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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth-quarter and full-year 2012 results conference call. My name is Tahitia, and I'll be your operator for today. At this time, all participants are listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

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

Chris Symanoskie - *American Public Education, Inc. - VP, IR*

Thank you, Operator. Good evening and welcome to American Public Education's conference call to discuss results for the quarter and full year ending December 31, 2012. Presentation materials for today's call are available in the Webcast direction 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 and 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, estimates, expects, intends, made, should and will, and would. These forward-looking statements include, without limitation, statements about the first-quarter and full-year 2013, as well as other statements regarding expected future growth. Actual results could differ materially from those expressed or implied by the 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 afternoon, it's my pleasure to introduce Dr. Wallace Boston, our President and CEO; and Harry Wilkins, our Executive Vice President and Chief Financial Officer.

And at this time, I will turn this call over to Dr. Boston.

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

Thank you, Chris. Good evening, everyone. I will begin today's call with a brief overview of our fourth-quarter results, 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 first quarter of 2013.

For the first three months ended December 31, 2012, overall net course registrations increased 10% compared to the prior-year period, and net course registrations by new students declined 8% year-over-year. We believe the measures implemented to reduce financial aid fraud and abuse have largely been effective, and that our prior-year comparisons may have included a high percentage of such students, whom we collectively now refer to as course takers.

During the fourth quarter of 2012, net course registrations by students using Department of Defense tuition assistance, or TA, increased 13% year-over-year as a result of new enrollment growth and improved persistence of active-duty military students. Net course registrations by students using veteran's benefits, or VA, increased 45% year-over-year. Combined, net course registrations from students using TA and VA represent approximately 50% of total net course registrations, or 37% and 13%, respectively.

Net course registrations by students using cash and other sources increased 3% year-over-year, representing approximately 11% of total net course registrations during the quarter. Net course registrations by students using federal student aid, otherwise known as Title IV, increased approximately 1% year-over-year, representing approximately 39% of total net course registrations during the quarter. Again, this growth rate is believed to have been negatively impacted by a high percentage of course takers in the prior year period.

For information on net course registrations for the full-year 2012, please see the chart on slide 3 of the presentation we filed today as an 8-K.

We believe our relative success in this difficult economic environment highlights the critical importance of affordable tuition, academic quality, and diverse program offerings. Furthermore, we have found that building valuable and constructive relationships with prominent and respected corporations, associations, and government agencies, to be an increasingly important component to expanding our student population.

For example, we recently established new relationships with several public service organizations, including two state-level chiefs of police organizations, which represent an opportunity to raise brand awareness among more than 17,000 law enforcement personnel in those states. We also expanded similar relationships in 12 other states that we believe enables us to reach an additional 112,000 law enforcement personnel. This is in addition to developing a new relationship with the Canadian Association of Fire Chiefs; with the International Association of Health and Hospital Safety professionals; and the Society of Industrial Security Professionals.

Moreover, during the quarter, we continued to successfully expand our presence among community colleges. We now have agreements and relationships with over 250 community colleges, out of more than 1200 accredited community colleges across the US. Our focus on relationships, affordability, and academic quality appears to be resonating with community college leaders and other key influencers in various civilian and public service communities at home and abroad.

Within the overall higher education market, there are certain fields of study experiencing high rates of growth, such as nursing. I am pleased that our RN to BS in Nursing degree program recently received a Commission on Collegian Nursing Education, or CCNE, accreditation. This very important specialty accreditation enhances the position of our RN to BSN program in the marketplace. This year, we plan to ramp up outreach efforts in the field of nursing, as well as other high-demand fields.

Just two weeks ago, we announced the launch of a government security concentration as part of our bachelor of arts in security management. This concentration was designed in consultation with the Society for Industrial Security Professionals, or NCMS; and other industry leaders. This is a good example of how relationships with professional associations and other partners help guide our program development.

Certain fields of engineering, according to the US Bureau of Labor Statistics, are expected to have a higher-than-average growth rate over the next several years. Beginning this fall, we plan to offer a new bachelor of science in electrical engineering, for which we recently received approval from the Higher Learning Commission. We believe that engineering programs will help us expand our presence within the active-duty military community, as well as to expand access internationally for engineering degrees that are also in high demand.

Moreover, electrical engineering, as well as our other programs in information technology, should be of potential interest in students at New Horizons, a global IT training company. An important part of our growth strategy is to further optimize our degree offerings by adjusting our programmatic focus towards current and future high-demand fields. Given our solid academic foundation, strong relationship with regulatory bodies, and increased investment in curriculum design, we now plan to launch several new degree programs in concentrations per year, including in the year 2013.

Moving on to slide number 4 -- year 2012 accomplishments; the year 2012 was one of progress and tremendous accomplishment. For example, AMU was ranked number-one most popular school by Military Times Magazine. And APUS was ranked number 22 out of 237 schools offering online bachelor's degree programs by U.S. News & World Report. The U.S. News & World Report ranking is particularly noteworthy, because it includes schools with fully online offerings, both traditional and private sector institutions, as well as schools with hybrid offerings.

We are also very proud of the fact that Dr. Phil Ice, our Vice President of Research and Development, was named a 2012 Sloan Consortium Fellow for distinguished service to Sloan-C, and for outstanding research that has advanced the field of online learning. Overall this year, our faculty submitted or published more than 430 books and articles, and earned over 180 awards for their professional practice, research, and community service. Faculty at AMU and APU presented at more than 1150 conferences, workshops, and panels throughout the year. We support and encourage our faculty to remain active in their professions.

Switching gears to regulatory matters for a moment, the Department of Defense third-party assessment of American Military University, a program formerly known as MVER, or MVER, was conducted in June of 2012. The assessment report stated that American Military University and the American Public University system are in full compliance with the DoD voluntary education partnership, MOU, or memorandum of understanding. As you may recall, an MOU with the DoD is required for an institution to be eligible to participate in the tuition assistance program.

Last year, we renewed our arrangement with Walmart for the company's US associates. And we entered into an investment in and relationship with New Horizons, one of the world's largest global IT training companies. We also launched partnerships with SAIC and the NFL Players Association; as well as several corporations, associations, and government agencies. Partnerships such as these are increasingly important to our low-cost, referral-based model, and reinforce our overall relationship-oriented approach.

