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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third quarter 2012 American Public Education Inc. earnings conference call. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference (Operator Instructions).

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the call over to your host for today, Mr. Chris Symanoskie. Please proceed sir.

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

Thank you, operator. Good morning everyone and welcome to American Public Education's third quarter 2012 earnings conference call. The presentation materials for today's call are available in 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 fourth quarter 2012 and the full year 2012 as well as other statements regarding expected future growth.

Actual future 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 Factors 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's 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'll turn the call over to Dr. Boston.

Wallace Boston - *American Public Education Inc. - President and CEO*

Good morning everyone. In today's conference call I will review the results of our third quarter operations, highlight recent academic successes, and discuss our long-term 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 fourth quarter of 2012.

For the three months ended September 30, 2012 overall net course registrations increased 17% compared to the prior year period and net course registrations by new students were approximately flat year over year. Net course registration growth was in line with our expectations and the results are especially noteworthy given the measures we implemented to reduce financial aid fraud and abuse, and in light of the fact that our prior-year comparisons may have included a high percentage of so-called course takers.

During the third quarter of 2012 net course registrations by students using Department of Defense tuition assistance, or TA, increased 10% year-over-year as a result of new enrollment growth and improved persistence of active duty military students. This growth is rather significant given the already sizable military population at AMU and the budgetary constraints possibly facing the US military.

During the third quarter 2012, net course registrations by students using veterans' benefits, or VA, increased 93% year-over-year. We believe this increase is largely related to the addition of a partial housing allowance for Post-9/11 G.I. Bill students attending distance learning programs that was effective October 1, 2011. Prior to that date, no housing allowance was permitted for students who attended distance learning programs. Moreover, the Company is not aware of any significant proposals to modify future veterans G.I. Bill benefits.

During the third quarter, net course registrations by students using cash and other sources increased 7% year over year. This growth was propelled in part by expanding corporate relationships and by an increase in students using cash to cover tuition costs.

Net course registrations by students using federal student aid, otherwise known as Title IV, increased approximately 12% year-over-year and now represent approximately 37% of total net course registrations. In many ways our ability to grow in this difficult economic environment underscores the critical importance of affordable tuition, academic quality and diverse program offerings and attracting qualified students who are becoming better-informed consumers that can select from growing numbers of online higher education options.

We believe our success with civilian students is further enhanced by building valuable and constructive relationships with prominent and respected corporations, associations and government agencies. For example, we recently established a new relationship with the National Football League Players Association to help current and former professional athletes reach their academic goals. Through this relationship, which places an emphasis on degree completion, members will have access to a tuition grant, matching scholarship and career services provided by APU, as well as through the NFLPA's existing scholarship and tuition reimbursement programs.

During the quarter, we established several relationships with important public service organizations including major metropolitan police departments and related associations. Moreover, we also continued to expand our presence among community colleges. We now have agreements with 103 community colleges in 28 states. Our focus on relationships, affordability and academic quality appears to be resonating with community college leaders and other key influencers in various civilian communities.

In fact affordable higher education appears to be a growing matter of importance to students, families and communities across the globe. As an institution of higher learning committed to helping students prepare for success in a diverse global society, we plan to broaden our focus on



international students and corporate partnerships including through our relationship with New Horizons, a global independent IT training company. This is another example of our focus on relationship-building to develop growth opportunities.

We believe this exciting new relationship has the potential to expand opportunities to attract international students to APU as well as leverage both companies' corporate relationships. At the same time we believe that increasing the presence of international students and students from varied professional backgrounds will further enrich learning experience at APU through even greater student diversity.

Moving on to slide number 4, the foundation of our learning experience is embedded in high standards for teaching excellence and it is built with an unyielding focus on academic quality. In the third quarter we began development of a new faculty scheduling system to optimize course scheduling and faculty course load balancing in partnership with Quintic.

The software, which also includes tools for qualifications management and predictive analytics, is designed and intended to help our academic staff spend less time on administrative tasks and more time on academic quality and learning outcomes. The system will be piloted during the fourth quarter of this year and we expect it will be fully implemented in the first quarter of 2013.

Furthermore we are in the midst of creating an online social and professional network for the APUS faculty to be launched in December of 2012. The service, called Faculty Connect, is designed to create a more cohesive experience that provides our instructors with access to all the tools and resources needed to connect with one another, access critical academic news and information, leverage professional development and faculty support services and conduct day-to-day teaching activities with greater effectiveness.

We continue to be very attentive to the standards and expectations of our accreditors as well as other regulatory bodies. Recently our bachelor of science in nursing was awarded accreditation by the board of commissioners of the Commission on Collegiate Nursing Education or CCNE. This accreditation is a nongovernmental peer review process that operates in accordance with nationally recognized standards of practice.

We began offering classes for our RN to BS degree in nursing through our School of Public Service and Health in January of 2011. While we have less than 100 students in the program currently, we believe that earning this program level accreditation is important to prospective students and alumni as well as to the program's long-term success.

Our online library is critically important to the success of student learning in all degree programs. The APUS library recently received the Distance Education Innovation Award by the National University Technology Network, a 30-year-old professional association dedicated to the advancement of distance learning. At its annual conference in September, the APUS library was honored for its innovative online course guidelines project. This was the second national award that APUS received this year.

Recognition for academic quality and providing value to any organization can be measured in many ways. We believe that building strong relationships with our corporate partners advances our social mission and helps the communities we serve.

This is illustrated in our relationship with Wal-Mart, where we recently renewed our multiyear agreement to offer academic courses and degree programs to their Associates through the Lifelong Learning Partnership. Additionally, Wal-Mart and APU recently mapped APUS management courses to the competencies for professional development of Wal-Mart managers. The courses for this program support management professional development in several competencies required by Wal-Mart. On October 19 the courses became available and open for enrollment with tuition being provided directly by Wal-Mart.

Through academic quality, growing diversity and a unique relationship-oriented approach, AMU and APU provide learners with the capacity to innovate, lead and ultimately advance the world's cultural, social and economic development. As such, I believe American Public University System is an institution of higher learning that possesses a strong spirit of innovation with the passion of a diverse global university.

Moving on to slide number 5. In addition to serving our military and public service communities, our long-term strategic plan includes increasing our outreach to international students and expanding corporate channels. We believe that APU's attributes are highly desirable to international students as a respected US university that's affordable, accredited and online.



Furthermore we believe that classroom instruction and the university experience will be enhanced by even greater student diversity and international perspectives inside the classroom.

