	Thereafter	Total
Debt[(1)]	$ 50,553	$ 8,331	$ 5,853	$ —	$ 64,737
Operating lease obligations	138,190	211,218	122,141	241,454	713,003
Capital lease obligations	6,368	6,321	4,598	14,764	32,051
Stadium naming rights[(2)]	7,785	16,279	17,270	45,188	86,522
Uncertain tax positions[(3)]	8,644	—	—	1,829	10,473
Other obligations[(4)]	36,166	19,757	2,499	—	58,422
Total	$ 247,706	$ 261,906	$ 152,361	$ 303,235	$ 965,208

(1) Amounts include expected future interest payments.

(2) Represents an agreement for naming rights to the Glendale, Arizona Sports Complex until 2026.

(3) Represents our liability for unrecognized tax positions, including interest and penalties, with the fiscal year 2017 amount representing the portion we have classified as a current liability as of August 31, 2016. However, we are uncertain as to if or when such amounts may be settled. Refer to Note 12, Income Taxes, in Item 8, *Financial Statements and Supplementary Data*.

(4) Represents obligations to purchase goods and services that are enforceable and legally binding and principally includes amounts relating to information technology, administration services, and marketing.

In addition to the commitments included in the above table, we have contingent consideration and redeemable noncontrolling interests associated with our acquisitions and other transactions. Refer to Note 9, Fair Value Measurements, and Note 13, Shareholders' Equity and Redeemable Noncontrolling Interests, in Item 8, *Financial Statements and Supplementary Data.*

Further, on February 7, 2016, we entered into a merger agreement as discussed further in the *Overview* of this MD&A.

We have no other material commercial commitments not described above.

Off-Balance Sheet Arrangements

Our insurers issue surety bonds for us that are required by various states where we operate, or that are required for other purposes. We are obligated to reimburse our insurers for any surety bonds that are paid. As of August 31, 2016, the face amount of these surety bonds was approximately $22 million. We also had approximately $29 million of outstanding letters of credit as of August 31, 2016, which support certain of our obligations and guarantees provided by our subsidiaries as part of our normal operations for which fair value is not material.

Certain other off-balance sheet obligations, such as operating leases, are included in the *Contractual Obligations and Other Commercial Commitments* table above.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to economic risk from inflation, foreign currency exchange rates, and interest rates.

Inflation

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

Foreign Currency Exchange Risk

The substantial majority of our revenue, expense and capital expenditure activities are transacted in U.S. dollars. However, because a significant portion of our operations consists of activities outside of the U.S., we have transactions in other currencies, which include the British pound, Australian dollar, euro, South African rand, Brazilian real and Mexican peso.

We use the U.S. dollar as our reporting currency. The functional currencies of our foreign subsidiaries are generally the local currencies. Accordingly, our foreign currency exchange risk is related to the following exposure areas:

- Adjustments resulting from the translation of assets and liabilities of the foreign subsidiaries into U.S. dollars using exchange rates in effect at the balance sheet dates. These translation adjustments are recorded in in shareholders' equity as a component of *Accumulated other comprehensive loss*;
- Earnings volatility from the translation of income and expense items of the foreign subsidiaries using an average monthly exchange rate for the respective periods; and
- Gains and losses resulting from foreign currency exchange rate changes related to intercompany receivables and payables that are not of a long-term investment nature, as well as gains and losses from foreign currency transactions. These items are recorded in *Other loss, net* on our Consolidated Statements of Operations.

In fiscal year 2016, we recorded $7.0 million of net foreign currency translation losses that are included in other comprehensive (loss) income. These losses are primarily the result of the strengthening of the U.S. dollar relative to the British pound, which declined in value compared to the U.S. dollar following the United Kingdom's ("U.K.") referendum during June 2016 approving the exit of the U.K. from the European Union ("E.U.") (widely referred to as "Brexit"). The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against the British pound. Brexit could cause disruptions to and create uncertainty surrounding our business, including continued increased volatility in exchange rates, as the future terms of the U.K.'s relationship with the E.U. are determined. Refer to Part I, Item 1A, *Risk Factors - Brexit and related negative developments in the European Union could adversely impact our business and financial results*.

The following outlines our net asset exposure by foreign currency (defined as foreign currency assets less foreign currency liabilities and excluding intercompany balances) denominated in U.S. dollars for foreign currencies in which we have significant assets and/or liabilities as of August 31:

($ in thousands)	2016	2015
Australian dollar	$ 102,260	$ 104,780
Euro	99,260	—
British pound	87,528	92,491
Brazilian real	25,827	24,262
South African rand	23,511	24,679
Mexican peso	15,945	16,129

During fiscal year 2016, we recorded a net foreign currency related gain on our Consolidated Statements of Operations of $0.2 million and net losses of $2.4 million and $1.0 million during fiscal years 2015 and 2014, respectively. We generally have not used derivative contracts to hedge foreign currency exchange rate fluctuations.

Interest Rate Risk

Our interest income and interest expense is sensitive to fluctuations in interest rates in the U.S. and certain international countries. Changes in interest rates affect the interest earned on our cash and cash equivalents, restricted cash and cash equivalents, and marketable securities, and the cost associated with our debt.

Interest Income

As of August 31, 2016, we had $822.8 million of cash and cash equivalents, restricted cash and cash equivalents, and marketable securities. During fiscal year 2016, our interest rate yields were less than 1%, and we earned interest income of $4.0 million. A reduction in interest rates would not have a material impact on our interest income.

Interest Expense

We have exposure to changing interest rates primarily associated with our variable rate debt. As of August 31, 2016, we had $90.8 million of outstanding debt that matures as follows:

($ in thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Fixed-rate debt[1]	$ 8,637	$ 5,741	$ 5,505	$ 4,789	$ 4,464	$ 13,646	$ 42,782
Variable-rate debt[1]	46,972	409	632	—	—	—	48,013
Total	$ 55,609	$ 6,150	$ 6,137	$ 4,789	$ 4,464	$ 13,646	$ 90,795

[1] The weighted-average interest rates on our fixed-rate and variable-rate debt at August 31, 2016 were 4.1% and 4.4%, respectively.

Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apollo Education Group, Inc. and Subsidiaries
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Apollo Education Group, Inc. and subsidiaries (the "Company") as of August 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity and redeemable noncontrolling interests, and cash flows for each of the three years in the period ended August 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Apollo Education Group, Inc. and subsidiaries as of August 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of August 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 20, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
October 20, 2016

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	As of August 31, 2016	As of August 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 464,024	$ 503,705
Restricted cash and cash equivalents	142,170	198,369
Marketable securities	197,886	194,676
Accounts receivable, net	224,990	198,459
Prepaid taxes	19,287	38,371
Other current assets	40,368	48,823
Assets of business held for sale	—	40,897
Total current assets	1,088,725	1,223,300
Marketable securities	18,758	95,815
Property and equipment, net	332,702	370,281
Goodwill	272,699	247,190
Intangible assets, net	191,146	143,244
Deferred taxes	78,366	92,105
Other assets	30,510	29,129
Total assets	$ 2,012,906	$ 2,201,064
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$ 55,609	$ 14,080
Accounts payable	59,640	64,100
Student deposits	178,160	245,470
Current deferred revenue	188,092	186,950
Accrued and other current liabilities	233,976	280,847
Liabilities of business held for sale	—	40,897
Total current liabilities	715,477	832,344
Long-term debt	35,186	31,566
Deferred taxes	16,323	7,729
Other long-term liabilities	169,326	172,452
Total liabilities	936,312	1,044,091
Commitments and contingencies		
Redeemable noncontrolling interests	5,860	11,915
Shareholders' equity:		
Preferred stock, no par value, 1,000 shares authorized; none issued	—	—
Apollo Class A nonvoting common stock, no par value, 400,000 shares authorized; 188,007 issued as of August 31, 2016 and 2015, and 109,150 and 107,925 outstanding as of August 31, 2016 and 2015, respectively	103	103
Apollo Class B voting common stock, no par value, 3,000 shares authorized; 475 issued and outstanding as of August 31, 2016 and 2015	1	1
Additional paid-in capital	—	—
Apollo Class A treasury stock, at cost, 78,857 and 80,082 shares as of August 31, 2016 and 2015, respectively	(3,868,341)	(3,928,419)
Retained earnings	5,024,528	5,153,452
Accumulated other comprehensive loss	(85,957)	(80,579)
Total Apollo shareholders' equity	1,070,334	1,144,558
Noncontrolling interests	400	500
Total equity	1,070,734	1,145,058
Total liabilities, redeemable noncontrolling interests and shareholders' equity	$ 2,012,906	$ 2,201,064

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended August 31,		
(In thousands, except per share data)	2016	2015	2014
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865
Costs and expenses:			
Instructional and student advisory	1,097,155	1,207,535	1,283,194
Marketing	354,757	487,759	545,596
Admissions advisory	122,662	209,768	215,196
General and administrative	246,157	273,662	286,206
Depreciation and amortization	109,938	125,303	138,810
Provision for uncollectible accounts receivable	55,882	59,205	53,819
Restructuring and impairment charges	159,057	81,800	85,343
Merger, acquisition and other related costs, net	21,835	6,201	19,837
Litigation charges	—	100	13,900
Total costs and expenses	2,167,443	2,451,333	2,641,901
Operating (loss) income	(65,593)	114,944	354,964
Interest income	4,017	3,050	2,230
Interest expense	(6,722)	(6,595)	(7,914)
Other loss, net	(3,212)	(5,756)	(560)
(Loss) income from continuing operations before income taxes	(71,510)	105,643	348,720
Provision for income taxes	(9,829)	(58,163)	(127,290)
(Loss) income from continuing operations	(81,339)	47,480	221,430
Loss from discontinued operations, net of tax	(9,691)	(23,185)	(16,632)
Net (loss) income	(91,030)	24,295	204,798
Net loss attributable to noncontrolling interests	6,476	5,460	4,506
Net (loss) income attributable to Apollo	$ (84,554)	$ 29,755	$ 209,304
(Loss) earnings per share - Basic:			
Continuing operations attributable to Apollo	$ (0.69)	$ 0.49	$ 2.03
Discontinued operations attributable to Apollo	(0.09)	(0.21)	(0.15)
Basic (loss) income per share attributable to Apollo	$ (0.78)	$ 0.28	$ 1.88
(Loss) earnings per share - Diluted:			
Continuing operations attributable to Apollo	$ (0.69)	$ 0.49	$ 2.01
Discontinued operations attributable to Apollo	(0.09)	(0.22)	(0.15)
Diluted (loss) income per share attributable to Apollo	$ (0.78)	$ 0.27	$ 1.86
Basic weighted average shares outstanding	108,660	108,092	111,354
Diluted weighted average shares outstanding	108,660	109,038	112,610

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Net (loss) income	$ (91,030)	$ 24,295	$ 204,798
Other comprehensive (loss) income (net of tax):			
Currency translation adjustment	(6,971)	(59,512)	11,652
Change in fair value of available-for-sale securities[1]	147	247	130
Comprehensive (loss) income	(97,854)	(34,970)	216,580
Comprehensive loss attributable to noncontrolling interests	7,922	19,104	1,967
Comprehensive (loss) income attributable to Apollo	$ (89,932)	$ (15,866)	$ 218,547

[1] The tax effect during fiscal years 2016, 2015 and 2014 was not significant.

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND REDEEMABLE NONCONTROLLING INTERESTS

	Common Stock				Additional Paid-in Capital	Apollo Class A Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Apollo Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
	Class A Nonvoting		Class B Voting										
(In thousands)	Shares	Stated Value	Shares	Stated Value		Shares	Cost						
Balance as of August 31, 2013	188,007	$ 103	475	$ 1	$ —	75,182	$(3,824,758)	$4,978,815	$ (36,563)	$ 1,117,598	$ 411	$1,118,009	$ —
Share repurchases	—	—	—	—	—	5,834	(172,709)	—	—	(172,709)	—	(172,709)	—
Share reissuances	—	—	—	—	(28,683)	(1,431)	60,860	(30,384)	—	1,793	—	1,793	—
Net tax effect for stock incentive plans	—	—	—	—	(14,136)	—	—	—	—	(14,136)	—	(14,136)	—
Share-based compensation	—	—	—	—	42,819	—	—	—	—	42,819	—	42,819	—
Currency translation adjustment	—	—	—	—	—	—	—	—	9,113	9,113	106	9,219	2,433
Available-for-sale securities adjustment, net of tax	—	—	—	—	—	—	—	—	130	130	—	130	—
Acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	53,866
Redemption value adjustments	—	—	—	—	—	—	—	(13,786)	—	(13,786)	—	(13,786)	13,786
Purchase of noncontrolling interests	—	—	—	—	—	—	—	—	—	—	(893)	(893)	—
Net income (loss)	—	—	—	—	—	—	—	209,304	—	209,304	1,052	210,356	(5,558)
Balance as of August 31, 2014	188,007	$ 103	475	$ 1	$ —	79,585	$(3,936,607)	$5,143,949	$ (27,320)	$ 1,180,126	$ 676	$1,180,802	$ 64,527
Share repurchases	—	—	—	—	—	1,871	(44,723)	—	—	(44,723)	—	(44,723)	—
Share reissuances	—	—	—	—	(35,585)	(1,374)	52,911	(15,788)	—	1,538	—	1,538	—
Net tax effect for stock incentive plans	—	—	—	—	(12,386)	—	—	—	—	(12,386)	—	(12,386)	—
Share-based compensation	—	—	—	—	38,669	—	—	—	—	38,669	—	38,669	—
Currency translation adjustment	—	—	—	—	—	—	—	—	(45,868)	(45,868)	(333)	(46,201)	(13,311)
Available-for-sale securities adjustment, net of tax	—	—	—	—	—	—	—	—	247	247	—	247	—
Acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	13,337
Redemption value adjustments	—	—	—	—	—	—	—	(4,464)	—	(4,464)	—	(4,464)	4,464
Purchase of noncontrolling interests	—	—	—	—	7,638	—	—	—	(7,638)	—	—	—	(51,485)
Net income (loss)	—	—	—	—	—	—	—	29,755	—	29,755	157	29,912	(5,617)
Other	—	—	—	—	1,664	—	—	—	—	1,664	—	1,664	—
Balance as of August 31, 2015	188,007	$ 103	475	$ 1	$ —	80,082	$(3,928,419)	$5,153,452	$ (80,579)	$ 1,144,558	$ 500	$1,145,058	$ 11,915
Share repurchases	—	—	—	—	—	503	(4,454)	—	—	(4,454)	—	(4,454)	—
Share reissuances	—	—	—	—	(20,755)	(1,728)	64,532	(42,603)	—	1,174	—	1,174	—
Net tax effect for stock incentive plans	—	—	—	—	(12,107)	—	—	—	—	(12,107)	—	(12,107)	—
Share-based compensation	—	—	—	—	32,862	—	—	—	—	32,862	—	32,862	—
Currency translation adjustment	—	—	—	—	—	—	—	—	(5,525)	(5,525)	(397)	(5,922)	(1,049)
Available-for-sale securities adjustment, net of tax	—	—	—	—	—	—	—	—	147	147	—	147	—
Redemption value adjustments	—	—	—	—	—	—	—	(1,767)	—	(1,767)	—	(1,767)	1,767
Net (loss) income	—	—	—	—	—	—	—	(84,554)	—	(84,554)	297	(84,257)	(6,773)
Balance as of August 31, 2016	188,007	$ 103	475	$ 1	$ —	78,857	$(3,868,341)	$5,024,528	$ (85,957)	$ 1,070,334	$ 400	$1,070,734	$ 5,860

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	Year Ended August 31, 2016	2015	2014
Operating activities:			
Net (loss) income	$ (91,030)	$ 24,295	$ 204,798
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Share-based compensation	32,862	38,669	42,819
Excess tax benefits from share-based compensation	—	(236)	(1,285)
Depreciation and amortization	109,938	132,012	150,575
Accelerated depreciation included in restructuring	15,792	12,818	7,580
Impairment charges and losses on asset dispositions	77,578	39,776	556
Non-cash foreign currency (gain) loss, net	(175)	2,389	957
Provision for uncollectible accounts receivable	55,882	59,205	53,819
Deferred income taxes	1,095	2,752	(13,912)
Changes in assets and liabilities, excluding the impact of acquisitions and disposition:			
Restricted cash and cash equivalents	57,481	25,150	37,233
Accounts receivable	(85,672)	(74,475)	(61,435)
Prepaid taxes	18,398	(4,352)	(2,890)
Other assets	13,314	12,866	6,072
Accounts payable	(5,482)	1,994	(11,950)
Student deposits	(65,804)	(32,298)	(30,738)
Current deferred revenue	(25,681)	6,985	657
Accrued and other liabilities	(63,412)	(78,968)	(6,949)
Net cash provided by operating activities	45,084	168,582	375,907
Investing activities:			
Purchases of property and equipment	(73,074)	(97,961)	(100,666)
Purchases of marketable securities	(250,509)	(232,700)	(319,079)
Maturities of marketable securities	246,212	141,974	178,442
Sales of marketable securities	73,102	70,719	9,834
Acquisitions, net of cash acquired	(97,277)	(31,705)	(119,454)
Other investing activities	(3,440)	(4,628)	606
Net cash used in investing activities	(104,986)	(154,301)	(350,317)
Financing activities:			
Payments on borrowings	(66,224)	(614,735)	(627,822)
Proceeds from borrowings	86,961	5,800	591,131
Share repurchases	(4,454)	(44,723)	(172,709)
Share reissuances	1,174	1,538	1,793
Purchase of noncontrolling interests	—	(51,485)	(893)
Excess tax benefits from share-based compensation	—	236	1,285
Payment for contingent consideration	—	(21,371)	—
Other financing activities	—	—	(4,143)
Net cash provided by (used in) financing activities	17,457	(724,740)	(211,358)
Effect of foreign exchange rates on cash and cash equivalents	2,764	(4,429)	96
Net decrease in cash and cash equivalents	(39,681)	(714,888)	(185,672)
Cash and cash equivalents, beginning of year	503,705	1,228,813	1,414,485
Cash and cash equivalents and cash of business held for sale, end of year	464,024	513,925	1,228,813
Less cash of business held for sale	—	(10,220)	—
Cash and cash equivalents, end of year	$ 464,024	$ 503,705	$ 1,228,813
Supplemental disclosure of cash flow and non-cash information[(1)]:			
Cash paid for income taxes, net of refunds	$ 83	$ 47,836	$ 161,163
Cash paid for interest	6,755	6,674	7,657
Restricted stock units vested and released	13,885	19,570	37,430
Credits received for tenant improvements	3,312	—	1,131

[(1)] Refer to Note 4, Acquisitions, for liabilities assumed in acquisitions.

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Significant Accounting Policies

Description of Business

Apollo Education Group, Inc. is a private education provider serving students since 1973. We offer undergraduate, graduate, certificate and nondegree educational programs and services, online and on-campus, principally to working adults in the U.S. and abroad. Refer to Note 18, Segment Reporting, for further information regarding our institutions and operating segments. Our fiscal year is from September 1 to August 31.

Pending Merger

On February 7, 2016, we entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with AP VIII Queso Holdings, L.P. ("Queso"), an affiliate of Apollo Management VIII, L.P., which is a fund managed by an affiliate of Apollo Global Management, LLC, none of which is, or has ever been, affiliated with us. At the effective time of the merger, which, subject to the satisfaction of the closing conditions, is anticipated to be on or before February 1, 2017, the date on which the contract becomes terminable by either party, each share of our issued and outstanding Class A and Class B common stock will be converted pursuant to the terms of the Merger Agreement into the right to receive $10.00 per share in cash. On May 6, 2016, the Merger Agreement was approved by the holders of our outstanding Class A and Class B common stock, each voting separately as a class.

Consummation of the merger is subject to customary and other conditions, including:

(i) the absence of certain conditions or restrictions in the response of the U.S. Department of Education to the pre-acquisition review application filed by University of Phoenix; and

(ii) the receipt of consents or approvals from other federal, state and foreign educational governing bodies, including the Higher Learning Commission ("HLC").

HLC has informed us that it does not intend to review our change of control application until after the Department of Education responds to our pending pre-acquisition review filing and Queso submits to the Department any required additional information. The Department's review is pending and we cannot predict how the Department will respond to our filing.

In addition, consummation of the merger is subject to our satisfying certain minimum operating metrics, measured as of the first or second month end preceding the closing date, depending on the day of the month on which closing occurs, as follows:

(i) Our aggregate cash, cash equivalents and marketable securities must not be less than the specified amount for the applicable month end;

(ii) University of Phoenix fiscal year-to-date new degreed enrollments as of the applicable month end must not have declined by more than certain levels (which are derived from the projections we prepared in December 2015 in connection with the merger, which we refer to as the December 2015 forecast);

(iii) University of Phoenix trailing twelve month net revenue as of the applicable month end shall not have declined by more than certain levels (which are derived from the December 2015 forecast); and

(iv) Our consolidated trailing twelve month adjusted earnings before interest, taxes, depreciation and amortization as of the applicable month end shall not have declined by more than certain levels (which are derived from the December 2015 forecast).

The Merger Agreement may be terminated by each of us and Queso under certain circumstances, including if the merger is not consummated by 5:00 pm Eastern time on February 1, 2017. Upon termination of the Merger Agreement under certain specified circumstances, but not including a termination solely due to our failure to satisfy the minimum operating metrics described above, we will be required to pay Queso a termination fee of approximately $27.5 million, and under other specified circumstances, Queso will be required to pay us a reverse termination fee of $25.0 million.

Basis of Presentation

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of these consolidated financial statements in accordance with GAAP requires management to make certain estimates, assumptions and judgments that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although we believe our estimates, assumptions and judgments are reasonable, actual results may differ from our estimates under different assumptions, judgments or conditions.

Principles of Consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of Apollo Education Group, Inc., our wholly-owned subsidiaries, and other subsidiaries that we control. We eliminate intercompany transactions and balances in consolidation.