We dedicated a vast amount of time and resources to fraud and abuse prevention initiatives this year. These efforts have paid off in terms of improving the classroom experience for serious students, and lowering bad debt expense, among other benefits. We also made many operational improvements aimed at optimizing administrative processes, as well as improving student services.

A major milestone in preparing APUS to serve a larger civilian student population was the opening of our new APUS finance center, which is powered in part by our new solar array, West Virginia's largest. Of course, this year's most important milestone, and the centerpiece of our efforts, is that we graduated over 7600 students in 2012, bringing the total number of AMU in APU alumni to more than 27,000 professionals.

Moving on to slide number 5, building reputational capital through academic quality. The total value of an institution of higher learning is based on many critical factors, such as teaching excellence, student success, program diversity, and effectiveness of the distance learning technology, to name a few. Last year, we continued to improve the university experience by enhancing the learning technologies we deploy. Our academic leadership selected new classroom software that further enables simulations in labs and courses. Our instructional team increased the amount of rich media assets using classroom instruction. And our technology team improved the ability of students to interact and learn on mobile devices.

Furthermore, we expanded and streamlined our ePress initiative, which has not only surpassed our expectations for bringing improved efficiencies, but has also provided our students with more options and greater flexibility in how, when, and where they receive and use course material. This enhancement was accomplished by selecting resource management provider, ED MAP, and leading e-textbook provider Vital Source, to provide our students with an engaging and comprehensive ePress solution that is both cloud-based and downloadable format. The APUS ePress solution now provides students a flexible platform to access and use digital course materials at minimal or no cost, and to download affordable hardcopy textbooks.

In effect, our students can now spend less money and time at the bookstore and focus more on their studies, with more flexibility and higher-quality course materials. While our students focus on our studies, we have dedicated much of our focus last year to enhancing teaching excellence by establishing new, specific, guidelines and standards to improve student/teacher interaction. In addition, we expanded the number of faculty directors to provide greater training, oversight, and guidance to faculty.

We have also recently strengthened our instructional design team, and completed a comprehensive course evaluation, paving the way for greater course consistency and new program development. This investment will not only broaden our exceptional instructional design capabilities, and ability to launch new programs in high-demand fields, it will help ensure that we continue to meet and exceed evolving industry and regulatory standards.

To that end, we completed several classroom pilot programs this quarter that resulted in new practices that we believe will further improve course quality, lead to more effective teaching practices, advanced instructional design, and create a renewed interest in cohort-based learning. We will continue to conduct such research and pilot programs to improve student outcomes and to be an active contributor of best practices to the higher learning and distance learning communities.

Moving on to slide number 6, long-term focus on fundamentals -- over the years, our focus on proper fundamentals has yielded tremendous returns in terms of creating an institution of higher learning that is recognized by key stakeholders for its unique, low-cost approach and success in fulfilling its mission. In 2011, we began certain brand awareness campaigns that utilized a higher percentage of traditional media advertising to supplement our relationship-based marketing.

We continued these campaigns through 2012. And while they clearly helped to improve the results of certain marketing channels, they also appear to have had several drawbacks. For one, the traditional media advertising campaigns were relatively expensive, as measured on a cost-per-lead basis, and yielded overall results that lagged our in-house Internet marketing initiatives, as well as the referral initiatives led by our military and civilian outreach teams.

Moreover, we believe that that traditional media advertising may have aided in attracting the attention of those attempting to abuse the federal student aid program, and leading them to register at either APU or AMU because of our relatively low-cost tuition. At the same time, we've been expanding our relationships with corporations, associations, and community colleges. We are finding that these particular efforts are in greater alignment with our historical and overall approach to relationship- and referral-based marketing.

More importantly, we believe these relationships encourage enrollment by students who are on average more likely to persist, graduate and refer others; which generates better outcomes for our universities, and is also more cost effective. We have recently made a strategic decision to further optimize our marketing efforts by focusing more resources on the marketing channels that we believe yield, on average, enrollment of students with higher success rates.

Among other adjustments, we are currently in the process of winding down a majority of our national television and radio advertising, and redirecting those resources towards expanding our corporate and relationship outreach, as well as targeting advertising niches that we believe will attract more qualified and motivated students. We believe that this adjustment will enable us to drive more effective results in the long run.

However, in the short term, this may adversely impact our ability to increase net course registrations by new students; owing to possibly fewer leads generated from the less traditional advertising, and to the time required to ramp up relationships to a scale that will drive respectable levels of registration growth. We believe this approach will ultimately further improve metrics related to student success, lower our per-student marketing costs, and increase net course registration growth.

Moreover, persistence rate and student success are not just economic considerations. They have personal and social implications of critical importance to all stakeholders, including students, faculty, policymakers, and accrediting bodies. As the second-largest fully online university, we believe APUS is an institution of national significance. Plus, it is important for us to provide leadership on matters related to best practices in online higher education.

We have steadfastly held to our mission of affordability and open access, not increasing our undergraduate tuition in nearly 12 years, while tuition rates at state-funded institutions have approximately doubled over the same period. We have participated in initiatives such as Transparency by Design, and the Gates-funded WCET predictive analytics reporting framework, or PAR, that have set examples for transparency in online education, as well as reported persistent data and defined and measurable structures for policymakers and other institutions to use as benchmarks.

These leadership activities are also important competitive advantages. As more private and state schools begin offering courses and programs online, our affordability, academic quality, and growing reputation will become an increasingly important point of differentiation. We carefully observe and evaluate the trends in online learning, and believe that we have certain advantages, including small class sizes, a student-centric focus, and program diversity, to name a few.

In the past, we have been successful at competing against good traditional schools. For example, we supplanted the University of Maryland University College, an adult serving institution with a rich history and tremendous reputation, as the number-one provider serving active-duty military members. However, we will not rest on our laurels, because the competition is formidable and growing. Being committed to best practices in online learning requires that we be nimble and innovative.

Many emerging trends in higher education may even work to our advantage in the future, such as the demand for innovative mobile learning technologies, use of MOOCs, and adaptive and predictive learning technologies, all of which we give serious thought, research and development. Lastly, we see potential opportunity to leverage our expertise and partnerships with certain schools, who are emerging the school-as-a-service offering.