To further these efforts, we have developed a new partnership with New Horizons, a highly regarded global IT training company that operates over 260 locations around the world through franchise agreements in 41 states and 63 countries. We intend to work with a selection of New Horizons international franchise centers to identify students and to expand our reach to students worldwide. Through this relationship we plan to create a new platform for international student referrals, potentially lowering our overall marketing costs for international students and increasing the percentage of tuition revenue paid by cash.

We also plan to build relationships with New Horizons' established network of business customers in the US and abroad. Their customers include Fortune 500 companies such as AT&T, government agencies, small and midsize businesses and associations, a substantial portion of which are in the public service sector. In fact, they have trained employees at all 100 companies listed in Fortune Magazine's ranking of America's 100 Largest Corporations and over half of the Global 100, and rank in the top 5% of industry for training quality and customer satisfaction, as reported by an independent third-party learning and quality assurance company, College Advisors.

New Horizons is a fully authorized training partner of Microsoft, Cisco, VMware and CompTIA offering a wide variety of courses including high-end technical training and a full suite of Microsoft, Adobe and other desktop courses. Over the last 30 years New Horizons has trained and certified over 15 million students and professionals, 500,000 people per year on average. A substantial portion of its international operations are in English-speaking countries or in areas where instruction is currently delivered in English. Approximately half of the instruction occurs through synchronous online instruction and the remainder through asynchronous online instruction or instructor-led teaching at New Horizons centers and client on-site locations.

Several years ago APUS's faculty evaluated New Horizons IT courses for academic credit in our undergraduate IT degree programs. We're working with New Horizons to update that review. Pending that review by our faculty, graduates of New Horizons IT courses may qualify for academic credit towards APU degree programs in information technology.

The updated evaluations are expected to be completed later this month. We anticipate that some New Horizons graduates may find this transfer agreement an attractive option for continuing their studies in a baccalaureate program.

We believe New Horizons is another great relationship for APEI. It has a global franchise network, very capable management with international experience, global marketing capabilities and shares our passion for lifelong learning. Moreover, we believe that students who have completed classes at New Horizons are well-trained and highly skilled, having already demonstrated academic success and proficiency in online learning and technology. We look forward to welcoming some of them to our learning community in the months and years ahead.

Moving on to slide number 6. We hope this relationship will become one of several successful international relationships over the next several years as APUS and APEI continue to explore ways to collaborate with corporations, local and national governments, universities and nonprofit organizations outside the United States. Of course we will be doing this in the context of continuing to embrace our founding principles, respecting our military heritage and honoring our public service focus.

We have many great opportunities for expansion here at home, especially as consumers of higher education in the United States continue to become more discerning and cost conscious. Increasingly, today's learners demand greater interaction, engagement, respect and flexibility from their universities. American Public University System is the affordable online university that is currently meeting these important demands through a diverse array of quality academic programs.

Moreover, our approach to enrollment has always been to attract new aspiring students through a relationship-oriented awareness model that informs key influencers and audiences primarily by developing constructive long-term relationships and by utilizing a consultative approach to enrollment advising. This approach ultimately leads to higher student satisfaction, higher referrals and better persistence.



Since launching our partnership with Wal-Mart nearly 3 years ago, we've increased our investment in building partnerships with corporations, nonprofits and community colleges through greater networking and outreach. We're pleased with the results. The benefits are generally lower student acquisition cost, better retention and a higher percentage of tuition financed by cash and other sources.

Affordability remains central to our mission. Around the country many universities are finding themselves in a precarious position caught between perpetually rising costs, inefficient operations, decreased funding and emerging tuition price sensitivity.

Since our founding we've been able to build our infrastructure and innovate as we grow to support affordable tuition. Our PAD system, automated credit transfer evaluation process, ePress initiative and FSA automation are just a few examples of such innovation.

In short, it took many years to build our highly efficient delivery model, and we believe it represents a long-term competitive advantage that is challenging for competitors to quickly replicate. In a manner of speaking we are doubling down on our efforts to build relationships because they have proven to be highly effective. At the same time, these relationships are also planting the seeds for future growth, including through our relationship with New Horizons.

We also believe that our high academic quality, proven online expertise, highly automated systems and affordability make us a very attractive partner for both public and private universities to outsource their online technology and services. Although we are in the early stages of development, our current approach is one that focuses more on reducing our overall cost of delivery by leveraging infrastructure in addition to creating a new revenue stream.

Over time, perhaps within the next two years, we hope to extend distance learning services to other universities where I think we can execute better with award-winning quality and at a lower cost than many of today's popular providers.

It appears that our unique approach is opening up many doors for us to utilize our expertise and expand our offerings through many different types of relationships. Our outreach to corporations and associations, new international efforts and online services model are new endeavors that today are very small. But they hold tremendous potential and they support our mission.

By focusing on important higher education fundamentals and on student outcomes, we have built a respected and progressive online university that is earning recognition and respect from students, faculty, government officials, and academic communities around the world. We continue to improve our effectiveness and our efficiency while at the same time creating greater diversification and new opportunities.

I believe that APUS is incredibly well-positioned for the future including because we believe that our institution's mission and founding principles are consistent with the needs of learners and key stakeholders worldwide.

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 and CFO

Thanks, Wally. Turning to slide 7, American Public Education's third quarter financial results include an 18% increase in revenues to \$77.1 million compared to the third quarter of 2011. The revenue increase was primarily driven by growth in net course registrations from civilian, military and veteran students.

Operating income for the third quarter 2012 increased 17% to approximately \$17.5 million. General and administrative expenses increased as a percentage of revenue to 20.8% from 18.6% from the prior-year period. However, the increase was lower than expected due to improvements in bad debt expense resulting from less FSA abuse.

Bad debt was approximately 4.4% of revenue during the third quarter of 2012. While bad debt was up from 1.7% of revenue in the third quarter 2011, it was sequentially down from 5.1% in the previous quarter of this year.



Instructional costs and services decreased to 34.2% of revenue in the third quarter of 2012 compared to 36.7% in the third quarter of 2011. This decrease was primarily related to cost savings from our ePress initiative as well as efficiencies gained from process improvements in our student support services.

Selling and promotional expenses as a percentage of revenue increased to 18.7% of revenue compared to 17.9% in the prior-year period. The increase was lower than expected due to the timing of certain marketing expenditures whereby approximately \$870,000 of expenses that were originally budgeted for the third quarter are now expected to be incurred in the fourth quarter instead. The Company believes that S&P expenses as a percent of revenue should remain at or below 20% for the full year 2012.

