AMERICAN PUBLIC EDUCATION INC
Form 10-Q
November 09, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

o 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: - 001-33810

AMERICAN PUBLIC EDUCATION, INC.
(Exact name of registrant as specified in its charter)

Delaware	01-0724376
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

111 West Congress Street
Charles Town, West Virginia 25414
(Address, including zip code, of principal executive offices)

(304) 724-3700
(Registrant's telephone number, including area code)

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 x Accelerated filer o

Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No x

The total number of shares of common stock outstanding as of November 5, 2015 was 16,266,291.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
AMERICAN PUBLIC EDUCATION, INC.
Consolidated Balance Sheets (Current Period Unaudited)
(In thousands)

	As of September 30, 2015 (Unaudited)	As of December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$113,829	$115,634
Accounts receivable, net of allowance of $15,021 in 2015 and $10,699 in 2014	8,917	6,130
Prepaid expenses	9,894	6,379
Income tax receivable	1,216	2,029
Deferred income taxes	7,672	6,046
Total current assets	141,528	136,218
Property and equipment, net	109,858	102,424
Investments	12,306	12,051
Goodwill	38,634	38,634
Other assets, net	9,163	8,577
Total assets	$311,489	$297,904
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,952	$11,029
Accrued liabilities	16,936	13,416
Deferred revenue and student deposits	32,531	23,805
Total current liabilities	57,419	48,250
Deferred income taxes	16,499	15,436
Total liabilities	73,918	63,686
Commitments and contingencies (Note 2)		
Stockholders' equity:		
Preferred stock, $.01 par value; Authorized shares - 10,000; no shares issued or outstanding	—	—
Common stock, $.01 par value; Authorized shares - 100,000; 16,453 issued and outstanding in 2015; 17,152 issued and outstanding in 2014	165	172
Additional paid-in capital	171,949	169,654
Retained earnings	65,457	64,392
Total stockholders' equity	237,571	234,218
Total liabilities and stockholders' equity	$311,489	$297,904

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

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AMERICAN PUBLIC EDUCATION, INC.
Consolidated Statements of Income (Unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015 (Unaudited)	2014	2015 (Unaudited)	2014
Revenue	$76,291	$84,707	$241,998	$258,723
Costs and expenses:				
Instructional costs and services	29,167	30,626	89,123	92,171
Selling and promotional	14,062	17,948	47,233	51,997
General and administrative	17,659	17,432	54,905	55,447
Depreciation and amortization	4,891	4,054	14,178	11,901
Total costs and expenses	65,779	70,060	205,439	211,516
Income from operations before interest income and income taxes	10,512	14,647	36,559	47,207
Interest income	37	98	78	277
Income before income taxes	10,549	14,745	36,637	47,484
Income tax expense	3,796	5,877	13,994	18,377
Equity investment income/(loss), net of taxes	4	(26)	(20)	(27)
Net income	$6,757	$8,842	$22,623	$29,080
Net Income per common share:				
Basic	$0.41	$0.51	$1.34	$1.67
Diluted	$0.41	$0.51	$1.33	$1.65
Weighted average number of common shares:				
Basic	16,562,177	17,255,271	16,843,587	17,394,185
Diluted	16,661,795	17,355,405	16,974,042	17,573,617

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

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AMERICAN PUBLIC EDUCATION, INC.
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30, 2015 (Unaudited)	2014
Operating activities		
Net income	$22,623	$29,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,178	11,901
Stock-based compensation	4,083	3,691
Investment loss	20	27
Deferred income taxes	(563)	(1,097)
Other	115	110
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for bad debt	(2,787)	2,896
Prepaid expenses and other assets	(3,534)	(956)
Income tax receivable	813	3,215
Accounts payable	(3,077)	325
Accrued liabilities	2,211	(4,456)
Deferred revenue and student deposits	8,726	2,434
Net cash provided by operating activities	42,808	47,170
Investing activities		
Capital expenditures	(19,564)	(15,258)
Equity investment	(319)	(1,640)
Note receivable	(226)	(380)
Capitalized program development costs and other assets	(966)	(1,045)
Net cash used in investing activities	(21,075)	(18,323)
Financing activities		
Cash paid for repurchase of common stock	(23,064)	(15,756)
Cash received from issuance of common stock	29	455
Excess (tax)/tax benefit from stock-based compensation	(503)	273
Net cash used in financing activities	(23,538)	(15,028)
Net increase/(decrease) in cash and cash equivalents	(1,805)	13,819
Cash and cash equivalents at beginning of period	115,634	94,820
Cash and cash equivalents at end of period	$113,829	$108,639
Supplemental disclosure of cash flow information		
Income taxes paid	$14,246	$15,096