We record noncontrolling interests in our consolidated financial statements to recognize the noncontrolling ownership interest in our consolidated subsidiaries. We allocate a portion of the net (loss) income of such subsidiaries to our noncontrolling interests generally based on the respective noncontrolling shareholder's ownership interest in the consolidated subsidiary. Depending on the nature of the noncontrolling interest and the associated rights of the noncontrolling shareholders, we present noncontrolling interests either as a component of equity or separately as redeemable noncontrolling interests on our Consolidated Balance Sheets.

For redeemable noncontrolling interests that are either redeemable or probable of becoming redeemable, we record the noncontrolling interests at the greater of the carrying value or the redemption value at the end of each reporting period. We determine the redemption value by assuming the end of each reporting period is the redemption date. Redemption value adjustments are recorded through retained earnings. Refer to Note 13, Shareholders' Equity and Redeemable Noncontrolling Interests.

Revenue Recognition

Substantially all of our net revenue is composed of tuition and fees from educational programs that range in length from one-day seminars to degree and nondegree programs lasting multiple years. University of Phoenix generated the substantial majority of our consolidated net revenue, and substantially all of the University's net revenue is generated from degree programs. University of Phoenix students fund their education through loans and/or grants from U.S. federal financial aid programs established by Title IV of the Higher Education Act and regulations promulgated thereunder ("Title IV"), military benefit programs, tuition assistance from their employers, or personal funds.

Our net revenue generally varies from period to period based on several factors, including the aggregate number of students attending educational programs, the number of programs or classes held during the period, and the tuition price per program. We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, our fee or price to the customer is fixed or determinable, and collectibility is reasonably assured. The following summarizes the components of our net revenue, which are generally consistent on a percentage basis for all periods presented:

- *Tuition and educational services* represents approximately 91% of our gross consolidated revenue, and encompasses all educational delivery modes (i.e., online, on-ground, etc.). We recognize tuition and educational services revenue over the period of instruction as services are delivered to students, which may vary depending on the program structure. Tuition benefits for our employees and their eligible dependents are included in tuition and educational services revenue and instructional and student advisory expenses, and were $17.4 million, $24.2 million and $32.3 million during fiscal years 2016, 2015 and 2014, respectively.

  Under University of Phoenix's non-term academic delivery model, students generally enroll in a program of study encompassing a series of five- to nine-week courses taken consecutively over the length of the program. Students are billed separately for each course when the student first attends a course, resulting in the recording of a receivable from the student and deferred revenue in the amount of the billing. The University generally recognizes revenue evenly over the period of instruction (e.g., five weeks for a five-week course) as services are delivered to the student. For students who participate in the University's risk-free, three-week program during their first credit-bearing course, the University does not recognize revenue for the risk-free period until students decide to continue beyond the risk-free period, which is when the tuition and fees become fixed and determinable.

  University of Phoenix's refund policy permits students who attend 60% or less of a course to be eligible for a refund for the portion of the course they did not attend. Accordingly, the University ceases revenue recognition for the remainder of a course if a student withdraws prior to the tuition refund period elapsing, and refunds result in a reduction of deferred revenue in the period that a student withdraws. This refund policy applies to students in most, but not all states, as some states require different policies. Additionally, the University reassesses collectibility throughout the period revenue is recognized when there are changes in facts or circumstances that indicate collectibility is no longer reasonably assured, including when the University determines that a student has withdrawn.

  Tuition revenue for our Apollo Global operations is generally recognized over the length of the course and/or program. However, we recognize revenue associated with certain online programs, including Open Colleges' offerings and certain programs at Career Partner, over the contractual period, or the period of time it takes students to complete their program, if shorter. As a result, revenue recognition for such programs generally extends beyond one year.

- *Educational materials* represents approximately 8% of our gross consolidated revenue, and encompasses online course materials delivered to students over the period of instruction, and various textbooks and other learning materials. We recognize revenue associated with online materials over the period of the related course to correspond with delivery of the materials to students. We recognize revenue for other educational materials when they have been delivered to and accepted by students or other customers.
- *Other* represents approximately 1% of our gross consolidated revenue, and includes non-tuition revenues such as fees students pay when submitting an enrollment application.
- *Discounts* represent institutional scholarships, grants and promotions. This includes reductions in charges for tuition or other fees from our standard rates typically provided to military, corporate and other employer students. Discounts are generally recognized over the period of instruction in the same manner as the related revenue to which the discount relates.

  University of Phoenix offers scholarship programs designed to improve the value proposition for students by providing the opportunity to earn increased tuition discounts as they progress in their programs. We estimate the amount of these future discounts based on our historical experience with student persistence and recognize the associated amount either over the period the discount is earned by the student or when the student is no longer eligible, as applicable. We routinely evaluate our estimation methodology for these programs and modify them as necessary.

Sales and other indirect taxes collected from students and remitted to governmental authorities are excluded from net revenue. Collected but unremitted sales and other indirect taxes are included as a liability on our Consolidated Balance Sheets and are not material to our consolidated financial statements.

Allowance for Doubtful Accounts

We reduce our accounts receivable by an allowance for amounts that we expect to be uncollectible. We use estimates that are subjective and require judgment in determining the allowance for doubtful accounts, and estimates may vary depending on the institution or educational program that generated the accounts receivable. In general, our estimates are based on historical collection experience and write-offs, the aging of our receivables, and current trends. Our accounts receivable are written off once the account is deemed to be uncollectible, which typically occurs after outside collection agencies have pursued collection for approximately six months.

For our Title IV eligible institutions, program participation rules determine if we are required to return a portion of the funds to the U.S. Department of Education when a student with Title IV program funds withdraws. We are then entitled to collect these funds from the students, but collection rates for these types of receivables are significantly lower than our collection rates for receivables from students who remain in our educational programs.

We estimate our allowance for doubtful accounts for University of Phoenix's receivables by considering a number of factors that we believe impact whether receivables will become uncollectible based on our collections experience. These factors include, but are not limited to, the student's academic performance and previous college experience, as well as other student characteristics such as credit hours earned and method of payment. We also monitor and consider external factors such as changes in the economic and regulatory environment.

As of August 31, 2016, accounts receivable at our Apollo Global institutions represented approximately 50% of our consolidated gross accounts receivable. Our Apollo Global institutions estimate their respective allowance for doubtful accounts primarily based on historical collection experience and the aging of their receivables.

We routinely evaluate our estimation methodologies for all our institutions and educational programs for adequacy and modify them as necessary. In doing so, we believe our allowance for doubtful accounts reflects the amount of receivables that will become uncollectible by considering our most recent collections experience, changes in trends and other relevant facts. Refer to Note 6, Accounts Receivable, Net.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities to us of three months or less from the date we purchase the investment to be cash equivalents. Cash and cash equivalents generally include money market funds, bank overnight deposits and time deposits, which are all placed with high-credit-quality financial institutions in the U.S. and internationally. Only a negligible portion of these deposits are insured by the Federal Deposit Insurance Corporation. We have not experienced any losses on our cash and cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents primarily represents funds held for students for unbilled educational services that were received from Title IV program funds. As a trustee of these Title IV program funds, we are required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the U.S. Department of Education. Restricted cash and cash equivalents are excluded from cash and cash equivalents on our Consolidated Balance Sheets and Consolidated Statements of Cash Flows. Changes in restricted cash and cash equivalents that represent funds held for students as described above are included in cash flows from operating activities on our Consolidated Statements of Cash Flows because these restricted funds are a core activity of our operations. Our restricted cash and cash equivalents are primarily held in money market funds and bank overnight deposits.

Marketable Securities

We invest our excess cash in instruments that may include corporate bonds, tax-exempt municipal bonds, time deposits, commercial paper and other marketable securities. We present such instruments with original maturities to us greater than three months as marketable securities on our Consolidated Balance Sheets, and we classify our marketable securities as either current or noncurrent based on each instrument's remaining contractual maturity. Securities with maturities of twelve months or less are classified as current, and securities with maturities greater than twelve months are classified as noncurrent.

We determine the designation of our marketable securities at the time of purchase and reevaluate such designation at the end of each period. We designate and account for our marketable securities as available-for-sale. Available-for-sale securities are reported at fair value with changes in fair value reflected in shareholders' equity as a component of accumulated other comprehensive loss. We determine any realized gains or losses on the sale of marketable securities using the specific identification method, and they are included in Other loss, net on our Consolidated Statements of Operations. Refer to Note 5, Financial Instruments.

Property and Equipment, Net

Property and equipment is recorded at cost less accumulated depreciation. Property and equipment under capital leases, and the related obligation, is recorded at an amount equal to the present value of future minimum lease payments. Buildings, furniture, equipment, and software, including internally developed software, are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Capital leases, leasehold improvements and tenant improvement allowances are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the related assets. Construction in progress, excluding software, is recorded at cost until the corresponding asset is placed into service and depreciation begins. Software is recorded at cost and is amortized once the related asset is ready for its intended use. The costs of repairs and maintenance are expensed as incurred.

We capitalize certain costs to internally develop software consisting primarily of the direct labor associated with creating the software. Capitalized costs are amortized using the straight-line method over the estimated lives of the software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (certain costs capitalized, certain costs expensed as incurred), and the post-implementation/operation stage (all costs expensed as incurred). The costs we capitalize in the application development stage primarily include the costs of designing the application, coding, installation of hardware, and testing. Refer to Note 7, Property and Equipment, Net.

Business Combinations

We include the results of operations of businesses we acquire from the date of the respective acquisition. We allocate the purchase price of acquisitions to the assets acquired and liabilities assumed at fair value. The excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed is recorded as goodwill. We expense transaction costs associated with business combinations as incurred.

Goodwill and Intangibles

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. We allocate assets acquired, including goodwill, and liabilities assumed in business combinations to our respective reporting units. We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components.

Our intangibles principally consist of trademarks, regulatory accreditations and designations, and course curriculum. We assign indefinite lives to intangibles that we believe have the continued ability to generate cash flows indefinitely; have no legal, regulatory, contractual, economic or other factors limiting the useful life of the respective intangible; and we intend to renew the respective intangible, as applicable, and renewal can be accomplished at little cost.

Finite-lived intangibles are amortized on either a straight-line basis or using an accelerated method to reflect the pattern in which the economic benefits of the asset are expected to be consumed. The weighted average original useful life of our $40.5 million of finite-lived intangibles as of August 31, 2016 was 6.7 years.

We assess goodwill and indefinite-lived intangibles for impairment annually, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit or indefinite-lived intangible below its carrying amount. We perform our annual indefinite-lived intangibles impairment tests on the same dates that we perform our annual goodwill impairment tests for the respective reporting units. In performing our impairment tests, we first consider the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit or intangible, as applicable, is less than its carrying amount. If we conclude that it is more likely than not that the fair value is less than the carrying amount based on our qualitative assessment, or that a qualitative assessment should not be performed, we proceed with the following quantitative impairment tests:

- *Goodwill* - We compare the estimated fair value of the reporting unit to the carrying value of its net assets. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired. If the carrying value of the net assets of the reporting unit exceeds the fair value of the reporting unit, we perform a hypothetical purchase price allocation to determine the implied fair value of the goodwill and compare it to the carrying value of the goodwill. An impairment loss is recognized to the extent the implied fair value of the goodwill is less than the carrying amount of the goodwill.
- *Indefinite-lived intangibles* - We compare the estimated fair value of the intangible with its carrying value. If the carrying value of the intangible exceeds its fair value, an impairment loss is recognized in the amount of that excess.

The process of evaluating goodwill and indefinite-lived intangibles for impairment is subjective and requires significant judgment at many points during the analysis. If we elect to perform an optional qualitative analysis, we consider many factors including, but not limited to, general economic conditions, industry and market conditions, financial performance and key business drivers, long-term operating plans, and potential changes to significant assumptions used in the most recent fair value analysis for either the reporting unit or respective intangible.

When performing a quantitative goodwill or indefinite-lived intangibles impairment test, we generally determine fair value using an income-based approach, a market-based approach or a combination of both methods. The fair value determination consists primarily of using significant unobservable inputs (Level 3) under the fair value measurement standards.

During fiscal year 2016, we tested our goodwill and indefinite-lived intangibles for impairment and recorded $73.4 million of goodwill impairment charges that are included in Restructuring and impairment charges on our Consolidated Statements of Operations. Refer to Note 8, Goodwill and Intangibles.

Other Long-Lived Asset Impairments

We evaluate the carrying amount of our other long-lived assets, including property and equipment and finite-lived intangibles, whenever changes in circumstances or events indicate that the carrying value of such assets may not be recoverable. If such circumstances or events occur, we assess recoverability by comparing the estimated undiscounted future cash flows expected to be generated by the assets with their carrying value. If the carrying value of the assets exceeds the estimated undiscounted future cash flows expected to be generated by the assets, an impairment loss is recognized for the difference between the estimated fair value of the assets and their carrying value.

During fiscal year 2016, we recorded $2.5 million of long-lived asset impairment charges that are included in *Restructuring and impairment charges* on our Consolidated Statements of Operations. Refer to Note 2, Restructuring and Impairment Charges.

As of August 31, 2016, we believe the carrying amounts of our remaining other long-lived assets are recoverable and no impairment exists. However, we are continuing to reduce costs to align with our declining enrollment and revenue, and changes to our business or other circumstances could lead to potential impairments in the future.

Leases

We enter into various lease agreements in conducting our business. We evaluate the lease agreement at the inception of the lease to determine whether it is an operating or capital lease. Additionally, our lease agreements may contain renewal options, tenant improvement allowances, rent holidays, and/or rent escalation clauses. When such items are included in a lease agreement, we record a deferred rent asset or liability on our Consolidated Balance Sheets and record the rent expense evenly over the term of the lease. Leasehold improvements are reflected under investing activities as purchases of property and equipment on our Consolidated Statements of Cash Flows. Credits received against rent for tenant improvement allowances are reflected as a component of non-cash investing activities on our Consolidated Statements of Cash Flows. For leases with renewal options, we generally record rent expense on a straight-line basis over the initial non-cancelable lease term (in instances where renewal is not reasonably assured). Refer to Note 16, Commitments and Contingencies.

We are also required to make additional payments under lease terms for taxes, insurance, and other operating expenses incurred during the lease period, which are expensed as incurred. Rental deposits are provided for lease agreements that specify payments in advance or deposits held in security that are refundable, less any damages at lease end.

Restructuring and Impairment Charges

Restructuring and impairment charges principally consist of expense associated with non-cancelable lease obligations, severance and other employee separation costs, other related costs and certain goodwill and other long-lived asset impairments. We recognize restructuring obligations and liabilities for exit and disposal activities at fair value in the period the liability is incurred. Measuring fair value and recognizing the associated liabilities is subjective and requires significant judgment. For our non-cancelable lease obligations, we record the obligation when we terminate the contract in accordance with the contract terms or when we cease using the right conveyed by the contract. Our employee severance costs are expensed on the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed over the future service period.

We generally estimate the fair value of restructuring obligations using significant unobservable inputs (Level 3) based on the best available information. For non-cancelable lease obligations, the fair value estimate is based on the contractual lease costs over the remaining terms of the leases, partially offset by estimated future sublease rental income. Our estimate of the amount and timing of sublease rental income considers subleases we have executed or expect to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of sublease agreements.

Changes to restructuring obligations in periods subsequent to the initial fair value measurement are not measured at fair value. We record a cumulative adjustment resulting from changes in the estimated timing or amount of cash flows associated with restructuring obligations in the period of change using the same discount rate that was initially used to measure the obligation's fair value. Changes in restructuring obligations resulting from the passage of time are recorded as accretion expense. Adjustments to restructuring obligations, including accretion expense, are included in *Restructuring and impairment charges* on our Consolidated Statements of Operations. Refer to Note 2, Restructuring and Impairment Charges.

Loss Contingencies

We are subject to various claims and contingencies that arise from time to time in the ordinary course of business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. When we become aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount of the loss or range of loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs incurred to date and future legal costs to the point in the legal matter where we believe a conclusion to the matter will be reached. The liability excludes any anticipated loss recoveries from third parties such as insurers, which we record as a receivable if we determine recovery is probable. If the loss is not probable or the amount of the loss or range of loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss could be material. For matters where no loss contingency is recorded, we expense legal fees as incurred. The assessment of the likelihood of a potential loss and the estimation of the amount of a loss or range of loss are subjective and require judgment. Refer to Note 16, Commitments and Contingencies.

Share-Based Compensation

Our outstanding share-based awards principally consist of restricted stock units, performance share awards and stock options, and restricted stock units represent the majority of our share-based compensation expense in recent years. We measure and recognize compensation expense for all share-based awards based on their estimated fair values on the grant date. We record compensation expense, net of estimated forfeitures, for all share-based awards over the requisite service period using the straight-line method for awards with only a service condition, and the graded vesting attribution method for awards with service and performance conditions.

For share-based awards with performance conditions, we measure the fair value of such awards as of the grant date and record expense for our estimate of the number of shares expected to vest. Our estimate of the number of shares that will vest is based on our determination of the probable outcome of the performance condition, which may require considerable judgment. We record a cumulative adjustment to share-based compensation expense in periods that we change our estimate of the number of shares expected to vest. Additionally, we ultimately adjust the expense recognized to reflect the actual vested shares following the resolution of the performance conditions.

We estimate expected forfeitures of share-based awards at the grant date and recognize expense only for those awards expected to vest. We estimate our forfeiture rate based on several factors including historical forfeiture activity, expected future employee turnover, and other qualitative factors. We ultimately adjust this forfeiture assumption to actual forfeitures. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the requisite service period. Rather, different forfeiture assumptions only impact the timing of expense recognition over the requisite service period.

We typically use the Black-Scholes-Merton option pricing model to estimate the fair value of stock options on the grant date. The Black-Scholes-Merton option pricing model requires us to estimate key assumptions based on both historical information and management judgment regarding market factors and trends. The following represents our key weighted average assumptions for stock options granted in the respective fiscal years:

	Year Ended August 31,		
	2016	2015	2014
Expected stock price volatility[1]	46.9%	46.9%	44.3%
Expected term (in years)[2]	4.5	4.5	4.5
Risk-free interest rate[3]	1.2%	1.5%	1.4%
Expected dividend yield[4]	0.0%	0.0%	0.0%
Estimated fair value per option granted	$ 4.12	$ 4.99	$ 10.24

(1) We estimate expected stock price volatility based on a weighted average of our historical volatility and the implied volatility of long-lived call options.

(2) We estimate the expected term of our stock options based primarily on the vesting period of the awards and historical exercise behavior.

(3) We determine the risk-free interest rate using the U.S. constant maturity treasury rates interpolated between the years equal to the expected term assumption.

(4) Our expected dividend yield assumption considers that we have not historically paid dividends, we do not expect to pay dividends in the foreseeable future and we are prohibited from paying dividends under the agreements associated with our pending merger, as described further in *Pending Merger* above.

Refer to Note 15, Stock and Savings Plans.

Income Taxes

We are subject to the income tax laws of the U.S. and the foreign jurisdictions in which we have significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. As a result, significant judgments and interpretations are required in determining our provision for income taxes and evaluating our uncertain tax positions.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted. We record a valuation allowance to reduce deferred tax assets to the amount that we believe is more likely than not to be realized.

We have not provided deferred taxes on unremitted earnings attributable to international subsidiaries that have been considered permanently reinvested. As of August 31, 2016, the unremitted earnings from these operations were not significant.

We evaluate and account for uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Derecognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more likely than not threshold of being sustained. We classify interest and penalties accrued in connection with unrecognized tax benefits as income tax expense on our Consolidated Statements of Operations. Our total unrecognized tax benefits, excluding interest and penalties, were $10.4 million and $14.8 million as of August 31, 2016 and 2015, respectively. Refer to Note 12, Income Taxes.

Marketing Costs

We expense marketing costs, the substantial majority of which represents advertising, as incurred.

Earnings Per Share

Our outstanding shares consist of Apollo Class A and Class B common stock issued, net of shares held in treasury. Our Articles of Incorporation treat the declaration of dividends on the Class A and Class B common stock in an identical manner. As such, both the Class A and Class B common stock are included in the calculation of our earnings per share. Basic income per share is calculated using the weighted average number of Class A and Class B common shares outstanding during the period.

Diluted income per share is calculated similarly except that it includes the dilutive effect of share-based awards under our stock compensation plans by applying the treasury stock method. Our share-based awards with performance conditions are contingently issuable and are included in the calculation of diluted income per share based on our evaluation of the performance criteria as of the end of the respective period. The amount of any tax benefit to be credited to additional paid-in capital related to our share-based awards, and unrecognized share-based compensation expense is included when applying the treasury stock method in the computation of diluted income per share. Refer to Note 14, Earnings Per Share.

Foreign Currency Translation

We use the U.S. dollar as our reporting currency. The functional currency of our entities operating outside the U.S. is the currency of the primary economic environment in which the entity primarily generates and expends cash, which is generally the local currency. The assets and liabilities of these operations are translated to U.S. dollars using exchange rates in effect at the balance sheet dates. Income and expense items are translated monthly at the average exchange rate for that period. The resulting translation adjustments and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are included in shareholders' equity as a component of *Accumulated other comprehensive loss*, *Noncontrolling interests* or *Redeemable noncontrolling interests*, as applicable. We report gains and losses from foreign exchange rate changes related to intercompany receivables and payables that are not of a long-term investment nature, as well as gains and losses from foreign currency transactions in *Other loss, net* on our Consolidated Statements of Operations. These items represented a net gain of $0.2 million in fiscal year 2016, and net losses of $2.4 million and $1.0 million in fiscal years 2015 and 2014, respectively.

Fair Value

The carrying amount of financial assets and financial liabilities reported on our Consolidated Balance Sheets, including accounts receivable and accounts payable, approximate fair value because of the short-term nature of these financial instruments.

For fair value measurements of assets and liabilities that are recognized or disclosed at fair value, we consider fair value to be an exit price, which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. We use valuation techniques to determine fair value consistent with the market approach, income approach and/or cost approach, and we prioritize the inputs used in our valuation techniques using the following three-tier fair value hierarchy:

- Level 1 - Observable inputs that reflect unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - Observable inputs other than quoted prices in active markets for identical assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity.