In building APUS with a long-term perspective, we developed several valuable innovations such as our patented PAD system, automated credit transfer evaluation processes, ePress, and other proprietary approaches. Some of the most exciting advances are still in development. We have also assembled an excellent business and academic leadership team over the years.

Moving on to slide number 7, our vision for American Public Education, Inc. -- as we move forward, we plan to leverage all of these strengths to further expand the success of APUS and increase the role of APEI in creating diverse, new growth opportunities. We believe that APEI is well-positioned to begin using and leveraging its value portfolio to further expand and diversify.

Over the last several quarters -- in fact, over the last three years -- we have been developing a systematic and well-researched plan to create opportunities for APUS and APEI to expand internationally; to offer new degree programs in high-demand professional fields; to provide cost effective and innovative education hosting and support services; and enter into new market segments.

While the strategy for APUS remains largely the same, we are expanding the role of American Public Education to include development of new growth opportunities. Our recent investment and relationship with New Horizons, and the arrangement to provide online learning services to a private college, illustrates the initial execution of this strategy. We feel like we have significant momentum with these and other initiatives.

I'll leave you with this brief vision for APEI's expanded role going forward. APEI is an organization with a passion for higher learning, and affordable access that possesses the strong spirit of innovation, in its drive to be a diverse global leader in education services and lifelong learning.

Now I'll turn the call over to her CFO, Harry Wilkins, for a review of our financial results. Harry?

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

Thanks, Wally. Turning to slide 8, our fourth-quarter 2012 results -- American Public Education's fourth-quarter financial results include a 14% increase in revenues to $86 million compared to $75.7 million in the prior year. The revenue increase was primarily driven by growth in net course registrations from civilian, military and veteran students. Operating income for the fourth-quarter 2012 increased 8% to approximately $21.4 million.

Instructional costs and services decreased to 34.5% of revenue in the fourth quarter of 2012, compared to 34.6% of revenue in the prior-year period. This decrease was primarily related to cost savings from our ePress initiative, and efficiencies gained from process improvements in student support services, that were partially offset by lower rate of revenue growth.

Selling and promotional expense as a percentage of revenue increase to 19.1% of revenue compared to 16.4% in the prior-year period, as was expected. General and administrative expenses decreased as a percentage of revenue to 17.9% from 19.5% in the prior-year period, due to financial department expenses growing slower than revenue, and to improvements in bad debt expense as a percentage of revenue.

Bad debt expense was approximately 3.5% of revenue from the fourth quarter of 2012 compared to 4.3% in the fourth quarter of 2011. In the fourth quarter of 2012, net income was approximately $13.2 million or $0.74 per diluted share, which was ahead of guidance. Our cash balance as of December 31, 2012, was approximately $114.9 million or $6.38 per diluted share. We have no long-term debt. Our cash balance was reduced by several factors, including our stock buyback, and CapEx related to the completed construction of our new finance center.

We also purchased 83,855 shares during the fourth quarter of 2012. As of December 31, 2012, approximately $8 million may yet be used to repurchase stock under our current authorization. In January 2013, the Company issued an additional 95,000 shares as part of our incentive compensation plan; and an equivalent number of shares may also be repurchased in 2013 under our current authorization.

Moving to slide 9, which is the full-year 2012 financial highlights -- American Public Education full-year 2012 financial results include a 20% increase in revenues to $313.5 million compared to $260.4 million in the prior year. The revenue increase was primarily driven by growth in net course registrations from civilian, military and veteran students.

Operating income for the full-year 2012 increased approximately 10% to $68.8 million. Instructional costs and services decreased to 35.1% of revenue in 2012 compared to 36.6% in the prior year. This decrease was primarily due to the number of full-time academic faculty support staff increasing at a lower rate than revenue, in addition to the cost savings from our ePress initiative, and process improvements in our student support services.

Selling and promotional expense as a percentage of revenue increased to 19.1% of revenue compared to 17.2% in the prior period. The increase was due to an increase in Internet advertising, as well as radio and television advertising campaigns. General and administrative expenses increased as a percentage of revenue to 20.3% from 18.6% in the prior year. This increase was primarily due to costs associated with our increased civilian population; regulatory changes; and bad debt expense, which increased from $6.7 million in 2011 to $13.6 million in 2012, or from 2.6% of revenue in 2011 to 4.3% of revenue in 2012.

On a side note, we expect our cohort default rates to increase in the near-term because of a growing percentage of course takers that are now just beginning to enter repayment. However, similar to the cycle we saw in bad debt expense, which got worse and then improved, we expect cohort default rates to eventually improve somewhat, as the unusually large percentage of our course takers cycle through a repayment process.

Net income for the full-year 2012 was approximately $42.3 million, or $2.35 per diluted share, ahead of our guidance. Please also keep in mind that the prior-year period includes a one-time tax benefit of approximately $1.8 million or $0.10 per diluted share. The adjustments resulted from state tax and research and development tax credits that were recorded in the third quarter of 2011.

Moving onto slide 10, which is our first-quarter outlook for 2013 -- American Public Education expects growth of net course registrations by new students in the first quarter of 2013 to decline to between negative 7% and negative 5% year-over-year; and net course registrations overall to increase between approximately 7% and 10% compared to the prior-year period.

The Company anticipates first-quarter revenue for 2013 to grow between approximately 9% and 13% compared to the prior year. Earnings per share for the first quarter of 2013 are expected to be between $0.55 per share and $0.58 per diluted share, representing a 10% to 16% year-over-year growth.

Moving on to slide 11, our business and operational goals for 2013 (technical difficulty).

In closing, APEI's fourth-quarter results are highlighted by continued growth in net course registrations; lower bad debt expense; efficiencies from our ePress and selling and promotional expenses below 20% of revenue; and earnings per share that were above our guidance. In 2012, we enhanced our academic quality, implemented successful measures to limit financial aid fraud and abuse, and launched several projects to increase our efficiency.

Our ePress initiative and our FSA automation, in particular, should come into -- full-fledged in 2013. We are beginning to see some benefits to these efforts. The improvement in bad debt expense -- in the back half of 2012, we implemented a technology fee that should benefit revenues by approximately 3% in 2013. These initiatives have been successful at creating efficiencies, improving our processes, and/or supporting our long-term strategy.