In the third quarter of 2012, net income was approximately \$10.8 million or \$0.60 per diluted share, ahead of guidance. Please also keep in mind that the prior-year period included a tax benefit of approximately \$1.8 million or \$0.10 per diluted share. Those adjustments resulted from state tax and research and development tax credits recorded during the third quarter of 2011.

Our cash balance as of September 30, 2012 was approximately \$101.6 million or \$5.62 per diluted share. We have no long-term debt. Our cash balance was reduced by several factors, including the stock buyback, CapEx related to the completed construction of our new finance center and the timing of tuition assistance payments received from the military and our investment in New Horizons.

As of September 30, 2012, accounts receivable increased by \$11.1 million compared to June 30, 2012 as a result of a timing difference in collections of receivables due from the Air Force and Army. Prior to June 30, 2012 APUS billed the Air Force bases separately each month for tuition assistance payments due, and those receivables were historically collected within 30 days.

But during the third quarter of 2012, the Air Force centralized its payment centers into three locations, and as a result of the new processes, billings and collections were delayed. This resulted in a \$4.1 million of August billings and \$4.3 million of September billings not being collected from the Air Force until October of 2012.

Similarly, a billing from the Army in the amount of \$3.1 million from August was not collected until October 2012. These delays in collecting receivables are believed to be an isolated event that had no significant impact on cash flow or long-term operations of the Company.

Capital expenditures were approximately \$28.5 million for the nine months ended September 30, 2012 compared to \$13.8 million in the prior-year period. Approximately \$13.9 million of this expense was related to the construction of our new finance center, which was completed and opened in September of this year.

Depreciation and amortization was \$8.1 million for the nine months ended September 30, 2012 versus \$6.7 million for the same period of 2011. Cash from operations for the nine months ended September 30, 2012 was approximately \$34.5 million compared to \$47.5 million in the same period of 2011.

During the first nine months of 2012 we purchased 409,636 shares of our common stock, of which 169,177 shares were purchased in the third quarter 2012. As of September 30, 2012 approximately \$10.7 million worth of shares may yet be purchased under our existing repurchase plan authorized by our Board.

Turning to slide 8, during the quarter we made a \$6.75 million or a 19.9% minority investment in NWHW Holdings Inc. to acquire New Horizons. We recorded the \$6.75 million investment at cost. The Company will recognize its share of earnings or losses in the investee during the period in which they are reported, with a corresponding adjustment in the carrying amount of the investment.

We're accounting for it under the equity method basically. As you will see in our 10-Q, the investment is recorded as a minority investment on our balance sheet and the statement of cash flows.

In connection with our minority investment in the NWHW Holdings Inc., we also extended a \$6 million credit to New Horizons in exchange for a subordinated note. The note matures in September 28, 2018 with monthly interest payments of 5% per annum during the first five years of the



note, and interest payments of 6% per annum in the sixth year. The \$6 million in subordinated debt will be shown as a separate note receivable on our balance sheet and our statement of cash flows.

We feel our investment in New Horizons represents an attractive use of cash that not only should generate higher interest income and higher returns on invested capital, but it opens the door to a tremendous international growth opportunity by working with a training company that has a substantial global reach, a huge network of students and alumni, quality academic programs including online programs, and a very capable management team with extensive international experience.

Turning to slide 9, our fourth-quarter outlook for 2012, American Public Education expects growth of net course registrations by new students in the fourth quarter of 2012 to be between negative 7% and negative 3% year-over-year and net course registrations to increase between approximately 8% and 12% compared to the prior-year period. The Company anticipates fourth-quarter revenue 2012 of between approximately 9% and 13% increase compared to the prior-year period.

Earnings per share for the fourth quarter 2012 are expected to be between \$0.64 and \$0.67 per diluted share. In addition the Company anticipates full year 2012 net income to be between \$2.25 per share and \$2.28 per diluted share.

Our fourth-quarter 2012 outlook reflects our belief that we have become 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 large numbers of sincere students who intend to pursue degrees from enrolling at AMU or APU.

In the prior-year period, based on an analysis of course failure rates, we estimate that a significant portion of net course registrations from new students using Title IV funds were individuals who were enrolling for the purpose of gaining access to Title IV funds. This represents a peak or maximum in terms of the level of FSA abuse in the prior-year period.

If the Company had not had those registrations in the prior year period, the Company believes that its outlook for growth in net course registrations by new students for the fourth quarter 2012 would have been approximately between 8% and 9%.

Turning to slide 10, to recap APEI's third-quarter results are highlighted by growth in net course registrations, lower bad debt expense, improved efficiency from our ePress initiative, selling and promotional expenses below 20% of revenue and earnings per share that were above our guidance. Additionally we announced several exciting developments and growth initiatives that will further diversify and strengthen our institution, including the renewal of our partnership with Wal-Mart and the development of courses for their associates, the accreditation of our nursing program and the launch of a new initiative to reach out to international students through our partnership with New Horizons.

Our new initiatives and partnerships support high academic quality, affordable tuition and the growing diversity of our student population. Many of our new relationships represent unique and exciting growth opportunities with tremendous long-term potential. We believe the long-term trend in student learning preferences has continued to move toward online education experience and also affordable tuition.

It takes a nimble and efficient and innovative organization to address this mega trend. We continue to believe we are pursuing the right course for our students, our faculty, and our alumni. And if those groups are satisfied with the outcomes, we believe the value will be created for shareholders as well.

At this time we're happy to answer questions from the audience. Operator, can you please open the phone lines for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jerry Herman, Stifel Nicolaus.



Jerry Herman - *Stifel Nicolaus - Analyst*

Thanks guys, good morning everybody. I guess maybe the first question, if we could just talk about the corporate relationships, can you guys give us an update on the metrics there in terms of how many there are? And as part B, it looks like Wal-Mart might be getting a little bit more visible in terms of the internal advertising of that program. Is that fair?

Wallace Boston - *American Public Education Inc. - President and CEO*

Let me try to start with an estimate. We have relationships, Jerry, with somewhere in the neighborhood of 50 to 60 corporations. And none of them, other than the Wal-Mart relationship for its Lifelong Learning Program, is exclusive.

So we're one of several, typically, vendors who provide education services to their employees. And in a few cases, we actually do direct billing with those corporations.

