

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

APEI - Q2 2012 American Public Education Inc Earnings Conference Call

EVENT DATE/TIME: AUGUST 08, 2012 / 1:00PM GMT



CORPORATE PARTICIPANTS

Chris Symanoskie *American Public Education Inc - Associate VP IR*

Wallace Boston *American Public Education Inc - President, CEO*

Harry Wilkins *American Public Education Inc - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

James Samford *Citigroup - Analyst*

Peter Appert *Piper Jaffray & Co. - Analyst*

Patrick Elgrably *Credit Suisse - Analyst*

Gary Bisbee *Barclays Capital - Analyst*

Jeff Meuler *Robert W. Baird & Company, Inc. - Analyst*

Jeff Volshteyn *JPMorgan - Analyst*

Trace Urdan *Wells Fargo Securities, LLC - Analyst*

Keith Paxton *Morgan Stanley - Analyst*

Jeff Silber *BMO Capital Markets - Analyst*

David Warner *First Analysis Corporation - Analyst*

Adrienne Colby *Deutsche Bank - Analyst*

Jerry Herman *Stifel Nicolaus - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2012 American Public Education Inc. earnings conference call. My name is Darcell and I will be your operator for today. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session.

(Operator Instructions)

I would now like to turn the conference over to your host for today, Mr. Chris Symanoskie. Please proceed.

Chris Symanoskie - *American Public Education Inc - Associate VP IR*

Thank you, operator. Good morning and welcome to American Public Education's second-quarter 2012 earnings conference call. Presentation materials for today's call are available on the webcast section of our Investor Relations website, and are included as an exhibit to our current report on Form 8-K filed earlier today. Please note that statements made in this conference call regarding American Public Education or its subsidiaries that are not historical facts are Forward-looking statements based on current expectations, assumptions, estimates, and projections about American Public Education and the industry. These Forward-looking statements are subject to risks and uncertainties that could cause actual future events or results to differ materially from such statements. Forward-looking statements can be identified by words such as -- anticipate, believe, could, estimate, expect, intend, may, should, will and would.

These Forward-looking statements include without limitation statements about the third-quarter 2012 and full-year 2012, as well as other statements regarding expected future growth. Actual results could differ materially from those expressed or implied by these Forward-looking statements as



a result of various factors, including the risk factors described in the Risk Factor section and elsewhere in the Company's annual report on form 10-K filed with the SEC, the Company's quarterly reports on Form 10-Q filed with the SEC, and the Company's other SEC filings. The Company undertakes no obligation to update publicly any Forward-looking statements for any reason, even if new information becomes available or other events occur in the future. This morning, it is my pleasure to introduce Dr. Wallace Boston, our President and CEO, and Harry Wilkins, our Executive Vice President and Chief Financial Officer. Now at this time I will turn the call over to Dr. Boston.

Wallace Boston - *American Public Education Inc - President, CEO*

Thank you, Chris. Good morning, everyone. In today's conference call, I will review the results of our second-quarter operations, highlight recent academic successes and discuss our current business strategy. Then Harry Wilkins, our Chief Financial Officer, will discuss our financial results in more detail and provide additional perspective on our outlook for the third quarter of 2012. For the three months ended June 30, 2012, net course registrations increased 18% in the second quarter of 2012 compared with the prior-year period, while course registrations by new students increased 4% year-over-year. Net course registrations by students using Department of Defense tuition assistance increased 6% year-over-year, and net course registrations by students using veterans' benefits, or VA, increased 97% year-over-year. AMU's continued success at expanding its presence among active duty and veteran communities is significant in light of the already sizable military population at AMU, and the potential future budgetary constraints facing the US military.

That being said, based on current information, we believe TA will likely be funded by all branches of the services for the remainder of the current DoD fiscal year, and TA reductions next DoD fiscal year, although possible, have not been announced. The Company is also not aware of any significant proposals to modify veterans' G.I. Bill benefits at this time. The 21 members of our military outreach team worked tirelessly to serve military students and build relationships with the military community. While registration growth in the military can be volatile at times, our relationship-oriented approach has been highly effective over the long-run, and is widely regarded as a more proper way to connect with members of the military. Recently, three AMU graduates were featured on the cover of Military Times X magazine's July issue featuring the annual ranking of the most popular colleges. AMU is ranked number one based on tuition assistance for FY 2011. In the second quarter of 2012, net course registrations by students using federal student aid, otherwise known as Title IV, increased approximately 21% year-over-year. Net course registrations by students using Title IV represent approximately 34% of total net course registrations.

We are pleased by the continued growth of our civilian student population, especially in light of prior-year comparisons that may have included a higher percentage of course takers, and given the impact of fraud prevention measures discussed in detail last quarter. While the Company cannot precisely estimate the number of course-takers in attendance last year, we believe that our efforts to reduce financial aid abuse and fraud continue to be effective. Moreover, we believe that enrollment of students with a sincere intent to pursue a degree is growing, and the general quality of net course registrations is improving, as evidenced by a recent increase in the first-course persistence rate, among other factors. At the same time, we continue to vigilantly monitor FSA applications and implement new procedures to minimize enrollments of this type. Net course registrations by students using cash and other sources increased 8% year-over-year.

Generally, we see a higher percentage of students paying cash when they are referred to APUS through corporate or nonprofit partnership, especially when there was a tuition benefit for employees. In fact, we are gaining momentum in our corporate channels by recently establishing relationships with Dollar General Corporation, ManTech International Corporation, and SAIC, which is Science Applications International Corporation. While these agreements are not exclusive, APUS is among a small group of universities to participate in each company's education program. And these relationships with corporations will promote the program to employees and allow APUS representatives to make periodic on-site visits at various locations. Dollar General, ManTech and SAIC have more than 90,000, 10,000, and 40,000 employees, respectively. All three companies have a tuition assistance program for eligible employees. Moreover, we continue to expand our presence among community colleges. We now have agreements with 90 community colleges in 20 states. Our focus on relationships, affordability, and academic quality appears to also be resonating with community college leaders.

Moving on to slide number 4, successful and respected institutions of higher education, those that endure the test of time, are built through intense focus on the many matters related to academic quality. We strongly believe that academic quality is among the most important assets of American Public University System, and is the underpinning of the institution's intrinsic value. This emphasis is demonstrated by our recent decision to implement the Lumina Foundation's Degree Qualifications Profile, or DQP. This academic model serves as a program framework by engaging



faculty, students and other stakeholders in the quality improvement process, while ensuring program alignment across all levels of degrees, and to use this as an opportunity to evaluate APUS's learning outcomes. The Lumina Foundation for Education is a private foundation committed to enrolling and graduating more students from college, especially adult learners who are moving forward with the adoption of the Lumina Foundation's approach, an approach being piloted and promoted by our creditor of Higher Learning Commission in conjunction with the move to the Pathways model of accreditation.