We categorize each of our fair value measurements for disclosure purposes in one of the above three levels based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value, our valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. We use prices and inputs that are current as of the measurement date, including during periods of market volatility. Therefore, classification of inputs within the hierarchy may change from period to period depending upon the observability of those prices and inputs. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the fair value of certain assets and liabilities and their placement within the fair value hierarchy. Refer to Note 9, Fair Value Measurements.

Discontinued Operations

If we determine that a component classified as held for sale or otherwise sold or disposed represents a strategic shift that has or will have a major effect on our operations or financial results, the results of operations of the component are presented separately on our Consolidated Statements of Operations as discontinued operations, net of tax, in the current and prior periods. The operating results of our discontinued operations only include revenues and costs directly attributable to discontinued operations, and accordingly, we do not allocate interest expense or general corporate overhead to discontinued operations. The assessment of whether the disposal transaction represents a strategic shift that has or will have a major effect on our operations or financial results is subjective and requires judgment.

As further discussed below in *New Accounting Standards - Accounting Standards Recently Adopted*, we adopted a new standard for accounting for discontinued operations during fiscal year 2016. Applicable components that were determined to be held for sale or disposed in periods prior to fiscal year 2016 were evaluated for presentation as discontinued operations under the applicable accounting principles in effect prior to the adoption of the new standard. Refer to Note 3, Discontinued Operations.

Reclassifications

We reclassified the following during fiscal year 2016 for prior periods to conform to our current presentation:

- We began presenting all deferred tax assets and liabilities as noncurrent on our Consolidated Balance Sheets as discussed further in *New Accounting Standards - Accounting Standards Recently Adopted* below.
- We began separately presenting maturities and sales of our marketable securities, which have all been designated as available-for-sale, on our Consolidated Statements of Cash Flows. We also began separately presenting *Accelerated depreciation included in restructuring* and *Impairment charges and losses on asset dispositions* on our Consolidated Statements of Cash Flows. These reclassifications did not impact total cash flows from operating, investing or financing activities.

New Accounting Standards

Accounting Standards Recently Adopted

Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued a new standard that requires deferred tax assets and liabilities to be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. We early adopted the new standard during fiscal year 2016 on a retrospective basis. Accordingly, we reclassified the current deferred taxes to noncurrent on our August 31, 2015 Consolidated Balance Sheet, which increased noncurrent deferred tax assets $64.7 million and decreased noncurrent deferred tax liabilities $3.7 million.

Business Combinations - Measurement-Period Adjustments

In September 2015, the FASB issued a new standard that requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined, rather than retrospectively adjusting previously reported amounts. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. We early adopted the new standard during fiscal year 2016, which had no impact on our consolidated financial statements, and we will apply the new standard to future adjustments to provisional amounts.

Discontinued Operations

In April 2014, the FASB issued a new standard that raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. We adopted the new standard during fiscal year 2016, which had no impact on our consolidated financial statements, and we will apply the new standard to applicable components that are determined to be held for sale or disposed in future periods.

Future Accounting Standards

Statement of Cash Flows

In August 2016, the FASB issued a new standard that clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. Accordingly, the new standard is effective for us on September 1, 2018 using a retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

Further, in October 2016, the FASB approved a new standard that is expected to be issued in November 2016 that requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement cash flows. The new standard is expected to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. Accordingly, the new standard would be effective for us on September 1, 2018 using a retrospective approach. Based on the substantial restricted cash balances on our consolidated balance sheets, we expect this standard to have a significant impact on the presentation of our consolidated statements of cash flows.

Financial Instruments - Credit Losses

In June 2016, the FASB issued a new standard that changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. Accordingly, the standard is effective for us on September 1, 2020 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

Share-Based Payment Accounting

In March 2016, the FASB issued a new standard that is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. The new standard is effective for us on September 1, 2017 and we do not plan to early adopt the new standard. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued a new standard that requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Accordingly, the standard is effective for us on September 1, 2019 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

Financial Instruments - Recognition, Measurement, Presentation, and Disclosure

In January 2016, the FASB issued a new standard that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is not permitted. Accordingly, the standard is effective for us on September 1, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has also issued several amendments which clarify certain provisions in the standard. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. Accordingly, the new revenue recognition standard is effective for us on September 1, 2018 using either a full retrospective or a modified retrospective approach. We are currently evaluating which transition approach to use and the impact that the new revenue recognition standard will have on our consolidated financial statements.

Note 2. Restructuring and Impairment Charges

Restructuring and impairment charges include the following for the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Restructuring charges	$ 83,152	$ 71,921	$ 85,343
Goodwill impairments[1]	73,393	—	—
Property and equipment impairments[2]	2,512	9,879	—
Restructuring and impairment charges	$ 159,057	$ 81,800	$ 85,343

[1] Refer to Note 8, Goodwill and Intangibles, for discussion of the goodwill impairment charges recorded during fiscal year 2016.

[2] During fiscal years 2016 and 2015, we recorded property and equipment impairment charges associated with University of Phoenix's remaining ground locations and from our abandonment of certain software.

Restructuring Charges

We have implemented various restructuring activities during prior fiscal years and remain focused on reengineering our business processes and educational delivery systems to improve efficiency and reduce costs to align with our declining enrollment and revenue. The activities initiated in prior years and those initiated in fiscal year 2016 are described below. Additionally, we intend to further reduce costs in future periods to align with our declining enrollment and revenue, and expect to incur material charges associated with other future restructuring activities.

The following summarizes the restructuring charges in our segment reporting format for the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
University of Phoenix	$ 53,174	$ 40,446	$ 61,899
Apollo Global	660	585	6,091
Other	29,318	30,890	17,353
Restructuring charges	$ 83,152	$ 71,921	$ 85,343

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The following details the changes in our restructuring liabilities during fiscal years 2016, 2015 and 2014:

	Lease and Related Costs, Net		Severance and Other Employee Separation Costs		Other Restructuring Related Costs		
($ in thousands)	2016 Restructuring	Prior Year Restructuring[(1)]	2016 Restructuring	Prior Year Restructuring[(1)]	2016 Restructuring	Prior Year Restructuring[(1)]	Total
August 31, 2013	$ —	$ 104,048	$ —	$ 7,623	$ —	$ 8,130	$ 119,801
Expense	—	47,279	—	33,215	—	4,849	85,343
Other[(2)]	—	(3,251)	—	(4,281)	—	—	(7,532)
Payments	—	(51,872)	—	(30,870)	—	(11,787)	(94,529)
August 31, 2014	—	96,204	—	5,687	—	1,192	103,083
Expense	—	36,040	—	29,983	—	5,898	71,921
Other[(2)]	—	(10,177)	—	(2,046)	—	(984)	(13,207)
Payments	—	(47,077)	—	(25,414)	—	(6,016)	(78,507)
August 31, 2015	—	74,990	—	8,210	—	90	83,290
Expense	—	41,237	30,348	2,475	1,774	7,318	83,152
Other[(2)]	—	(6,338)	(577)	—	(155)	(5,431)	(12,501)
Payments	—	(45,230)	(26,997)	(9,625)	(1,584)	(1,901)	(85,337)
August 31, 2016[(3)]	$ —	$ 64,659	$ 2,774	$ 1,060	$ 35	$ 76	$ 68,604

(1) We have incurred $467 million of cumulative costs associated with restructuring activities initiated prior to fiscal year 2016, which includes lease exit, employee separation, and other related costs of $297 million, $116 million and $54 million, respectively. These cumulative costs have been reflected in our segment reporting as follows: $344 million in University of Phoenix, $17 million in Apollo Global, and $106 million in Other.

(2) Other primarily represents $15.8 million, $12.8 million and $7.6 million of accelerated depreciation in fiscal years 2016, 2015 and 2014, respectively. Other also includes share-based compensation and adjustments to certain lease related liabilities such as deferred rent.

(3) The gross, undiscounted obligation associated with our restructuring liabilities as of August 31, 2016 was approximately $130 million, which principally represents costs for non-cancelable leases that will be paid over the respective lease terms through fiscal year 2023.

Activities Initiated in Prior Years

Our restructuring activities initiated prior to fiscal year 2016 principally included closing approximately 150 University of Phoenix ground locations, rationalizing our leased administrative office facilities, and workforce reductions. During fiscal year 2016, we incurred $51.0 million of expense for these prior year activities. The majority of the expense represents initial charges for the estimated fair value of future contractual operating lease obligations which are recorded when we cease using the respective facility, and an increase in our estimated future cash payments associated with exiting additional space at other locations included in the rationalization plan. We measure lease obligations at fair value using a discounted cash flow approach encompassing significant unobservable inputs (Level 3). The significant unobservable inputs principally include estimated future cash flows and discount rates, which have ranged between 3%-7% for our lease obligations. The estimation of future cash flows includes non-cancelable contractual lease costs over the remaining terms of the leases, partially offset by estimated future sublease rental income, which involves significant judgment. Our estimate of the amount and timing of sublease rental income considers subleases that we have executed or expect to execute, current commercial real estate market data and conditions, comparable transaction data and qualitative factors specific to the facilities. The estimates are subject to adjustment as market conditions change or as new information becomes available, including the execution of additional sublease agreements. As of August 31, 2016, we have recorded adjustments to our initial lease obligation liabilities for interest accretion and adjustments for changes in estimated sublease income.

Lease and related costs, net also includes accelerated depreciation associated with revising the useful lives of the fixed assets at the facilities we are closing through their expected closure dates. Prior to revising the useful lives, we perform a recoverability analysis for the facilities' fixed assets by comparing the estimated undiscounted cash flows of the locations through their expected closure dates to the carrying amount of the locations' fixed assets. Based on such analyses, we have not recorded material impairment charges associated with the facilities we are closing.

As of August 31, 2016, we had approximately $48 million of remaining lease obligations associated with the locations that we expect to close as University of Phoenix obtains the necessary regulatory approvals and completes its teach-out obligations. We will incur lease obligation charges for these locations when we cease using the respective facilities. We will also continue to incur interest accretion, and may record additional adjustments in future periods for the estimated obligations associated with facilities we have already exited.

We have implemented workforce reductions and expense such costs on the date we notify the employee, unless the employee must provide future service, in which case the benefits are expensed over the future service period. Many of the employees at ground locations we are closing continue to provide services until we complete the respective teach-out obligations. For workforce reductions initiated prior to fiscal year 2016, we have incurred $2.5 million, $30.0 million, and $33.2 million of severance and other employee separation costs in fiscal years 2016, 2015 and 2014, respectively.

Activities Initiated in Fiscal Year 2016

We incurred $32.1 million of expense for new restructuring activities initiated during fiscal year 2016. Substantially all of the expense represents severance and other employee separation costs associated with the elimination of approximately 1,500 positions. The expense associated with these activities is reflected in our segment reporting as follows: $17.2 million in University of Phoenix, $2.3 million in Apollo Global and $12.6 million in Other.

Note 3. Discontinued Operations

During fiscal year 2015, we began presenting Carnegie Learning, Inc.'s ("Carnegie Learning") assets and liabilities as held for sale on our Consolidated Balance Sheets and its operating results as discontinued operations on our Consolidated Statements of Operations. We completed the sale of Carnegie Learning during the first quarter of fiscal year 2016 for a nominal amount, which resulted in a $2.8 million loss on sale.

As a result of the classification of Carnegie Learning as held for sale, we recorded a $13.6 million charge in fiscal year 2015 to reduce the Carnegie Learning disposal group's carrying value to its estimated fair value, less costs to sell. Our estimate of the fair value of the Carnegie Learning disposal group was nominal based on the indications of interest we had received from potential buyers prior to the sale.

The major components of Carnegie Learning's assets and liabilities presented separately as held for sale on our Consolidated Balance Sheets as of August 31, 2015 are as follows:

($ in thousands)	As of August 31, 2015
Cash	$ 10,220
Accounts receivable, net	10,327
Property and equipment, net	15,912
Intangible assets, net	14,100
Other	3,972
Allowance for reduction of assets of business held for sale	(13,634)
Assets of business held for sale	$ 40,897
Deferred revenue	$ 35,602
Other	5,295
Liabilities of business held for sale	$ 40,897

During fiscal year 2014, we sold the assets of our subsidiary Institute for Professional Development ("IPD") for $4 million. IPD had insignificant assets and liabilities as of the date of sale and as a result, we realized an immaterial gain on sale.

We sold Carnegie Learning and IPD because the businesses were no longer consistent with our long-term strategic objectives. We do not have significant continuing involvement with Carnegie Learning or IPD after the respective sales and, accordingly, the operating results of the sold businesses are presented as discontinued operations on our Consolidated Statements of Operations for all periods presented. Carnegie Learning's and IPD's operating results were previously included in Other in our segment reporting, and certain additional Carnegie Learning expenses associated with University of Phoenix's use of Carnegie Learning technology were included in our University of Phoenix reportable segment.

The following summarizes the operating results of our discontinued operations for the respective periods, which are presented in *Loss from discontinued operations, net of tax* on our Consolidated Statements of Operations:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Net revenue	$ 2,993	$ 25,063	$ 50,214
Costs and expenses:			
Loss (gain) on sale	2,773	—	(809)
Loss for allowance for reduction of assets of business held for sale	—	13,634	—
Intangibles impairment[1]	—	12,999	—
Other	4,519	34,459	78,456
Loss from discontinued operations before income taxes	(4,299)	(36,029)	(27,433)
(Provision for) benefit from income taxes	(5,392)	12,844	10,801
Loss from discontinued operations, net of tax	$ (9,691)	$ (23,185)	$ (16,632)

[1] Represents an impairment charge to write-off certain Carnegie Learning technology intangibles that were no longer being used. The associated technology had been incorporated into University of Phoenix's academic platform and as a result of the University ceasing use of the technology, no future cash flows associated with the technology were expected over its remaining useful life. Accordingly, we recorded a $13.0 million impairment charge representing the remaining carrying value.

The operating results of our discontinued operations only include revenues and costs directly attributable to the discontinued operations. Accordingly, no interest expense or general corporate overhead has been allocated to Carnegie Learning or IPD. Additionally, we ceased depreciation on Carnegie Learning's property and equipment when we determined it was held for sale. IPD did not meet the held for sale criteria until the period it was sold.

We determined cash flows from our discontinued operations are not material and are included with cash flows from continuing operations on our Consolidated Statements of Cash Flows.

Note 4. Acquisitions

Fiscal Year 2016 Acquisition

On December 10, 2015, we acquired all of the outstanding shares of Career Partner GmbH ("Career Partner"), a provider of education and training programs in Germany. This acquisition supports our strategy to diversify and expand our global operations. We made an initial cash payment of €96 million (equivalent to approximately $105 million on the acquisition date), and the acquisition includes a potential contingent consideration payment of up to €11 million (equivalent to $12.3 million as of August 31, 2016). The contingent payment is calculated principally based on Career Partner's operating results for calendar year 2016, and its estimated fair value on the acquisition date was $10.7 million, which we determined using a discounted cash flow valuation method encompassing significant unobservable inputs. The inputs include estimated operating results for the performance period and the discount rate applied. Subsequent to the acquisition date, we finalized the amount of working capital acquired at closing, which resulted in a $3.9 million reduction in the purchase price.

We incurred approximately $2.0 million of transaction costs in connection with this acquisition and these costs are included in *Merger, acquisition and other related costs, net* on our Consolidated Statements of Operations.

We accounted for the acquisition as a business combination and allocated the purchase price, which includes the initial cash payment, the fair value of the contingent consideration and the working capital adjustment, to the assets acquired and liabilities assumed at fair value as summarized below:

($ in thousands)	
Cash and cash equivalents	$ 4,580
Property and equipment	13,682
Intangibles:	
Trademarks (indefinite useful life)	30,469
Accreditations (indefinite useful life)	27,948
Student and customer relationships (5 year useful life)	9,097
Curriculum (5 year useful life)	3,726
Goodwill	92,434
Other assets	2,092
Deferred revenue	(28,380)
Capital lease obligations	(22,734)
Deferred tax liabilities	(9,883)
Other liabilities	(10,457)
Total assets acquired and liabilities assumed	112,574
Less: Fair value of contingent consideration	(10,717)
Less: Cash acquired	(4,580)
Cash paid for acquisition, net of cash acquired	$ 97,277

We determined the fair value of assets acquired and liabilities assumed based on assumptions that reasonable market participants would use while employing the concept of highest and best use of the respective items. We used the following assumptions, the majority of which include significant unobservable inputs, and valuation methodologies to determine fair value:

- *Intangibles* - We used income approaches to value the substantial majority of the acquired intangibles. The trademarks were valued using the relief-from-royalty method, which represents the benefit of owning these intangible assets rather than paying royalties for their use. The accreditations were valued using the with and with-out method, and the remaining intangibles were valued using the cost savings method or the excess earnings method.
- *Deferred revenue* - We estimated the fair value of deferred revenue using the cost build-up method, which represents the cost to deliver the services, plus a normal profit margin.
- *Capital leases* - Substantially all of the property and equipment in the above table represents capital lease assets. The fair value of the capital lease assets represents our right to use the respective assets over the remaining lease term, and the fair value of the corresponding obligations represents the future minimum lease payments discounted at a current borrowing rate at the time of acquisition.
- *Other assets and liabilities* - The carrying value of all other assets and liabilities approximated fair value at the time of acquisition.

We recorded $92.4 million of goodwill as a result of the Career Partner acquisition, which is not expected to be deductible for tax purposes. The goodwill is principally attributable to the future earnings potential associated with enrollment growth and other intangibles that do not qualify for separate recognition such as the assembled workforce. The goodwill is included in our Apollo Global reportable segment and we have selected a July 1 annual goodwill impairment test date.

We assigned an indefinite useful life to the acquired trademarks and accreditations intangibles as we believe they have the ability to generate cash flows indefinitely. In addition, there are no legal, regulatory, contractual, economic or other factors to limit the intangibles' useful life and we intend to renew the intangibles, as applicable, and renewal can be accomplished at little cost. We determined all other acquired intangibles are finite-lived and we are amortizing them on either a straight-line basis or using an accelerated method to reflect the pattern in which we expect the economic benefits of the assets to be consumed. The weighted average original useful life of the acquired finite-lived intangibles was 5 years. Refer to Note 8, Goodwill and Intangibles, for the estimated future amortization of our finite-lived intangibles.

Career Partner's operating results are included in our consolidated financial statements from the acquisition date. We have not provided pro forma information or the revenue and operating results of Career Partner because its results of operations are not material to our consolidated results of operations.

Prior Year Acquisitions

During fiscal years 2015 and 2014, we completed the following acquisitions:

- *The Iron Yard* - On June 11, 2015, we acquired a 62% interest in TIY Academy, LLC ("The Iron Yard"), a provider of nondegree information technology bootcamp programs in the United States, for $15.9 million.
- *FAEL* - On December 4, 2014, we acquired a 75% interest in Sociedade Técnica Educacional da Lapa S.A., a provider of postsecondary educational programs in Brazil under the name Faculdade da Educacional da Lapa ("FAEL"). We made an initial cash payment of R$73.8 million (equivalent to $28.9 million on the acquisition date), and the acquisition includes a potential contingent consideration payment in the future that is principally based on FAEL's calendar year 2018 net revenue. The contingent payment has a maximum of approximately R$34 million (equivalent to $10.4 million as of August 31, 2016), and its fair value on the acquisition date was insignificant based on our estimate of FAEL's future revenue in relation to the contingent payment threshold as defined in the acquisition agreement.
- *Milpark Education* - On May 20, 2014, we acquired an 81% consolidated interest in Milpark Education, a provider of education and training to adult learners in South Africa, for approximately ZAR 265 million (approximated $26 million on the acquisition date).
- *Open Colleges* - On December 20, 2013, we acquired 70% of the outstanding shares of Open Colleges, a provider of education and training to adult learners in Australia. We paid A$110.3 million (equivalent to $98.1 million on the acquisition date), plus contingent consideration, which we initially measured at $21.4 million based on information available as of the acquisition date. During fiscal year 2015, we settled the contingent consideration as discussed at Note 9, Fair Value Measurements, and purchased the remaining 30% noncontrolling ownership interests as discussed in Note 13, Shareholders' Equity and Redeemable Noncontrolling Interests. As a result of these transactions, we own all of Open Colleges.

We accounted for these acquisitions as business combinations, and the operating results of each of the acquired entities are included in our consolidated financial statements from the respective acquisition dates. We have not provided pro forma information or the revenue and operating results of the acquired entities because their results of operations are not material, either individually or in the aggregate, to our consolidated results of operations in the respective periods of acquisition. The purchase price allocations are summarized below:

($ in thousands)	The Iron Yard	FAEL	Milpark Education	Open Colleges
Indefinite-lived intangibles	$ —	$ 15,163	$ 7,048	$ —
Finite-lived intangibles	4,690	5,394	3,352	60,575
Goodwill	15,888	14,538	22,227	127,656
Other net acquired assets (liabilities)	5,262	(2,807)	(2,607)	(17,574)
Total assets acquired and liabilities assumed, net	25,840	32,288	30,020	170,657
Less: Fair value of redeemable noncontrolling interests	(9,900)	(3,437)	(2,669)	(51,197)
Total fair value of consideration transferred	15,940	28,851	27,351	119,460
Less: Fair value of contingent consideration	—	—	—	(21,371)
Less: Cash acquired	(5,401)	(7,685)	(2,834)	(3,152)
Cash paid for acquisition, net of cash acquired	$ 10,539	$ 21,166	$ 24,517	$ 94,937

Note 5. Financial Instruments

We invest our excess cash in a variety of marketable securities, which are all classified as available-for-sale. The following summarizes our cash and cash equivalents, restricted cash and cash equivalents and marketable securities by financial instrument category as of the respective period ends:

	August 31, 2016						
($ in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents[1]	Current Marketable Securities	Noncurrent Marketable Securities
Cash	$ 527,662	$ —	$ —	$ 527,662	$ 527,662	$ —	$ —
Level 1:							
Money market funds	66,265	—	—	66,265	66,265	—	—
Level 2:							
Corporate bonds	91,426	33	(56)	91,403	—	79,055	12,348
Tax-exempt municipal bonds	75,696	26	(13)	75,709	100	70,697	4,912
Other	61,801	12	(14)	61,799	12,167	48,134	1,498
Total	$ 822,850	$ 71	$ (83)	$ 822,838	$ 606,194	$ 197,886	$ 18,758

	August 31, 2015						
($ in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents[1]	Current Marketable Securities	Noncurrent Marketable Securities
Cash	$ 564,225	$ —	$ —	$ 564,225	$ 564,225	$ —	$ —
Level 1:							
Money market funds	107,408	—	—	107,408	107,408	—	—
Level 2:							
Corporate bonds	137,283	16	(271)	137,028	1,823	82,047	53,158
Tax-exempt municipal bonds	97,022	68	(60)	97,030	2,408	61,530	33,092
Time deposits	50,267	—	—	50,267	25,110	25,157	—
Other	36,634	10	(37)	36,607	1,100	25,942	9,565
Total	$ 992,839	$ 94	$ (368)	$ 992,565	$ 702,074	$ 194,676	$ 95,815

[1] Cash and cash equivalents includes restricted cash and cash equivalents.

