

AMERICAN PUBLIC EDUCATION INC  
Form 10-Q  
November 05, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number: - 001-33810

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

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

01-0724376  
(I.R.S. Employer  
Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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Large accelerated filer  x

Accelerated filer  o

Non-accelerated filer  o

Smaller reporting company  o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
 o No  x

The total number of shares of common stock outstanding as of November 4, 2013 was 17,519,893.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

AMERICAN PUBLIC EDUCATION, INC.  
Consolidated Balance Sheets  
(In thousands)

|  | As of September 30,<br>2013<br>(Unaudited) | As of December 31,<br>2012 |
|--|--|----------------------------|
| <b>ASSETS</b>  |  |                            |
| Current assets:  |  |                            |
| Cash and cash equivalents  | \$ 143,780                                 | \$ 114,901                 |
| Accounts receivable, net of allowance of \$11,497 in 2013 and \$11,106 in 2012 | 7,004                                      | 10,428                     |
| Prepaid expenses   | 4,131                                      | 4,290                      |
| Income tax receivable  | 1,891                                      | 4,953                      |
| Deferred income taxes  | 4,011                                      | 6,502                      |
| <b>Total current assets</b>  | <b>160,817</b>                             | <b>141,074</b>             |
| Property and equipment, net  | 88,097                                     | 82,840                     |
| Note receivable  | 6,000                                      | 6,000                      |
| Investments  | 10,557                                     | 6,664                      |
| Other assets, net  | 1,266                                      | 1,025                      |
| <b>Total assets</b>  | <b>\$ 266,737</b>                          | <b>\$ 237,603</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                    |  |                            |
| Current liabilities:   |  |                            |
| Accounts payable   | \$ 12,179                                  | \$ 17,251                  |
| Accrued liabilities  | 14,193                                     | 12,042                     |
| Income taxes payable   | —  | —                          |
| Deferred revenue and student deposits  | 28,762                                     | 25,777                     |
| <b>Total current liabilities</b>   | <b>55,134</b>                              | <b>55,070</b>              |
| Deferred income taxes  | 10,364                                     | 11,380                     |
| <b>Total liabilities</b>   | <b>65,498</b>                              | <b>66,450</b>              |
| Commitments and contingencies (Note 2)   |  |                            |
| Stockholders' equity:  |  |                            |
| Preferred stock, \$.01 par value;  |  |                            |
| Authorized shares - 10,000; no shares issued or outstanding                    | —  | —                          |
| Common stock, \$.01 par value;   |  |                            |
| Authorized shares - 100,000; 17,679 issued and outstanding in 2013;            |  |                            |
| 17,844 issued;   |  |                            |
| and outstanding in 2012  | 177  | 178                        |
| Additional paid-in capital   | 161,891                                    | 157,449                    |

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|  |            |            |
|--|------------|------------|
| Retained earnings                          | 39,171     | 13,526     |
| Total stockholders' equity                 | 201,239    | 171,153    |
| Total liabilities and stockholders' equity | \$ 266,737 | \$ 237,603 |

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

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

|  | Three Months Ended |            | Nine Months Ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2013               | 2012       | 2013              | 2012       |
|  | (Unaudited)        |            | (Unaudited)       |            |
| Revenues   | \$81,777           | \$77,122   | \$246,542         | \$227,516  |
| Costs and expenses:  |                    |            |                   |            |
| Instructional costs and services                               | 28,139             | 26,436     | 83,751            | 80,538     |
| Selling and promotional  | 15,989             | 14,430     | 48,573            | 43,276     |
| General and administrative                                     | 16,766             | 15,978     | 51,403            | 48,191     |
| Depreciation and amortization                                  | 3,376              | 2,760      | 9,895             | 8,131      |
| Total costs and expenses                                       | 64,270             | 59,604     | 193,622           | 180,136    |
| Income from operations before interest income and income taxes | 17,507             | 17,518     | 52,920            | 47,380     |
| Interest income, net   | 77                 | 30         | 230               | 17         |
| Income before income taxes                                     | 17,584             | 17,548     | 53,150            | 47,397     |
| Income tax expense   | 6,612              | 6,724      | 20,006            | 18,249     |
| Equity investment loss, net of taxes                           | (61 )              | —          | (107 )            | —          |
| Net income   | \$10,911           | \$10,824   | \$33,037          | \$29,148   |
| Net Income per common share:                                   |                    |            |                   |            |
| Basic  | \$0.62             | \$0.61     | \$1.87            | \$1.64     |
| Diluted  | \$0.61             | \$0.60     | \$1.84            | \$1.61     |
| Weighted average number of common shares:                      |                    |            |                   |            |
| Basic  | 17,658,317         | 17,706,088 | 17,689,055        | 17,823,508 |
| Diluted  | 17,876,747         | 17,950,524 | 17,942,798        | 18,103,996 |