We are very attentive to the standards and expectations of the Higher Learning Commission, as well as other regulatory bodies. APUS has several employees who are trained as HLC evaluators and actively participate in accreditation site visits. By contributing in this way, we engage with the academic community in a more profound manner, understand HLC's criteria with much greater depth, and promote best practices in higher education with greater effectiveness. Our meaningful engagement with the broader academic community has led to our participation in John Gardner's Foundations of Excellence program, a comprehensive self-study and improvement process designed primarily for the beginning college experience, both first-year and transfer-student experiences. This program is the signature work of the John N. Gardner Institute for Excellence in Undergraduate Education, which strives to improve the college experience for both first-year and transfer students. We are pleased that John Gardner will serve as a consultant and liaison to APUS in this program.

We are active members of WCET, which is a collaborative membership of institutions dedicated to the adoption of effective practices and the advancement of technology-enhanced teaching and learning in higher education. Last week, the Bill and Melinda Gates Foundation awarded WCET a \$2.6 million grant to continue work on the Predictive Analytics Reporting (PAR) Framework, adding 10 institutions to the original 6. As a PAR implementation partner, APUS will be working with participating institutions over the next 18 months to improve retention and student outcomes through large-scale, data-style predictive analytics research, which includes model creation and validation, as well as the evaluation of directed student interventions, an intervention measurement. Dr. Phil Ice, APUS's VP of Research and Development, will continue to serve as primary investigator on the project.

Since 2010, APUS has participated in the Servicemembers Opportunity Colleges working group of higher education and military education analysts and strategists to focus on persistence and degree completion metrics for military and veteran adult learners. A white paper was recently presented at the DoD Worldwide Education Conference, and can be found at the link provided on this slide. This collaborative effort between institutions, primarily nonprofit and academic associations, has led to a well-reasoned basis for tracking the persistence and completion of adult students. APUS intends to work with the other institutions to organize and publish persistence data aligned with the recommendations in the white paper. To further assess student learning and teaching excellence, we continue to use the Community of Inquiry framework, or COI. The Community of Inquiry framework represents a process of creating a meaningful learning experience through the development of social, cognitive and teaching presence. Our full-time and adjunct faculty members have recently engaged in an online course aimed at strengthening the faculty understanding of COI, as part of their professional development at APUS.

Our continued emphasis on teaching excellence is also illustrated by the recent expansion of our coaching and mentoring processes. Our faculty directors observe the interactions of selected faculty with students, and have implemented new processes for reporting faculty effectiveness in providing coaching to them, in order to further improve their effectiveness in the online classroom. This has resulted in a decline in the number of student issues and complaints regarding faculty engagement, and improved presence in the classroom. We now have approximately 450 full-time and 1,400 adjunct faculty, with an average undergraduate class size of approximately 16 students per class. We cap our classes at 25 students per class, with an exception of 20 students per class in math classes. Our classes are either 8 or 16 weeks in duration. While this school may offer shorter classes, we have remained constant in our offerings, due to our commitment to the quality-of-learning experience, and to achieve positive learning outcomes for our adult students.

We continue to study and research many facets of online learning. This quarter and continuing through the third quarter, we are conducting approximately 100 pilot classes where we are researching the impact of specific aspects of online learning, to improve the student experience, student outcomes and/or persistence. There is at least one pilot occurring for each APUS school. And they are designed to closely examine the impact of cohort structures, synchronous versus asynchronous lessons, formative surveys to effect change, specific revisions of course content, and alternate methods of learning, including adaptive learning. In addition, APUS was invited to participate in a pilot by the National Survey of Student Engagement, or NSSE. This organization annually collects information from hundreds of four-year colleges and universities about student participation in programs and activities. The results provide an estimate, which can be compared to national averages, of how undergraduates



spend their time and what they gain from attending college. The pilot seeks to develop new measures related to effective teaching and learning, enhance the current instrument, and update terminology to reflect current educational context, such as online.

Pilots and research of this type help APUS improve student outcomes and earn recognition within the broader academic community. For example, APUS's Library Online Course Guide Project Group recently earned international recognition, the IMS Global Award for Innovation, from the Instructional Management System's (IMS) Global Learning Consortium. The mission of the IMS Global Learning Consortium is to advance technology that can affordably scale and improve educational participation and attainment. The most respected and successful universities just don't rise out of the dust within a few quarters. They are constructed and nurtured through a long-term perspective by faculty and staff who are passionate about learning, care about the success of students, and believe in the institution's higher purpose. Our inspiring internal culture and mission-driven approach empowers us to be leaders on matters related to distance-learning technology, customer service and affordability. At the same time, our focus on academic quality and student outcomes places American Public University System firmly in the quality standard of traditional universities.

Moving on to slide number 5. On this foundation, we invest in systems and processes to drive greater efficiency and to support future growth in new and existing markets. Our ePress Initiative to Combat Inflation in the prices of text books, for example, is an important part of making online higher education affordable. This initiative continues to develop as planned, and should create efficiencies as we expand. We continue to make investments in information technology and in the Title IV application process to drive down related costs, and thus ensure affordability. At the same time, we are refining steps taken to reduce financial aid fraud and abuse, resulting in an improved student experience, greater persistence, and a growing population of sincere and serious students, who are more likely to graduate and refer others. One of the best parts of my job is celebrating the successful completion of degree programs by our students. In June we had the class of 2012 commencement, our largest ceremony to date, with more than 800 graduates and their families in attendance at the Gaylord National Convention Center. Lieutenant General Kenneth W. Hunzeker, retired, president of ITT Exelis Mission Systems, presented the keynote address. So far in 2012, approximately 3,600 students have graduated, to join APUS's global network of nearly 24,000 undergraduate and graduate alumni world-wide.

In closing, I am pleased that by focusing on the proper higher education fundamentals, APUS has earned the recognition and respect of students, faculty, government officials and the broader academic community. We are gaining substantial momentum, and in many cases taking a leadership position on matters relating to advancing the academic learning environment and instructional technology. I believe that APUS is well-positioned for the future because we believe that our institution's mission and founding principles are congruent with today's national public policy objectives. Our overall approach to marketing is primarily based on creating awareness through relationships and word-of-mouth referrals. We utilize a consultative approach to enrolling new students with the careful assistance of 54 enrollment advisors, who mostly have backgrounds in social work and other service-oriented occupations. Moreover, to ensure positive student experience, we emphasize robust academic and transfer-credit advising to our active, growing body of more than 100,000 students.