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

AMERICAN PUBLIC EDUCATION, INC.
Notes to Consolidated Financial Statements

Note 1. Nature of the Business

American Public Education, Inc., or APEI, which together with its subsidiaries is referred to as the "Company", is a provider of online and campus-based postsecondary education to approximately 100,350 students through the operations of two subsidiary institutions:

- American Public University System, Inc., or APUS, provides online postsecondary education directed primarily at the needs of the military and public safety communities through American Military University, or AMU, and American Public University, or APU. APUS has regional institutional accreditation through the Higher Learning Commission.

- National Education Seminars, Inc., which is referred to in these financial statements as Hondros College of Nursing, or HCON, provides nursing education to students at four campuses in the State of Ohio as well as online to serve the needs of the nursing and healthcare community. HCON is nationally accredited by the Accrediting Council of Independent Colleges and Schools and the RN-to-BSN Program is accredited by the Commission on Collegiate Nursing Education. HCON was acquired by APEI on November 1, 2013.

The Company's institutions are licensed or otherwise authorized, or are in the process of obtaining such licenses or authorizations, to offer postsecondary education programs by state authorities to the extent the Company believes such licenses or authorizations are required, and are certified by the United States Department of Education, or ED, to participate in student financial aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, or Title IV programs.

Our operations are organized into two reportable segments:

- American Public Education Segment, or APEI Segment. This segment reflects the operational activities at APUS, other corporate activities, and minority investments.

- Hondros College of Nursing Segment, or HCON Segment. This segment reflects the operational activities of HCON.

Note 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. All intercompany transactions have been eliminated in consolidation. The financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentations. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary to present a fair statement of the Company's consolidated results of operations, financial position and cash flows. Operating results for any interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and footnotes in its audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). The standard is a comprehensive new revenue recognition model 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. As originally issued, ASU 2014-09 would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption not permitted. Accordingly, the standard would only be effective for the Company for periods beginning on or after January 1, 2017.

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However, on July 9, 2015, the FASB voted to approve a one-year deferral of the effective date of the new revenue recognition standard. Public companies will now apply the new revenue standard to annual reporting periods beginning after December 15, 2017, and to all interim reporting periods within the year of adoption. Accordingly, the revised revenue recognition standard will be effective for the Company for the year ending December 31, 2018, with early adoption permitted for annual periods beginning after December 16, 2016. The revised standard will be effective for all interim periods within the year of adoption.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (Subtopic 350-40)" ("ASU 2015-05"). ASU 2015-05 requires customers to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, customers must account for fees related to the software license element in a manner consistent with how the acquisition of other software licenses is accounted for under ASC 350-40; if the arrangement does not contain a software license, customers must account for the arrangement as a service contract. ASU 2015-05 will take effect for the Company for the year ending December 31, 2016 and all interim periods therein. Entities may adopt ASU 2015-05: (1) retrospectively, or (2) prospectively to arrangements entered into, or materially modified, after ASU 2015-05's effective date.

There have been no other applicable material pronouncements since the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Investments

On April 2, 2014, the Company made a $1.5 million investment in preferred stock of Second Avenue Software, Inc. representing approximately 25.9% of its fully diluted equity. Second Avenue Software is a game-based education software company that develops software on a proprietary and "work-for-hire" basis. In connection with the investment, the Company is entitled to certain rights, including the right to representation on the Board of Directors. The Company accounts for its investment in Second Avenue Software under the equity method of accounting. Therefore, the Company recorded the investment at cost and will recognize its share of earnings or losses in the investee in the periods for which they are reported with a corresponding adjustment in the carrying amount of the investment.

Revenue Recognition - APEI Segment

APUS recognizes revenue on a pro rata basis over the period of its courses as APUS completes the tasks entitling it to the benefits represented by such revenue. If a student withdraws during the academic term, APUS recognizes as revenue the remaining non-refundable amount due from the student in the period the withdrawal occurs. The calculation of the remaining non-refundable amount is based upon the APUS student refund policy. For those students who have an outstanding receivable balance at the date of withdrawal, APUS assesses collectability and only recognizes as revenue those amounts where collectability is reasonably assured based on APUS's history with similar student accounts. This policy was implemented effective January 1, 2015. Prior to this, APUS recognized revenue for all student withdrawals and established an allowance for those receivables considered uncollectible.