As far as visibility with Wal-Mart, the answer is yes and no. We just mapped some of our courses and organizational development to some of their management expectations for development as well. And that particular program, 100% of the tuition will be paid directly by Wal-Mart's HR department, so that's a little different. That's something new.

The existing program we renewed for three years and we expect that after the busy season is over, we're currently in their holiday season, preferably on February 1 is sort of a tracking date. They will once again ramp up marketing the Lifelong Learning Program.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay. And then just a quick follow-up with regard to sort of the competitive landscape; a lot of the for-profit players are reducing or incentivizing scholarship-ing, granting money to their students. Do you guys -- I know this is tough one, but do you guys see any influence of that on your student interest?

Wallace Boston - *American Public Education Inc. - President and CEO*

We don't see any negative influence. Our scholarships vis-a-vis our corporate relationships aggregate 1% of revenue. We prefer not to give any scholarship, but you know, based with a request from a strong and large company we will give something. And it's currently 1%, is pretty stable.

I think that the discounts that the other companies have offered, at least at this point in time, have not negatively influenced that enrollment.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Jerry, just to go over it one more time, we believe that if you took out the abuse students last year, on a real comparative basis we think our guidance for the fourth quarter this year would have been about 8% or 9% new course registration growth, and about 19% to 20% net course registration growth, if you exclude those abuse students last year. So we think that we haven't really seen much impact from the competition [with] reduced prices.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great, thanks guys, I'll turn it over.

Operator

James Samford, Citigroup.

James Samford - Citigroup - Analyst

Great, thank you; just a quick follow-up on that. I think you have installed the \$50 tech fee at this point. I was wondering is there a negative impact on new starts or retention from that at this point?

Wallace Boston - American Public Education Inc. - President and CEO

We're not aware of it. I think it's a little too soon to see, James. We had, for basically two reasons, one to ease our students into the idea of paying a fee, and also for the ease of programming it with our computer guys, we when we announced the fee we said that if you register before September 10, we would allow you to take that class without the fee. So, people can register for up to five months' worth of courses, and we're sure that some students who are being pretty frugal, as many of our students are, registered for months out.

So we haven't seen the true positive impact of the fee yet. And we haven't seen any negative, at least with the students who might not want to pay the fee because they were able to register for five months out.

I can tell you, though, whenever we have -- we've announced two increases in graduate tuition over the last 10 years since I've been either CFO or CEO. And this particular time period, I only received two negative complaint letters. So I think people were pretty open to the fact that it's been such a long time since we had an extra fee or something that there just weren't that many complaints.

Harry Wilkins - American Public Education Inc. - EVP and CFO

And to be honest with you, we really believe that allowing the students to register in advance of the technology increase, which we implemented in that first week of September, probably had -- we probably would have had about \$1 million more revenue in this period had we not let them preregister for those classes without the tech fee. So that -- I don't know whether people put that in their models or not, but that was the impact of allowing people to register early.

James Samford - Citigroup - Analyst

And just as a follow-up, you've got quite a range of opportunities right now between ePress, your corporate partnerships, sounds like some international and even an outsourcing opportunity that you're looking at. I was wondering, can you prioritize the sort of near-term impact of some of those? And I guess really do you have -- where are you on the organizational level to pursue a lot of these opportunities at this point?

Wallace Boston - American Public Education Inc. - President and CEO

Well, I'll speak to two of them and let Harry talk about the others. On the ePress we're still tracking. Our goal was to get \$8 million in savings for the full year in 2013. We have no information that believes that we won't.

And then on the international opportunities, we have been talking about that international market publicly in our quarterly statements for over a year now. We've been thinking about it for two or three years. And our research really indicated that to be effective at that, we needed to have -- as the military says -- boots on the ground in those countries.

And we looked at the cost of -- even if we had a person who was capable of covering several countries, the cost of doing that and funding it, particularly in a startup situation versus partnering with New Horizons, and we also concluded that with their multiple locations in a bunch of



countries where they truly have boots on the ground, that it was much more cost-effective and probably likely to lead to a greater and quicker benefit. So we were pleased to be able to go from really relationship a few years ago with them where we were evaluating some of their programs for credits, to this partnership and investment.

Harry, do you want to talk about any of the other questions there?

Harry Wilkins - American Public Education Inc. - EVP and CFO

No, I mean we're very excited about this relationship with New Horizons. They have some great corporate long-term relationships with companies we have not historically dealt with. We think our corporate outreach team can work closely with their corporate outreach team to put together a really good corporate training and educational program for high-tech professionals, not just domestically but worldwide.

So, this is a great way to introduce our -- we would've had a difficult time on our own sitting in Charlestown, West Virginia to effectively get the word out about our programs internationally. We feel, with working with New Horizons network, they can put us in touch with working adult professionals in 63 countries who may want to take advantage of the fact that some of the and New Horizons courses, the high-tech courses that they are getting training in, may or may not convert to credit in our program but that we have -- they'll get the word out about our programs, similarly the way Wal-Mart gets the word out about our programs to their employees. This goes right along with our philosophy of relationship marketing, partnering with high-quality companies and helping to educate professionals. So we're excited about it. We think it will have very good long term impact.

Operator

Trace Urdan, Wells Fargo Securities.

Trace Urdan - Wells Fargo Securities - Analyst

Thank you. Just continuing on that line, can you describe the nature of the financial relationship? Are they going to be actively marketing your degree programs internationally? Are the students going to be taking the courses physically in their centers on their machines? Can you give us a little bit more detail on how that's going to work?

Harry Wilkins - American Public Education Inc. - EVP and CFO

Trace, we don't have an agreement like that. That's a great idea. Our focus was to do two things initially; one, to have our academics separately and independently, evaluate the updated programs that New Horizons offered. Since the last time we had done it, they had added additional certifications in VMware for example, and to make sure that was done appropriately. And they're wrapping that review up.

The second thing was we would look into ways that we can make that agreement known at the multiple international locations. And how we choose to do it hasn't been cemented or negotiated at this time, but we certainly think there are a number of venues, from simply having brochures available like we do in military educational service offices at military bases around the world, to perhaps some more direct relationship.

But as you may know, international marketing relationships are governed differently than US marketing relationships. So whatever we would do internationally we would more than likely not do the same in the US.

Operator

Corey Greendale, First Analysis.



Corey Greendale - *First Analysis Securities - Analyst*

Hi, good morning. So you were nice enough to give us an estimate of what the new registration and total registration growth would have been in Q4 ex-the stipend changes. Do you have those numbers for Q3 as well?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

I think we gave them on the last call Corey. It's in the transcript from the last call. We don't have it sitting here with our notes today.