Despite the recent and ongoing uproar over for-profit schools, we firmly believe in the fundamental premise that quality online education is the way of the future. We firmly believe we provide significant value to our students for their investment of time and money. Our primary focus on generating referrals for marketing serves us well in an environment where pricing is more and more a consideration for students, even those attending traditional institutions. Our continued investment in information technology, administrative facilities and process improvement are paving the way for future efficiencies. It positions us well for continued success among military and civilian communities, and enables the expansion of our corporate and nonprofit partnerships. And it will facilitate our successful entry into new domestic and international markets. Now I will turn the call over to Harry Wilkins for a more detailed discussion of our financial results. Harry?

Harry Wilkins - American Public Education Inc - EVP, CFO

Thanks, Wally. Turning to slide 6, the Second Quarter of 2012 Results, American Public Education second-quarter financial results included 23% increase in revenues, to \$74.6 million, compared to the second quarter of 2011. The revenue increase is primarily driven by growth in net-course registrations from civilian, military and veteran students. Since identifying and modifying the specific fraud prevention measure that may have deterred certain prospective students from enrolling, we continue to see improvement in net-course registration trends, particularly in the months most impacted by this issue. We believe that the Title IV medical fraud and abuse prevention measures currently in place are generally effective and no longer appear to be deterring a significant number of students, who legitimately seek a degree, from enrolling.



Operating income for the second quarter 2012 increased to approximately \$15 million. General and administrative expenses increased as a percentage of revenue, to 21.6% from 17.9% in the prior-year period. The increase is largely due to an increase in bad-debt expense, as well as to the cost of information technology enhancements and Title IV processing automation. The Company believes that bad debt was negatively impacted by the increase in course-takers during the prior-year period, and that bad-debt expense is higher than it would have been otherwise, absent this factor. In addition, bad debt was impacted by approximately \$250,000, as a result of resolution of the Department of Education program review, which resulted in our receivable, which the Company does not expect to fully collect from its students. Selling and promotional expense as a percentage of revenue increased to 19.5% of revenue, compared to 16% in the prior-period. We believe the increase is related to the slightly lower-than-expected revenue growth rate, which may have resulted from the measures aimed at reducing Title IV fraud and abuse. The Company currently believes that selling and promotional expense as a percent of revenue should remain at or below approximately 20% for the full year of 2012.

Instructional costs and services decreased to 35.2% of revenue in the second quarter of 2012, compared to 37.8% during the second quarter of 2011. This decrease was primarily related to the number of full-time academic support staff increasing at a slower rate than revenue, and new full-time faculty engaging in student teaching, as well as a modest benefit from our ePress initiative. In the second quarter of 2012, net income increased to approximately \$9.2 million, or \$0.51 per diluted shares, ahead of guidance. Our cash balance as of June 3, 2012 was approximately \$116.7 million, or \$6.41 per diluted share, and we have no long-term debt. Capital expenditures were approximately \$18.9 million for the six months ended June 30, 2012, compared to \$6.8 million in the prior-year period. The increase in CapEx is primarily the result of expenses related to our new finance facility.

Depreciation and amortization was \$5.4 million for the six months ended June 30, 2012, and \$4.3 million for the same period in 2011. As a result of our capital expenditures for our new facility, IT system improvements, and for our share repurchase program, where we spent approximately \$4 million in the second quarter, cash declined slightly. Cash from operations for the six months ended June 30, 2012 was approximately \$22.7 million, compared to \$25.7 million in the same period of 2011. During the first six months of 2012, the Company has repurchased 240,459 shares of its common stock, of which 153,426 shares were purchased in the second quarter. As of June 30, 2012, approximately \$15.5 million worth of shares may yet be repurchased under our [both] program. The Company continues to believe that its shares represent an attractive value at current prices. Moving to slide 7, the Third Quarter Outlook, American Public Education expects growth of net course registrations by new students in the third quarter of 2012 to be approximately flat year-over-year. And net-course registrations to increase approximately 16% to 18%, compared to the prior-year period. The Company anticipates third-quarter 2012 revenue growth of approximately 16% to 19% compared to the prior-year period. Earnings per share for the third-quarter 2011 are expected to be between \$0.46 per share and \$0.51 per diluted share.

Our third-quarter 2012 outlook reflects our belief that we are becoming more effective in our approach to limiting access to students who attempt to enroll solely to gain access to Title IV funds, without discouraging or preventing the large number of sincere students who intend to pursue a degree by enrolling in AMU or APU. In the prior-year period, based on our analysis of course failure and withdrawal rates, we estimate that approximately 25% to 35% of net-course registrations from new students using Title IV funds were individuals who were enrolling solely for the purpose of gaining access to Title IV funds. If the Company had not had those registrations in the prior period, the Company believes that its outlook for the third-quarter 2012 growth in net-course registrations by new students would likely be in the mid-teens. Please also keep in mind that the prior-year period includes a tax benefit of approximately \$1.8 million, or \$0.10 per diluted share, in the third quarter of 2011. Those adjustments result from the state tax, and research and development tax credits that we recorded in the third quarter of last year.

Moving on to slide 8. We continue to execute on our long-term strategy and our long-term strategic plan by investing in several important projects that we expect will generate future operating efficiencies and further improvements in the student experience. Our ePress initiative, information and technology upgrades, our Title IV processing automation, are examples of these undertakings. These projects, combined with the recently announced technology fee, and possibly lower bad-debt expense next year, are setting the stage for margin expansion in the year 2013. Moreover, we expect that our overall capital expenditures will soon begin to decrease, at least temporarily, as a result of the fact that we currently have no new administrative building projects planned for the next 12 to 18 months. While our prior-year comparisons include a large number of course-takers that cloud our natural growth rate, we believe that the population of APUS students who are intent on earning a degree, is growing. Students who are sincere in their pursuit of a degree are more fully engaged in learning, more likely to graduate and more likely to refer others. Furthermore, we are encouraged by the increase in our first-course persistence rate, which is an indication that our efforts to reduce Title IV fraud and abuse appear to be successful.



On a side note, American Public University Systems has been recently selected by the Department of Education to participate in the Federal Student Aid Experimental Sites program, whereby the University receives a waiver from two Title IV regulatory provisions, allowing for unequal disbursement of direct loans and limiting unsubsidized Stafford Loans. The purpose of this study is to determine if the waivers increase student enrollment, increase academic performance and/or lead to the student's completion of the loan period of academic program, as well as to determine if lower educational loan debt of students in the experiment will result in fewer delinquencies and defaults.