We measure our financial instruments at fair value on a recurring basis as follows:

- Money market funds - We use Level 1 inputs that primarily consist of real-time quotes for transactions in active exchange markets involving identical assets.
- Other financial instruments - We use a market approach with Level 2 observable inputs for all other securities. The Level 2 inputs include quoted prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active.

Our marketable securities have maturities that occur within two years. We may sell certain of our marketable securities prior to their stated maturities for strategic reasons including, but not limited to, investment yield and credit risk management. We have not recognized significant gains or losses related to such sales.

Note 6. Accounts Receivable, Net

Accounts receivable, net consist of the following as of August 31:

($ in thousands)	2016	2015
Student accounts receivable	$ 258,397	$ 234,204
Allowance for doubtful accounts	(48,650)	(42,259)
Net student accounts receivable	209,747	191,945
Other receivables	15,243	6,514
Total accounts receivable, net	$ 224,990	$ 198,459

Student accounts receivable is composed primarily of amounts due related to tuition and educational services. Our student receivables are not collateralized; however, credit risk is reduced as the amount owed by any individual student is insignificant relative to the total student receivables and the customer base is geographically diverse.

The following summarizes the activity in allowance for doubtful accounts for the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Beginning allowance for doubtful accounts	$ 42,259	$ 50,145	$ 59,744
Provision for uncollectible accounts receivable	55,882	59,205	53,819
Write-offs, net of recoveries	(49,750)	(63,144)	(62,422)
Currency translation adjustment	259	(3,947)	(996)
Ending allowance for doubtful accounts	$ 48,650	$ 42,259	$ 50,145

Note 7. Property and Equipment, Net

Property and equipment, net consist of the following as of August 31:

($ in thousands)	2016	2015
Land	$ 23,089	$ 25,253
Buildings	64,896	58,873
Leasehold improvements (includes tenant improvement allowances)	304,408	351,404
Furniture and equipment	293,990	342,830
Software	140,391	134,657
Internally developed software	208,717	175,038
Construction in progress	34,856	38,944
Gross property and equipment	1,070,347	1,126,999
Accumulated depreciation and amortization	(737,645)	(756,718)
Property and equipment, net	$ 332,702	$ 370,281

The following amounts, which are included in the above table, represent capital leases as of August 31:

($ in thousands)	2016	2015
Buildings and land	$ 13,868	$ 3,635
Furniture and equipment	45,595	46,962
Software	14,511	14,511
Accumulated depreciation and amortization	(57,468)	(51,455)
Capital lease assets, net	$ 16,506	$ 13,653

Depreciation expense included in continuing operations was $111.4 million, $123.9 million and $134.3 million for fiscal years 2016, 2015 and 2014, respectively. This depreciation expense includes $15.8 million, $12.8 million and $7.6 million of accelerated depreciation during the respective periods associated with our restructuring activities that is included in

Restructuring and impairment charges on our Consolidated Statements of Operations. The remaining depreciation expense from continuing operations is included in *Depreciation and amortization* on our Consolidated Statements of Operations.

Depreciation expense for our internally developed software was $34.5 million, $28.4 million and $20.1 million in fiscal years 2016, 2015 and 2014, respectively, a portion of which is included in *Loss from discontinued operations, net of tax*, on our Consolidated Statements of Operations during fiscal years 2015 and 2014.

During fiscal years 2016 and 2015, we recorded $2.5 million and $9.9 million of fixed asset impairment charges that are included in *Restructuring and impairment charges* on our Consolidated Statements of Operations, respectively. Refer to Note 2, Restructuring and Impairment Charges.

Note 8. Goodwill and Intangibles

The following details changes in our goodwill by reportable segment during fiscal years 2016 and 2015:

($ in thousands)	University of Phoenix	Apollo Global	Other	Total
Goodwill as of August 31, 2014	$ 71,812	$ 171,198	$ 16,891	$ 259,901
Acquisitions	—	14,538	15,888	30,426
Currency translation adjustment	—	(43,137)	—	(43,137)
Goodwill as of August 31, 2015	71,812	142,599	32,779	247,190
Acquisition	—	92,434	—	92,434
Impairments	(71,812)	—	(1,581)	(73,393)
Currency translation adjustment	—	6,468	—	6,468
Goodwill as of August 31, 2016	$ —	$ 241,501	$ 31,198	$ 272,699

The following presents the components of the net carrying amount of our goodwill by reportable segment as of August 31, 2016 and 2015:

($ in thousands)	University of Phoenix	Apollo Global	Other	Total
Gross carrying amount	$ 71,812	$ 673,682	$ 52,984	$ 798,478
Accumulated impairments	(71,812)	(373,899)	(21,786)	(467,497)
Foreign currency translation	—	(58,282)	—	(58,282)
Net carrying amount at August 31, 2016	$ —	$ 241,501	$ 31,198	$ 272,699

($ in thousands)	University of Phoenix	Apollo Global	Other	Total
Gross carrying amount	$ 71,812	$ 581,248	$ 52,984	$ 706,044
Accumulated impairments	—	(373,899)	(20,205)	(394,104)
Foreign currency translation	—	(64,750)	—	(64,750)
Net carrying amount at August 31, 2015	$ 71,812	$ 142,599	$ 32,779	$ 247,190

Intangibles consist of the following as of August 31:

	2016				2015			
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Effect of Foreign Currency Translation	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Effect of Foreign Currency Translation	Net Carrying Amount
Curriculum[1]	$ 22,238	$ (10,831)	$ (2,055)	$ 9,352	$ 19,715	$ (7,361)	$ (2,470)	$ 9,884
Accreditations and designations	21,628	(10,571)	(2,598)	8,459	21,628	(6,972)	(3,153)	11,503
Trademarks	21,019	(4,731)	(2,381)	13,907	21,019	(2,942)	(3,034)	15,043
Student and customer relationships[1]	9,296	(856)	(1,836)	6,604	5,517	(2,632)	(1,975)	910
Other	3,655	(942)	(502)	2,211	3,746	(597)	(633)	2,516
Total finite-lived intangibles	77,836	(27,931)	(9,372)	40,533	71,625	(20,504)	(11,265)	39,856
Trademarks[1]	132,106	—	(21,191)	110,915	101,637	—	(9,906)	91,731
Accreditations and designations[1]	42,418	—	(2,720)	39,698	14,470	—	(2,813)	11,657
Total indefinite-lived intangibles	174,524	—	(23,911)	150,613	116,107	—	(12,719)	103,388
Total intangible assets, net	$ 252,360	$ (27,931)	$ (33,283)	$ 191,146	$ 187,732	$ (20,504)	$ (23,984)	$ 143,244

(1) We acquired certain intangibles during fiscal year 2016 as a result of our acquisition of Career Partner. Refer to Note 4, Acquisitions.

Intangible amortization expense included in continuing operations was $14.3 million, $14.2 million and $12.1 million during fiscal years 2016, 2015 and 2014, respectively. The weighted average original useful life of our finite-lived intangibles as of August 31, 2016 was 6.7 years and the estimated future amortization expense of our finite-lived intangibles is as follows:

($ in thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Estimated future amortization expense[1]	$ 14,578	$ 10,484	$ 5,088	$ 3,117	$ 2,202	$ 5,064	$ 40,533

(1) Estimated future amortization expense may vary as acquisitions and dispositions occur in the future and as a result of foreign currency translation adjustments.

Fiscal Year 2016 Impairment Testing

University of Phoenix and Western International University

Our market capitalization declined significantly during the first quarter of fiscal year 2016 after we reported our fourth quarter fiscal year 2015 results and our business outlook for fiscal year 2016. We believe the decline in the first quarter of fiscal year 2016 was attributable to University of Phoenix's lower enrollment, increasing risk associated with the proprietary education sector, and uncertainty associated with its strategy to transform into a more focused, higher retaining and less complex institution. Additionally, some of the initiatives associated with the University's new strategy have accelerated the enrollment decline at the University and negatively impacted its cash flows in the short-term. Based on the decline in market capitalization, we performed an interim goodwill impairment analysis for University of Phoenix in the first quarter of fiscal year 2016.

University of Phoenix represents the substantial majority of our consolidated operating results and, as discussed above, we believe our market capitalization decline in the first quarter of fiscal year 2016 was attributable to the University. Accordingly, we estimated the fair value of our University of Phoenix reporting unit using a market-based valuation approach, which incorporated assumptions that we believe would be a reasonable market participant's view of the increased risk and uncertainty associated with the University and its expected future cash flows. The market-based approach included multiples derived from comparable companies with consideration of the University's current operating trends and transformational strategy in relation to the other companies. Our interim step one goodwill impairment analysis resulted in a lower estimated fair value for University of Phoenix compared to its carrying value. Based on the University's estimated fair value and a hypothetical purchase price allocation, we determined the University had no implied goodwill. Accordingly, we recorded a $71.8 million impairment charge in the first quarter of fiscal year 2016 representing the University's entire goodwill balance. We did not record an income tax benefit associated with this charge as the University's goodwill is not deductible for tax purposes.

During the first quarter of fiscal year 2016, we also recorded a $1.6 million goodwill impairment charge representing the entire goodwill balance for our Western International University reporting unit. Western International University operates in the same sector of the U.S. proprietary education industry as University of Phoenix.

Other Reporting Units

We completed our fiscal year 2016 annual goodwill and indefinite-lived intangibles impairment tests, as applicable, for our other reporting units as follows:

- May 31: ULA and UNIACC;
- July 1: Career Partner, BPP, Milpark Education, FAEL and The Iron Yard; and
- August 31: College for Financial Planning.

We did not record any impairment charges associated with our other reporting units as the estimated fair value of each of the reporting units exceeded the carrying value of their respective net assets as of their annual impairment test dates. We elected to perform qualitative assessments for certain of our reporting units. We tested Open Colleges and Milpark Education using a quantitative approach and their estimated fair values exceeded their respective carrying values by margins of approximately 20% and 15%, respectively. We determined the fair values of both Open Colleges and Milpark Education using a combination of the discounted cash flow method and market-based approaches. If the critical assumptions used in our impairment testing for these reporting units deteriorate or are otherwise adversely impacted, a lower fair value estimate may result. In particular, if these or other reporting units do not achieve our forecasts, which could result from increased competition or changes in the applicable regulatory environment, the goodwill could be impaired in the future.

As part of our goodwill impairment evaluations in fiscal year 2016, we compared the sum of the estimated fair values of our reporting units to our market capitalization, plus an assumed control premium to acquire a controlling interest in Apollo. We considered the purchase price associated with our pending merger in estimating an assumed control premium. Based on our evaluation, the fair values of our reporting units were reasonable in relation to our market capitalization. However, we may be required to record additional goodwill impairment charges in the future if our critical assumptions deteriorate or our market capitalization declines further.

The BPP and Career Partner trademarks represent the substantial majority of our indefinite-lived intangibles. We tested the BPP trademark using a quantitative approach and estimated its fair value using the relief-from-royalty method, which represents the benefit of owning the trademark rather than paying royalties for its use. The estimated fair value of the BPP trademark exceeded its carrying value by a margin representing more than 30% of its fair value. We elected to perform a qualitative assessment for the Career Partner trademark, which considered the factors discussed above, including Career Partner’s operating performance following the acquisition in December 2015.

Note 9. Fair Value Measurements

We measure and disclose certain financial instruments at fair value as described in Note 5, Financial Instruments. Liabilities measured at fair value on a recurring basis consist of the following as of the respective period ends:

		Fair Value Measurements at Reporting Dates Using		
($ in thousands)	Fair Value as of Respective Reporting Dates	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Contingent consideration as of August 31, 2016	$ 11,851	$ —	$ —	$ 11,851
Contingent consideration as of August 31, 2015	$ 7,499	$ —	$ —	$ 7,499

The following summarizes the changes in liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the respective periods:

($ in thousands)	Year Ended August 31, 2016	2015
Beginning balance	$ 7,499	$ 41,893
Initial contingent consideration at fair value	10,717	—
Change in fair value included in net (loss) income	(6,587)	86
Payment for contingent consideration[1]	—	(34,480)
Currency translation adjustment	222	—
Ending balance	$ 11,851	$ 7,499

[1] During fiscal year 2015, we paid $34.5 million to settle the contingent consideration for our Open Colleges acquisition.

Our contingent consideration liabilities are valued using discounted cash flow valuation methods encompassing significant unobservable inputs. The inputs include estimated operating results scenarios for the applicable performance periods, probability weightings assigned to operating results scenarios and the discount rates applied. Our contingent consideration liabilities as of the respective fiscal year-ends relate to the following:

- *Career Partner* - We acquired Career Partner during the second quarter of fiscal year 2016 and have contingent consideration of up to €11 million. The contingent consideration is principally based on Career Partner's operating results for calendar year 2016 and we estimated its fair value to be $10.7 million as of the acquisition date. As of August 31, 2016, the estimated fair value for this contingent consideration was $11.9 million and the associated liability is included in *Accrued and other current liabilities* on our Consolidated Balance Sheets.
- *Apollo Global* - As a result of our purchase of the noncontrolling interest in Apollo Global during fiscal year 2013, we have contingent consideration that is based on a portion of Apollo Global's operating results through the fiscal years ending August 31, 2017. As of August 31, 2016, the estimated fair value of this contingent consideration is zero based on our estimate of future operating results for the remainder of the performance period in relation to the contingent payment threshold. Accordingly, we reduced our estimated liability for this contingent payment by $7.5 million during fiscal year 2016, which is included in *Merger, acquisition and other related costs, net* on our Consolidated Statements of Operations.

We did not change our valuation techniques associated with recurring fair value measurements from prior periods.

Liabilities measured at fair value on a nonrecurring basis during fiscal years 2016 and 2015 are included in other liabilities on our Consolidated Balance Sheets and consist of the following:

		Fair Value Measurements at Measurement Date Using			
($ in thousands)	Fair Value at Measurement Date	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Losses for Respective Fiscal Years
Fiscal year 2016 restructuring obligations	$ 26,575	$ —	$ —	$ 26,575	$ 26,575
Fiscal year 2015 restructuring obligations	$ 19,297	$ —	$ —	$ 19,297	$ 19,297

During fiscal years 2016 and 2015, we recorded $26.6 million and $19.3 million, respectively, of aggregate initial lease obligations at fair value associated with our restructuring activities. We recorded obligation liabilities on the dates we ceased using the respective facilities, and we measured the liabilities at fair value using Level 3 inputs included in the valuation method. Refer to Note 2, Restructuring and Impairment Charges.

Note 10. Accrued and Other Liabilities

Accrued and other current liabilities consist of the following as of August 31:

($ in thousands)	2016	2015
Salaries, wages and benefits	$ 55,309	$ 74,454
Student discounts, grants and scholarships	35,981	44,682
Restructuring obligations	32,220	38,921
Legal and other professional obligations	22,234	23,961
Advertising	12,430	21,931
Contingent consideration	11,851	—
Curriculum materials	10,995	11,690
Deferred rent and other lease liabilities	9,627	12,181
Other	43,329	53,027
Total accrued and other current liabilities	$ 233,976	$ 280,847

Other long-term liabilities consist of the following as of August 31:

($ in thousands)	2016	2015
Deferred rent and other lease liabilities	$ 44,405	$ 49,745
Restructuring obligations	36,384	44,369
Noncurrent deferred revenue	31,169	16,687
Deferred gains on sale-leasebacks	18,663	20,168
Other	38,705	41,483
Total other long-term liabilities	$ 169,326	$ 172,452

Note 11. Debt

Debt and short-term borrowings consist of the following as of August 31:

($ in thousands)	2016	2015
Revolving Credit Facility	$ 30,000	$ —
Capital lease obligations	28,489	16,863
Other	32,306	28,783
Total debt	90,795	45,646
Less short-term borrowings and current portion of long-term debt	(55,609)	(14,080)
Long-term debt	$ 35,186	$ 31,566

The future maturities of our debt are as follows:

($ in thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Debt maturities	$ 55,609	$ 6,150	$ 6,137	$ 4,789	$ 4,464	$ 13,646	$ 90,795

In fiscal year 2012, we entered into a syndicated $625 million unsecured revolving credit facility (the “Revolving Credit Facility”), which expires in April 2017. The Revolving Credit Facility is used for general corporate purposes, which may include acquisitions and share repurchases, and can also be used for borrowings in certain foreign currencies and letters of credit, in each case up to specified sublimits.

As of August 31, 2016, we had $30 million of outstanding borrowings under the Revolving Credit Facility and approximately $29 million of outstanding letters of credit. We repaid the entire amount borrowed under the Revolving Credit Facility as of August 31, 2016 subsequent to fiscal year end, and the outstanding borrowings as of August 31, 2016 are included in *Short-term borrowings and current portion of long-term debt* on our Consolidated Balance Sheets. We also borrowed $50 million under the Revolving Credit Facility during the second quarter of fiscal year 2016, but subsequently repaid the amount later in the same quarter.

As of August 31, 2015, we had approximately $41 million of outstanding letters of credit and no outstanding borrowings under the Revolving Credit Facility.

The Revolving Credit Facility fees are determined based on a pricing grid that varies according to our leverage ratio. The Revolving Credit Facility fee ranges from 25 to 40 basis points. Incremental fees for borrowings under the facility generally range from Prime + 25 to 85 basis points. The weighted average interest rate on outstanding short-term borrowings under the Revolving Credit Facility at August 31, 2016 was 3.8%.

The Revolving Credit Facility contains various customary representations, covenants and other provisions, including a material adverse event clause and the following financial covenants: maximum leverage ratio, minimum interest and rent expense coverage ratio, and U.S. Department of Education financial responsibility composite score requirements. We were in compliance with all applicable covenants related to the Revolving Credit Facility at August 31, 2016 and 2015.

Other debt principally includes debt at subsidiaries of Apollo Global and other obligations. The weighted average interest rate on our outstanding other debt at August 31, 2016 and 2015 was 6.0% and 5.6%, respectively.

The carrying value of our debt, excluding capital leases, approximates fair value based on the nature of our debt, which includes consideration of the portion that is variable-rate.

Note 12. Income Taxes

Geographic sources of (loss) income from continuing operations before income taxes are as follows for the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
U.S.	$ (54,885)	$ 141,929	$ 400,126
Foreign	(16,625)	(36,286)	(51,406)
(Loss) income from continuing operations before income taxes	$ (71,510)	$ 105,643	$ 348,720

Income tax (expense) benefit consists of the following for the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Current:			
U.S. federal	$ (6,852)	$ (46,722)	$ (123,983)
State and local	(1,798)	(3,131)	(18,282)
Foreign	(83)	(5,558)	(2,575)
Total current	(8,733)	(55,411)	(144,840)
Deferred:			
U.S. federal	628	(826)	380
State and local	(2,128)	(2,069)	344
Foreign	404	143	16,826
Total deferred	(1,096)	(2,752)	17,550
Provision for income taxes	$ (9,829)	$ (58,163)	$ (127,290)

The provision for income taxes differs from the tax computed using the statutory U.S. federal income tax rate as a result of the following items for the respective periods:

	Year Ended August 31,		
	2016	2015	2014
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	(3.1)%	6.1 %	4.7 %
Foreign taxes	(15.1)%	5.9 %	0.9 %
Goodwill impairments	(35.1)%	— %	— %
Open Colleges initial valuation allowance[1]	— %	9.5 %	— %
Internal Revenue Service settlement[2]	— %	— %	(3.1)%
Mexico tax reform	— %	— %	(0.8)%
Contingent consideration	3.7 %	— %	1.0 %
Other, net	0.9 %	(1.4)%	(1.2)%
Effective income tax rate	**(13.7)%**	**55.1 %**	**36.5 %**

[1] We recorded a full valuation allowance for all of Open Colleges' net deferred tax assets in fiscal year 2015. The impact of subsequent changes to Open Colleges' valuation allowance are reflected in *Foreign taxes* in the rate reconciliation above.

[2] We realized a $10.2 million tax benefit in fiscal year 2014 from settlement with the Internal Revenue Service ("IRS") related to the deductibility of certain costs for our foreign subsidiaries.

Deferred tax assets and liabilities consist of the following as of August 31:

($ in thousands)	2016	2015
Deferred tax assets:		
Allowance for doubtful accounts	$ 14,534	$ 13,748
Leasing transactions	52,135	58,877
Net operating loss carryforward[1]	19,536	18,401
Share-based compensation	13,085	18,607
Deferred revenue and student discounts	35,878	34,308
Other[2]	51,416	52,930
Gross deferred tax assets	186,584	196,871
Valuation allowance	(72,479)	(69,089)
Deferred tax assets, net of valuation allowance	114,105	127,782
Deferred tax liabilities:		
Fixed assets	19,627	18,594
Intangibles	28,362	18,760
Other	4,073	6,052
Gross deferred tax liabilities	52,062	43,406
Net deferred income taxes	$ 62,043	$ 84,376

[1] Net operating loss carryforward represents $14.3 million of U.S. net operating losses that will begin to expire in fiscal year 2028. We also have $55.9 million of net operating losses in various foreign jurisdictions that do not expire.