In addition, at times we have been buyers of our stock through our stock repurchase program. We plan to continue executing our strategy for expanding our presence within military and civilian communities to an even greater focus on relationships and referrals; less on traditional media advertising. And by making slight programmatic adjustments to high-demand fields to further help drive growth in overall difficult market.

In this economy and regulatory environment, diversification of revenue sources and new lines of business are important to creating long-term value and stability. We plan to expand our efforts to develop relationships with corporations, associations, community colleges and government agencies, an approach that we think is highly effective. We continue developing innovative approaches to content delivery, administrative services, and distance learning technology. They are producing results and adding tremendous value to our long line education platform.

APEI employs a very strong balance sheet, with over $114 million of cash, and no debt. Over the next several years, we believe we will continue to generate a significant amount of cash from operations. By utilizing APEI's financial resources and leveraging APUS's strength, we hope to further expand the domestic and international markets, including the possibility of a corporate training market, and developing power our emerging school-as-a-service offering.

At this time, we're happy to answer any questions from the audience. Operator, could you please open up the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jeff Meuler, Robert Baird.

Nick Nikitas - *Robert W. Baird - Analyst*

Hi, this is Nick Nikitas for Jeff Meuler. Just a quick question on looking at your 1Q 2013 starts guidance. It seems to potentially imply underlying sequential deterioration, if you exclude the FSA students. Is that due to maybe a higher balance in 1Q 2012 than previously expected? Or can you talk about the leading indicators, if you have seen any changes in trends?

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

Well, I think if you look at the overall market, the overall market is predicted be down about 2% for the year. Grad students, online enrollments, according to Eduventures, are saturated. But there's opportunity in undergraduate enrollment. We have assumed in this forecast that we're not going to try to differentiate between the course takers for the first quarter.

At the same time, if you recall, our process, we put in about eight different blocks last year. And we were still putting in blocks, on a month-by-month basis, through March. So there probably is some noise there, but we haven't tried to take it into account in our numbers.

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

Yes, and I think what we're seeing is hopefully a place of quality of new students. And we may not have the same quantity of new students that we had in the first quarter last year, but we really do believe the quality is improving. In the long run, that's going to benefit us. Plus a lot of the relationships that we're building that we really think will benefit us from an enrollment standpoint going forward -- like our recent investment and partnership with New Horizons international franchises -- really haven't taken fruit yet. We are just a couple of months into them. But you're right, yes, comparatively, the number -- it is negative growth.

Nick Nikitas - *Robert W. Baird - Analyst*

Okay. And then just looking for margin expectations for 1Q, as well as 2013 overall. What kind of initiatives have you already started to realize the benefits from? What do you expect to be incremental over the remaining part of the year? And then, looking at the ePress initiative, do you potentially see upside to your previous $8 million run rate? Or can you just talk more about that?

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

Yes, I think -- we'll go through them one at a time. So, yes, this was the year that we thought we wanted to improve the quality of our students, which meant enrollment -- we weren't anticipating enrollment having a big increase, but we were anticipating margin improvement. And we're starting to see that. Our ePress initiative is right on target. We had previously talked about an $8 million annualized savings, of which about half of that we recognized last year. So incrementally, about $4 million more than the $4 million we got last year, this year.

That looks like that is coming to fruition in the first quarter. We do plan to bring our FSA processing in-house now. We spent about $300,000 a month doing that. When we bring it, in-house, hopefully in May or June of this year, we'll be able to reduce that cost about $100,000; and probably save about $200,000 per month in cost. Our bad debt expense, we brought down from over 4% -- actually almost 5% in the third quarter -- over 5% in the third quarter 2011, to only 3.5% in the fourth quarter of 2012. Again, (technical difficulty) stipend chases of going through the process. I think we'll see that also.

And then you have that the tech fee, of course -- the full impact of the tech fee this year, which is about 3% of revenue. We implemented that in September of last year. Only part of that hit the fourth quarter. We should get the full effect of that in the first full year this year. So the combination of those things -- plus our continued stock buyback, which adds $0.01 here and there of EPS improvement -- we really think we're setting the stage for positive margin improvement and EPS growth this year.

Nick Nikitas - *Robert W. Baird - Analyst*

Okay, great. Thanks.

Operator

Gary Bisbee, Barclays.

Gary Bisbee - *Barclays Capital - Analyst*

Hi, guys. Good afternoon. I wanted to probe the commentary around the marketing shift a little bit. I guess what I'm wondering is, was the traditional media driving students you believe -- other than the abusers -- that were much lower quality? I guess I wonder why you wouldn't keep that going for a bit longer, while you're ramping up these new avenues and drive growth, if you could do that?

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

Yes, we're not going to go cold turkey. But we did an in-depth analysis. We began our TV and radio advertising on much more than a spot basis in the fourth quarter of 2010. And when we looked at the fourth quarter of 2010, primarily FSA students -- FSA students through 2011, which includes the abusers, and then FSA students in 2012 -- most of whom came to us through that type of media, we felt that there were a number of things that were influencing a much poorer student then our referred students.

And so we won't go cold turkey on this. But we do expect -- because from time to time, we received positive comments -- people like those ads. But the people who like those ads, in addition to being educated people, like most of the people on this call, unfortunately are some people who aren't so motivated to really complete an education, but are much more motivated about some of the benefits of -- financial benefits of registering for class, doing enough work to get by in the screens we have, and then dropping out.

So we think that, if over time, -- and like I said, not cold turkey -- but over time we cut back on that and move to put the investment in more outreach personnel as well as other types of contracts with corporations, relationship -- more people doing the relationships with community colleges -- that we will end up with a better persistence rate, a higher-quality student. And we may even be able to lower our cost of -- our acquisition cost per new student.

Gary Bisbee - *Barclays Capital - Analyst*

And then on the theme of persistence, on a blended basis through the whole student body, can you give us a sense of how that might look versus a year ago? And I guess really what I'm getting at is, despite weak starts for the last few quarters, you've continued to have very strong net course registration growth. But would it be reasonable to think that that really tails off if you can't return to more robust new student growth, say, after this next quarter you've guided to?