In closing, we believe there continues to be a strong domestic demand for affordable, high-quality online degree programs. Our strategy is to continue to diversify our student population by expanding our success among military and civilian students. Our approach is to create a greater awareness, primarily through national branding, interactive media and relationships. We are gaining momentum in this regard by building new relationships in corporations, nonprofit organizations and community colleges. At the same time, we see opportunities to further increase the diversity of our student population, enhance the student experience and reduce a certain risk by reaching out to the large population of middle-class international students who seek an affordable online US degree. In short, APEI is in a strong financial position, with positive net-course registration growth trends and many emerging opportunities to partner and expand in the months and years ahead. At this time, we are happy to answer any questions from the audience. Operator, can you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Instructions)

James Samford, Citigroup.

James Samford - Citigroup - Analyst

Great, thank you. Just a quick question, and I apologize, I was jumping between calls here. Your guidance for next quarter implies some significant margin decline. I was wondering where the margin de-leverage is expected to come from. Is it primarily sales and marketing, I assume? I just wanted you to comment on that, please.

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes. We continue, as we did in the second quarter, to expect that we are going to experience some bad debt expense related to those abuse students which we had in the second half of last year and the first part of this year, as they move through the system. We also are increasing our marketing spend a bit, as we normally do in the third quarter, to make sure we have a good September enrollment. And of course, remember last year we had the tax benefit that we are not getting this year, of about \$0.10 earnings per share. But overall, our IT -- we are also spending a little bit more money on IT improvements and our financial aid automation process. So those factors are really what's contributing to the increase in G&A. We expect to get some continued efficiencies in the structural costs and services line item. But we are spending a little bit more in selling and promotion, and our G&A expenses were higher than they were last year.

James Samford - Citigroup - Analyst

And if I could have a quick follow-up. When should we expect maybe some of the impact of the tech fee to kick in, at least to be material enough to move that G&A needle?



Harry Wilkins - American Public Education Inc - EVP, CFO

Mostly, I know, Q4. That is going to be a Q4 event.

James Samford - Citigroup - Analyst

Okay, great, thank you.

Operator

Peter Appert, Piper Jaffrey.

Peter Appert - Piper Jaffray & Co. - Analyst

Thanks. Harry, can you remind me what the magnitude of the tech fee and just talk about any other pricing adjustments you have made or you are perhaps anticipating?

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes, well, we don't plan to raise tuition at all but we are going to, the first time to have a technology fee of \$50 per class. The fees will be waived for active duty military and veterans. So it will mostly impact civilian students. We have a couple of corporate contracts that don't allow for us to charge the fee. But for the most part, it equates to about a 6% increase for about 40% of our students.

Peter Appert - Piper Jaffray & Co. - Analyst

Okay. So it is grad and undergrad courses, right?

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes, that is correct.

Peter Appert - Piper Jaffray & Co. - Analyst

Okay. And then, Harry, you mentioned international expansion. You haven't talked, I don't think, too much about that in the past. Can you expand on what you are doing there and how you see the opportunity?

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes, well, we have currently about 1% or 2% of our students are international students, anyway. But we really do see an opportunity there because of our price point and because of the fact that we are online, we do think there is a growing international market for US-accredited degree programs online. We are starting to partner with some companies that can help us get access to those students. We will probably give more clarity on that in the third quarter call, because we are just starting some initiatives this fall. But we do think that is a great market for us.



Wallace Boston - American Public Education Inc - President, CEO

Yes, this is Wally. I guess approximately a year and a half ago we started presenting at international conferences. You may recall that last year our faculty and staff presented papers at over 400 different conferences. And we initiated some contacts with schools that were interested in going online or expanding their online program. In that 18-month period, we have been sharing information back and forth. As you might imagine, particularly if one of the concepts for going international would be something like a dual-degree program, traditional institutions, whether they are in the US or elsewhere, are rather slow to move. But nonetheless, the number of opportunities that we have seen from either traditional universities or from organizations -- for profit organizations overseas that like our price point, are getting to the point where we are hoping we will be able to announce some of those initiatives in the next couple of quarters.

Peter Appert - Piper Jaffray & Co. - Analyst

Wally, do you have a view of what portion of enrollments that could be in a year or two? And are there any cost implications associated with rolling this out?

Wallace Boston - American Public Education Inc - President, CEO

I will answer the second question first. I don't really think there is any significant cost implications other than, you know, if we actually formalize agreements in other countries, there will be some legal costs that we haven't incurred because we typically don't practice law in other countries. But, as far as the enrollment projections, I think it is a little too soon to tell. As you might imagine, there are some large institutions in other countries, just because of the way the government scales its enterprises. And while our future partners have indicated large numbers, I would prefer not to make any assumptions based on their projections, and just wait until we are able to announce a deal. And then we will probably cautiously under-project any number of student enrollments until we really get some traction a year or so down the road.

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes, we really feel it is the best interest of our Company, though, to try to become less dependent on federal sources of financing for our students. And a good way to do that is to go international.

Peter Appert - Piper Jaffray & Co. - Analyst

Thank you.

Operator

Patrick Elgrably, Credit Suisse.

Patrick Elgrably - Credit Suisse - Analyst

Hi, thanks. I was hoping you could share a little more color on the trajectory of prospective new student registrations during the third quarter and, specifically, if you are anticipating significant variance in any particular month, or will each of those look about the same?

Harry Wilkins - American Public Education Inc - EVP, CFO

The one thing that has really gotten different in the last couple of years is we are seeing pretty large fluctuations from one month to a next. Not always can we explain that, as it seems to be fairly random. And it is true with both military and with civilian students. So it makes it a little bit more difficult to plan out what our exact enrollments are going to be. But obviously we are comfortable with the guidance that we have given. And we



feel that, that guidance implies, you know, based on the percentage of students that we think were not legitimate students last year, who were really just signing up to get Title IV funds access, we really feel that we are growing our good student base in the mid-teens.

Patrick Elgrably - *Credit Suisse - Analyst*

Okay, thanks. And then just a quick one on accreditation. I know you are in good standing with the HLC. I am wondering, though, if you have received any feedback with them in recent weeks in the wake of one of your peer's setback.

Wallace Boston - *American Public Education Inc - President, CEO*

Actually, I get all the official mailings. And I think the HLC's position about that one particular circumstance is that it is an issue between it and that institution. They didn't send out a general announcement to the membership about it at all. And they certainly didn't send anything out to other for-profits. I think the HLC's criteria -- we follow them every day. And we were re-accredited in 2011 for 10 years, as you are aware of. So, we take great pride in not only just meeting those criteria, but having faculty and staff who volunteer to be evaluators, to go on visits so that they deepen our understanding of the criteria.

Patrick Elgrably - *Credit Suisse - Analyst*

Great, thank you.

Operator

Gary Bisbee, Barclays.