[2] Other includes $19.9 million and $20.9 million of deferred taxes as of August 31, 2016 and 2015, respectively, associated with the Carnegie Learning disposition, with the August 31, 2016 balance representing a $53.0 million capital loss carryforward that expires in fiscal year 2021. We have recorded a full valuation allowance for these deferred taxes.

As of August 31, 2016 and 2015, we have also recorded a valuation allowance related to a portion of our net operating losses and other deferred tax assets for certain of our other foreign subsidiaries because it is more likely than not that these deferred tax assets will not be utilized. We have concluded that it is more likely than not that we will ultimately realize the full benefit of our other deferred tax assets principally based on our history of and expected future profitable domestic operations.

We have not provided deferred taxes on unremitted earnings attributable to international subsidiaries that have been considered permanently reinvested. As of August 31, 2016, the unremitted earnings from these operations were not significant.

Uncertain Tax Positions

The following summarizes the activity in our unrecognized tax benefits, excluding interest and penalties, for the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Beginning unrecognized tax benefits	$ 14,774	$ 18,398	$ 44,057
Increases for tax positions taken in the current year	—	760	—
Increases for tax positions taken in prior years	1,431	564	2,214
Decreases for settlements with tax authorities	(1,031)	(310)	(7,184)
Decreases for tax positions of prior years[1]	(1,179)	(810)	(10,541)
Decreases due to lapse of applicable statutes of limitations	(3,571)	(3,828)	(10,148)
Ending unrecognized tax benefits	$ 10,424	$ 14,774	$ 18,398

[1] Fiscal year 2014 includes the $10.2 million tax benefit related to the IRS settlement discussed above.

Our liabilities for unrecognized tax benefits are primarily included in *Accrued and other current liabilities* and *Other long-term liabilities* on our Consolidated Balance Sheets. As of August 31, 2016 and 2015, our liabilities include accrued interest and penalties associated with our unrecognized tax benefits of $2.0 million and $2.5 million, respectively.

During fiscal years 2016, 2015 and 2014, we recognized a $0.2 million benefit, $0.3 million of expense, and a $1.9 million benefit, respectively, of interest and penalties related to unrecognized tax benefits, which are included as a component of *Provision for income taxes* on our Consolidated Statements of Operations.

Although we cannot predict the timing of resolution with taxing authorities, if any, we believe it is reasonably possible that $9.2 million of our unrecognized tax benefits will be reduced in the next twelve months due to settlement with tax authorities or expiration of the applicable statute of limitations. These unrecognized tax benefits primarily relate to apportionment of service revenues for corporate income tax purposes and the taxability of certain revenues of our foreign subsidiaries.

As of August 31, 2016, $4.8 million of our total unrecognized tax benefits would favorably affect our effective tax rate if recognized. If amounts accrued are less than amounts ultimately assessed by the taxing authorities, we would record additional income tax expense.

Income Tax Audits

During fiscal year 2015, the IRS completed its review of our U.S. federal income tax return for fiscal year 2014. Our U.S. federal income tax return for fiscal year 2013 is currently open for review by the IRS and we are also participating in the IRS's Compliance Assurance Process for fiscal years 2015, 2016 and 2017, which is a voluntary program in which taxpayers seek to resolve all or most issues with the IRS prior to or soon after filing their U.S. federal income tax returns. Additionally, we are subject to numerous ongoing audits by state, local and foreign tax authorities with various tax years as early as 2007 that remain subject to examination.

Although we believe our tax accruals are reasonable, the final determination of tax returns under review or returns that may be reviewed in the future and any related litigation could result in tax liabilities that materially differ from our historical income tax provisions and accruals.

Note 13. Shareholders' Equity and Redeemable Noncontrolling Interests

Share Repurchases

Our Board of Directors has authorized us to repurchase outstanding shares of our Class A common stock from time to time depending on market conditions and other considerations. During fiscal year 2013, our Board of Directors authorized an increase in the amount available under our share repurchase program up to an aggregate amount of $250 million, of which $52.2 million remained available as of August 31, 2016. There is no expiration date on the repurchase authorizations and the amount and timing of future share repurchase authorizations and repurchases, if any, will be made as market and business conditions warrant. Repurchases occur at our discretion and may be made on the open market through various methods including but not limited to accelerated share repurchase programs, or in privately negotiated transactions, pursuant to the applicable Securities and Exchange Commission rules, and may include repurchases pursuant to Securities and Exchange Commission Rule 10b5-1 nondiscretionary trading programs. We are prohibited from repurchasing shares under the agreements associated with our pending merger, as described further in Note 1, Nature of Operations and Significant Accounting Policies.

We also repurchase shares in connection with tax withholding requirements associated with the release of vested share-based awards, which do not fall under the repurchase program described above.

The following summarizes our share repurchase activity for the respective periods:

	Year Ended August 31,		
(In thousands, except per share data)	2016	2015	2014
Share repurchases under share repurchase program:			
Number of shares repurchased	—	1,440	5,363
Weighted average purchase price per share	$ —	$ 26.45	$ 29.78
Cost of share repurchases	$ —	$ 38,092	$ 159,684
Share repurchases related to vesting of share-based awards:			
Number of shares repurchased	503	431	471
Cost of share repurchases	$ 4,454	$ 6,631	$ 13,025

Share Reissuances

We reissue our Class A common stock from our treasury stock as a result of the release of shares associated with share-based awards and purchases under our employee stock purchase plan. Share reissuances were as follows for the respective periods:

	Year Ended August 31,		
(In thousands)	2016	2015	2014
Number of shares reissued	1,728	1,374	1,431

Redeemable Noncontrolling Interests

We have the option to buy the remaining noncontrolling interests in the following consolidated subsidiaries, and the noncontrolling shareholders have the option to sell their shares to us:

- *The Iron Yard* - We have a 62% interest in The Iron Yard and the noncontrolling interest options are exercisable beginning in the fourth quarter of our fiscal year 2018, or earlier in limited circumstances. The prices for these options are principally based on the fair value of The Iron Yard at the exercise date as defined in the acquisition agreement.
- *FAEL* - We have a 75% interest in FAEL and the noncontrolling interest options are exercisable beginning in the third quarter of our fiscal year 2019, or earlier in limited circumstances. The prices for these options are based on a formula specified at the acquisition date and are principally based on a multiple of FAEL's operating results as defined in the acquisition agreement.
- *Milpark Education* - We have an 81% consolidated interest in Milpark Education and the noncontrolling interest options became exercisable in the third quarter of our fiscal year 2016. The prices for these options are based on a formula specified at the acquisition date and are principally based on a multiple of Milpark Education's operating results as defined in the acquisition agreement.

There is no minimum or maximum price for the options described above. Since the options are embedded in the shares owned by the respective noncontrolling shareholders and the shareholders have the option to redeem their shares, we have classified the noncontrolling interests described above as redeemable equity on our Consolidated Balance Sheets.

We record redeemable noncontrolling interests at the greater of the carrying value or the redemption value at the end of each reporting period because the interests are probable of becoming redeemable. We determine the redemption value based on the terms specified in the respective acquisition agreements, and by assuming the end of each reporting period is the redemption date. We record redemption value adjustments through retained earnings.

Purchase of Noncontrolling Interests

During fiscal year 2015, we purchased the remaining 30% noncontrolling ownership interests in Open Colleges for $51.5 million. This purchase was accounted for as an equity transaction resulting in the removal of the associated redeemable noncontrolling interests from our Consolidated Balance Sheets. We also recorded an adjustment to additional paid-in capital to reflect the change in our proportionate interest of currency translation losses.

The following details net (loss) income attributable to Apollo and transfers to noncontrolling interests during the respective periods:

	Year Ended August 31,		
($ in thousands)	**2016**	**2015**	**2014**
Net (loss) income attributable to Apollo	$ (84,554)	$ 29,755	$ 209,304
Transfers to noncontrolling interest:			
Increase in additional paid-in capital for purchase of noncontrolling interests	—	7,638	—
Change from net (loss) income attributable to Apollo and transfers to noncontrolling interests	$ (84,554)	$ 37,393	$ 209,304

Accumulated Other Comprehensive Loss

The following summarizes the components of accumulated other comprehensive loss as of August 31:

($ in thousands)	**2016**	**2015**
Foreign currency translation losses	$ (85,950)	$ (80,425)
Unrealized loss on available-for-sale securities	(7)	(154)
Accumulated other comprehensive loss[(1)]	$ (85,957)	$ (80,579)

[(1)] Accumulated other comprehensive loss is net of insignificant taxes as of August 31, 2016 and 2015.

Note 14. Earnings Per Share

The components of basic and diluted (loss) earnings per share are as follows:

	Year Ended August 31,		
(In thousands, except per share data)	**2016**	**2015**	**2014**
Numerator:			
Net (loss) income attributable to Apollo (basic and diluted)	$ (84,554)	$ 29,755	$ 209,304
Denominator:			
Basic weighted average shares outstanding	108,660	108,092	111,354
Dilutive effect of restricted stock units and performance share awards[(1)]	—	816	1,116
Dilutive effect of stock options[(1)]	—	130	140
Diluted weighted average shares outstanding	108,660	109,038	112,610
Basic (loss) income per share attributable to Apollo	$ (0.78)	$ 0.28	$ 1.88
Diluted (loss) income per share attributable to Apollo	$ (0.78)	$ 0.27	$ 1.86
Anti-dilutive securities excluded from diluted (loss) income per share:			
Anti-dilutive restricted stock units and performance share awards outstanding[(1)]	4,061	90	39
Anti-dilutive stock options outstanding[(1)]	3,501	2,493	2,532

[(1)] Due to the loss from continuing operations attributable to Apollo during fiscal year 2016, no dilutive share-based awards were included in the calculation of diluted loss per share because they would have been anti-dilutive.

Note 15. Stock and Savings Plans

401(k) Plan

We offer a 401(k) savings and investment plan which provides eligible employees the opportunity to contribute a portion of their pre-tax compensation, subject to certain restrictions as set forth in the Internal Revenue Code. Participants who have completed one year of service and have worked at least 1,000 hours are eligible to receive discretionary matching contributions. We match 30% of the participant's contributions, excluding catch-up contributions, up to 15% of their pre-tax compensation, subject to Internal Revenue Code contribution limitations. We are also permitted to make additional discretionary contributions for certain eligible employees. Our contributions were $8.8 million, $17.2 million and $22.9 million for fiscal years 2016, 2015 and 2014, respectively.

Employee Stock Purchase Plan

We have an employee stock purchase plan ("ESPP") which allows eligible employees to purchase shares of our Class A common stock at semi-annual intervals through periodic payroll deductions at a price per share equal to 95% of the fair market value on the purchase date. The ESPP is deemed to be non-compensatory and, accordingly, we do not recognize any share-based compensation expense for shares purchased under the plan.

Share-Based Awards

We currently have outstanding awards under our Amended and Restated 2000 Stock Incentive Plan ("Plan"). Under this Plan, we may grant various share-based awards covering shares of our Class A common stock, including non-qualified stock options, restricted stock units ("RSUs"), performance share awards ("PSAs") and other equity-based awards, to officers, certain employees, and the non-employee members of our Board of Directors. We are prohibited from granting share based awards under the agreements associated with our pending merger, as described further in Note 1, Nature of Operations and Significant Accounting Policies.

Awards granted under the Plan may have both service-vesting and performance-vesting conditions. The requisite service period for all awards is generally equal to the vesting period, which ranges from one to four years. However, the majority of our share-based awards vest or become exercisable, as applicable, immediately upon certain changes in control or ownership, including our pending merger, as described further in Note 1, Nature of Operations and Significant Accounting Policies.

Under the Plan, stock options are granted at exercise prices equal to or exceeding the fair market value of our Class A common stock on the date of the grant and generally have contractual terms of 10 years or less. The majority of our RSUs and PSAs contain rights to receive dividends or dividend equivalents, but these rights are forfeitable and Apollo has not historically issued dividends.

Approximately 28.6 million shares of our Class A common stock have been reserved for issuance over the term of the Plan. The shares may be issued from treasury stock or from authorized but unissued shares of our Class A common stock. As of August 31, 2016, approximately 10.4 million authorized and unissued shares of our Class A common stock were available for issuance under the Plan, including the shares subject to outstanding equity awards.

RSUs and PSAs

We granted RSUs and PSAs during fiscal years 2016, 2015 and 2014 with both service-vesting and performance-vesting conditions, and RSUs with only service vesting. The vesting period for these awards generally ranges from one to four years. For PSAs, the level at which the performance condition is attained upon the completion of the performance period determines the actual number of shares of our Class A common stock into which the PSAs will be converted. The conversion percentage ranges from 0% up to 600% of the target level.

The following provides a summary of activity for our RSUs and PSAs (granted PSAs are assumed to convert into shares of our Class A common stock at the target level):

	Restricted Stock Units		Performance Share Awards	
	Number of Shares *(in thousands)*	Weighted Average Grant Date Fair Value	Number of Shares *(in thousands)*	Weighted Average Grant Date Fair Value
Nonvested at August 31, 2013	3,966	$ 28.68	365	$ 40.97
Granted	2,022	26.71	41	26.63
Vested and released	(1,353)	33.38	—	—
Forfeited	(592)	26.15	(93)	38.35
Nonvested at August 31, 2014	4,043	26.49	313	39.88
Granted	3,456	12.59	43	31.48
Vested and released	(1,223)	28.41	(64)	44.96
Forfeited	(742)	25.82	(133)	46.08
Nonvested at August 31, 2015	5,534	17.47	159	30.38
Granted	494	7.57	81	7.09
Vested and released	(1,509)	19.90	(54)	19.78
Forfeited	(1,153)	17.01	(33)	51.76
Nonvested at August 31, 2016	3,366	15.09	153	17.18

As of August 31, 2016, we had $20.2 million and $0.5 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to unvested RSUs and PSAs, respectively. This expense is expected to be recognized over a weighted average period of 2.2 years. The fair value of RSUs that vested during fiscal years 2016, 2015 and 2014 was $30.0 million, $34.7 million and $45.2 million, respectively. The fair value of PSAs that vested during fiscal year 2016 was $1.1 million.

Stock Options

We granted stock options during fiscal years 2016, 2015 and 2014 with a service vesting condition that generally ranges from one to four years. The following provides a summary of our stock option activity:

	Options Outstanding			
	Number of Shares *(in thousands)*	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term *(Years)*	Aggregate Intrinsic Value ($)[1] *(in thousands)*
Balance at August 31, 2013	4,123	$ 46.94		
Granted	713	26.70		
Exercised	(5)	19.62		
Forfeited, canceled or expired	(1,327)	60.07		
Balance at August 31, 2014	3,504	37.89		
Granted	1,222	12.41		
Exercised	(11)	20.06		
Forfeited, canceled or expired	(942)	50.34		
Balance at August 31, 2015	3,773	26.58		
Granted	4	10.35		
Exercised	—	—		
Forfeited, canceled or expired	(691)	47.75		
Balance at August 31, 2016	3,086	21.81	3.5	$ —
Vested and expected to vest as of August 31, 2016	2,947	22.11	3.4	—
Exercisable as of August 31, 2016	1,973	25.20	2.8	—
Available for future grant as of August 31, 2016	3,811			

[1] We did not have any outstanding options with an exercise price below our closing stock price of $8.87 on August 31, 2016.

As of August 31, 2016, we had $5.3 million of unrecognized share-based compensation expense, net of estimated forfeitures, related to unvested stock options. This expense is expected to be recognized over a weighted average period of 2.2 years. The fair value of stock options that vested during fiscal years 2016, 2015 and 2014 was $4.2 million, $3.0 million, and $7.3 million, respectively.

The following summarizes information related to outstanding and exercisable options at August 31, 2016:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares *(in thousands)*	Weighted Average Contractual Life Remaining *(Years)*	Weighted Average Exercise Price per Share	Number of Shares *(in thousands)*	Weighted Average Exercise Price per Share
$10.35	4	5.1	$ 10.35	1	$ 10.35
$12.41	1,174	5.0	12.41	349	12.41
$16.75	600	2.5	16.75	600	16.75
$19.62 to $25.79	223	2.9	20.84	164	20.57
$26.74	559	4.0	26.74	333	26.74
$33.12 to $47.47	456	0.7	40.10	456	40.10
$50.15 to $76.38	70	1.8	68.00	70	68.00
	3,086			1,973	

The following summarizes information related to stock options exercised during the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Intrinsic value realized	$ —	$ 100	$ 79
Actual tax benefit realized by Apollo for tax deductions	—	38	30
Cash received by Apollo	—	228	101

Refer to Note 1, Nature of Operations and Significant Accounting Policies, for discussion of stock option valuation and related assumptions.

Share-based Compensation Expense

The following details share-based compensation expense for the respective periods:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Instructional and student advisory	$ 9,213	$ 9,971	$ 10,727
Marketing	1,061	2,563	3,702
Admissions advisory	452	975	813
General and administrative	21,559	23,114	23,296
Restructuring and impairment charges	577	2,046	4,281
Share-based compensation expense	32,862	38,669	42,819
Tax effect of share-based compensation	(12,327)	(14,652)	(16,754)
Share-based compensation expense, net of tax	$ 20,535	$ 24,017	$ 26,065

Note 16. Commitments and Contingencies

Guarantees

We have agreed to indemnify our officers and directors for certain events or occurrences. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer liability insurance policies that mitigate our exposure and enable us to recover a portion of any future amounts paid. Based on the significant uncertainty associated with our pending as well as possible future litigation, settlements and other proceedings relative to our insurance policy coverage, the fair value of these indemnification agreements, if any, cannot be estimated.

Lease Commitments

The following details our future minimum commitments for operating and capital leases as of August 31, 2016:

($ in thousands)	Capital Leases	Operating Leases[1]
2017	$ 6,368	$ 138,190
2018	3,429	118,728
2019	2,892	92,490
2020	2,321	68,683
2021	2,277	53,458
Thereafter	14,764	241,454
Total future minimum lease obligation[1], [2]	$ 32,051	$ 713,003
Less: imputed interest on capital leases	(3,562)	
Net present value of capital lease obligations	$ 28,489	

[1] The total future minimum lease obligation excludes non-cancelable sublease rental income of $49.0 million.

[2] We have ceased use of a significant number of operating leases in connection with our restructuring activities. Refer to Note 2, Restructuring and Impairment Charges. The total future minimum operating lease obligation includes approximately $126 million of future contractual lease payments associated with locations for which we no longer expect to receive an economic benefit. The total future minimum operating lease obligation also includes approximately $48 million of future contractual lease payments associated with locations that we expect to close as University of Phoenix obtains the necessary regulatory approvals and completes its teach-out obligations.

Rent expense was $116.8 million, $130.9 million and $144.1 million for fiscal years 2016, 2015 and 2014, respectively.

We have entered into sale-leaseback agreements in prior fiscal years for properties that we currently use to support our operations. Total deferred gains associated with these sale-leasebacks were $20.1 million and $21.6 million as of August 31, 2016 and 2015, respectively, and such gains are included in *Accrued and other current liabilities* and *Other long-term liabilities* on our Consolidated Balance Sheets. We recognized gain amortization associated with these sale-leasebacks of $1.5 million, $1.5 million and $2.0 million in fiscal years 2016, 2015 and 2014, respectively.

Naming Rights to Glendale, Arizona Sports Complex

In September 2006, we entered into an agreement for naming and sponsorship rights on a stadium in Glendale, Arizona, which is home to the Arizona Cardinals team in the National Football League. The agreement includes naming, sponsorship, signage, advertising and other promotional rights and benefits. The initial agreement term is in effect until 2026 with options to extend. Pursuant to the agreement, we paid $5.8 million for the 2006 contract year, which increases 3% per year until 2026. As of August 31, 2016, our remaining contractual obligation pursuant to this agreement is $86.5 million. Other payments apply if certain events occur, such as if the Cardinals play in the Super Bowl or if all of the Cardinals' regular season home games are sold-out.

Surety Bonds

Our insurers issue surety bonds for us that are required by various states where we operate, or that are required for other purposes. We are obligated to reimburse our insurers for any surety bonds that are paid. As of August 31, 2016, the face amount of these surety bonds was approximately $22 million.

Letters of Credit

As of August 31, 2016, we had approximately $29 million of outstanding letters of credit, which support certain of our obligations and guarantees provided by our subsidiaries as part of our normal operations for which fair value is not material.

Litigation and Other Matters

We are subject to various claims and contingencies that arise from time to time in the ordinary course of business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. We do not believe any of these are material for separate disclosure.

The following is a description of pending litigation, settlements, and other proceedings that fall outside the scope of ordinary and routine litigation incidental to our business.

Merger-Related Shareholder Suits

In connection with the pending merger described in Note 1, Nature of Operations and Significant Accounting Policies, the class action lawsuits listed below have been filed in the Superior Court of the State of Arizona, Maricopa County against some or all of the following parties: us, our directors, the Apollo Class B Voting Stock Trust No. 1, AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., and Barclays Capital Inc. and Evercore Group L.L.C. (in their capacity as our financial advisors in connection with the merger):

- *Casey* v. *Apollo Education Group, Inc., et al.*, Case No. CV2016-051605 filed on February 25, 2016;
- *Miglio* v. *Apollo Education Group, Inc.*, *et al.*, Case No. CV2016-003718 filed on February 26, 2016;
- *Blanchfield* v. *Apollo Education Group, Inc.*, *et al*., Case No. CV2016-001738 filed on February 29, 2016;
- *Wagner* v. *Apollo Education Group, Inc.*, *et al.*, Case No. CV2016-001905 filed on March 9, 2016;
- *Ladouceur* v. *Apollo Education Group, Inc.*, *et al.*, Case No. CV2016-002148 filed on March 17, 2016; and
- *Simkhovich* v. *Apollo Education Group, Inc.*, *et al.*, Case No. CV2016-002339 filed on March 23, 2016.