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

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

|  | Nine Months Ended<br>September 30,<br>2013                  2012<br>(Unaudited) |           |
|--|---|-----------|
| Operating activities   |   |           |
| Net income   | \$33,037  | \$29,148  |
| Adjustments to reconcile net income to net cash provided by operating activities |   |           |
| Increase in allowance for bad debt   | 391   | 6,917     |
| Depreciation and amortization  | 9,895   | 8,131     |
| Stock-based compensation   | 3,004   | 2,870     |
| Stock issued for director compensation   | 77  | 87        |
| Loss on disposal   | 60  | —         |
| Investment loss  | 107   | —         |
| Deferred income taxes  | 1,475   | (2,157)   |
| Changes in operating assets and liabilities:                                     |   |           |
| Accounts receivable  | 3,033   | (17,278)  |
| Prepaid expenses and other assets  | (6)   | 1,398     |
| Income tax receivable  | 3,062   | (1,764)   |
| Accounts payable   | (5,072)   | 2,694     |
| Accrued liabilities  | 2,151   | 1,716     |
| Deferred revenue and student deposits  | 2,985   | 2,734     |
| Net cash provided by operating activities  | 54,199  | 34,496    |
| Investing activities   |   |           |
| Capital expenditures   | (15,093)  | (28,510)  |
| Equity investment  | (4,000)   | (6,750)   |
| Note Receivable  | —   | (6,000)   |
| Capitalized program development costs and other assets                           | (195)   | (372)     |
| Net cash used in investing activities  | (19,288)  | (41,632)  |
| Financing activities   |   |           |
| Cash paid for repurchase of common/restricted stock                              | (8,233)   | (13,128)  |
| Cash received from issuance of common stock                                      | 1,718   | 934       |
| Excess tax benefit from stock-based compensation                                 | 483   | 1,885     |
| Net cash used in financing activities  | (6,032)   | (10,309)  |
| Net increase (decrease) in cash and cash equivalents                             | 28,879  | (17,445)  |
| Cash and cash equivalents at beginning of period                                 | 114,901   | 119,006   |
| Cash and cash equivalents at end of period                                       | \$143,780   | \$101,561 |
| Supplemental disclosure of cash flow information                                 |   |           |
| Income taxes paid  | \$14,985  | \$10,401  |

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

AMERICAN PUBLIC EDUCATION, INC.  
Notes to Consolidated Financial Statements

1. Nature of the Business

American Public Education, Inc. (“APEI”) together with its subsidiary (the “Company”) is a provider of online post-secondary education directed primarily at the needs of the military and public service communities that operates in one reportable segment. APEI’s subsidiary, American Public University System, Inc., a West Virginia corporation, operates American Public University System (“APUS”) which is a regionally accredited online post-secondary university that includes American Military University (“AMU”) and American Public University (“APU”).

APUS achieved regional accreditation in May 2006 with The Higher Learning Commission of the North Central Association of Colleges and Schools and has been eligible to participate in federal student aid programs under Title IV of the Higher Education Act of 1965, which we refer to as Title IV programs, since November 2006.

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). All intercompany transactions have been eliminated in consolidation. The financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentations. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary to present a fair statement of our consolidated results of operations, financial position and cash flows. Operating results for any interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s consolidated financial statements and footnotes in its audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Estimates

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

Recent Accounting Pronouncements

There have been no applicable pronouncements since our last filing.