Gary Bisbee - *Barclays Capital - Analyst*

Hi guys, good morning. The third-quarter guidance seems to imply a pretty significant, or at least fairly large pick-up in student persistence in the next quarter. I guess, why that? Are you seeing that just having flushed out a lot of the stipend chasers, you are now getting back to a more normalized level?

Wallace Boston - *American Public Education Inc - President, CEO*

Gary, it might be the latter. But I would like to think that my very lengthy detail about all the initiatives that we are participating in, most of which relate to student persistence, is picking up. You know, I have always believed that we would be able to spend, in the long run, less money and marketing if we improved our persistence. There is quite a bit of -- or I should say, there is academic research that identifies students [swirling] with adult students, particularly in the online area there is actually very little data that is published. We are doing our bit in trying to collaborate with other institutions. The [SOC] white paper project, we collaborated with primarily nonprofits, UMUC and a number of community colleges, on that project. The swirling is everybody's problem in online because, basically, you don't have to signal what your true home institution is. But you are pretty free to go take courses at this institution or that institution and transfer them back. Obviously, if we think we have a student for the life and we only get them for one or two classes and it is not an unsatisfactory academic result, it is just that they prefer to choose another institution as their home institution. What we ultimately need to do is to find ways to convince them to make us their home institution. So I am proud of what we are doing with the faculty and staff on retention initiatives, and hope you will see trends like this in quarters going forward.

Gary Bisbee - *Barclays Capital - Analyst*

Okay, great. And then -- I appreciate the commentary about the impact of the stipend chasers a year ago September. Can you give us any sense of how that was in the December quarter last year? Just as we think through modeling the next quarter or two. Is that a reasonable range to expect was also impacting Q4?

Wallace Boston - *American Public Education Inc - President, CEO*

Yes, in looking at our analysis, we looked at Q4, as well. And we think 25 to 35 is a good range.

Gary Bisbee - *Barclays Capital - Analyst*

And then just one last one, if I could. The eBook initiative, are you still on track to be launching that and getting about \$4 million benefit in the second half of the year?

Wallace Boston - *American Public Education Inc - President, CEO*

Yes. We launched it and it will correlate pretty highly to our revenues. If you look at our revenues the last four months of the six-month period, are where most of our registrations are concentrated. So it will probably be back-end loaded toward those four months.

Gary Bisbee - *Barclays Capital - Analyst*

Great, thank you.

Operator

Jeff Meuler, Baird.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay, and congrats on the quarter. I just wanted to ask a question. It sounds like you guys continue to fine-tune some of the screening measures. Is this kind of taking out measures that weren't effective? Or was it, even though your process is effective at this point, you just continue to fine-tune them to kind of keep it maybe like a moving target so the rings couldn't game the system?

Wallace Boston - *American Public Education Inc - President, CEO*

Well, I think one interesting thing is that we are one of the few schools that actually went out and talked about this openly. I was on a panel at a conference last Thursday and the provost at a significant nonprofit institution told me that his institution had the same range, from the same state, exhibiting the same traits, and basically, they never published anything about it, never told anybody. But they did cooperate with OIG like we did. The sad part about that is that when you don't talk about it openly, is that you don't make the other schools aware. So these folks go from one school to the other school. But what I thought was very telling about this individual, he said -- you know, it is really organized crime, it is not a few individuals, but it is a concerted crime ring. So we prefer not to talk about the specific tactics unless the specific tactics like last quarter might backfire on us. But we are constantly moving our tactics because we believe that any sign of weakness or any lowering of the guard, that they will be back on us because of our low tuition price point, relative to the amount of money they can borrow. So that is also one of the reasons why we are participating in the experimental sites project with FSA. We are hoping that, that will discourage people, as well.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Makes sense. And then on the technology fee, have you guys communicated it to the students at this point? Presumably, you have started to register some students for the September period, I would think. Is there any pushback there, if you have communicated it?

Wallace Boston - *American Public Education Inc - President, CEO*

Yes. I wouldn't say that we haven't received any complaints. But the pushback is fairly minimal. I have actually only received one letter addressed to me as a complaint. For the most part, the students seem to be accepting it. Now, I will tell you that you mentioned September. We actually -- it is for students who register for courses on September 1 or later. So most of the students know that if they register for their September classes in August, they won't be charged a fee for September. It is based on the date you register. And that is a computer programming issue, but at the same time it incentivizes people to register for classes earlier.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then just finally, there was a comment about you guys thinking the stock is attractive at current prices. You obviously have a ton of cash in your balance sheet, but you also were talking about some newer initiatives that you guys were exploring. Any thoughts on accelerating the pace of the buyback? Or are you thinking about the cash balance at this point?

Harry Wilkins - *American Public Education Inc - EVP, CFO*

I think we are -- the Board is satisfied with the -- they approved a \$20 million buyback. As of June 30th we still had \$15.5 million left in that. I think they are satisfied at this point, that, that is a fair way to spend that cash. Now, we will make decisions going forward, once we spend that money, whether we will continue to do it or not, depending on our cash flow and how the stock price is doing.

Wallace Boston - *American Public Education Inc - President, CEO*

Yes. By the way, though, I will say that, based on the daily trading volume average for a period of 30 days, or whatever, we haven't been able to buy in volumes on most days because of a limitation that we have. Otherwise, I think we would -- at these prices, we would have been able to purchase more.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thanks, guys, congrats again.

Operator

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

Good morning, thank you. Could you expand on your comments related to sort of broader conversations on TA and G.I. bill funding, going forward?



Wallace Boston - American Public Education Inc - President, CEO

Well, the DoD is very closed-lipped. I just came back from attending the DoD world-wide conference in Las Vegas, which they offer every three years. There were no statements, whatsoever, by any of the officials who spoke, about where TA is heading. We continue to hear rumors, none of which are credible, about all different types of scenarios. But we believe at this point that what they had said last February about looking at this in relationship to all of the benefits that a soldier gets, and that process could take them through this fiscal year. So, we don't see a change. By the way, the fiscal year ends in September for them. I think, my personal belief is that the thing that might have the greatest influence is the sequestration process, that if there is no compromise in Congress on that, that will actually have deeper budget ramifications for anyone who deals with the Department of Defense. So at this point, we will provide an 8-K if and when we get notice of a change. But we feel pretty good about what we are doing, and obviously with a very big end as being the largest institution serving active duty with tuition assistance, we are still growing.

Jeff Volshteyn - JPMorgan - Analyst

If sequestration happens, do you feel that TA and VA funding will be cut sort of the same levels?