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

Well, the goal is to try to find a higher-quality new student. But if you look at our numbers for 2012 and try to segregate the various sections of students -- whether they are active-duty military, veterans, or civilians -- with our good students, we actually improved our persistence rate. Our number of graduates is up -- on a compound basis, much higher than our growth rate of new students in general. And we think that the important thing over the long haul here is to get the same quality level of new students through our marketing sources as we are through the referrals. And in which case, we think it will be a home run with persistence.

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

Yes, that is a good point. Good students drive long-term growth. Bad students can drive short-term growth sometimes. But in the long run, it catches up with you.

Gary Bisbee - *Barclays Capital - Analyst*

Great. And then just one last quick one. It looks like you more than doubled the number of community colleges agreements, if I had the number right last quarter, in the last three months. Can you give us a sense, what would a typical agreement look like? Thanks a lot.

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

Sure. Every community college is different. What we've tried to do is to focus on community colleges, either near existing military bases, where we have a very good group of students and a good brand name, or community colleges where they have two-year associate's degrees that transfer nicely into some of our more unique four-year degrees.

So we haven't tried to sign up 1200 MOUs. We've tried to sign him up with community colleges where we think we'll actually get student referrals. And we may even put -- we have been, as you noted, successful in nearly doubling the number of those agreements. And we may even put more people into the outreach group, because we think that we get a higher-quality new student.

But one of the things, though, that will be noticeable with that is the community college students aren't going to graduate until May or June of this year. So while we will attend transfer fairs, we will probably not see that pickup in enrollment until the fall of next year.

Gary Bisbee - *Barclays Capital - Analyst*

Great. Thank you.

Operator

Corey Greendale, First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Good afternoon. I wanted to go back to the Q1 guidance. I think you -- I understand there's still some of the stipend-chaser students into year ago comp, but I think that was starting to diminish. And just on the surface of it, the comp gets a lot easier in Q1. So I just wanted to dig into that a little further. How much of the fact that you think you are still negative on new student registrations is internally driven, in terms of -- have you already started to cut back on advertising as of January 1?

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

Yes. Yes, we've started to adjust our marketing. And we know that it may have some difficulty in managing it, quarter by quarter. But we really wanted to try to find ways -- and very targeted ways, some of which we're not aware of yet. We've hired a PhD in statistics to help us dig into the marketing data. He's on our staff; he's not an outside consultant. And we just are at the point where, looking at what best practices are, and some of the proposed regulations on completions and persistence, that we think really targeting and trying to find better students while still being an open access institution, is important.

Corey Greendale - *First Analysis Securities - Analyst*

And can you delve a little bit into the underlying trends in each of your end-market segments? What are you seeing in new registrations from active duty, VA, and Title IV?

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

We get that color for the fourth quarter and for the overall year. We don't break it out for the quarter that we give guidance for.

Corey Greendale - *First Analysis Securities - Analyst*

Did you get the color in terms of what you're seeing in the new registrations or just total?

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

For the fourth quarter? We did. We gave you the numbers for the fourth quarter, I believe.

Corey Greendale - *First Analysis Securities - Analyst*

So, it's not -- what I'm getting at is --

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

There's no dramatic changes. Pretty much, the growth has been consistent across all segments. We're doing well in the military. But we're trying to filter out good civilian students, which mitigates that growth a little bit. But, overall, there's not a big change in year-to-year over the pay types.

Corey Greendale - *First Analysis Securities - Analyst*

What I'm getting at is, there's a comment in the 10-K that says -- I think I'm paraphrasing -- that you've had more difficulty attracting students that will perform well over the long term. And I'm just trying to get a sense that that is a phenomenon that is primarily in the Title IV market.

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

Yes, yes, yes. That is. Yes, that's the intention of that. That's the intention as to why we are trying to shift how we market to civilian students. And it's really the Title IV market civilian students, because we look at students who come from specific corporations, and we have MOUs with us as referrals.

Corey Greendale - *First Analysis Securities - Analyst*

Okay. And can you give us your current thinking on what the effect of sequestration could be on TA?

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

Well, as we talked, they PCME group has been meeting out in San Diego this week. And I made a phone call at 4 o'clock, before this call, to see if anything had been announced. Nothing has been announced, and most likely won't be announced, but nothing as of 4 o'clock this afternoon. From the rumor perspective, we heard rumors that the services are trying to do as much as we can not to change this benefit because of how it impacts recruiting; also because of how much flak they may get publicity-wise. And total rumors, some of the rumors that are floating about that may have a practical bent to them are that services may no longer pay for enlisted service members to get a graduate degree. But that percentage is so small that we don't look at that as being something that's very material.

Corey Greendale - *First Analysis Securities - Analyst*

Okay, thanks. I'll turn it over.

Operator

Adrian Colby, Deutsche Bank.

Adrienne Colby - *Deutsche Bank - Analyst*

Hi, thanks for taking my question. I was wondering, you had mentioned last call that you expected some disruption to the new registration number from Sandy. I think you talked something around 650 students. I'm just wondering how that played out?

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

Yes, we certainly think there was some impact, because whenever there is a disaster a lot of our students are the ones who get deployed -- our first responders. It's hard to quantify, but we do think that that didn't help. And certainly from the number of books we got shipped back during that two-week period, those -- as an indication that books were unable to be delivered and the students weren't able to take the class. So, it probably did have an impact. But we're not going to use that as an excuse, or try to quantify it was a one-time thing.

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

Yes, I think it was approximately half of those 650 that we said were impacted. I think because of e-books -- the impact, the actual impact was roughly half.

Adrienne Colby - *Deutsche Bank - Analyst*

Okay. And then going back to a question that was asked earlier, when we look at first-quarter guidance for new registrations and look at the first quarter of 2012, I think you have been telling us in the past that for the third and fourth quarter of 2011, that the maybe 20% of that growth was actually from some of these stipend chasers. So I'm just trying to understand, it seems like that certainly tailed down.

But when we're trying to compare what you've given us for guidance versus what we actually saw in the first quarter of this year, just wondering again, is it something around 10% of that growth, you think is stipend chasers? Or is it less, or more? It just helps us to get a better sense of what the underlying growth is.

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

As far as the first quarter of last year, it was a little harder to do trimming because we had a lot of noise going on. We implemented -- we started implementing improvements in the process to discourage those students in -- actually, December of 2011 and January 2012; February and March. And we finished the process we put in place to discourage them by the end of March.