The complaints generally allege that our directors have violated their fiduciary duties by, among other things, failing to properly value us and failing to maximize our value to our shareholders as well as by including purportedly preclusive deal protections in the merger agreement, and that we, AP VIII Queso Holdings, L.P. and Socrates Merger Sub, Inc. aided and abetted such alleged breaches of fiduciary duties. The *Miglio*, *Wagner*, *Ladouceur* and *Simkhovich* complaints further allege that our directors breached their fiduciary duty of candor by filing a materially incomplete and misleading preliminary proxy statement and also allege that the sale process was negatively impacted by certain conflicts with our financial advisors. The plaintiffs seek various remedies, including a declaration that the action is properly maintainable as a class action, an injunction against the consummation of the merger, an accounting of the damages sustained by the plaintiffs and the class, costs and fees of the action, including attorneys' fees and expenses, and any other equitable relief the court may deem just and proper.

On March 4, 2016, the action titled *Blanchfield* v. *Apollo Education Group, Inc.*, *et al*. was voluntarily dismissed without prejudice.

On April 12, 2016, the Superior Court of the State of Arizona, Maricopa County consolidated the remaining *Casey*, *Miglio*, *Wagner*, *Ladouceur* and *Simkhovich* cases into a single action, *In re Apollo Education Group, Inc. Shareholder Litigation*, Lead Case No. CV2016-001905 (the "Consolidated Action"). On May 1, 2016, we reached an agreement with the plaintiffs to settle the Consolidated Action in connection with the increase in the merger consideration to $10.00 per share, which agreement is subject to consummation of the merger, certain confirmatory discovery and approval by the court. If the merger is consummated, we anticipate that we will be required to pay the plaintiffs' expenses and an amount for attorneys' fees yet to be determined and subject to court approval. We have not accrued any liability associated with this action.

Securities Class Action (Rameses Te Lomingkit et. al.)

On March 14, 2016, a class action complaint was filed in the United States District Court for the District of Arizona, captioned *Rameses Te Lomingkit et. al. v. Apollo Education Group, Inc. et. al.*, Case Number 2:16-CV-00689-JZB. The plaintiff, who allegedly purchased our shares during the specified class period, filed this putative class action on behalf of the plaintiff and all of our shareholders who acquired Class A shares between June 26, 2013 and October 21, 2015 and seeks certification as a class action and unspecified compensatory damages and costs. The plaintiff alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Exchange Act, by us and certain of our officers for making allegedly false and misleading statements and failing to disclose material facts relating to the nature of our military recruitment activities and the status of our online classroom platform. The Court appointed the Government of Guam Retirement Fund as lead plaintiff on June 16, 2016. On August 15, 2016, the lead plaintiff filed an amended complaint which also focuses on statements and omissions relating to military recruiting and the online classroom platform. We intend to vigorously defend against the plaintiff's allegations.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

Class Action Alleging Violations of Kentucky Wage and Hour Laws

On June 9, 2015, two former University of Phoenix employees filed an action in the Circuit Court of Jefferson County Kentucky alleging that they were wrongfully terminated from their positions with the University in violation of Kentucky and federal law. In this action, which is captioned *Aldrich et al. v. The University of Phoenix,* 15-C-2839 (Jefferson Cty. Circuit Court), plaintiffs also allege that the University violated Kentucky wage and hour law by failing to pay plaintiffs overtime and other required wages, and in connection with these wage and hour claims, they seek to represent a class of plaintiffs consisting of all individuals employed by the University within the past five years who performed a substantial part of their job duties in Kentucky. Plaintiffs seek to recover damages on their own behalf in connection with their alleged wrongful termination and past due wages, overtime compensation and other relief on behalf of the class in connection with the wage and hour claims. On March 4, 2016, the Court granted our motion to dismiss and compel arbitration. On March 9, 2016, plaintiffs filed a notice of their intent to appeal with the U.S. Court of Appeals for the Sixth Circuit. The appeal is currently pending.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

Incentive Compensation False Claims Act Lawsuit

On May 25, 2011, we were notified that a *qui tam* complaint had been filed against us in the U.S. District Court, Eastern District of California, by private relators under the Federal False Claims Act and California False Claims Act, entitled *USA and State of California ex rel. Hoggett and Good v. University of Phoenix, et al*, Case Number 2:10-CV-02478-MCE-KJN. When the federal government declines to intervene in a qui tam action, as it has done in this case, the relators may elect to pursue the litigation on behalf of the federal government and, if successful, they are entitled to receive a portion of the federal government's recovery.

The complaint alleges, among other things, that University of Phoenix has violated the Federal False Claims Act since December 12, 2009 and the California False Claims Act for the preceding ten years by falsely certifying to the U.S. Department of Education and the State of California that University of Phoenix was in compliance with various regulations that require compliance with federal rules regarding the payment of incentive compensation to admissions personnel, in connection with University of Phoenix's participation in student financial aid programs. In addition to injunctive relief and fines, the relators seek significant damages on behalf of the Department of Education and the State of California, including all student financial aid disbursed by the Department to our students since December 2009 and by the State of California to our students during the preceding ten years. On July 24, 2014, the Court granted our motion to dismiss for lack of jurisdiction and dismissed relators' complaint with prejudice. On December 14, 2014, relators filed a Notice of Appeal with the U.S. Court of Appeals for the Ninth Circuit, and their appeal remains pending before that court.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

Federal False Claims Act Lawsuit

On March 3, 2016, a *qui tam* complaint against us filed by a private relator under the Federal False Claims Act was unsealed. The lawsuit, captioned *United States of America ex rel. Arthur Green v. University of Phoenix, et al*, Case Number 1:14 CV 1654, was previously filed under seal in the U.S. District Court for the Northern District of Ohio. It was unsealed by order of the District Court after the federal government notified the District Court of its decision not to intervene in the case. The relator filed an amended complaint on October 18, 2016.

The amended complaint alleges, among other things, that since at least August 2007, University of Phoenix has violated the Federal False Claims Act by falsely certifying to the U.S. Department of Education that the University was in compliance with various regulations under the U.S. Higher Education Act relating to preparation of student financial aid forms and other matters, including in connection with employee participation in student financial aid programs. Plaintiff alleges that certain identified student loans should be reimbursed to the government, in addition to statutory fines and penalties, in an amount to be determined at trial.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

K.K. Modi Investment and Financial Services Pvt. Ltd.

On November 8, 2010, a suit was filed by K.K. Modi Investment and Financial Services Pvt. Ltd. ("Modi") in the High Court of Delhi at New Delhi against defendants Apollo, Western International University, Inc., University of Phoenix, Inc., Apollo Global, Inc., Modi Apollo International Group Pvt. Ltd., Apollo International, Inc., John G. Sperling, Peter V. Sperling and Jorge Klor De Alva, seeking to permanently enjoin the defendants from making investments in the education industry in the Indian market in breach of an exclusivity and noncompete provision which plaintiff alleges is applicable to Apollo and its subsidiaries. The case is entitled, *K.K. Modi Investment and Financial Services Pvt. Ltd. v. Apollo International, et. al*. We believe that the relevant exclusivity and noncompete provision is inapplicable to us and our affiliates. On October 31, 2014, the Court denied the Apollo defendants' initial applications to have the case dismissed, concluding that plaintiffs' complaint raised factual issues that needed to be resolved through the submission of evidence. Defendants appealed that ruling to the Division Bench of the High Court, and that appeal was denied by the Division Bench on August 17, 2015. We then filed a Special Leave Petition before the India Supreme Court on November 21, 2015 seeking leave to appeal the decision of the Division Bench, which was denied on January 15, 2016. On February 15, 2016, we filed a petition for review of the denial of the Special Leave Petition, which was rejected by the India Supreme Court on March 31, 2016. The case will be returned to the Delhi High Court for the taking of evidence. If plaintiff ultimately obtains the requested injunctive relief, our ability to conduct business in India, including through our joint venture with HT Media Limited, may be adversely affected. It is also possible that in the future K.K. Modi may seek to expand existing litigation in India or commence litigation in the U.S. in which it may assert a significant damage claim against us.

Because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this action and, accordingly, we have not accrued any liability associated with this action.

Attorney General Investigations

In August 2015, we received an Investigative Subpoena from the Office of the Attorney General of the State of California. The Subpoena requires us to produce documents and information regarding the business and practices of University of Phoenix relating to members and former members of the U.S. military and California National Guard, including marketing, recruiting, billing, financial aid, accommodation and other services for military personnel, compliance with federal Executive Order 13607 (Establishing Principles of Excellence for Educational Institutions Serving Service Members, Veterans, Spouses, and Other Family Members), and use of U.S. military logos and emblems in marketing, for the time period of July 1, 2010 to the present.

In February 2016, we received a Second Investigative Subpoena from the Office of the Attorney General of the State of California in the Matter of the Investigation of For-Profit Educational Institutions, following the Investigative Subpoena we received in August 2015. The Second Investigative Subpoena, which is not limited to matters involving military students, seeks the production of documents and information regarding a broad spectrum of the business and practices of Apollo and its subsidiaries, including University of Phoenix, relating to marketing, recruiting, compensation of enrollment advisors, complaints, financial aid, compliance, accreditation, other governmental investigations, private litigation and other matters, as well as additional information relating to marketing and services to members and former members of the U.S. military and California National Guard, for the time period of July 1, 2010 to the present.

We are cooperating with the California Attorney General in these investigative proceedings. We cannot predict the eventual scope, duration or outcome of the investigations at this time.

In May 2011 and January 2013, University of Phoenix received Civil Investigative Demands from the State of Massachusetts Office of the Attorney General. The Demands relate to an investigation of possible unfair or deceptive methods, acts, or practices by proprietary educational institutions in connection with the recruitment of students and the financing of education. The Demands seek documents, information and testimony regarding a broad spectrum of the University's business for the time period of January 1, 2002 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

In October 2010, University of Phoenix received notice that the State of Florida Office of the Attorney General in Fort Lauderdale, Florida had commenced an investigation into possible unfair and deceptive trade practices associated with certain alleged practices of the University. The notice included a subpoena to produce documents and detailed information for the time period of January 1, 2006 to the present about a broad spectrum of the University's business. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

Because of the many questions of fact and law that may arise, the outcome of these state Attorneys General investigative proceedings is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for these matters and, accordingly, we have not accrued any liability associated with these matters.

In addition, from time to time, we receive requests for information from state Attorneys General, accrediting bodies, state higher education regulatory bodies and other federal and state government agencies relating to investigations or inquiries being conducted by other state or federal agencies, pending litigation or specific complaints received from students or former students. These requests can be broad and time consuming to respond to, and there is a risk that they could expand and/or lead to a formal inquiry or investigation into our practices. We received such a request from the Wisconsin Department of Justice for information relating to programs offered by University of Phoenix to Wisconsin residents. On May 2, 2016, we accepted service of a Wisconsin Department of Justice subpoena in order to allow the University to lawfully produce student records to the Wisconsin Department of Justice, subject to certain notice requirements, in connection with this inquiry.

Federal Trade Commission Investigation

In July 2015, we received a Civil Investigative Demand from the U.S. Federal Trade Commission (the "FTC") relating to an investigation to determine if certain unnamed persons, partnerships, corporations, or others have engaged or are engaging in deceptive or unfair acts or practices in or affecting commerce in the advertising, marketing, or sale of secondary or postsecondary educational products or services or educational accreditation products or services. The Demand requires us to produce documents and information regarding a broad spectrum of the business and practices of University of Phoenix, including in respect of marketing, recruiting, enrollment, financial aid, tuition and fees, academic programs, academic advising, student retention, billing and debt collection, complaints, accreditation, training, military recruitment, and other compliance matters, for the time period of January 1, 2011 to the present. We are cooperating with the investigation. We cannot predict the eventual scope, duration or outcome of the investigation at this time.

Because of the many questions of fact and law that may arise, the outcome of the FTC investigation is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for this matter and, accordingly, we have not accrued any liability associated with this matter.

Open Colleges Investigations

In September 2015, Open Colleges received a Notice from the Australian Competition and Consumer Commission ("ACCC") requiring Open Colleges to produce information about student refunds upon withdrawal and related matters for the period of time since July 2014. In addition, Open Colleges receives inquiries and is subject to audits from time to time from governmental regulatory authorities, including an inquiry in October 2015 from the Australian Skills Quality Authority ("ASQA"), the national regulator of vocational education programs, regarding student complaints about marketing practices, refund policies and other matters (since concluded without material findings).

Following a recent compliance audit, Apollo Global's two primary registered training organizations in Australia, Open Colleges Pty Ltd., and Integrated Care & Management Training, Pty Ltd., each received a notice of noncompliance and intention to make a decision to impose sanctions from ASQA. The notice identified several alleged compliance deficiencies and stated that ASQA intended to make a decision on whether to impose sanctions on the institutions which could include cancellation of registration or imposition of lesser sanctions. One of the findings involves a change in the interpretation of applicable course requirements and will require changes in our procedures for student workplace skills assessments used in connection with courses that represent a substantial portion of the Open Colleges institutions' enrollment.

Implementing an updated workplace skills assessment model in order to address ASQA's concerns will require operational changes for these institutions and increase operating costs, perhaps substantially, and could have competitive implications.

We have until November 7, 2016 to respond to this notice of noncompliance. We cannot currently predict the timing or ultimate outcome of this matter.

Because of the many questions of fact and law that may arise, the outcome of these investigative proceedings is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss for these matters and, accordingly, we have not accrued any liability associated with these matters.

Office of the Inspector General of the U.S. Department of Education ("OIG") Subpoena

On March 21, 2014, University of Phoenix received a subpoena from the Mid-Atlantic Region of the OIG. The subpoena seeks the production by the University of documents and detailed information regarding a broad spectrum of the activities conducted in the University's Centralized Service Center for the Northeast Region located in Columbia, Maryland, for the time period of January 1, 2007 to the present, including information relating to marketing, recruitment, enrollment, financial aid processing, fraud prevention, student retention, personnel training, attendance, academic grading and other matters. We are cooperating with these requests. We cannot predict the eventual scope, duration or outcome of this matter at this time.

Because of the many questions of fact and law that may arise, the outcome of this matter is uncertain at this point. Based on the information available to us at present, we cannot reasonably estimate a range of loss and, accordingly, we have not accrued any liability associated with this matter.

UNIACC Investigations

UNIACC was advised by the National Accreditation Commission of Chile in November 2011 that its institutional accreditation would not be renewed and therefore had lapsed. Subsequently, in June 2012, a prosecutor's office in Santiago, Chile requested that UNIACC provide documents relating to UNIACC's relationship with a former employee and consultant who served as a member of the National Accreditation Commission ("CNA") until March 2012, and we received requests for additional information in connection with this investigation. Furthermore, in August 2012, the prosecutor's office began requesting that UNIACC provide information about UNIACC's business structure and operations and its relationship with other Apollo entities, in connection with an additional investigation regarding UNIACC's compliance with applicable laws concerning the generation of profit by universities such as UNIACC. The prosecutor's office also requested additional information from UNIACC regarding certain government funding received by the institution. On April 7, 2016, the prosecutor closed the investigation related to the CNA matter.

Shareholder Derivative Lawsuit

On June 10, 2016, we received a shareholder demand to commence a civil action against each of our directors and certain of our current and former officers on grounds of breach of fiduciary duty and other claims, and to make available for examination certain records. The demand is a condition precedent under applicable Arizona law to the filing of a derivative lawsuit on behalf of the Company seeking damages from directors and officers for breach of fiduciary duty. On July 11, 2016, we learned that, prior to the expiration of the required 90-day waiting period, the shareholders filed a derivative complaint in the Superior Court of Arizona, captioned *Kevin J. Guinan et. al. v. Apollo Education Group, Inc. et. al.*, Case Number CV2016-005901, seeking relief from the waiting period requirement and damages from directors and officers for alleged breach of fiduciary duties, unjust enrichment, abuse of control and corporate waste relating to recruitment practices, false claims, our new student classroom, share repurchases and other matters. On July 26, 2016, the plaintiffs filed a motion for a preliminary injunction, seeking, among other things, to terminate or postpone our pending merger described in Note 1, Nature of Operations and Significant Accounting Policies. The parties have reached an agreement to resolve the lawsuit, subject to negotiation of a stipulation of settlement and court approval. We anticipate that we will be required to pay the plaintiffs' expenses and an amount for attorneys' fees yet to be determined and subject to court approval. The settlement and associated expenses and fees are not expected to be material.

Class Action under the Telephone Consumer Protection Act

On June 24, 2016, Twonesha Johnson-Hendricks filed a class action complaint, *Johnson-Hendricks v. University of Phoenix*, 2:16-cv-01434 (E.D. Cal.) in the United States District Court for the Eastern District of California, alleging that University of Phoenix violated the Telephone Consumer Protection Act by contacting class members without their consent. During the fourth quarter of fiscal year 2016, we settled this matter for an immaterial amount, and the matter has since been dismissed .

Securities Class Action (Teamsters Local 617 Pension and Welfare Funds)

On November 2, 2006, the Teamsters Local 617 Pension and Welfare Funds filed a class action complaint alleging that we and certain of our current and former directors and officers violated the Securities Exchange Act of 1934. The complaint is entitled *Teamsters Local 617 Pension & Welfare Funds v. Apollo Group, Inc. et al.*, Case Number 06-cv-02674-RCB.

The parties reached an agreement in principle to settle this matter for an immaterial amount and, on July 29, 2015, the district court entered an order approving the settlement and dismissing with prejudice the claims against defendants. Subsequent to the approval, an individual non-class member filed an untimely objection to the settlement with the district court. On December 7, 2015, the district court struck the objection.

Note 17. Regulatory Matters

All U.S. federal student financial aid programs are established by Title IV of the Higher Education Act and regulations promulgated thereunder. The U.S. Congress must periodically reauthorize the Higher Education Act and annually determine the funding level for each Title IV program. The most recent reauthorization of the Higher Education Act expired September 30, 2013, but Title IV student financial aid programs remain authorized and functioning. Congress continues to engage in discussion and activity regarding Higher Education Act reauthorization, but the timing and terms of any eventual reauthorization cannot be predicted.

The Higher Education Act, as reauthorized, specifies the manner in which the U.S. Department of Education reviews institutions for eligibility and certification to participate in Title IV programs. Every educational institution involved in Title IV programs must be certified to participate and is required to periodically renew this certification, which is granted in a Program Participation Agreement with the institution.

University of Phoenix's Title IV Program Participation Agreement expired on December 31, 2012. The University has submitted necessary documentation for recertification and its eligibility continues on a month-to-month basis until the Department issues its decision on the application. We believe that the University's application will be renewed in due course. However, we cannot predict whether or to what extent the continued challenging political and regulatory climate, our pending merger, and other recent developments in general relating to the proprietary education sector and our business may have on the timing or outcome of the recertification process.

In February 2016, the Department notified the University that for the duration of the month-to-month continuation of the University's Program Participation Agreement, University of Phoenix must obtain from the Department prior approval of substantial changes, including (i) the establishment of additional locations, (ii) any increase in the level of academic offering beyond those listed in the Institution's Eligibility and Certification Approval Report and (iii) the addition of any educational program (including degree, nondegree, or short-term training programs). Some of these substantial changes include changes that previously could be implemented by the University upon notice to the Department and without prior approval.

Additionally, in August 2014, the Department commenced an ordinary course program review of University of Phoenix's administration of Title IV programs covering federal financial aid years 2012-2013 and 2013-2014, as well as compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act, the Drug-Free Schools and Communities Act and related regulations. During fiscal year 2015, the University received a Final Program Review Determination Letter with regard to this program review. All administrative matters are deemed by the Department to be resolved and/or closed, with the exception of findings regarding compliance with the Clery Act, which have been referred to the Department's Clery Team and to the Administrative Action and Appeals Division which is standard protocol in such matters. The outcome of this matter is uncertain at this point and, based on the information available to us at present, we have not accrued any liability associated with this matter**.**

Gainful Employment

Under the Higher Education Act, as reauthorized, proprietary schools are generally eligible to participate in Title IV programs only in respect of educational programs that lead to "gainful employment in a recognized occupation." In connection with this requirement, proprietary postsecondary institutions are required to provide information to prospective students about each eligible program, including the relevant recognized occupations, cost, completion rate, job placement rate, and median loan debt of program completers. These reporting requirements increase our costs of operations and could adversely impact student enrollment, persistence and retention if our reported program information compares unfavorably with other reporting educational institutions.

In October 2014, the U.S. Department of Education published final regulations, effective July 1, 2015, on the metrics for determining whether an academic program prepares students for gainful employment in a recognized occupation. Under the final regulations, which apply on a program-by-program basis, students enrolled in a program will be eligible for Title IV student financial aid only if that program satisfies at least one of two tests relating to student debt service-to-earnings ratios. The two tests specify minimum student loan debt service-to-earnings ratios calculated on the basis of the average earnings of program graduates: one test measures student loan debt service as a percentage of total earnings, and the other test measures student loan debt service as a percentage of deemed discretionary earnings. If a program fails to meet both of the minimum ratios for one year, the institution will be required to provide a warning notice to prospective and enrolled students advising that the program may lose Title IV eligibility based on the final student loan debt service-to-earnings ratios for the next year. Programs that fail to meet both of the minimum ratios for two out of three years will immediately cease to be Title IV eligible for a period of at least three years.

The Department has indicated that it plans to issue the official 2014 gainful employment debt service-to-earnings ratios by January 2017, and we anticipate the 2015 ratios will be issued in early fiscal year 2018. We believe it is likely that some of University of Phoenix's programs will be impacted by the gainful employment regulations. Beginning in September 2015 and continuing through early fiscal year 2017, the University ceased enrolling or plans to cease enrolling new students in programs it believes may be impacted in connection with its initiatives to transform itself into a more focused, higher retaining and less complex institution. As of August 31, 2016, students in such programs represented approximately 15% of the University's Degreed Enrollment. Students who are currently enrolled in such programs, and who do not elect to enroll in a different University of Phoenix program, are being taught-out in due course.

Changes in student borrowing needs and practices, student loan interest rates, labor markets and other factors outside of our control could adversely impact compliance with these regulations for some of our programs in the future. The Department has not yet announced the future, annual protocol for calculating and disseminating the debt service-to-earnings ratios. We will not know of a program's failure to meet the minimum ratios until well after the measuring period, and therefore students enrolled in such a program could lose their access to federal financial aid before completing the program. Accordingly, we will not have the opportunity to make program changes for any programs that did not meet either of the minimum ratios for 2014. If those programs also do not meet either of the minimum ratios for 2015, they will lose eligibility to participate in Title IV financial aid programs at the time the official 2015 ratios are published, which we anticipate will occur in early fiscal year 2018.