Wallace Boston - American Public Education Inc - President, CEO

Well, my understanding of sequestration is that we have to go down every line item in the budget and cut it a certain percentage. But I might be wrong. I haven't tried to dive into that in any great detail. If it is a 10% or 20% cut and you cut that budget, they have got to find a way to do it. Whether some of the rumors that were out there before -- were that it would go back to 75-25. There are other rumors that, you know, it might only apply to undergrads and not to grad students. So I think we just have to wait. We haven't gotten any clear guidance. And we think it is important to our investors. We remind you that there is a top-up, and there have been no rumors that the VA or the G.I. bill is going to be impacted. We will just continue to be prepared for if and when any changes are made or announced.

Jeff Volshteyn - JPMorgan - Analyst

Okay, if I could squeeze in just one more. On graduates, what are the expecting graduating classes over the next couple of quarters?

Harry Wilkins - American Public Education Inc - EVP, CFO

The expected graduating what?

Jeff Volshteyn - JPMorgan - Analyst

The number of graduates over the next two quarters.

Harry Wilkins - American Public Education Inc - EVP, CFO

It continues to increase. We don't actually have a projection. We didn't think about getting that for you guys. We can try to find some numbers. But it is a number that continues to grow. If I were going to make an estimate, I would say we are going to graduate somewhere between 7,000 and 8,000 people this year.

Jeff Volshteyn - JPMorgan - Analyst

Okay, thank you very much.

Operator

Trace Urdan, Wells Fargo Securities.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

Thanks, good morning. Harry, I wonder if I could ask you to just walk us through one more time the economics that you expect from the ePress initiative? How much you are currently spending on books, how much you are investing in this initiative, and how long until we see the benefits impacting your income statement.

Harry Wilkins - American Public Education Inc - EVP, CFO

Yes. Well, our book cost is, again, for undergraduate students -- we eat the books for our undergraduate students, we pay for the books ourselves. So it has been running between \$60 and \$65 per class for books. We can use ePress initiatives and maybe even open-source material to get the cost lower. We think we can get it down to maybe an average of \$35 per class. That is the goal. We are going to try to do that over the next -- again that's undergraduate classes only -- we are going to try to do that for our top 25 classes this year and then we are going to continue to grow. We teach 2,000 courses. So it will be a while before we roll it out university-wide. But our top 25 courses, which represent about 40% of our registrations, we will try to implement that over the next 12 months. So we have said previously that we thought the impact of that would be about \$8 million on an annualized basis. I think we are sticking by that number. But it is not going to be rolled out exactly linearly. It will be a little bit more or less depending on which courses we roll out when. I think that is a rough guide. I think you can expect going forward that we should see about \$8 million of book savings.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

That is just for the top 25 classes? Or that is when you get to the whole thing?

Harry Wilkins - American Public Education Inc - EVP, CFO

That is what we think we will save over the next 12 months. Our goal is to do the top 25 classes starting in July.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

Is there a pilot aspect to this, are you testing it or are you committed to getting this done eventually, everywhere?

Harry Wilkins - American Public Education Inc - EVP, CFO

We are committed. Now, what will happen is that we will have the law of diminishing returns. We had budgeted about \$500,000 for the cost of people to write these textbooks and to edit them and to get them published. We are still on track with that number. But when we get to lower volume courses, there may not be the ROI in writing our own textbooks as there currently is for the higher volume courses. So we will just play it by ear. But the goal is to not settle for an \$8 million reduction. Ultimately, we would like to be able to eliminate as much of the textbook costs without eliminating the benefit of providing textbooks to our undergrad students.



Trace Urdan - Wells Fargo Securities, LLC - Analyst

Okay, thank you for that remedial course on that subject. I appreciate it. While you spent a lot of time at the beginning talking about the various initiatives that you are part of that represent an effort to measure student outcomes, prove student outcomes, in the online sector. What, in your opinion, where are we in the evolution of some kind of a common standard? Is it realistic to expect that we will ever get to a common standard? What inking are we in, in terms of people accepting measures of outcomes for online education, would you say?

Wallace Boston - American Public Education Inc - President, CEO

Well, where we need to be, Trace, is we need to have institutions that are willing to talk about it and collaborate and publish. Because I would find it shocking if there was anyone on this call in the investor field that doesn't recognize that IPEDS only represents 15% to 20% of the actual college students studying today in America. It is so antiquated because it tracks only the first-time, full-time freshmen. But the problem has been that, whether it is a reluctance to share the data or a lack of understanding from administrators about some of the academic research studies that track swirling adult students and track their persistence rates. But that's the things that I have seen, and the reason why we put the lengthier business talk white paper. Now, granted, the recommendation from the data there apply to military and veterans. But I would tell you that they have identified the issues, such as people attending multiple institutions.

Also, they have identified the issues like competency-based instruction, or receiving credits for that. And the member schools that were part of that white paper intend to begin publishing data along the lines of those recommendations. What I think is encouraging, for me, is that the SOC white paper group, in addition to running this by the voluntary education heads of all the branches of the military, they also ran it by the big six higher ed groups based in DC. And did not get any pushback that this wasn't a reasonable start for looking at metrics for online student completion. So if we get a few people publishing these numbers, I think it is a good start. I don't know that I agreed with 100% of everything the SOC white paper said, but -- and the one thing that I specifically didn't agree with -- they recommended stopping tracking a student at 200% of normal completion time, which would be approximately eight years for an undergrad. We give undergrads 10 years to graduate. So if the recommendation were up to me, I would keep tracking for 10 years. But we will see.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

Just one last question on this. How closely is the Department of Education following some of these initiatives?

Wallace Boston - American Public Education Inc - President, CEO

I think they are following it. They also have a dilemma, coming to their defense, that it costs a lot to gear up going one way or the other. That is why the SOC white paper group decided to take a stab at this and be out in front of it. The department is, I think, saying -- why make wholesale changes if in 2013 we are going to have another reauthorization act? And some of these metrics may be addressed in the reauthorization act. You clearly can't have, you know, people who are on the Hill, whether they are staffers or elected officials, who all graduated from elite institutions, like most of the people on this call, trying to model standards and graduation rates that reflect a totally different population than the schools that they went to.

Trace Urdan - Wells Fargo Securities, LLC - Analyst

This is just a little esoteric, I appreciate it, but are you -- do you expect that when we get to higher education reauthorization there will be a better informed view on measuring outcomes? Is there a sense that we are headed in that direction?



Wallace Boston - *American Public Education Inc - President, CEO*

I think so. The department has talked about the fact that IPEDS needs change and it needs to take into account these nontraditional students. So the department is very well aware of it. What they haven't done, I think they intend to have some open hearings to discuss this sort of thing. And ideally, if more and more institutions talk about the topic and publish white papers and even publish data, we will get the department on a track that they might not have gotten on.

Trace Urdan - *Wells Fargo Securities, LLC - Analyst*

Okay, thank you.