Restricted Cash

Cash and cash equivalents includes funds held for students for unbilled educational services that were received from Title IV programs. As a trustee of these Title IV program funds, the Company is required to maintain and restrict these funds pursuant to the terms of each of its subsidiary institution's program participation agreement with the U.S. Department of Education. Restricted cash on our Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014 was $2.4 million and $3.9 million, respectively. Changes in restricted cash 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 related to a core activity of our operations.

Commitments and Contingencies

The Company accrues for costs associated with contingencies including, but not limited to, regulatory compliance and legal matters when such costs are probable and can be reasonably estimated. Liabilities established to provide for contingencies are adjusted as further information develops, circumstances change, or contingencies are resolved. The Company bases these accruals on management's estimate of such costs, which may vary from the ultimate cost and expenses associated with any such contingency.

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From time to time, the Company may be involved in litigation in the normal course of its business. The Company is not aware of any pending or threatened litigation matters the resolution of which, in the opinion of management, will have a material adverse effect on the Company’s business, operations, financial condition or cash flows.

Concentration

APUS students utilize various payment sources and programs to finance tuition. These programs include funds from Department of Defense, or DoD, tuition assistance programs, education benefit programs administered by the U.S. Department of Veterans Affairs, or VA, and federal student aid from Title IV programs, as well as cash and other sources. Reductions in or changes to DoD tuition assistance, VA education benefits, Title IV programs and other payment sources could have a significant impact on the Company’s business, operations, financial condition or cash flows. A summary of APEI Segment revenue derived from students by primary funding source for the three and nine months ended September 30, 2015 and September 30, 2014 is included in the table below (unaudited).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Title IV programs	31.2%	36.2%	31.8%	35.2%
DoD tuition assistance programs	34.8%	33.7%	34.7%	35.1%
VA education benefits	21.5%	18.4%	20.9%	17.9%
Cash and other sources	12.5%	11.7%	12.6%	11.8%

HCON's students also utilize various payment sources and programs to finance tuition, including Title IV programs and VA education benefits. For the nine months ended September 30, 2015, approximately 85.7% of the HCON Segment’s revenue was derived from Title IV programs.

Note 3. Net Income Per Common Share

Basic net income per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share increases the shares used in the per share calculation by the dilutive effects of options and restricted stock awards. Stock options are not included in the computation of diluted earnings per share when their effect is anti-dilutive. There were 298,991 and 324,353 anti-dilutive stock options excluded from the calculation for the three and nine months ended September 30, 2015, respectively, compared to 358,940 and 214,579 anti-dilutive stock options excluded from the calculation for the three and nine months ended September 30, 2014, respectively.

Note 4. Income Taxes

The Company is subject to U.S. Federal income taxes as well as income taxes of multiple state jurisdictions. For Federal and state tax purposes, the tax years from 2012 to 2014 remain open to examination.

Note 5. Stock-Based Compensation

On March 15, 2011, the Company’s Board of Directors adopted the American Public Education, Inc. 2011 Omnibus Incentive Plan, or the 2011 Incentive Plan, and the Company’s stockholders approved the 2011 Incentive Plan on May 6, 2011, at which time the 2011 Incentive Plan became effective. Upon effectiveness of the 2011 Incentive Plan, the Company ceased making awards under the American Public Education, Inc. 2007 Omnibus Incentive Plan, or the 2007 Incentive Plan. The 2011 Incentive Plan allows the Company to grant up to 2,000,000 shares plus any shares of common stock that are subject to outstanding awards under the 2007 Incentive Plan or the American Public Education, Inc. 2002 Stock Plan, or the 2002 Stock Plan, that terminate due to expiration, forfeiture, cancellation or otherwise without the issuance of such shares. Prior to 2012, the Company issued a mix of stock options and restricted stock, but since 2011 the Company has not issued any stock options.