Investments

On September 30, 2012, the Company made a \$6.8 million or approximately 19.9% investment in preferred stock of NWHW Holdings, Inc. (“NWHW Holdings”), which in turn acquired New Horizons Worldwide, Inc. (“New Horizons”). New Horizons is a global IT training company operating in approximately 260 locations around the world through franchise arrangements in 41 states and 63 countries. In connection with the investment, APEI is entitled to certain rights, including right to representation on the Board of Directors of NWHW Holdings. The Company recorded the investment at cost and will recognize its share of earnings or losses in the investee in the periods for which they are reported with a corresponding adjustment in the carrying amount of the investment.



On February 20, 2013, the Company made a \$4.0 million investment in preferred stock of Fidelis Education, Inc. (“Fidelis Education”), representing approximately 21.6% of its fully diluted equity. Fidelis Education is developing a technology platform that will assist working adult students with education advising and career mentoring services as they pursue college degrees. In connection with the investment, APEI is entitled to certain rights, including right to representation on the Board of Directors. The Company recorded the investment at cost and will recognize its share of earnings or losses in the investee in the periods for which they are reported with a corresponding adjustment in the carrying amount of the investment.

#### Note Receivable

In connection with the Company's minority investment in NWHW Holdings, the Company extended \$6.0 million in credit to New Horizons in exchange for a subordinated note. The note matures on September 28, 2018, with monthly interest payments of 5.0% per annum during the first five years of the note and interest payments of 6.0% per annum in the sixth year. We evaluate the loan receivable by analyzing the borrower's creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. We consider a loan to be impaired when, based upon current information and events, we believe it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement.

## Commitments and Contingencies

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

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

## Concentration

Approximately 36% and 37% of the Company's revenues for the three- and nine-month periods ended September 30, 2013 were derived from students who received tuition assistance from tuition assistance programs sponsored by the United States Department of Defense ("DoD") compared to approximately 37% and 39% of the Company's revenues for the three- and nine-month periods ended September 30, 2012. Approximately 16% of the Company's revenues for each of the three- and nine-month periods ended September 30, 2013 was derived from students who were eligible for veterans benefits, compared to approximately 14% and 13% of the Company's revenues for the three- and nine-month periods ended September 30, 2012. Approximately 37% and 36% of the Company's revenues for the three and nine-months ended September 30, 2013, were from students using financial aid under the Title IV programs compared to 37% and 35% for the three- and nine-month periods ended September 30, 2012. A reduction in any of these programs or a change in maximum benefits allowed to students thereunder could have a significant impact on the Company's operations.

## 3. Net Income Per Common Share

Basic net income per common share is based on the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share increases the shares used in the per share calculation by the dilutive effects of options and restricted stock. Stock options are not included in the computation of diluted earnings per share when their effect is anti-dilutive. There were 2,770 and 169,919 anti-dilutive stock options excluded from the calculation for the three and nine months ended September 30, 2013 and 439,647 and 265,495 anti-dilutive stock options excluded from the calculation for the three and nine months ended September 30, 2012.

## 4. Income Taxes

The Company is subject to U.S. Federal income taxes as well as income taxes of multiple state jurisdictions. For Federal and state tax purposes, the tax years from 2010 to 2012 remain open to examination.

## 5. Stock-Based Compensation

On March 15, 2011, the Board of Directors adopted the American Public Education, Inc. 2011 Omnibus Incentive Plan (the "2011 Incentive Plan"), and APEI's stockholders approved the 2011 Incentive Plan on May 6, 2011, at which time the 2011 Incentive Plan became effective. Upon effectiveness of the 2011 Incentive Plan, APEI ceased making awards under the American Public Education, Inc. 2007 Omnibus Incentive Plan (the "2007 Incentive Plan"). The 2011 Incentive Plan allows APEI to grant up to 2,000,000 shares plus any shares of common stock that are subject to outstanding awards under the American Public Education, Inc. 2002 Stock Incentive Plan (the "2002 Stock Plan") or the 2007 Incentive Plan that terminate due to expiration, forfeiture, cancellation or otherwise without the issuance of such