Operator

Suzi Stein, Morgan Stanley.

Keith Paxton - *Morgan Stanley - Analyst*

Good morning. This is Keith Paxton on for Suzi. Just wanted to follow-up on some of your TA comments earlier. Have you guys heard anything from any of the individual branches? Is there any chance that they could act before the Department of Defense does something?

Wallace Boston - *American Public Education Inc - President, CEO*

I think after the Marine Corps debacle in February, I don't think that any branch is going to act on its own. From time to time, by the way, it is typical at the end of a fiscal year, you might have a base that runs out of TA money. I am not aware of any bases that have indicated that to us yet. But once in a while that happens. And usually, they quickly adjust and allocate funds from a base that has more money. But as far as the change goes, I think they were pretty embarrassed when the Marine Corps went out and, if you don't recall, the Marines had put a temporary person in charge of their voluntary education program because the long-term person had retired after 30 years. And this person really didn't know what they were doing and they launched prematurely with some bad metrics. So I think they will be very well aligned and everybody will be in tune.

Keith Paxton - *Morgan Stanley - Analyst*

Okay, thanks. And just, have you guys hired any more full-time faculty after, I think, fourth quarter last year you did? Or, if you haven't, do you see any need for that as the registrations keep growing?

Wallace Boston - *American Public Education Inc - President, CEO*

Yes, we did. We just gave our new numbers. We are approximately 450 full-time faculty now. Those were all new hires and starting in the first quarter. The additional ones were new hires. I think we had 305, or somewhere in the 305 category is what we had last year. So we ramped it up. We would rather do it in advance and I think we talked about some of our margins being impacted in the first quarter. Because we had to get people, you know, all signed out and scheduled out. That takes a while. But we would rather do our boost at once, from a quality perspective, than have issues catching up later in the year.

Keith Paxton - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - BMO Capital Markets - Analyst

Thanks so much. I know it is late, I will be quick. Harry, in your comments about bad debt expense, you said it might be a little bit higher until you start to see the abuse, the students that were in the fraud ring run through the system. How long do you think that will take? When will we start to see bad debt come down again?

Harry Wilkins - American Public Education Inc - EVP, CFO

I would expect it to start to come down in the fourth quarter.

Jeff Silber - BMO Capital Markets - Analyst

And is there any reason that it shouldn't go back to levels where it was before?

Harry Wilkins - American Public Education Inc - EVP, CFO

Well, yes. I mean, we are growing our civilian population. We have said all along that -- you know, this time last year our bad debt was like 1% or something. Now it is like 5%. We have said all along if we had 90% civilians, we would have 5% bad debt. The bad debt usually comes from civilian students who don't succeed and you have to return federal IV funds and then you have to try to collect them from the students. So, the military we don't have any bad debt. And the veterans, we don't have any bad debt. As we get more civilian, our bad debt would go up. I would think that right now, it should be about 3%, based on the percentage of civilians of our population. But it is 5% because of this flash mob of abuse students we had last year. Generally, the bad debt trails the students' departure by about 9 months. We try to collect it for 6 to 9 months, and then write it off.

Jeff Silber - BMO Capital Markets - Analyst

Alright, great. And then just a little bit more color on the guidance for the current quarter. What share count tax rate, and depreciation and amortization expense are you using to get your EPS guidance?

Harry Wilkins - American Public Education Inc - EVP, CFO

On the share count, I think the fully diluted share count was like \$18.1 million. And the tax rate should be the same.

Jeff Silber - BMO Capital Markets - Analyst

And, I'm sorry, depreciation and amortization?

Harry Wilkins - American Public Education Inc - EVP, CFO

I think that it should be about the same as the second quarter.



Jeff Silber - *BMO Capital Markets - Analyst*

Alright, great. And then just one more. What capital expense guidance should we be building in for the rest of the year?

Harry Wilkins - *American Public Education Inc - EVP, CFO*

We haven't given full-year guidance on any line items and I don't think we are going to start now. But we really should see less CapEx. The building that we are building is an \$18 million building. We have spent \$16 million of that already. It opens -- we are going to move in September 19. So we only have about \$2 million more to spend on our building after June 30. And then we really shouldn't have any large building expenditures for the rest of the year. So the majority of our CapEx so far this year has been for that building. We still have some IT CapEx, you know, the maintenance CapEx. And we still provide -- every time we hire somebody we give them about \$2,000 worth of equipment. But our CapEx expense should come down, maybe to levels similar to where they were last year.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay, great. That is very helpful, thanks so much.

Operator

Corey Greendale, First Analysis.

David Warner - *First Analysis Corporation - Analyst*

Hello, good morning. This is David Warner for Corey. I was wondering, with ICS being down about \$1.6 million sequentially, can you speak to what was driving that for the quarter? And additionally, can you -- have you quantified the potential impact of the Title IV processing -- I'm sorry, automation initiative? And sort of, what the timing would be around those savings, if any? Thanks.

Harry Wilkins - *American Public Education Inc - EVP, CFO*

Yes. The savings in the ICS are mostly from -- a little bit from our new textbook initiative. We are starting to see some savings from that. And the better utilization of our faculty. As Wally said, we hired about 150 new full-time faculty on January, to start in January. But we didn't actually -- even though we were paying them their salaries, we didn't get them all scheduled to start in January. They started to schedule -- now they are fully scheduled. So we had better utilization of our faculty, is really where the savings is coming from, for the ICS cost. Now, as far as the -- I don't really have in front of me the dollar amount we have spent on our financial aid automation process. But we are going to continue to spend that. That will eventually result in savings, if and when we decide to move away from the way we are currently processing financial aid. It should result in about \$200,000 a month of savings once it is fully implemented.

David Warner - *First Analysis Corporation - Analyst*

Is that in G&A or is that in CapEx? (audio difficulties)

Harry Wilkins - *American Public Education Inc - EVP, CFO*

Some of that is in CapEx and some of it is in G&A.



David Warner - *First Analysis Corporation - Analyst*

Okay, thanks.

Operator

Adrienne Colby, Deutsche Bank.

Adrienne Colby - *Deutsche Bank - Analyst*

Hi, thanks for taking my question. I was wondering if there is any way to quantify what percent of new students were screened out due to financial aid fraud in this quarter? Maybe relative to what you saw last quarter?

Wallace Boston - *American Public Education Inc - President, CEO*

We didn't actually look at that. But, we do have -- as you might imagine, we have special boxes that we throw those types of students into, and make sure that we treat them according to the rules and regulations of FSA, but also make sure that they meet what we are looking for. But the current quarter is not complete. So, we don't -- we are still registering students for September. And so we really couldn't give you an estimate on that.