Corey Greendale - *First Analysis Securities - Analyst*

Where I'm coming from is that the comp was equally tough in Q3 versus Q4, so I'm just trying to get a sense if there was kind of an underlying slowing of the growth rate, and if there was, what you think that's attributable to.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Well, actually, it's a tougher comp in Q4. Q4 was -- I guess last year was the high point of our FSA abuse students. So we actually have a tougher comp in the fourth quarter. But you know, again, it is what it is. I think our guidance is all [ages] conservative but good.

Wallace Boston - *American Public Education Inc. - President and CEO*

I think -- and you might note that we -- the guidance we gave last quarter on the comparative as well as this quarter was based on analysis of course failure rates. So at the time a year ago, when we were reporting we had this influx of the students and the problems, we really couldn't identify exactly to what extent it was, until we saw the ultimate outcome of the courses which the change, the delta in the upgrades between what we typically expect and what we saw, because basically once these folks got their refund checks they walked and got an F in the course is what we used to do to the analysis retrospectively.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

And I think you're seeing in the fourth quarter and for the full-year 2012 now, it's becoming clear the double whammy impact this year that we got from those abuse students. We had the tough comparative number on the topline and then the bad debt expense.

It looks to us like our bad debt expense for the first nine months is up \$6 million over last year. The majority of that is due to those abuse students. Well, \$6 million is the equivalent of \$0.20 of EPS of bad debt expense that we had to run through this year related to those -- the impact of those abuse students last year.

So I think we're showing that as those students have gone out now, and as we're getting back to more normalized operations, we saw in the quarter our bad debt expense came down from 5.1% last quarter to 4.4% this quarter. I think we're starting to get out of that. But the tough comp of last year really had a double whammy of -- a tough comp of topline growth and then the additional expense this year of bad debt.

Corey Greendale - *First Analysis Securities - Analyst*

Okay, and then on the Wal-Mart relationship, so if you just look at the renewal of the existing relationships, the Lifelong Learning, has Wal-Mart indicated whether they're going to start providing tuition assistance? And then on the new or the professional development opportunity, can you just give us a sense will those people who enroll be included in your registration numbers and what the price level will be for that?

Wallace Boston - *American Public Education Inc. - President and CEO*

Yes. We'll -- obviously to give out current numbers from Wal-Mart we'll have to get their permission. But, yes, that new program will keep them in there in the numbers that we report.

And as far as timing of reimbursement programs for the Lifelong Learning, the choice in that is up to Wal-Mart. We believe that when they plan to start marketing again 1 February that there will be some announcement. But it's not ours to discuss.

Corey Greendale - *First Analysis Securities - Analyst*

Thank you.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray & Co - Analyst*

Thanks. So the margin compression you've seen thus far in 2012, obviously in the context of some of these new initiatives you've got going on and the bad debt [stuff] you've referenced, the guidance suggests that it continues in the fourth quarter and maybe at a somewhat higher rate than we saw in the fourth quarter. So, Harry, can you help me understand if there is anything different going on in terms of expenses?

And more importantly I guess, how should we think about 2013? Do you think margins have stabilized at this point?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Yes, as we have said, I think, on the previous call looking forward -- even though we're not giving any guidance at this point for 2013, we would expect full year impact of our ePress initiative, which we think was going to be about a \$4 million savings in this year, we think will be more like an \$8 million savings next year. We'll see the impact of that.

We'll see the impact of some of the expenses we incurred this year to prevent abuse students from getting into our system, we think will create efficiencies in processing financial aid next year which we should start seeing. Particularly in the latter half of next year, I think we'll see even more as we implement a few more things to streamline that process, which will get our costs down. And I also think our bad debt expense will return to a more normalized level.

The other thing we had talked about on the call that nobody has asked about is the marketing spend. We did move about \$870,000 of marketing costs, which we had originally planned to spend in the third quarter, into the fourth quarter this year. It's just a normal timing of -- we watch how enrollment trends are going and we watch our marketing spend, and we decided to do that in September.

So, you know, I certainly think that we should start to see some margin improvement next year.

Peter Appert - *Piper Jaffray & Co - Analyst*

Great, that's very helpful. And Harry, how does the tech fee then flow through in terms of revenue per student? You didn't see it this quarter, which I understand because of the preregistration. But we should start to see that in terms of some modest increase in the revenue per student in 4Q, correct?

Harry Wilkins - American Public Education Inc. - EVP and CFO

Yes, that is correct. And certainly in the next year; you'll see in the back end of the fourth quarter this year and then the beginning of the first quarter of next year. You know it equates to about a 5% increase for roughly half of our students.

Peter Appert - Piper Jaffray & Co - Analyst

Got it. Okay, that's good. Thank you.

Operator

Jeff Mueller, Robert W. Baird.

Jeff Mueller - Robert W. Baird - Analyst

Good morning, just wanted to ask a follow-up on Corey's question around the 8% to 9% underlying starts growth guidance for Q4. I think for Q3 you guys had said mid-teens. I guess a technical question on the definition of net course registrations for new students.

If a student would register on, say, September 5 to get ahead of the September 10 cutoff date for the technology fee, but would be registering on September 5 for a course that starts in October or November, would that student count as a net course registration from new students in Q3 or in Q4?

Harry Wilkins - American Public Education Inc. - EVP and CFO

It would count in Q4. And again they only count if they make it through the add/drop period. So just registering isn't enough. You actually have to show up for class and make it through the add/drop before we count you.

Jeff Mueller - Robert W. Baird - Analyst

Okay, but the difference between the mid-teens underlying in Q3 and the -- I guess 8% to 9% in Q4, we shouldn't take that that you're seeing any signs of sequential underlying softening, correct?

Wallace Boston - American Public Education Inc. - President and CEO

No. We're trying to give guidance in a period we have a little bit of uncertainty. We didn't want to bring it up, really. I'll bring it up now because you've asked the question, but there's a little bit of uncertainty about the impact of the Hurricane Sandy.

We have seen about 650 students who have been unable to get their books. We're in the first week of classes in November. The number of people who have been able to log into the classroom is -- so far, you know, they have to log into a classroom by Sunday night midnight or they'll be dropped.

The number of people compared to prior months is less. So in other words, we believe that there may be a portion of the country where students aren't able to log in, and that may impact. We tried to build that into our projections.