I do think there was an impact. We just don't -- we think it's hard to disaggregate, and we're just trying to get away from that comparison. I think these are fair numbers. Comparing our first quarter with last year will give you -- should give you a good indication of what the comparison numbers -- the stipend chaser number is much lower now. There's always going to be a percentage of students who are doing it for economic reasons. But it's certainly much lower than it was in last year's first quarter. But it's hard to quantify. And we'd rather not get into it.

Adrienne Colby - *Deutsche Bank - Analyst*

Okay. Now that you have the CCNE accreditation for your RN to BSN program, is it too early to start talking about the change in enrollment there? Or can you at least talk about maybe the trends in inquiries, if you are seeing a ramp there?

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

We are seeing a lot of interest because of our affordability. Unlike some schools, we don't charge more for that program. One of the exciting things is many states are already moving to a process where, over the next 10 years, they'll mandate that all of their RNs have BSNs. We've got some agreements that are in the works, which we will announce as they are finalized. But the real key to our being able to market that program was the CCNE accreditation, which we just got in the fall. And we were able to successfully hire a dean of a community college nursing program to be our outreach person, and she's really very busy at this point in time.

Adrienne Colby - *Deutsche Bank - Analyst*

Okay. If I can just sneak in one last one. With the military and veteran students now about half of your population, I'm just wondering as we look into 2013 if there some changes we can expect in terms of the seasonality of the business, now that you have more than civilian students?

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

I think -- and Harry can probably answer this question a little better than I can -- that even though we have monthly starts, because many of our civilian students transfer in from other institutions, their academic years have to line up. And if they come from a traditional institution, they will be much more seasonal related to the terms that traditional institutions offer. If they come from an institution with nontraditional enrollments like us, then they won't show that type of seasonality.

Harry, do you want to add anything?

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

Yes, we would expect that to see that, especially with the traditional students who are commuting -- that community college students that are perhaps transferring to our school -- we would think that with the civilian population in the summer quarter, which would be our third quarter, would be a little weaker than the fourth quarter. And we would hope enrollment would ramp up a little bit in the fourth quarter. It's not so much of a population now; you can see that. But I do think we'll see that. The more civilians we get, the more some seasonal we will get. I don't think there's a doubt about it.

Adrienne Colby - *Deutsche Bank - Analyst*

Thank you.

Operator

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

Thank you for taking my question. Could you give us a little more color on the conversations with Walmart about the program they've talked about for a couple of years? Where do they stand on that? And then as well as the -- how is the New Horizons relationship is going?

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

Well, we're very happy with the Walmart program. We just renewed our contract for an additional three years. And I think we talked about that on the last call. We did talk to Walmart before the call. And they are now in the beginning of the their fiscal year, and we asked how much we could state on this call. And they basically asked us to refer people to their analysts. We're happy with the relationship, but with a contract requiring mutual approval, they've asked us to refer people to them.

As far as New Horizons goes, it's very early in the relationship. But we're exploring opportunities. We think that -- they have over 1 million students a year that attend various courses at their franchisees, globally, both -- including the US and overseas. And we think a certain percentage of those may be interested in pursuing our online information technology degrees. And we're going to work hard to find ways where we can mutually promote those programs.

Jeff Volshteyn - *JPMorgan - Analyst*

That's helpful. When you look at the 90/10 ratio for the 2012, what is it? And if you could give us maybe some comments on where do the conversations stand about shifting military funding into the other side?

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

Yes, I think we could go. We do have a slide that shares the breakdown of funding. And that will give you a pretty good idea of our -- where we stand on [90/12]. Of course, right now, FSA Title IV students is only 36% of revenue. And under the current rules, that actually works out the way they calculate it. It would be about 44% of our total cash received for 90/10 for 2012. So we're nowhere close to the 90%.

Of course, if you had VA, which is about 13% of revenue; and military, TA, which is about 38%, you're getting up to about 85% to 87% of our revenue. We still have -- always had a least 12% to 15% of our revenue come from cash-paying students. So, historically, that hasn't been -- and even if we had all federal funds accounts for 90/12, that wouldn't be -- historically, have been an issue for us.

We do have a plan, if there should be some draconian law that says all federal sources of aid have to count in the calculation. We have plans to grow other areas of our business that could generate more cash. And we would implement them. But right now, as far as I know, there's no proposed -- or there's no talk of changing the law. And if there is, we'll address it.

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

Well, actually, I'll correct that. There have been several proposed bills that died in the Senate last year, with the old Senate, related to -- including TA and VA and 90/10. Republicans don't control the House, and they were pretty opposed to those bills. We've always said that there is always the outside chance that something like that would get passed through an appropriations bill, which might not be as easy for the Republicans to veto.

We'll look at those, and I think -- we're very aware of the risks and the possibility. And so, looking at some of our initiatives, such as more corporate outreach; looking at perhaps doing some corporate training; international students; those are all initiatives that we think would generate cash-paying and not Title IV students. And so we want to make sure that we are prepared, and not have to do what many proprietary institutions have had to do over the years, which is increase tuition in order to conform to 90/10. Because we believe that our mission of affordability has resonated very well over the years, and is tantamount to our success.

Jeff Volshteyn - *JPMorgan - Analyst*

Thank you. That's very helpful.

Operator

Jerry Herman, Fidel.

Jerry Herman - *Stifel Nicolaus - Analyst*

Stifel. Hi, guys. Wally, I was hoping you'd give us more visibility on new registrations, perhaps beyond the first quarter. The comparison [fees] at that point, the effect of the course takers being part of that. You referenced the marketing shift maybe having some impact on new registration. And then also, you mentioned persistence. Can you talk a little bit about whether you think those negative trends that you're showing in the first quarter will persist for the rest of the year? Should we think about it that way?

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

You know, Jerry, I wish I could give you color. But I think all of higher ed is in a state of volatility right now. We think we have done well, and done better than a lot of traditional and even for-profit institutions that have reported results over the last couple of years because of our affordability, because of our reputed quality of our online programs.

We are trying to position ourselves to be in a position where we can continue to grow. We are -- I just had a question that talked about sequestration and the impact, and we don't know. We hope it's minimal. And we'll certainly try to be very -- reactive positively if any of our students are impacted. But we -- I think we are pretty nimble for a company of our size, and certainly an institution of our size.