U.S. Department of Education Rulemaking Initiatives

In recent years, the U.S. Department of Education has engaged in rulemaking discussions intended to develop new regulations focused on various topics. The negotiated rulemaking process typically begins with the Department issuing proposed regulations open for public comment after which the Department responds and publishes final regulations. We cannot predict the content of any new regulations that may emerge from the negotiated rulemaking process or the potential impact of such regulations on our domestic institutions.

A negotiated rulemaking committee was convened by the Department in January 2016 on the topic of the process and standards for discharge of student loans, commonly known as defense to repayment, and certain other matters. The committee failed to reach consensus. In June 2016, the Department issued a Notice of Proposed Rulemaking to establish a new federal standard and a process for determining whether a borrower has a defense to repayment on federal student loans based on an act or omission of a school.

The proposed regulations would provide repayment relief to borrowers in respect of student loans first disbursed on or after July 1, 2017 where:

- a school breaches contractual promises to a student;
- certain judgments based on any state or federal law are entered against a school related to the loan or the educational services after a contested proceeding; or
- the school makes substantial misrepresentations about the nature of its educational programs, financial charges or employability of graduates, or insubstantial misrepresentations where other factors are present, such as pressure to enroll quickly or taking advantage of students' distress or lack of knowledge or sophistication.

As proposed, there would be no limitation on claims to discharge future amounts owed by the borrower and a six-year limitation (from the date of the breach) on claims to discharge amounts already paid by the borrower. The proposed regulations also would allow the Department to identify and grant relief to groups of students where there are common facts, including students who have not requested relief.

The proposed borrower defense definitions would not apply for loans first disbursed prior to July 1, 2017, and these loans will remain subject to the current borrower defense definitions; however, under the proposed rules, these loans will follow the same claims process, individual and group, and time limitations.

As proposed, the Department would be entitled to seek reimbursement from the school in most cases in respect of loans discharged under the new procedure.

In addition, the proposed regulations specify early warning triggers regarding financial distress that would automatically require a school to post a letter of credit in the amount of at least 10% of the school's annual Title IV disbursements upon the occurrence of specified events including, but not limited to:

- the commencement of a major lawsuit by a state or federal government entity, such as a state Attorney General, the Consumer Financial Protection Bureau or the Federal Trade Commission;
- the filing of a substantial number of borrower defense claims;
- default by the school on its debt obligations;
- failure of the school to satisfy the 90/10 Rule;
- programs failing to meet gainful employment regulations;
- accrediting agency actions, including the requirement to submit teach-out plans or being placed on an accreditation status that could result in the school losing its accreditation; and/or
- any event or condition the Department determines is likely to have a material adverse effect on the business, financial condition or results of operations of the institution.

Each separate triggering event would result in a separate letter of credit requirement of at least 10% of annual Title IV disbursements. If a school experiences any of these triggers, the school would be required to warn prospective and current students that it has been required to provide enhanced financial protection to the Department.

Further, the proposed regulations would also institute a loan repayment rate for proprietary institutions and would require disclosure of such rate to prospective and enrolled students if such rate falls below specified levels.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise standards for student loan discharge may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of enforcement actions by state or federal government entities, or the filing of student claims for debt relief, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to administer the regulations, including fact-finding, and the subjective judgments regarding the triggers for debt relief of the letter of credit requirements may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness, and our flexibility in responding to state or federal and certain private lawsuits may be materially reduced because of the possible significant ancillary consequences of an adverse judgment or finding.

Recently, two major proprietary higher education institutions were forced to cease operations and seek bankruptcy protection due to delays in Title IV disbursements and requirements to post letters of credit imposed by the Department based in part on the existence of pending state and federal investigations and the Department's judgment regarding various subjective matters such as the institution's culture. These regulations, if adopted as proposed, would enhance the power of the Department to take summary action that could harm University of Phoenix and Apollo Education Group, perhaps materially, before we could effectively exercise our due process rights, even if the action is based on pending investigations or legal proceedings that ultimately are determined to lack merit.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017.

A separate negotiated rulemaking process was convened by the Department in November 2013 on a variety of topics. Included among the topics was the proposed establishment of requirements for state authorization of distance education programs in order to demonstrate eligibility for Title IV eligibility. A negotiated rulemaking committee was established and met in early 2014. The committee failed to reach consensus. In July 2016, the Department issued draft regulations to establish new federal requirements for such eligibility.

The proposed regulations would establish new requirements to maintain state authorization for Title IV eligibility for distance education programs. Major provisions include, but are not limited to:

- Requiring an institution offering distance education to have requisite state authority to offer such programs to state residents if required by the state;
- Defining and recognizing acceptable state authorization reciprocity agreements;
- Requiring institutions to document individualized state processes for resolving student complaints; and
- Requiring an institution to provide extensive public and individualized disclosures to enrolled and prospective students regarding its programs offered solely through distance education, including information concerning adverse actions filed against the school by state entities or accrediting bodies.

As proposed, the regulations could be interpreted to allow individual states to impose new and diverse requirements on institutions and thereby reduce the regulatory and operational efficiency that our schools use in operating under the current State Authorization Reciprocity Agreement ("SARA"), which currently allows our Title IV eligible programs to operate in those states that have adopted SARA with only home state regulatory approval. States that have adopted SARA now constitute the majority of domestic jurisdictions.

Also as proposed, the regulations could be interpreted to require extensive new public disclosures based upon certain actions by accreditors and state entities, including state Attorneys General. Under some interpretations, the regulations could require disclosure to current and prospective students upon the mere filing of an adverse action and long after the initial action was resolved, even if resolved in favor of the institution.

The proposed regulations, if adopted, could result in significant potential risks for our business, since the precise regulatory scope and definitions for individualized state requirements and disclosures may be unclear or subject to interpretation in a manner that is adverse to us and not fully known or predictable in advance, and certain of the potential adverse consequences could arise from the mere commencement of adverse actions by government entities or accrediting bodies, even if these actions and claims ultimately are found to lack merit. Furthermore, the potential significant discretion vested in the Department to interpret and administer the regulations may result in unexpected outcomes that materially and adversely affect our business. In order to reduce the risk associated with these proposed regulations, if adopted, we may need to modify our administrative and other student-facing practices and procedures in a manner that materially increases our costs and reduces our administrative effectiveness.

The effective date of the proposed regulations, if adopted, cannot be determined at this time, but the proposed regulations could be effective as early as July 1, 2017.

Financial Responsibility Composite Score

To participate in Title IV programs, the U.S. Department of Education regulations specify that an eligible institution of higher education must satisfy specific measures of financial responsibility prescribed by the Department, or post a letter of credit in favor of the Department and accept other conditions on its participation in Title IV programs. Pursuant to the Title IV program regulations, each eligible institution must satisfy a measure of financial responsibility that is based on a weighted average of the following three annual ratios which assess the financial condition of the institution:

- Primary Reserve Ratio - measure of an institution’s financial viability and liquidity;
- Equity Ratio - measure of an institution’s capital resources and its ability to borrow; and
- Net Income Ratio - measure of an institution’s profitability.

These ratios provide three individual scores which are converted into a single composite score. The maximum composite score is 3.0. If an institution’s composite score is at least 1.5, it is considered financially responsible. If an institution’s composite score is less than 1.5 but is 1.0 or higher, it is still considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years under the Department’s “zone” alternative. Under the zone alternative, the Department may subject the institution to various operating or other requirements, which may include being transferred from the “advance” method of payment of Title IV program funds to the heightened cash monitoring payment method under which the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds from the Department for the amount of those disbursements, or being transferred to the more onerous reimbursement payment method under which an institution must submit to the Department documentation demonstrating the eligibility for each Title IV disbursement and wait for the Department’s approval before drawing down Title IV funds.

If an institution does not achieve a composite score of at least 1.0, it is subject to additional requirements in order to continue its participation in the Title IV programs, including submitting to the Department a letter of credit in an amount equal to at least ten percent, and at the Department’s discretion up to 50%, of the Title IV funds received by the institution during its most recently completed fiscal year, and being placed on provisional certification status, under which the institution must receive Department approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department.

In addition, under new regulations that took effect on July 1, 2016, institutions placed on either the heightened cash monitoring payment method or the reimbursement payment method must pay Title IV credit balances to students and parents before requesting Title IV funds from the Department and may not hold Title IV credit balances on behalf of students or parents, even if such balances are expected to be applied to future tuition payments.

The composite scores for Apollo Education Group and University of Phoenix, which are calculated as of the end of our fiscal year, were as follows for the indicated periods:

	Fiscal Year		
	2016	**2015**	**2014**
Apollo Education Group	1.8	2.6	2.5
University of Phoenix	2.9	2.9	2.3

The decline in our fiscal year 2016 consolidated composite score was principally attributable to our decline in profitability, which included $73.4 million of goodwill impairment charges. Refer to Note 8, Goodwill and Intangibles.

We believe that we may be able to take certain corrective measures to maintain composite scores of 1.5 or greater, if we determine that there is increased risk that our composite scores will fall below that level, depending on the circumstances causing the expected decline. However, such measures, if available, may require material modifications to our business and strategy that would adversely impact our future revenue and profitability and/or may involve the issuance of equity or equity-linked securities under challenging circumstances that could result in material dilution to our existing shareholders.

If our composite score falls below 1.5, our liquidity could be subject to severe stress due to the following factors:

- Although not required solely due to participation in the zone alternative discussed above, we could be required by the Department of Education to submit a letter of credit in an amount of 10% or more of our annual Title IV receipts as a result of factors related to the cause of our composite score decline, which letter of credit likely would need to be cash collateralized.
- If the Department places University of Phoenix on the heightened cash monitoring payment method, we would need to deploy additional working capital to conduct our business due to the delay in receipt of Title IV funding. If University of Phoenix is placed on the reimbursement payment method, our working capital needs would increase significantly, the precise amount of which increase cannot be predicted because it would depend on the average length of time required by the Department to evaluate and approve our requests for reimbursement and the amount of any required letter of credit. In addition, under the new regulations that became effective July 1, 2016 regarding students' Title IV fund credit balances, we would be required to significantly alter the manner in which we process and disburse Title IV funds, which would increase our operating costs and could have unexpected and material negative impacts on our operations.

The combined effect of the above factors could cause our business to no longer be sustainable without a significant infusion of equity or other funding. Under current market conditions, there is no assurance that other funding sources would be available in sufficient amounts on terms acceptable to us or at all, and any available equity funding would necessarily involve substantial dilution to our current shareholders.

Higher Learning Commission Accreditation

University of Phoenix is regionally accredited by the Higher Learning Commission ("HLC"), 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 (in combination with state higher education operating and degree granting authority); and
- Qualification for authority to operate in certain states.

In July 2013, the accreditation of University of Phoenix was reaffirmed by HLC, the University's principal accreditor, through the 2022-2023 academic year. The University is subject to the Standard Pathway reaffirmation process, pursuant to which the University will host a comprehensive evaluation visit in 2017 and will undergo its next reaffirmation process in 2022-2023.

90/10 Rule

To remain eligible to participate in Title IV programs, proprietary institutions of higher education must comply with the so-called "90/10 Rule" under the Higher Education Act, as reauthorized, and must derive 90% or less of their cash basis revenue, as defined in the rule, from Title IV programs. The 90/10 Rule percentage for University of Phoenix was 79% for fiscal year 2016. Based on recent trends, we do not expect the 90/10 Rule percentage for University of Phoenix to exceed 90% for fiscal year 2017. However, the 90/10 Rule percentage for the University remains high and could exceed 90% in the future depending on the impact of future changes in the University's enrollment mix, and regulatory and other factors outside our control, including any reduction in military benefit programs or changes in the treatment of such funding for purposes of the 90/10 Rule calculation.

Student Loan Cohort Default Rates

To remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. An educational institution loses eligibility to participate in Title IV programs if its cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years. University of Phoenix's cohort default rate for the 2013 federal fiscal year was 13.3%.

Military Benefit Programs

U.S. Department of Defense Tuition Assistance Program

On January 15, 2016, University of Phoenix was notified by the U.S. Department of Defense ("DoD") that the University's probationary status in respect of its participation in the DoD Tuition Assistance Program for active duty military personnel had been lifted, effective immediately. The University had been placed on probation in October 2015 pending a review by the Department of the University's compliance with the DoD Voluntary Education Partnership Memorandum of Understanding with the University, which is the basis on which the University's active duty military students participate in the DoD Tuition Assistance Program.

The University will be subject to a heightened compliance review for a period of one-year following the removal of probationary status. During this period, the University will continue to engage with the DoD and complete the production of information and documents previously requested by the DoD. In addition, the University will be subject to an enhanced compliance review in fiscal year 2017.

In fiscal year 2016, funding under the DoD Tuition Assistance Program represented less than 1% of the University's net revenue.

U.S. Department of Veterans Affairs Educational Benefits

University of Phoenix participates in the Department of Veterans Affairs educational benefits programs ("VA Programs") for eligible veterans. Under these VA Programs, the educational locations serving veterans are subject to a compliance survey each year. Following the notice of probation in October 2015 from the Department of Defense, which has been subsequently lifted as described above, the Veterans Administration announced the commencement of the annual compliance survey, with an accelerated schedule and increased scope relative to prior years. The annual compliance review was completed with no adverse action imposed on the University. In fiscal year 2016, funding under VA Programs represented approximately 10% of University of Phoenix's cash basis revenue, calculated on the same basis as for the 90/10 Rule.

Note 18. Segment Reporting

We operate in the education industry and our operating segments have been determined based on the method by which our chief operating decision maker evaluates performance and allocates resources. We have not aggregated any of our operating segments, which are presented in our segment reporting as follows:

- *University of Phoenix*, which offers undergraduate and graduate degrees through its colleges and schools in a wide range of program areas as well as various nondegree programs. A significant majority of the University's students attend classes exclusively online, and the University also offers its educational programs and services at ground locations throughout the U.S.
- *Apollo Global*, which includes our institutions based outside the U.S., and its corporate operations. Apollo Global acquired Career Partner during the second quarter of fiscal year 2016. Apollo Global also acquired FAEL during fiscal year 2015, and Open Colleges and Milpark Education during fiscal year 2014. Refer to Note 4, Acquisitions. The operating results of these entities are included in our Apollo Global operating segment from the date of each respective acquisition.
- *Other*, which includes College for Financial Planning, Western International University, The Iron Yard, Apollo Professional Development, and Apollo corporate activities. Apollo acquired The Iron Yard during fiscal year 2015, and its operating results are included in Other in our segment reporting from the acquisition date.

Management evaluates performance based on reportable segment operating income (loss). This measure of profit includes allocating corporate support costs to each segment as part of transfer pricing arrangements and/or a general allocation, but excludes taxes, interest income and expense, and certain revenue and unallocated corporate charges. At the discretion of management, certain corporate costs are not allocated to the subsidiaries due to their designation as special charges because of their infrequency of occurrence, the non-cash nature of the expense and/or the determination that the allocation of these costs to the subsidiaries will not result in an appropriate measure of the subsidiaries' results.

No individual customer accounted for more than 10% of our consolidated net revenue in fiscal years 2016, 2015 or 2014.

A summary of financial information by reportable segment is as follows:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Net revenue:			
University of Phoenix	$ 1,631,412	$ 2,148,312	$ 2,632,949
Apollo Global	433,700	391,217	338,008
Other	36,738	26,748	25,908
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865
Operating (loss) income[1]:			
University of Phoenix	$ 80,226	$ 257,366	$ 499,699
Apollo Global[2]	(37,895)	(49,527)	(74,189)
Other[3]	(107,924)	(92,895)	(70,546)
Operating (loss) income	(65,593)	114,944	354,964
Reconciling items:			
Interest income	4,017	3,050	2,230
Interest expense	(6,722)	(6,595)	(7,914)
Other loss, net	(3,212)	(5,756)	(560)
Loss (income) from continuing operations before income taxes	$ (71,510)	$ 105,643	$ 348,720
Depreciation and amortization[4]:			
University of Phoenix	$ 13,576	$ 18,002	$ 26,783
Apollo Global	38,807	39,376	38,168
Other	57,555	67,925	73,859
Depreciation and amortization[4]	$ 109,938	$ 125,303	$ 138,810
Capital expenditures:			
University of Phoenix	$ 22,985	$ 12,799	$ 8,280
Apollo Global	19,397	25,582	22,231
Other	30,692	59,580	70,155
Capital expenditures	$ 73,074	$ 97,961	$ 100,666

[1] University of Phoenix, Apollo Global and Other include restructuring and impairment charges during the periods, which includes a $71.8 million goodwill impairment charge during the first quarter of fiscal year 2016 for our University of Phoenix reporting unit. Refer to Note 2, Restructuring and Impairment Charges, and Note 8, Goodwill and Intangibles.

[2] Apollo Global includes $3.9 million, $1.3 million and $19.0 million of expense included in *Merger, acquisition and other related costs, net* during fiscal years 2016, 2015 and 2014, respectively.

[3] Other includes $17.9 million, $4.9 million and $0.8 million of expense include in *Merger, acquisition and other related costs, net* during fiscal years 2016, 2015 and 2014, respectively. Other also includes litigation charges of $0.1 million and $13.9 million in fiscal years 2015 and 2014, respectively.

[4] Depreciation and amortization in fiscal years 2016, 2015 and 2014 excludes $15.8 million, $12.8 million and $7.6 million, respectively, of accelerated depreciation associated with our restructuring activities. Refer to Note 2, Restructuring and Impairment Charges.

Our consolidated assets by reportable segment consist of the following as of August 31:

($ in thousands)	2016	2015	2014
University of Phoenix	$ 599,790	$ 648,755	$ 824,895
Apollo Global	704,207	588,434	668,473
Other[1]	708,909	963,875	1,587,677
Total assets	$ 2,012,906	$ 2,201,064	$ 3,081,045

[1] The majority of the assets included in Other consists of cash and cash equivalents and marketable securities.

A summary of financial information by geographical area based on country of domicile is as follows:

	Year Ended August 31,		
($ in thousands)	2016	2015	2014
Net revenue:			
United States	$ 1,668,030	$ 2,175,058	$ 2,659,258
United Kingdom	224,467	230,596	229,508
Other	209,353	160,623	108,099
Net revenue	$ 2,101,850	$ 2,566,277	$ 2,996,865

	As of August 31,		
($ in thousands)	2016	2015	2014
Property and equipment:			
United States	$ 220,536	$ 257,992	$ 309,812
United Kingdom	58,953	73,801	81,579
Germany	14,777	—	—
Australia	6,147	5,711	3,263
Other	32,289	32,777	41,079
Property and equipment	$ 332,702	$ 370,281	$ 435,733

Note 19. Quarterly Results of Operations (Unaudited)

Our operations are generally subject to seasonal trends, which vary depending on the subsidiary. We have historically experienced, and expect to continue to experience, fluctuations in our results of operations as a result of seasonal variations in the level of our institutions' enrollments including but not limited to, the following:

- *University of Phoenix* - University of Phoenix generally has lower net revenue in our second fiscal quarter (December through February) compared to other quarters due to holiday breaks.
- *Apollo Global* - Our Apollo Global subsidiaries experience seasonality associated with the timing of when courses begin, exam dates, the timing of their respective holidays and other factors. These factors have historically resulted in lower net revenue in our second and fourth fiscal quarters, particularly for BPP, which also results in substantially lower operating results during these quarters due to BPP's relatively fixed cost structure.

APOLLO EDUCATION GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited consolidated quarterly financial information should be read in conjunction with other information included in our consolidated financial statements, and reflects all adjustments, consisting of normal, recurring adjustments, necessary for the fair presentation of the results of interim periods.

	(Unaudited)							
	2016				2015			
(In thousands, except per share data)	Q1 Nov. 30	Q2 Feb. 29	Q3 May 31	Q4 Aug. 31	Q1 Nov. 30	Q2 Feb. 28	Q3 May 31	Q4 Aug. 31
Net revenue	$ 586,021	$ 465,348	$ 558,002	$ 492,479	$ 714,525	$ 575,103	$ 676,358	$ 600,291
Operating (loss) income[(1), (2)]	(45,249)	(80,816)	31,999	28,473	64,164	(37,469)	93,284	(5,035)
(Loss) income from continuing operations	(58,868)	(63,136)	19,799	20,866	34,747	(25,696)	49,626	(11,197)
Net (loss) income	(62,127)	(63,136)	19,799	14,434	32,469	(36,138)	47,440	(19,476)
Net (loss) income attributable to Apollo	(60,765)	(60,396)	20,744	15,863	33,785	(33,610)	48,064	(18,484)
(Loss) earnings per share - Basic:[(3)]								
Continuing operations attributable to Apollo	$ (0.53)	$ (0.56)	$ 0.19	$ 0.20	$ 0.33	$ (0.21)	$ 0.47	$ (0.09)
Discontinued operations attributable to Apollo	(0.03)	—	—	(0.05)	(0.02)	(0.10)	(0.02)	(0.08)
Basic (loss) income per share attributable to Apollo	$ (0.56)	$ (0.56)	$ 0.19	$ 0.15	$ 0.31	$ (0.31)	$ 0.45	$ (0.17)
(Loss) earnings per share - Diluted:[(3)]								
Continuing operations attributable to Apollo	$ (0.53)	$ (0.56)	$ 0.19	$ 0.20	$ 0.33	$ (0.21)	$ 0.46	$ (0.09)
Discontinued operations attributable to Apollo	(0.03)	—	—	(0.06)	(0.02)	(0.10)	(0.02)	(0.08)
Diluted (loss) income per share attributable to Apollo	$ (0.56)	$ (0.56)	$ 0.19	$ 0.14	$ 0.31	$ (0.31)	$ 0.44	$ (0.17)
Basic weighted average shares outstanding	108,446	108,595	108,658	108,939	108,581	108,166	107,678	107,950
Diluted weighted average shares outstanding	108,446	108,595	109,444	110,269	109,378	108,166	108,623	107,950

(1) Operating (loss) income includes the following for fiscal year 2016:

- *Restructuring and impairment charges* of $97.8 million, $29.4 million, $22.4 million and $9.5 million in the first, second, third and fourth quarters, respectively;
- *Merger, acquisition and other related costs, net* of $4.0 million, $12.9 million, $8.3 million in the first, second and third quarters, respectively, and a $3.4 million credit in the fourth quarter principally due to a decrease in estimated contingent consideration.