You also have to remember we have a lot of students who are first responders. And we've seen in the past, and when Hurricane Katrina hit, and when we had the oil spill in the Gulf of Mexico happened and we had full deployment of the Coast Guard. When we've had periods where we've



had national disasters in our country, it has had a short-term impact for a month or two in our enrollment in the past, because we have so many students who respond to those situations.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

But I would add that we aren't sitting back and just saying what happens, happens. We tried to contract all 650 students who were impacted by Sandy. And by impacted, we were notified by UPS and FedEx that they couldn't get deliveries to them, to make them aware that we would put e-books in the classroom for them, as well as we would have liberal start guidance for our emergency responders, particularly some people who actually got called back into service from reserves to help with the hurricane.

So we're trying not to lose them. But I think what Harry is saying is we tried to give an estimate that could account for possibly having some people who would choose to not start in November, but either start in the December or January.

Jeff Meuler - *Robert W. Baird - Analyst*

That's very helpful. And then as we look out to Q1 and the comps ease, would you expect to get back to net course registration from new student growth once you get up against that easier comp?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

We're not giving any guidance for 2013 yet, except for the fact that we do think that we will have margin improvement in 2013. And we certainly think these -- the renewal of the Wal-Mart contract and the relationship with New Horizons will [prevent] growth opportunities in 2013. But other than those general comments, we're not giving guidance right now for the first quarter of next year.

Jeff Meuler - *Robert W. Baird - Analyst*

Thought that would be the answer, but figured it was worth a try. Thanks guys.

Operator

Kelly Flynn, Credit Suisse.

Kelly Flynn - *Credit Suisse - Analyst*

Thanks, a couple questions; I think you touched on it briefly in your remarks, but can you just revisit what you're hearing and thinking about the future of military tuition assistance levels, and the 90/10 military inclusion issue in light of the election in particular? Thanks.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

The first one was pretty easy. We literally heard nothing as far as any changes to TA, and that includes whether or not the sequestration would occur if there was some impasse. So if there is something, we actually have a number of different sources that we can access, and none of those sources have indicated that anything is up.

So that's good. And by the way, one of the sources would be the people who do the billing who would have to make changes. And we still haven't heard that they've been given instructions to make changes.

As far as the 90/10 goes, there is one bill I can't remember whose name. There is like half a dozen bills related to either making schools that participate with VA provide a heck of a lot more data. But there is one bill in particular that's out there that says that -- and it's a Senate bill that they would include VA and TA in the 90/10 calculation.

There's nothing on the House side that I'm aware of, because that bill would be dead on arrival in the House Education Committee thanks to Congressman Kline from Minnesota, who chairs it, and who happens to be a 20-year Marine Corps veteran. He's totally opposed to it.

That isn't to say, though, in a spirit of -- if a spirit of compromise actually surfaces between Chairman Boehner and the President, that something couldn't happen. We have certainly done our best, including testimony for Senator Harper's subcommittee -- Carper, I'm sorry; not Harper, but Senator Carper's subcommittee where we said we were opposed to that.

And the reason we're opposed to that is because of what most people who cover the for-profit sector know, but what most people in Congress don't seem to know, that the 90/10 rule actually drives up tuition. And so we have spent a lot of time going around to offices on both sides of the Hill talking specifically about how 90/10, every time they raise the student loan limits, a school that's close to the limits actually raises their tuition so they can comply with it.

And while we currently aren't too close to that, if they threw in VA and TA, we would be close to it. And more than likely, because schools would be over it, they would abandon the military business because it's lower margin business for them. And we would probably get a number of their students coming our way, which might put us at greater risk.

I think we've done a good job of explaining that. I know the current Senate bill, we've been told by people in the House, that's dead on arrival. But you can always have things come through, either appropriations bills or other ways to do that. So we're keeping our ears open and staying alert to it and trying to do our best at campaigning against it.

Kelly Flynn - *Credit Suisse - Analyst*

Okay great. That's very helpful, thanks. I have a few other quick ones. Back to that comment you made I think a few questions ago about marketing being delayed to the fourth quarter, can you quantify that?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Sure. It was \$871,000. Typically what we do is we track how we're doing to budget for our students. And when we saw in the third quarter that our students were coming in a little higher than what we budgeted, we just said there's no need to spend this money, and so marketing deferred \$871,000. They are planning on spending it in the fourth quarter.

And it's just that we have this -- our goal is always to keep our marketing expense under 20% for the year. So when we didn't have to spend it, we chose to move it to the fourth quarter.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, great. Lastly, can you just clarify the launch dates of the tech fee and the e-books? I think I had September 1 for the tech fee and Q3 for e-books. Is that still right?

Wallace Boston - *American Public Education Inc. - President and CEO*

Well, the tech fee we made -- we had an IT decision to make on how to implement it. And it was much easier to build it in, since we didn't have a tech fee, that students who registered after a certain date would be charged a tech fee. It was September 9th or 10th, one of those two dates.



Anybody who registered prior to that didn't get charged a tech fee and you could register for up to five months. Anyone who registered after that date would be charged a tech fee. So that's how that worked. Harry, do you want to answer the other part of the question?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Yes, we started to see the improvements in e-books late in the second quarter and then we're continuing to implement it with additional courses throughout the year. So we're just about on our target of trying to achieve \$4 million of savings this year and \$8 million next year.

We've gone to -- through the third quarter we have actually recorded about \$2.3 million of savings from the initiative. We've gone from about \$65 per class per student per textbook for class -- undergraduate students to about \$49 per textbook.

Kelly Flynn - *Credit Suisse - Analyst*

Okay great, thank you.

Operator

Gary Bisbee, Barclays.

Gary Bisbee - *Barclays Capital - Analyst*

Hi guys, good morning. I guess the first question, you made commentary about you think you've done a good job eliminating the stipend chasers. And certainly the persistence rate, as we calculate it, was up nicely in the quarter and would attest to that. But the guidance on starts and total registration seems to imply that persistence declined year-over-year, or at best it's flat.

I guess I wondered why, and is there something going on there with the underlying retention rate or something about the math of how we calculate percentage?

Wallace Boston - *American Public Education Inc. - President and CEO*

I think it's probably the math, Gary. I'll let Harry get precise. But the fourth quarter was really the peak of the stipend chasers for a lot of different reasons.

We announced that we had an issue with them in the third quarter. But if you know you have to amortize your revenues by day, and so when we go back and look at quarters where we had the greatest impact, even though we were trying to put various procedures into place, you know, as early as the beginning of the fourth quarter it was -- our peak was really in the fourth quarter of last year. And our analysis, particularly the way we were able to make an estimate, was to go back and look at the delta or the change in what our typical new student failure rate was versus that particular quarter.