I'm sorry that I can't give you color for the year. But it will -- you can count on the fact that we'll try to react to any trends that are negative, and try to offset them with positive. And I think if you take away the FSA students for last year, and look at our overall students, we did improve retention and persistence. And the good students were the good students; and the good students are coming back and helping drive our net registration growth overall. And to the extent that we can modify, and, more specifically, target to get better new students on the civilian side, I think that it will improve our numbers.

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

And we're just involved in some initiatives right now, Jerry, where it's hard to determine when they're going to come to fruition. We're planting some great seeds in some very fertile ground with our relationship with New Horizons internationally. Right now about 1.5% of our students are international students. Will that be 3% in the fall? 5%? We don't know. And we couldn't even give you a number, but certainly we think it's going to be better than what we have now.

Certainly, the -- we have twice as many relationships with community colleges we'll have this summer as we had last summer. How many more community college students will transfer in the fall because of that? We really don't know. It will be more. So, that's what we're doing. We're in kind of a planting season now. And some of these initiatives aren't going to take root in the first quarter, maybe the second quarter. But we really believe, in the long run, we're going to get better students and more of them. And that will lead to long-term growth.

We really manage the Company over the long term. We don't really manage it in the short term. It would've been great if we had done the New Horizons deal two years ago, but we actually didn't get it done until 1 October. It takes a while to build these relationships. But they are good relationships, and they're going to bear fruit for a long time.

Jerry Herman - *Stifel Nicolaus - Analyst*

I can appreciate you guys not commenting specifically on Walmart, but could you give us an idea of how much of volume currently comes from all corporate, organizational, and community college relationships?

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

We wouldn't -- that's tough to quantify, Jerry, because we've never tried to look at it that way. As you may know, there are some corporations that don't have a tuition benefit, like Walmart, so their students are either paying in cash or using Title IV. There are some corporations that have the benefit, but their employees actually have to pay on their own. And then when they get a grade, whether there is a minimum grade is a C or a B, they are reimbursed, so we never see that either. And there are some that are in between, that have a benefit but it only covers a certain amount per year, and then they use FSA.

We have never tried to break it out. It's a good question and maybe we'll try to break it out for next quarter, but we don't have that figure handy.

Jerry Herman - *Stifel Nicolaus - Analyst*

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

Operator

Trace Urdan, Wells Fargo Securities.

Trace Urdan - *Wells Fargo Securities - Analyst*

Thank you. I'm going to come a little bit out of left field here, but please bear with me. The dire talk of sequestration has, by some accounts, up to 200,000 members of the active-duty military being put on -- being either terminated or put on furlough. Does that represent a potential opportunity for an increase in enrollment, as those folks transition into civilian life and take advantage of the GI Bill?

And even if you disagree with that thesis -- bear with me -- and just tell me, from your perspective, but when you see a member of the military make that transition, do you have a sense of how long that can take, when someone leaves the military and then decides to enroll in school and take advantage of the GI Bill?

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

I think it depends on what their occupation is within the military, what their MOU is, and what they plan on doing when they get out. There are certain occupations that are in high demand, Trace, such as anyone with top-secret classification. When we look at our students who are graduating, for example, they are the ones that the recruiters really, really try to lock up the fastest.

But the officers, in particular, who would be most of our master's students, are usually in pretty good situations for employment. The younger, enlisted, are usually the ones that you read about with the unemployment statistics -- and, by the way, aren't many of our students, because of the way that most of their training in the first 2 to 4 years in the service takes up so much time that they don't have time for education.

But we do believe, if those numbers are true -- and by the way, I haven't heard of a number that big -- but we've been focusing more on the fact that the military under sequestration would furlough some civilians. There are a lot of civilian employees, some of whom are eligible for tuition assistance, and what that would mean. But, yes, if they had cutbacks in battalions or divisions, just as we saw increases in enrollment when troops were pulled out of Iraq and no longer on active duty -- not active duty, but no longer in a war zone -- we think that it would work.

And if you look at our growth in VA over the past year -- most of which was due to the favorable change allowing a 50% reimbursement of the housing allowance for distance education students -- we think it would be pretty good under your scenario.

Trace Urdan - *Wells Fargo Securities - Analyst*

Okay. And then, Wally, you had talked about potentially introducing a MOOC, and experimenting with that phenomenon. Have you advanced that idea any internally?

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

We actually did a MOOC for all of our faculty members, Trace, so we've piloted with one. We have approximately 2000 faculty members. And we worked it out where we had facilitators, faculty members who were physicians to facilitate smaller breakout groups. Because if you look at some of the criticism for the really, really large MOOCs is that they can't get feedback from the professor. And they can't deal with such a large class with a high dropout rate.

Well, in this particular case, we wouldn't let our faculty members drop out. But we did break out groups into groups of 25 for special work sessions. And I think the reaction was very favorable with the faculty. And we're looking at potentially piloting one or two of these in the next year. I don't have a specific time in mind.

Trace Urdan - *Wells Fargo Securities - Analyst*

Okay. And then, last question, have you looked at -- on that same topic, have you guys done any investigation into whether or not you'll accept credit from some of the MOOCs -- the more popular MOOCs that are out there right now?

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

We have looked into that, and we're still trying to make a decision. If I were a betting man, I would say that we will, particularly as MOOCs that have been ACE evaluated. But we haven't made an announcement yet.

Trace Urdan - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray & Co - Analyst*

Thanks. So, Harry, you talked about some of the margin drivers and the potential for further margin upside in 2013. I'm just thinking, over the next couple of years, do you think all these factors could get you back towards the margin levels we saw in the 2009, 2010 timeframe, when you were up in the mid-20% level? Is that realistic?

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

Yes -- again, we're not going to give guidance on specific margins. We don't really have any specific margin goals. But certainly we believe we can increase our margin. But, again, that only works if you're growing. You have to have the students to increase the margins. But we're optimistic that, with the initiatives we have going, we'll continue our long-term growth and we should have margin improvement because we keep getting more and more efficient.

Peter Appert - *Piper Jaffray & Co - Analyst*

I guess part of the question is just conceptually, whether -- from the strategic and political perspective -- whether there might be an upper limit to margin you don't want to get beyond?