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Stock-based compensation expense related to restricted stock and restricted stock unit grants is expensed over the vesting period using the straight-line method for Company employees and the graded-vesting method for members of the Board of Directors, and is measured using the Company's stock price on the date of grant. The Company estimates forfeitures of share-based awards at the time of grant and revises such estimates in subsequent periods if actual forfeitures differ from original projections. The fair value of each option award is estimated at the date of grant using a Black-Scholes option-pricing model. Prior to 2012, the Company calculated the expected term of stock option awards using the “simplified method” in accordance with Securities and Exchange Commission Staff Accounting Bulletins No. 107 and 110 because the Company lacked historical data and was unable to make reasonable assumptions regarding the future. The Company makes assumptions with respect to expected stock price volatility based on the average historical volatility of peers with similar attributes. In addition, the Company determines the risk-free interest rate by selecting the U.S. Treasury five-year constant maturity, quoted on an investment basis in effect at the time of grant for that business day. Estimates of fair value are subjective and are not intended to predict actual future events, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made under FASB ASC Topic 718.

Options previously granted vest ratably over periods of three to five years and expire in seven to ten years from the date of grant. Option activity is summarized as follows (unaudited):

	Number of Options		Weighted Average Exercise Price	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2014	434,401		$30.04		
Options granted	—		$—		
Awards exercised	(9,118	)	$3.29		
Awards forfeited	(49,147	)	$35.97		
Outstanding, September 30, 2015	376,136		$29.91	1.41	$1,441
Exercisable, September 30, 2015	376,136		$29.91	1.41	$1,441

The following table summarizes information regarding stock option exercises (unaudited):

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(In thousands)	
Proceeds from stock options exercised	$30	$455
Intrinsic value of stock options exercised	$170	$904
Tax benefit from exercises	$—	$160

The table below summarizes the restricted stock awards activity for the nine months ended September 30, 2015 (unaudited):

	Number of Shares		Weighted-Average Grant Price and Fair Value
Non-vested, December 31, 2014	360,769		$37.03
Shares granted	127,469		$35.15
Vested shares	(127,830	)	$40.97
Shares forfeited	(21,238	)	$37.16

Non-vested, September 30, 2015	339,170	$34.89

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Stock-based compensation cost charged against income during the three and nine month periods ended September 30, 2015 and September 30, 2014 is as follows (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Instructional costs and services	$378	$312	$1,156	$920
Selling and promotional	165	131	493	392
General and administrative	797	824	2,434	2,379
Stock-based compensation expense in operating income	1,340	1,267	4,083	3,691
Tax benefit	(546)	(502)	(1,669)	(1,461)
Stock-based compensation expense, net of tax	$794	$765	$2,414	$2,230

As of September 30, 2015, there was $7.3 million of total unrecognized compensation cost, representing unrecognized compensation cost associated with non-vested restricted stock. The total remaining cost is expected to be recognized over a weighted average period of 1.7 years.

Note 6. Other Employee Benefits

In November 2007, the Company adopted the American Public Education Employee Stock Purchase Plan, or the ESPP, which was implemented effective July 1, 2008. There were initially 100,000 shares of common stock available for purchase by participating employees under the ESPP. On June 13, 2014, the Company's shareholders approved an amendment to the ESPP to increase the number of shares of the Company’s common stock available for issuance under the plan by 100,000 shares, extend the term of the ESPP to March 7, 2024, and make other administrative changes. As of September 30, 2015, 78,227 shares remained available for purchase under the ESPP.

In June 2015, the Company's 401K Plan, or the Plan, was amended so that effective August 31, 2015, the Plan no longer allows participants to invest future contributions in the Company's common stock. The Plan will completely remove the Company's common stock as an investment election on June 30, 2016. Any of the Company's common stock held by Plan participants as of June 30, 2016 will be sold and automatically re-allocated to an age-appropriate mutual fund.

Note 7. Segment Information

The Company has identified two operating segments that are managed in the following reportable segments:

•American Public Education Segment, or APEI Segment

•Hondros College of Nursing Segment, or HCON Segment

In accordance with FASB ASC Topic 280, Segment Reporting, the chief operating decision-maker has been identified as the Chief Executive Officer. The Chief Executive Officer reviews operating results to make decisions about allocating resources and assessing performance for the APEI and HCON segments.