And Harry came up with the estimate. Do you want to talk about the estimate, Harry?

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Yes, again, we believe that if you took out the people we think were abuse students last year, our new student guidance for growth would have been 8% to 9% net course registration growth in the fourth quarter this year, and 19% to 20% net course registration growth.



So, again, I'm not -- when I do the math I don't see that that's a reduction in our retention rate. But, you know, again it's -- hopefully -- the hard part is trying to comp against last year and figure out what the number would have been. All of that will be out of the way when we get into the first quarter of next year and as we move throughout next year. So this is a temporary comp.

Wallace Boston - *American Public Education Inc. - President and CEO*

Yes. By the way I think if you don't have that data, which we gave you by making the estimate, I think you might be able to see a change in the retention rate. But that's primarily because of all these crazy course takers from a year ago.

Gary Bisbee - *Barclays Capital - Analyst*

So ex-that, as far as you are seeing, are you seeing the retention improve as those students have dropped and been basically weeded out of your numbers?

Wallace Boston - *American Public Education Inc. - President and CEO*

Yes, yes we are, and we're seeing our pass rates of the first course have improved since last year.

Gary Bisbee - *Barclays Capital - Analyst*

Okay great. And then next question, can you give us any sense what percent of students have signed up for up to five months of courses? Is that a lot of them?

I guess what I'm getting at, would we be better off modeling a fairly modest impact to revenue per student from the IT fee in the fourth quarter, but then accelerating as we get into the first half of next year? Or is it likely to have a more noticeable impact, do you think, this next quarter?

Wallace Boston - *American Public Education Inc. - President and CEO*

Yes, no, I think you're right. I think it's going to accelerate next year. It's a little diluted in the fourth quarter this year by the students who pre-registered. You won't have that happen next year.

Gary Bisbee - *Barclays Capital - Analyst*

Okay. And then just the last cleanup one. It looked like to me, and maybe I just had this wrong from last year, but the bad debt expense comp you mentioned and put in the 10-Q was actually lower than what you'd reported a year ago. Was there any change in how you're categorizing that? Or did I just have the number wrong?

I think I had had that you said 3.0% in the third quarter 2011 was bad debt. Now you're saying 1.7%.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

No, no, [we're out] in the Q. (multiple speakers)



Wallace Boston - *American Public Education Inc. - President and CEO*

Yes, I think that should be right out of the Q, so (multiple speakers)

Gary Bisbee - *Barclays Capital - Analyst*

All right great, thanks a lot.

Wallace Boston - *American Public Education Inc. - President and CEO*

Sure.

Operator

Paul Condra, BMO.

Paul Condra - *BMO Capital Markets - Analyst*

Great, thanks. I just wanted to ask about the EPS in the third quarter. You had a pretty good upside to your guidance. How much of that is related to you know the shift in expenses you talked about versus just you coming in ahead of plan?

Wallace Boston - *American Public Education Inc. - President and CEO*

Well, I think that that marketing shift was about \$0.03 EPS. But the rest of it was just doing a little bit better. Bad debt expense, we didn't expect that to come down quite as much as it did, either, so I think just the improvements of the e-books, the decline in the bad debt expense, the 3% timing difference of marketing spend, pushing that from the third quarter to the fourth quarter, I think that was -- those are the main differences.

Paul Condra - *BMO Capital Markets - Analyst*

All right, great, thanks. And then I wanted to follow up on the New Horizons. Do you have any kind of option there in that agreement to make a bigger position if you want to? And then what would persuade you to do so if you do?

And if you could speak a little more broadly about what you want to do with your cash in the future.

Wallace Boston - *American Public Education Inc. - President and CEO*

Well, I think we've talked about our cash, that we know there's a number of options to us, if we can't find attractive investments, that we would either continue a stock buyback of some type or perhaps a dividend. And that our Board wanted to wait until we know more about whether or not there's going to be any changes to the Tuition Assistance program before we would consider changing either a buyback or dividend.

As far as investments go, you know, Harry and I have talked in the past. We don't have a team to go out and acquire stuff, so nobody should worry that we're gearing up for that sort of thing. It's Harry and me. And things come over the transom, and we may get the management team involved in looking at an opportunity.

In this particular case we were familiar with New Horizons from having evaluated their training program some years ago for academic credit. And when the leadership there decided that, you know, they wanted to find a group of investors who were actually interested in not just selling the

company, but in growing it going forward, they contacted us. And the more we thought about it, particularly in line with the research we had done about how much it was going to cost us to bootstrap an international marketing effort on our own, we thought it was pretty attractive.

So, I think we will -- there is no current plan for us to staff up an acquisitions department like other public companies do, and I'm familiar with in my prior experience as -- in public healthcare companies. But we'll continue to look at opportunities, and if they should fall on line with our long-term strategy as New Horizons did, then maybe we'll do something. But for the most part that's not a focus of ours.

Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Yes, and then just to go back to the previous question as I'm looking at the bad debt expense, maybe the confusion is for the -- through September 30 last year, for the first nine months of 2011, our bad debt expense was 1.7% of revenue. For the fourth quarter of last year it was 3.1%. So that was -- I think that was where there was maybe some confusion.

Paul Condra - *BMO Capital Markets - Analyst*

All right, that's it for me, thank you.

Operator

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

Good morning, thank you. I wanted to go back to the systems and processes that you've put in place for stipend chasers. It sounds like you're still making tweaks to it. How comfortable are you with a level of protection in the balance between overprotecting and under protecting at this point? And I have a follow-up after that.

Wallace Boston - *American Public Education Inc. - President and CEO*

Well, I think we're pretty comfortable on students who are actually doing this for fraud. I think, though, and I'd love to see some research done by this, but unfortunately I think it's a number of political interests in not doing the research.

But there is a certain percentage out there of students who don't just go to online schools or for-profit schools, but go to public schools who know how to take advantage of the FSA process and sign up for classes and do enough work in the class, so that they get to the point where the institution grants them the refund they've asked for. We're never going to get rid of them unless we are allowed to deny dispensing excess funds above what our tuition costs.

We had talked last quarter. We received permission to participate in an experimental program that the Department is offering where we can actually do a \$2000 reduction in the excess fund request. And that should start, pending some of our technology automation, around July 1 of this coming year of 2013, where we can participate in that program.