(2) Operating (loss) income includes the following for fiscal year 2015:

- *Restructuring and impairment charges* of $18.8 million, $22.5 million, $11.4 million and $29.1 million in the first, second, third and fourth quarters, respectively;
- *Merger, acquisition and other related costs, net* of $3.2 million, $1.8 million and $1.7 million in the first, second and fourth quarters, respectively, and a $0.5 million credit in the third quarter principally due to a decrease in estimated contingent consideration; and
- *Litigation charges* of $0.1 million in the second quarter.

(3) Basic and diluted (loss) earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted (loss) income per share may not equal annual basic and diluted income per share.

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

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

We intend to maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our Chief Executive Officer ("Principal Executive Officer") and our Chief Financial Officer ("Principal Financial Officer"), as appropriate, to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. Our Disclosure Committee meets on a quarterly basis and more often if necessary.

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act), as of the end of the period covered by this report. Based on that evaluation, management concluded that, as of that date, our disclosure controls and procedures were effective at the reasonable assurance level.

Attached as exhibits to this Annual Report on Form 10-K are certifications of our Principal Executive Officer and Principal Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act. This Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of our Principal Executive Officer and Principal Financial Officer.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management's intent is to design a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP in the United States of America.

Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of August 31, 2016, utilizing the criteria described in the "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether our internal control over financial reporting was effective as of August 31, 2016. Based on our assessment, management believes that, as of August 31, 2016, the Company's internal control over financial reporting is effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, independently assessed the effectiveness of the Company's internal control over financial reporting. Deloitte & Touche LLP has issued a report, which is included at the end of Part II, Item 9A of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended August 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apollo Education Group, Inc. and Subsidiaries
Phoenix, Arizona

We have audited the internal control over financial reporting of Apollo Education Group, Inc. and subsidiaries (the "Company") as of August 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended August 31, 2016 of the Company, and our report dated October 20, 2016 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
October 20, 2016

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information relating to our Board of Directors, Executive Officers, and Corporate Governance required by this item appears in the Information Statement for Apollo Education Group, Inc., to be filed within 120 days of our fiscal year end (August 31, 2016) and such information is incorporated herein by reference.

Our employees must act ethically at all times and in accordance with the policies in our Code of Business Ethics. We require full compliance with this policy from all designated employees including our Chief Executive Officer, Interim Chief Financial Officer, and Chief Accounting Officer. We publish the policy, and any amendments or waivers to the policy, on our website located at www.apollo.edu.

Item 11. *Executive Compensation*

Information relating to this item appears in the Information Statement for Apollo Education Group, Inc., to be filed within 120 days of our fiscal year end (August 31, 2016) and such information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information relating to this item appears in the Information Statement for Apollo Education Group, Inc., to be filed within 120 days of our fiscal year end (August 31, 2016) and such information is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information relating to this item appears in the Information Statement for Apollo Education Group, Inc., to be filed within 120 days of our fiscal year end (August 31, 2016) and such information is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

Information relating to this item appears in the Information Statement for Apollo Education Group, Inc., to be filed within 120 days of our fiscal year end (August 31, 2016) and such information is incorporated herein by reference.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Financial Statements filed as part of this report*

2. *Financial Statement Schedules*

All financial statement schedules have been omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included on the Consolidated Financial Statements and Notes thereto.

3. *Exhibits*

Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit Number	Filing Date	Filed Herewith
2.1	Agreement and Plan of Merger by and among Carnegie Learning, Inc., Apollo Group, Inc.,† BHCL Acquisition Co. and CLI Shareholder Representative, LLC, dated August 2, 2011	10-K	No. 000-25232	2.1	October 21, 2014	
2.2	First Amendment to Agreement and Plan of Merger by and among Carnegie Learning, Inc., Apollo Group, Inc., BHCL Acquisition Co. and CLI Shareholder Representative, LLC, dated August 31, 2011	10-K	No. 000-25232	2.2	October 20, 2011	
2.3	Technology Assignment and License Agreement by and between Apollo Group, Inc., Carnegie Mellon University and Carnegie Learning, Inc., dated August 2, 2011	10-K	No. 000-25232	2.3	October 21, 2014	
2.4	Stock Purchase Agreement by and among Apollo Group, Inc., an Arizona corporation, Apollo Global, Inc., a Delaware corporation, Carlyle U.S. Growth Fund III, L.P. /f/k/a Carlyle Venture Partners III, L.P., a Delaware limited partnership and CVP III Coinvestments, L.P., dated October 12, 2012	10-Q	No. 000-25232	2.1	January 8, 2013	
2.5	Share Sale Agreement by and among the Sellers and Restrained Persons party thereto, ACN 149 902 330 Pty Limited, Apollo Global Asia-Pacific Pty Ltd and Apollo Education Group, Inc., dated December 16, 2013(1)	10-Q	No. 000-25232	2.1	April 1, 2014	
2.6	Agreement on the Sale and Transfer of Shares in a German Limited Liability Company (GMBH), by and between the Sellers party thereto, Apollo Global Germany GmbH, Career Partner GmbH and BPP Holdings Limited, dated October 20, 2015	10-Q	No. 000-25232	2.1	January 11, 2016	
2.7	First Amendment Agreement to the Agreement on the Sale and Transfer of Shares in a German Limited Liability Company (GMBH), by and between the Sellers party thereto, Apollo Global Germany GmbH, Career Partner GmbH and BPP Holdings Limited, dated December 10, 2015	10-Q	No. 000-25232	2.2	January 11, 2016	
2.8	Agreement and Plan of Merger, dated as of February 7, 2016, among Apollo Education Group, Inc., AP VIII Queso Holdings, L.P. and Socrates Merger Sub, Inc.	8-K	No. 000-25232	2.1	February 8, 2016	
2.9	Amendment No. 1 to the Agreement and Plan of Merger, dated as of May 1, 2016	8-K	No. 000-25232	2.1	May 2, 2016	
2.10	Amendment No. 2 to the Agreement and Plan of Merger, dated as of June 17, 2016	10-Q	No. 000-25232	2.2	July 7, 2016	
2.11	Amendment No. 3 to the Agreement and Plan of Merger, dated as of September 29, 2016					X
3.1	Amended and Restated Articles of Incorporation of Apollo Education Group, Inc., as amended effective November 15, 2013	10-Q	No. 000-25232	3.1	January 7, 2014	
3.2	Amended and Restated Bylaws of Apollo Education Group, Inc., as amended through January 8, 2016	8-K	No. 000-25232	3.2	January 11, 2016	
10.1	Apollo Group, Inc. Long-Term Incentive Plan*	S-1	No. 33-83804	10.3	September 9, 1994	
10.2	Apollo Group, Inc. Plan Amendment to Long-Term Incentive Plan*	10-Q	No. 000-25232	10.5	June 28, 2007	

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.3	Apollo Group, Inc. Plan Amendment to Long-Term Incentive Plan*	10-K	No. 000-25232	10.3	October 27, 2009	
10.4	Apollo Group, Inc. Amended and Restated Savings and Investment Plan*	10-Q	No. 000-25232	10.4	January 14, 2002	
10.5	Apollo Group, Inc. Third Amended and Restated 1994 Employee Stock Purchase Plan*	10-K	No. 000-25232	10.5	November 14, 2005	
10.6	Apollo Group, Inc. 2000 Stock Incentive Plan (as amended and restated July 31, 2015)*	8-K	No. 000-25232	10.1	August 5, 2015	
10.7	Form of Performance Share Award Agreement (Apollo Global Metrics)* (used for awards from 2011-2012)	10-K	No. 000-25232	10.21	October 20, 2011	
10.8	Form of Performance Share Award Agreement (Apollo Global Metrics) (revised June 25, 2013)* (used for awards in and after August 2013)	10-Q	No. 000-25232	10.4	June 25, 2013	
10.9	Form of Performance Share Award Agreement (Apollo Group Metrics)* (used for awards from 2011-2012)	10-K	No. 000-25232	10.22	October 20, 2011	
10.10	Form of Performance Share Award Agreement (Apollo Group Metrics) (revised June 25, 2013)* (used for awards in and after August 2013)	10-Q	No. 000-25232	10.5	June 25, 2013	
10.11	Form of Cash Retention Award Agreement*	10-Q	No. 000-25232	10.1	January 8, 2013	
10.12	Form of Special Cash Retention Award Agreement*	10-Q	No. 000-25232	10.6	June 25, 2013	
10.13	Form of Executive Cash Retention Award Agreement* (used for awards to officers other than Gregory W. Cappelli)	10-K	No. 000-25232	10.13	October 22, 2015	
10.14	Form of Executive Cash Retention Award Agreement* (used for awards to Gregory W. Cappelli)	10-K	No. 000-25232	10.14	October 22, 2015	
10.15	Form of Apollo Group, Inc. Non-Employee Director Stock Option Agreement* (used for awards prior to July 2011)	10-Q	No. 000-25232	10.6	June 28, 2007	
10.16	Form of Apollo Group, Inc. Non-Employee Director Stock Option Agreement With Limited Transferability* (used for awards in and after July 2011)	10-K	No. 000-25232	10.10	October 20, 2011	
10.17	Form of Apollo Group, Inc. Non-Employee Director Restricted Stock Unit Award Agreement*	10-Q	No. 000-25232	10.7	June 28, 2007	
10.18	Form of Apollo Group, Inc. Stock Option Agreement (for officers with an employment agreement)* (used for awards prior to July 2011 and for July 2012 award)	10-Q	No. 000-25232	10.3	January 8, 2009	
10.19	Form of Apollo Group, Inc. Stock Option Agreement With Limited Transferability (for officers with an employment agreement)* (used for July 2011 and March 2013 awards)	10-K	No. 000-25232	10.15	October 20, 2011	
10.20	Form of Apollo Group, Inc. Stock Option Agreement With Limited Transferability (for officers with an employment agreement) (revised June 25, 2013)* (used for awards from August 2013 to July 2014)	10-Q	No. 000-25232	10.2	June 25, 2013	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.21	Form of Apollo Education Group, Inc. Stock Option Agreement With Limited Transferability* (used for awards to Gregory W. Cappelli in and after August 2014)	10-K	No. 000-25232	10.23	October 21, 2014	
10.22	Form of Non-Statutory Stock Option Agreement (for officers without an employment agreement)* (used for awards prior to July 2011)	10-Q	No. 000-25232	10.4	January 8, 2009	
10.23	Form of Non-Statutory Stock Option Agreement With Limited Transferability (for officers without an employment agreement)* (used for awards from July 2011 to July 2013)	10-K	No. 000-25232	10.14	October 20, 2011	
10.24	Form of Apollo Group, Inc. Stock Option Agreement With Limited Transferability (for officers without an employment agreement) (revised June 25, 2013)* (used for awards from August 2013 to July 2014)	10-Q	No. 000-25232	10.1	June 25, 2013	
10.25	Form of Apollo Education Group, Inc. Stock Option Agreement with Limited Transferability* (used for awards to officers other than Gregory W. Cappelli in and after August 2014)	10-K	No. 000-25232	10.27	October 21, 2014	
10.26	Form of Apollo Group, Inc. Restricted Stock Unit Award Agreement (for officers with an employment agreement)* (used for awards in July 2009)	10-Q	No. 000-25232	10.1	January 8, 2009	
10.27	Form of Apollo Group, Inc. Restricted Stock Unit Award Agreement (for officers without an employment agreement)* (used for awards in July 2009)	10-Q	No. 000-25232	10.2	January 8, 2009	
10.28	Form of Restricted Stock Unit Award Agreement (Special Retention Award - Form A)*	10-Q	No. 000-25232	10.1	March 29, 2011	
10.29	Form of Restricted Stock Unit Award Agreement (Special Retention Award - Form B)*	10-Q	No. 000-25232	10.2	March 29, 2011	
10.30	Form of Restricted Stock Unit Award Agreement With Performance Condition and Partial Service Vesting Acceleration* (used for awards from 2010 to July 2013)	10-K	No. 000-25232	10.20	October 20, 2011	
10.31	Form of Restricted Stock Unit Award Agreement With Performance Condition and Partial Service Vesting Acceleration (revised June 25, 2013)* (used for awards from August 2013 to July 2014)	10-Q	No. 000-25232	10.3	June 25, 2013	
10.32	Form of Restricted Stock Unit Award Agreement With Performance Condition and Partial Service Vesting Acceleration* (used for awards to officers other than Gregory W. Cappelli in and after August 2014)	10-K	No. 000-25232	10.34	October 21, 2014	
10.33	Form of Restricted Stock Unit Award Agreement With Performance Condition and Partial Service Vesting Acceleration* (used for awards to Gregory W. Cappelli in and after August 2014)	10-K	No. 000-25232	10.35	October 21, 2014	
10.34	Form of Restricted Stock Unit Award Agreement With Performance Condition, Partial Service Vesting Acceleration and Deferral* (used for awards to Gregory W. Cappelli in and after August 2016)	10-Q	No. 000-25232	10.1	January 8, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.35	Form of Restricted Stock Unit Award Agreement With Performance Condition, Partial Service Vesting Acceleration and Deferral* (used for awards to officers other than Gregory W. Cappelli in and after August 2016)	10-Q	No. 000-25232	10.2	January 8, 2015	
10.36	Deferral Election Form for Restricted Stock Unit Awards granted in and after August 2016*	10-Q	No. 000-25232	10.3	January 8, 2015	
10.37	Deferral Election Form for Non-Employee Board Members*	10-Q	No. 000-25232	10.1	January 11, 2016	
10.38	Aptimus, Inc. 2001 Stock Plan*	S-8	No. 333-147151	99.1	November 5, 2007	
10.39	Apollo Group, Inc. Stock Option Assumption Agreement Aptimus, Inc. 2001 Stock Plan*	S-8	No. 333-147151	99.2	November 5, 2007	
10.40	Apollo Group, Inc. Stock Appreciation Right Assumption Agreement Aptimus, Inc. 2001 Stock Plan*	S-8	No. 333-147151	99.3	November 5, 2007	
10.41	Aptimus, Inc. 1997 Stock Option Plan, as amended*	S-8	No. 333-147151	99.4	November 5, 2007	
10.42	Apollo Group, Inc. Stock Option Assumption Agreement Aptimus, Inc. 1997 Stock Option Plan, as amended*	S-8	No. 333-147151	99.5	November 5, 2007	
10.43	Apollo Education Group, Inc. Executive Officer Performance Incentive Plan (as amended and restated effective as of October 13, 2016)*	8-K	No. 000-25232	10.1	October 14, 2016	
10.44	Apollo Group, Inc. Deferral Election Program for Non-Employee Board Members*	10-K	No. 000-25232	10.20	October 27, 2009	
10.45	Apollo Group, Inc. Deferred Compensation Plan (effective February 1, 2012) (as amended and restated November 1, 2014)*	10-Q	No. 000-25232	10.1	March 25, 2015	
10.46	Apollo Group, Inc. Senior Executive Severance Pay Plan (as amended and restated effective as of September 1, 2013)*	10-K	No. 000-25232	10.43	October 22, 2013	
10.47	Form of Indemnification Agreement - Employee Director*	10-K	No. 000-25232	10.23	October 21, 2010	
10.48	Form of Indemnification Agreement - Outside Director*	10-K	No. 000-25232	10.24	October 21, 2010	
10.49	Shareholder Agreement among Apollo Group, Inc. and holders of Apollo Group Class B common stock, dated September 7, 1994	S-1	No. 33-83804	10.1	September 9, 1994	
10.50	Amendment to Shareholder Agreement among Apollo Group, Inc. and holders of Apollo Group Class B common stock, dated May 25, 2001	10-K	No. 000-25232	10.10b	November 28, 2001	
10.51	Amendment to Shareholder Agreement among Apollo Group, Inc. and holders of Apollo Group Class B common stock, dated June 23, 2006	10-K	No. 000-25232	10.23c	October 27, 2009	
10.52	Amendment to Shareholder Agreement among Apollo Group, Inc. and holders of Apollo Group Class B common stock, dated May 19, 2009	10-K	No. 000-25232	10.23d	October 27, 2009	
10.53	Amendment to Shareholder Agreement and Termination, dated as of February 7, 2016, among the Apollo Class B Voting Stock Trust No. 1, the Peter Sperling Voting Stock Trust, Peter V. Sperling, and Apollo Education Group, Inc.	8-K	No. 000-25232	10.9	February 8, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit Number	Filing Date	Filed Herewith
10.54	Amended and Restated Employment Agreement between Apollo Group, Inc. and Gregory W. Cappelli, dated June 5, 2014*	10-K	No. 000-25232	10.53	October 21, 2014	
10.55	Letter Agreement between Apollo Education Group, Inc. and Gregory W. Cappelli, dated September 13, 2016*					X
10.56	Offer letter between Apollo Group, Inc. and Sean Martin, dated August 23, 2010*	10-Q	No. 000-25232	10.1	January 10, 2011	
10.57	Clarification letter between Apollo Group, Inc. and Sean Martin, dated September 20, 2010*	10-Q	No. 000-25232	10.2	January 10, 2011	
10.58	Amendment to Special Cash Retention Award Agreement between Apollo Education Group, Inc. and Sean Martin, dated August 10, 2015*	10-K	No. 000-25232	10.57	October 22, 2015	
10.59	Credit Agreement among Apollo Group, Inc., the Lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Wells Fargo Bank, National Association, as Syndication Agents and U.S. Bank National Association, National Bank of Arizona, Morgan Stanley Bank, N.A. and Barclays Bank PLC, as Documentation Agents, dated as of April 18, 2012	10-Q	No. 000-25232	10.1	June 25, 2012	
10.60	Commercial Lease between Cole of Phoenix AZ, LLC and Apollo Group, Inc., dated March 24, 2011	8-K	No. 000-25232	10.2	March 24, 2011	
10.61	Offer Letter dated October 18, 2013 from Apollo Group, Inc. to J. Mitchell Bowling*	8-K	No. 000-25232	10.1	October 30, 2013	
10.62	Offer letter between University of Phoenix and Timothy Slottow dated March 18, 2014*	10-Q	No. 000-25232	10.1	June 25, 2014	
10.63	Offer letter between Apollo Education Group, Inc. and Joseph L. D'Amico, dated April 28, 2015*	8-K	No. 000-25232	10.1	April 28, 2015	
10.64	Letter between Apollo Education Group and Joseph L. D'Amico, effective September 1, 2014 (extending until August 31, 2015 the term of the Consulting Agreement effective September 1, 2013)*	10-Q	No. 000-25232	10.2	January 11, 2016	
10.65	Offer letter between Apollo Education Group and Joseph L. D'Amico, dated December 1, 2015 (for term ending May 31, 2016)*	10-Q	No. 000-25232	10.3	January 11, 2016	
10.66	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and Apollo Class B Voting Stock Trust No. 1.	8-K	No. 000-25232	10.1	February 8, 2016	
10.67	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and Peter V. Sperling.	8-K	No. 000-25232	10.2	February 8, 2016	
10.68	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and the Peter Sperling Voting Stock Trust.	8-K	No. 000-25232	10.3	February 8, 2016	

Exhibit Number	Exhibit Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
		Incorporated by Reference				
10.69	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and Gregory W. Cappelli.	8-K	No. 000-25232	10.4	February 8, 2016	
10.70	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and the San Roque School Charitable Trust.	8-K	No. 000-25232	10.5	February 8, 2016	
10.71	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and the John Sperling Revocable Trust.	8-K	No. 000-25232	10.6	February 8, 2016	
10.72	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and the Aurora Foundation.	8-K	No. 000-25232	10.7	February 8, 2016	
10.73	Voting and Support Agreement, dated as of February 7, 2016, among AP VIII Queso Holdings, L.P., Socrates Merger Sub, Inc., Apollo Education Group, Inc. and the John Sperling 1994 Irrevocable Trust.	8-K	No. 000-25232	10.8	February 8, 2016	
21	List of Subsidiaries					X
23.1	Consent of Independent Registered Public Accounting Firm					X
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

† References in this exhibit index to Apollo Group, Inc. shall be deemed to refer to Apollo Education Group, Inc., formerly known as Apollo Group, Inc.

* Indicates a management contract or compensation plan.

[(1)] Portions of this exhibit have been omitted pursuant to a request for confidential treatment from the Securities and Exchange Commission.

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 to be signed on its behalf by the undersigned, thereunto duly authorized.

APOLLO EDUCATION GROUP, INC.
An Arizona Corporation

Date: October 20, 2016

By: /s/ Gregory J. Iverson

Gregory J. Iverson
Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter V. Sperling Peter V. Sperling	Chairman and Director	October 20, 2016
/s/ Terri C. Bishop Terri C. Bishop	Vice Chairman and Director	October 20, 2016
/s/ Gregory W. Cappelli Gregory W. Cappelli	Chief Executive Officer and Director (Principal Executive Officer)	October 20, 2016
/s/ Gregory J. Iverson Gregory J. Iverson	Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer)	October 20, 2016
/s/ Dana H. Born Dana H. Born	Director	October 20, 2016
/s/ Matthew Carter, Jr. Matthew Carter, Jr.	Director	October 20, 2016
/s/ Richard H. Dozer Richard H. Dozer	Director	October 20, 2016
/s/ Roy A. Herberger, Jr. Roy A. Herberger, Jr.	Director	October 20, 2016
/s/ Ann Kirschner Ann Kirschner	Director	October 20, 2016
/s/ Robert S. Murley Robert S. Murley	Director	October 20, 2016
/s/ Manuel F. Rivelo Manuel F. Rivelo	Director	October 20, 2016
/s/ Darby E. Shupp Darby E. Shupp	Director	October 20, 2016
/s/ Allen R. Weiss Allen R. Weiss	Director	October 20, 2016