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A summary of financial information by reportable segment is as follows (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenue:				
American Public Education Segment	$ 69,233	$ 77,191	$ 219,263	$ 236,834
Hondros College of Nursing Segment	7,058	7,516	22,735	21,889
Total Revenue	$ 76,291	$ 84,707	$ 241,998	$ 258,723
Depreciation and Amortization:				
American Public Education Segment	$ 4,558	$ 3,718	$ 13,297	$ 10,937
Hondros College of Nursing Segment	333	336	881	964
Total Depreciation and Amortization	$ 4,891	$ 4,054	$ 14,178	$ 11,901
Income from continuing operations before interest income and income taxes:				
American Public Education Segment	$ 10,049	$ 13,964	$ 34,179	$ 45,043
Hondros College of Nursing Segment	463	683	2,380	2,164
Total income from continuing operations before interest income and income taxes	$ 10,512	$ 14,647	$ 36,559	$ 47,207
Capital Expenditures:				
American Public Education Segment	$ 6,314	$ 5,998	$ 18,448	$ 14,978
Hondros College of Nursing Segment	487	45	1,116	280
Total Capital Expenditures	$ 6,801	$ 6,043	$ 19,564	$ 15,258

A summary of the Company’s consolidated assets by reportable segment is as follows (unaudited):

	As of September 30,	
	2015	2014
	(In thousands)	
Assets:		
American Public Education Segment	$ 256,914	$ 240,259
Hondros College of Nursing Segment	54,575	52,252
Total Assets	$ 311,489	$ 292,511

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our historical results of operations and our liquidity and capital resources should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this report and the audited financial information and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, or the Annual Report.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act". We intend such forward-looking statements, including statements regarding our operations, performance and financial condition, strategic initiatives, and the regulatory and competitive environments affecting our business, to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission ("SEC"). We may, in some cases, use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," " "would," "could," "potentially," "will," or "may," or other words that convey uncertainty of future events or outcomes to ident these forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition and results of operations may vary materially from those expressed in our forward-looking statements. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss in this section of this Quarterly Report on Form 10-Q, in the "Risk Factors" section of this Quarterly Report on Form 10-Q, in the "Risk Factors" section of the Annual Report, and in our various filings with the SEC. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q in combination with the more detailed description of our business in the Annual Report as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Background

American Public Education, Inc., or APEI, which together with its subsidiaries is referred to as the "Company", is a provider of online and on-campus postsecondary education to approximately 100,350 students through two subsidiary institutions. Our subsidiary institutions offer programs designed to prepare individuals for productive contributions to their professions and society, and to offer opportunities that may advance students in their current professions or help them prepare for their next career. Our subsidiary institutions are licensed or otherwise authorized by state authorities, or are in the process of obtaining such licenses or authorizations, to offer postsecondary education programs to the extent the institutions believe such licenses or authorizations are required, and are certified by the United States Department of Education, or ED, to participate in student financial aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, or Title IV programs.

Our two wholly-owned operating subsidiary institutions include the following:

- American Public University System, Inc., or APUS, provides online postsecondary education directed primarily at the needs of the military and public safety communities. APUS is an online university that includes American Military University, or AMU, and American Public University, or APU. APUS has regional institutional accreditation through the Higher Learning Commission, or the HLC. In 2011, the HLC reaffirmed APUS's accreditation for a ten year period, with the next reaffirmation of accreditation occurring in 2021. In 2017, the HLC will visit APUS as part of a standard mid-cycle review. APUS has approximately 99,000 students and offers 99 degree programs and 95 certificate programs in fields of study related to national security, military studies, intelligence, homeland security, criminal justice, technology, business administration, education, health science, and liberal arts.

Since APUS's founding in 1991 as AMU, a distance learning graduate-level institution for military officers seeking an advanced degree in military studies, APUS has gradually broadened its focus to include other military communities, veterans, public safety, and certain other civilian professional communities. In 2002, AMU was reorganized into a single university system, APUS, with two components: AMU, which is focused on educating military students, and APU, which is focused on educating non-military students. As an online institution of higher learning, we believe APUS is well-suited to meet the needs of its military students who serve in positions requiring extended and irregular work schedules, are on-call for rapid response missions, participate in extended deployments and exercises, travel or relocate frequently, or have limited financial resources. Although APUS's focus has broadened, APUS continues to have an emphasis on its relationship with the military community. As of September 30, 2015, approximately 59% of APUS's students self-reported that they served in the military on active duty at the time of initial enrollment. The remainder of APUS's students are military-affiliated professionals (such as veterans, reservists or National Guard members), public safety professionals (such as law-enforcement personnel or other first responders), and civilians (such as working adult students).