But I think we've got enough checks and balances on the fraud side. Harry can comment if he thinks I'm wrong. But we do not have an ability to avoid the individuals who cleverly choose to use FSA as a way of paying off credit card debt, or borrowing to do other things that they know how to work the system.



Harry Wilkins - American Public Education Inc. - EVP and CFO

Yes, we continue to monitor it. These people are very clever and there are actually some rings of people that are doing this. And we work in conjunction with the OIG. We actually are participating in three active OIG investigations to try to prevent these students from abusing the system.

They're clever. They keep changing. As we make changes, they figure out how to get around it. Then we have to make additional changes, so it's an ongoing process.

But we really do think we've stemmed the tide, and that flash mob of abuse students we had come through the second half of last year has gone somewhere else. And we're not seeing that type of situation anymore.

Jeff Volshteyn - JPMorgan - Analyst

So when you look at the first quarter of 2012 and the second quarter of 2012, what percentage of total starts would you guess? I know it's much lower, but what would it be coming from the stipend chasers, as an estimate?

Harry Wilkins - American Public Education Inc. - EVP and CFO

I don't really have that number right now. It was much reduced by the initiative we started putting in place in January, and it's just a trickle by June. So I'll try to give more color on the future call. I just really don't have the numbers in front of me right now.

We guessed that rate, actually, by the difference in the persistent rate of first-time students from our historical persistence rates. So that's how we come up with the estimate.

Jeff Volshteyn - JPMorgan - Analyst

Okay. And as a follow-up, we hear from conversations with some of the other schools that accrediting agencies are not required, but suggesting tighter admission policies and sort of more scrutiny of the academic credits of transfer students. Do you see that? And what has been the general tone of conversations with the accrediting agencies?

Wallace Boston - American Public Education Inc. - President and CEO

Accrediting agencies are -- I would say they have a flexible standard. They don't have a bright standard but they ask that institutions demonstrate what their admissions policies are and why.

So if you're open enrollment, as we are for most of our programs -- we do have a couple of programs that are not open enrollment because they're specialty accredited programs that require a minimum standard that exceeds our typical standard of graduating from high school or having a GED -- but the bottom line is that what they ask is that you're true to your policies, and that you can justify it if someone you have admitted is capable of completing college. And I think that's the tricky part, that not all high schools are equal.

And most of us who have been totally online have accepted people as long as they have graduated from high school or have a GED. And the fact of the matter is there are people who graduated from high school that just are not capable of completing college. So with that as a fairly broad standard, our faculty has been working on ways of diagnosing and testing our students in our first required undergraduate class which we call College 100. And you know that -- if we make that diagnosis in the first week of class, then we're able to recommend to the student that they be discharged from attending college unless they're willing to pay out of pocket to attend remedial and developmental programs that aren't eligible for Title IV funds and aren't eligible for military tuition assistance reimbursement.



Harry Wilkins - *American Public Education Inc. - EVP and CFO*

Yes. So we've made that change, and actually with the federal government also mandates that students now have to have significant academic engagement that first week of class. And you can tell fairly early on whether a student is capable of doing the work or not. And if they don't complete successfully the significant academic engagement assignments we give them the first week of class, then they're dropped from our system and we don't count them. There's no harm, no foul.

The student doesn't have to incur any financial penalty. We don't get any financial aid. They're dropped and we don't count them as new students until they've successfully completed the first week. So we kind of have that in place already.

Jeff Volshteyn - *JPMorgan - Analyst*

Okay, makes sense, thank you.

Operator

Adrienne Colby, Deutsche Bank.

Adrienne Colby - *Deutsche Bank - Analyst*

Thanks for taking my question. I was wondering if you could just comment if there were any timing changes that affected the revenue line, either in this quarter and expectations for next quarter, just in terms of from a calendar perspective.

Wallace Boston - *American Public Education Inc. - President and CEO*

I don't believe there were any timing differences from a calendar perspective this quarter. As you know the core classes start the first Monday of every month, and we recognize revenue on the days that you attend. So, sometimes if a class starts on the 7th instead of the 1st, there could be a little difference. I don't believe there was any significant impact in the third or fourth quarter.

Adrienne Colby - *Deutsche Bank - Analyst*

Great, and I was just hoping to follow up on the comments you made about the spike you saw in accounts receivable. So it sounded like there were some changes in how the Air Force bases were handling Tuition Assistance. I was just hoping you could go back over that and maybe comment that you're expecting any of the other branches to make similar changes.

Wallace Boston - *American Public Education Inc. - President and CEO*

Well, we're number one in the Air Force, as you know, and we have a pretty big receivable from them. Prior to June 30 we billed individual Air Force bases every month and they historically paid within 30 days.

During the third quarter, the Air Force changed their payment processing procedures and they centralized their processing into three different bases. So now instead of billing individual Air Force bases, you have to go through three processing centers.

When they made that change and we had to change our billings, it ended up in a delay during that implementation period so that our August billings and our September billings were not paid until October. Well, our billings to the Air Force are about \$4 million a month, so that was about \$8 million increase in our receivable at September 30.



And then the Army, that seemed to be kind of a more of a one-off. We normally bill the Army and collect within 30 days also. But the Army did not pay their \$3 million bill for August until the first week of October.

So, sometimes, that's a change in the fiscal year. I'm not going to get into the DOD's -- why they pay things in one year versus another. I don't know. September 30 is the end of their fiscal year. Sometimes in the past we've had them speed up payments or delay payments, maybe because of their own internal -- it really isn't a significant operating problem for us. It's just that if you stop and look at the balance sheet, a snapshot as of September 30, it looks like there's a problem in collection.

The other thing I will say is that the Veterans Administration, even though I haven't quantified a number in this release, is also getting a little slower in billing, I think probably because of the volume they're experiencing. There's been a big increase since the new G.I. Bill and the number of people who are taking advantage of veterans benefits we've seen an almost 100% increase year-over-year in our veterans who are taking classes.

So they've been up. They're swamped, too, and their billing has little behind. So it's just overall the DOD and the Department of Veterans Affairs billing is a little behind in the fall. I don't think that's -- I think that's pretty typical. That's happened in the past. I don't think it's a problem. It just looks funny on the balance sheet if you take a snapshot, but it really doesn't impact us.

Adrienne Colby - Deutsche Bank - Analyst

Great thank you.

Operator

At this time with no further time for questions and I would like to turn the call back over to Mr. Chris Symanoskie. Please proceed.

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

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

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect.

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