Adrienne Colby - *Deutsche Bank - Analyst*

Do have any sense of it is going down or if people are aware that you are sort of raising some of the standards, or at least some of the moves to block students, if that is something that is affecting the level of fraudulent students that are trying to register?

Wallace Boston - *American Public Education Inc - President, CEO*

Yes, it is absolutely going down. At one point, we were throwing thousands a month into those special mailboxes to figure out how to treat them. It is below 1,000. I don't know the exact number. But it is not the thousands-per-month like it was before.

Adrienne Colby - *Deutsche Bank - Analyst*

Great, that is helpful. And if I could just ask one more. You had commented in your guidance that you are expecting to see instructional costs and services to be down a little bit in third-quarter. And I am just wondering if you could comment on that in relation to seasonality. I know in the past you have commented that some of the full-time faculty tend to take more time off in the summer, and that can sometimes push up the hiring of adjuncts and put some pressure on the ICS line. So just wondering what you are sort of seeing and expecting for the third quarter?

Harry Wilkins - *American Public Education Inc - EVP, CFO*

We really should start to see some of our -- yes, that is a very good point, actually, that we didn't bring up. And you are right. That does happen. Because when our faculty who are salaried take off, and most of them do take off -- we give them off one month a year -- we have to fill in with adjuncts who we have to pay more. So actually doubling up the faculty costs. But we are seeing the text book -- we are anticipating that our text book savings are going to start in the third quarter. In a good number, so they will offset that. We expect to continue to see improvement in ICS. We are also getting good leverage with our student services department. We have made a lot of initiatives there to automate TCE processing through scanning and through better technology that is giving us some operating efficiencies there.

Adrienne Colby - *Deutsche Bank - Analyst*

Great, thank you.

Harry Wilkins - *American Public Education Inc - EVP, CFO*

PC is transcript evaluation.

Operator

Jerry Herman, Stifel.

Jerry Herman - *Stifel Nicolaus - Analyst*

Roll with pronunciation. A question, guys, with regard to selling and promotion. In particular, Harry, I appreciate your comments about what it looks like through the end of the year. But can you give us color on the long-term run rate there and the components within, i.e., advertising, and advising what those trends look like? And then, just to complicate the question, the S&P per new registration was up a lot this quarter. And I am wondering if we should think about that as the new run rate, and just the general question is it getting more expensive to acquire students?

Harry Wilkins - *American Public Education Inc - EVP, CFO*

Well, there is a lot of questions in there, Jerry. I will try and answer what I think is the most important one. We had said that we don't intend to have our sales and promotion costs above 20%. And that is, to me, a very fine line. I mean, will we maybe hit 20.4% or something in a particular quarter, because it is tough to exactly control? But, I think the trend in higher education, in general, is lower prices. And you see that with some of the companies in this sector who are discounting their tuition. So, from my perspective, our insistence for our business model, for long-term strategy to hold the line at 20%, that is what we are going to do. We will have to find creative ways, we will have to find ways to continue to build the relationships to generate the referrals. But everyone on my management team is committed to that. We have got a strategic planning retreat with our Board soon, that will talk about that.

I think you have a bad business model if you have expenses, sales and promotion costs in this environment because, as I foresee, there will be continued pressure on higher-priced institutions to drop their prices or to fund scholarships. And you can't do that if you are serving adults and have a lot of student churn, just by the nature of serving adults. I would love to have the student population that Harvard has, but that is not my student population. We have to find ways to attract them at a lower cost. So when you look at the breakout, I would like to think that while we still make -- you know, we may shift our -- right now we are spending, for example, a lot of money this year on TV and radio advertising to build a brand to enhance our interactive marketing, which we do and have done ourselves. But it also enhances the ability of our people who are out doing outreach, whether it is civilian outreach, corporate outreach, community college outreach. Because if you have a TV commercial going on in an area and you walk into a community college in North Carolina, they know who you are. But over time, we will lower those expenditures and we will probably put more money into people on the street who continue to help generate relationships and referrals.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great. Just a quick follow-up on the CITE program, the department CITE program and your ability to sort of monitor or cap loan activity. How expensive will that be and how impactful might that be for you guys?



Wallace Boston - *American Public Education Inc - President, CEO*

Harry may have an estimate. But I will tell you, we signed up for those programs, Jerry, without even caring what it will cost us. I think it is so important to participate in those programs for a couple of reasons. One, to be able to -- if you look at the FSA -- the whole FSA abuse that is out there is because people have found out that the system allows them to borrow more money than what the tuition and fees are, and they were doing it and they have done it for a long time. Just now, with this economy, some professional ring leaders have figured out that scheme and they are taking advantage of it. But I would much rather not have a student -- my personal feeling is that institutions ought to be able to exercise professional judgment. Well, you can sort of do that, but it is very complicated if you are a national university. If you are a university that is taking local students in a geographic area like New Jersey or Texas, you can actually limit your cost-to-cost if you specifically identify. But you when you are a truly national institution like ours, you can't do that.

So this experimental project lets us lower those loan amounts up to \$2,000. I think it is a great way for us to say -- okay, are we going to lose the students over it? Or are we basically going to limit ourselves to the best students? Which is what we want, the best students. The other program, Experiment Five I believe it is, Harry, allows us to vary the amount of disbursements. So we might be able to make our first disbursement only for tuition and then make the disbursement for the housing and other costs later. Once again, the abusers go away, because we will find out that they will have to be participating in all the academics of the class, and that is not what they want to do if they are part of an organized ring. So I don't know what it is going to cost us. Harry might be able to give you color on that, but from my perspective, these are two great experiments that we are glad we were excepted into the program, and we are willing to do it regardless of the cost.

Harry Wilkins - *American Public Education Inc - EVP, CFO*

It is not going to cost us any more than we are currently spending. When we keep talking about the Title IV automation project, that is included in this. The ability to do multiple disbursements of uneven amounts is something that we couldn't do under our old system that we are automating to be able to do. As Wally said, if you can limit that first disbursement to just tuition and books, it takes away the incentive for the abuse students. Then if you make the subsequent disbursement after they successfully complete a course, then it really -- you are not going to -- the abusers won't be able to get the money. That is one of the experiments that we are considering doing. That won't happen until July of next year, but we are putting the systems in place now to implement that.

Jerry Herman - *Stifel Nicolaus - Analyst*

Thanks, guys, appreciate it.

Operator

At this time, there are no further questions. I would now like to turn the call back to Mr. Chris Symanoskie. Please proceed.

Chris Symanoskie - *American Public Education Inc - Associate VP IR*

Great, thank you, operator. That will conclude our conference call for today. We wish to thank all of our callers for their participation and interest in American Public Education. Thank you and have a great day.



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.