In April 2015, APUS implemented an admissions process requiring prospective students to complete a free, non-credit admissions assessment if they are not (i) active duty military or veteran applicants; (ii) graduates of certified federal, state or local law enforcement or public safety academies; or (iii) students with at least 9 hours of transfer credit from an accredited institution with a grade of "C" or better for each course. We believe that the decline in APUS's net course registrations may be partially due to the new admissions process and cannot predict how the new admissions process may impact our results of operations, cash flows, and financial condition. APUS has undertaken projects to optimize the application and assessment process which it anticipates having substantially completed by the first quarter of 2016.

In April 2015, APUS stopped providing a $50 per course technology fee grant to students who were identified as veterans during their application process. At that time, APUS also announced the following tuition increases for undergraduate and graduate course registrations made on or after July 1, 2015, which went into effect as planned:

- The tuition for undergraduate level courses increased by $20 per credit hour to $270 per credit hour.
- The tuition for graduate level courses increased by $25 per credit hour to $350 per credit hour.

To support APUS's active duty military and certain military affiliated students, APUS is providing a tuition grant that will keep the cost of tuition for these students at its previous level. As a result, undergraduate course tuition will continue to be $250 per credit hour, and graduate course tuition will continue to be $325 per credit hour for U.S. Military active-duty service members, Guard, Reserve, military spouses and dependents, and veterans. APUS estimates that the tuition grant applies to approximately 75% of its total net course registrations.

The April 2015 tuition increase was APUS's first undergraduate tuition increase since 2000, and the first graduate tuition increase in four years. Based on information in the College Board's 2014 Trends in College Pricing (undergraduate) and the National Center for Education Statistics Digest of Educational Statistics 2012-13 (graduate), we estimate that, after the tuition increase, APUS's combined tuition, fees, and books remain approximately 17% less for undergraduate students and 37% less for graduate students than the average in-state rates at public universities.

In April 2015, APUS began to transition its financial aid processing to a third-party vendor, Global Financial Aid Services. APUS anticipates that the transition will be completed by the end of 2015. There will be significant costs and risks relating to the continued implementation of Global Financial Aid Services' financial aid processing services. These costs include costs paid directly to Global Financial Aid Services, costs for processing fees paid to the former financial aid processing software vendor, amortization of related capitalized assets, costs related to the efforts of our employees and management, and costs associated with the transition and training of APUS employees.

In June 2015, the U.S. Army reported that, by September 30, 2017, it plans to reduce its troop count by 40,000 and its civilian employee count by 17,000. These reductions were expected, but the timeline for implementation has been advanced by one year. In addition, the Army stated that if the automatic across-the-board reductions in federal spending (also known as “sequestration”) were to take effect in fiscal year 2016, the number of active-duty troops would likely be reduced by an additional 30,000. We cannot predict the timing or full extent of reductions in the size of the U.S. Military, but any such reductions may have an adverse impact on APUS's enrollments, our results of operations, cash flows, and financial condition.

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In September 2015, APUS changed the method by which it disburses aid under Title IV programs from a single disbursement method to a multiple disbursement method for first-time APUS undergraduate students.

For more information on the potential risks associated with these APUS initiatives, U.S. Military force reductions and government budgetary pressures, and APUS more generally, please refer to our Annual Report and the Risk Factors sections of our Annual Report and this Quarterly Report.

- National Education Seminars, Inc., which we refer to as Hondros College of Nursing, or HCON, provides nursing education to students at four campuses in the State of Ohio, as well as online, to serve the needs of the nursing and healthcare community. HCON's programs are offered in a quarterly format to approximately 1,350 students.

HCON offers a Diploma in Practical Nursing and an Associate Degree in Nursing at its Ohio campuses, which are located in the suburban areas of Cincinnati, Cleveland, Columbus, and Dayton. HCON also offers an online Registered Nurse to Bachelor of Science in Nursing completion program, which we refer to as the RN-to-BSN Program, predominantly to students in Ohio. HCON is nationally accredited by the Accrediting Council of Independent Colleges and Schools and the RN-to-BSN Program is accredited by the Commission on Collegiate Nursing Education. HCON's locations and programs are approved by the Ohio State Board of Career Colleges and Schools and the RN-to-BSN Program is approved by the Ohio Department of Higher Education. In addition, the Diploma in Practical Nursing and Associate