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

We agree. We think that -- Harry used to talk on these calls about the fact that his top margin in Strayer was 40%. And I think that if you are not increasing your tuition, and your enrollments are growing at less than a high accelerated rate, I think that there is a cap on the top end for margins.

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

Well, there's always a trade-off. We'll worry about that problem when it happens.

Peter Appert - *Piper Jaffray & Co - Analyst*

Okay. How about, last thing on the tech fee rights. So you roll that through another few quarters. Any thoughts in terms of expanding the courses that that would apply to, or the people that that would apply to? Or any other thoughts in terms of further tweaking of the pricing over the next year or so?

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

That's one thing we do have going for us. We do have some arrows in our quiver that we think we can use if we ever needed to. We don't charge civilians for textbooks. And I still think we're about the only company I know of to do that. Even though it's a reduced cost, with our ePress initiative, we're still spending about $40 a class, per student per book. And we could charge for books. And there are other fees that schools charge for that we don't.

Our goal is to keep the cost of education affordable for our students. But we do have to have some things that, if we needed to, we could use. And that's one of the assets that we have going for us. At this point, we haven't chosen to do that. But it's good to know they're there if we need them.

Peter Appert - *Piper Jaffray & Co - Analyst*

Harry, just to be clear, you don't charge the military. You do charge civilians.

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

We do not charge undergraduate students for textbooks.

Peter Appert - *Piper Jaffray & Co - Analyst*

Okay. Military or civilian. (Multiple speakers)

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

As long as they maintain an average.

Peter Appert - *Piper Jaffray & Co - Analyst*

Got it. And then, on the graduate level, how does it work?

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

We do each charge graduate students for textbooks.

Peter Appert - *Piper Jaffray & Co - Analyst*

Military and civilian?

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

Yes.

Peter Appert - *Piper Jaffray & Co - Analyst*

Okay, great. Thank you.

Operator

James Samford, Citigroup.

Kevin Kesnieka - *Citigroup - Analyst*

Hi, guys. [Kevin Kesnieka] filling in for James Samford. I'll keep it really quick. I know the call is getting towards its end. Just coming back to the tech fee. Now, that you said it was like a 3% benefit, I think, in 2013. Was that baked into guidance, or was that just something that would be extra on top?

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

Yes, it is baked into guidance. But it wouldn't have been in last year's number. It's about a 5% increase in fee for about 50% to 60% of our students. It works out to about 3% of revenue.

Kevin Kesnieka - *Citigroup - Analyst*

Okay, great. That's helpful. And then also just the tech fee -- how have students been reacting to it? Have any balked at it? Or is it something that they expected?

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

This is Wally. We have a process where students can escalate complaints up to me, and I've only received two since we announced it in September.

Kevin Kesnieka - *Citigroup - Analyst*

Okay. Well, that's a pretty clear answer. And just finally, you were talking about the pilot program that you -- I think you already launched it in March last year -- to help with the stipend chasers. Now, it's supposed to reduce delay payments and reduce loan limits on -- or loan limits to tuition and books. Do you think that's driving away actual, genuine students or hurting them? Because they could be borrowing for cost of living and things like that?

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

Yes, there is always a danger that, if you get too difficult, you could have the result of forcing legitimate students to seek education somewhere else. We haven't done that. We have not chosen to push back. We still allow students to borrow money during their first month in attendance. We have not pushed back. We could withhold that first payment until after they've successfully completed courses. We haven't chosen to do that yet. As long as we haven't done that, then our traditional students can still have the opportunity to go.

We have chosen to red flag students by other means. If we continued to see abuse students, we would have to do that. But right now, we haven't implemented any policies that should prevent a legitimate person with a need from getting a Pell Grant, or whatever they would need to attend their first course.

Kevin Kesnieka - *Citigroup - Analyst*

Okay, great. That's all I got. Thank you.

Operator

Corey Greendale, First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Hi, thanks. I'll make this quick. And I apologize if this seems repetitive, or if I'm being a little dense. But when we are writing our notes tonight, I think I have a pretty good sense of what we should say as to what is driving -- what drove the decline in new student registrations in Q4. I'm not sure I still have a great handle on what you're thinking is as to what's driving the decline in Q1. Is it just the general economic malaise that's hitting others in this space? Or how would you complete that thought?

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

I don't know that it's a general economic malaise, Corey. We could have tried to finesse the Q1 numbers and made an estimate as to how many abusers were in Q1 last year. But we did that for four quarters in 2012, and we just frankly -- we'll be big guys here, and say there may be some noise, but we're going to try to give you quarter-over-quarter guidance.

I think it's more that -- in answer to one of the questions, Harry had talked about some of the things that we had put in process for the real abusers. But we also put some academic exercises in, to also ferret out people who weren't motivated and who weren't really interested in completing college. And so, as we try to focus on getting a better quality new student, we anticipate that, particularly on a comparative basis, we may be a little lower.

And we certainly hope that our affordability resonates with the good students who are out there. It's tough to quantify which side of a slight dip in new students year-over-year relates to the academic standards that we put in place; or which side of it relates to the economy. And I would tell you that we didn't go cold turkey in the first quarter with our marketing and cutting back the traditional TV and media advertising, but we will do that over time. So I doubt very little of it was due to that.

And I don't know if you have any other color you want to add, Harry.

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

I do. I think, Corey, we're largely impacted by the cloud of the economy, impacting the adult students going back to school, because there is a belief that perhaps they couldn't even get a better job if they did go back to school. That's part of it. The cloud of sequestration is still a bit of a problem of the military. That will come through, and that will clear up over the next 4 to 6 months. The stipend chasers comparison of last year is still hurting us a little bit, but we're not going to use that as an excuse.

And then the other thing is, the seeds that we're planting, these relationships with the community colleges and with New Horizons, really aren't come near fruition yet. Those seeds aren't bearing fruit; but they will, we believe, when we reap the harvest back in the fall. So I think we're setting the stage for long-term growth. We're not seeing the full impact of that in the short term. And that is the results of first-quarter guidance.

Corey Greendale - *First Analysis Securities - Analyst*

All right. Thank you for indulging the question.

Operator

At this time, we have no further questions. I would now like to turn the conference back over to Mr. Chris Symanoskie. Please proceed.

Chris Symanoskie - *American Public Education, Inc. - VP, IR*

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

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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