shares. As of September 30, 2013, there were 588,968 shares subject to outstanding awards under the 2002 Stock Plan and the 2007 Incentive Plan and 178,227 shares subject to outstanding awards under the 2011 Incentive Plan. Awards under the 2011 Incentive Plan may include the following award types: stock options, which may be either incentive stock options or nonqualified stock options; stock appreciation rights; restricted stock; restricted stock units; dividend equivalent rights; performance shares; performance units; cash-based awards; other stock-based awards, including unrestricted shares; or any combination of the foregoing.

Stock-based compensation expense related to restricted stock grants is expensed over the vesting period using the straight-line method for Company employees and the graded-vesting method for members of the Board of Directors and is measured using APEI's stock price on the date of grant. The fair value of each option award is estimated at the date of grant using a Black-Scholes option-pricing model. Prior to 2012, we calculated the expected term of stock option awards using the "simplified method" in accordance with Staff Accounting Bulletins No. 107 and 110 because we lacked sufficient historical data and were unable to make reasonable expectations regarding the future. We also estimate forfeitures of share-based awards at the time of grant and revise such estimates in subsequent periods if actual forfeitures differ from original projections. We make assumptions with respect to expected stock price volatility based on the average historical volatility of peers with similar attributes. In addition, we determine the risk-free interest rate by selecting the U.S. Treasury five-year constant maturity, quoted on an investment basis in effect at the time of grant for that business day. In the nine-month periods ended September 30, 2013 and September 30, 2012 there were no options granted.

Options granted through September 30, 2013 vest ratably over periods of three to five years and expire in seven to ten years from the date of grant. Option activity is summarized as follows (unaudited):

|                                 | Number<br>of Options | Weighted<br>Average<br>Exercise Price | Weighted-Average<br>Contractual<br>Life (Yrs) | Aggregate<br>Intrinsic<br>Value<br>(In thousands) |
|---------------------------------|----------------------|---------------------------------------|---|---|
| Outstanding, December 31, 2012  | 691,082              | \$ 26.59                              |   |   |
| Options granted                 | —                    | \$ —                                  |   |   |
| Awards exercised                | (96,665 )            | \$ 17.15                              |   |   |
| Awards forfeited                | (17,983 )            | \$ 37.64                              |   |   |
| Outstanding, September 30, 2013 | 576,434              | \$ 27.82                              | 3.19  | \$ 5,750  |
| Exercisable, September 30, 2013 | 520,796              | \$ 26.79                              | 3.08  | \$ 5,735  |

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

|  | September 30, 2013 | September 30, 2012 |
|--|--------------------|--------------------|
|  | (In thousands)     |                    |
| Proceeds from stock options exercised      | \$ 1,658           | \$ 934             |
| Intrinsic value of stock options exercised | \$ 2,022           | \$ 6,204           |
| Tax benefit from exercises                 | \$ 339             | \$ 2,122           |

The table below summarizes the restricted stock activity for the nine months ended September 30, 2013 (unaudited):

|                                | Number<br>of Shares | Weighted-Average<br>Grant Price<br>and Fair Value |
|--------------------------------|---------------------|---|
| Non-vested, December 31, 2012  | 136,397             | \$ 39.21  |
| Shares granted                 | 123,951             | \$ 37.50  |
| Vested shares                  | (65,585 )           | \$ 37.70  |
| Shares forfeited               | (4,002 )            | \$ 39.94  |
| Non-vested, September 30, 2013 | 190,761             | \$ 38.61  |

Stock-based compensation cost charged against income during the three- and nine-month periods ended September 30, 2013 and September 30, 2012 is as follows:

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2013 | September 30,<br>2012 | September 30,<br>2013 | September 30,<br>2012 |
|  | (Unaudited)           |                       | (Unaudited)           |                       |
|  | (In thousands)        |                       | (In thousands)        |                       |
| Instructional costs and services                     | \$224                 | \$213                 | \$653                 | \$669                 |
| Marketing and promotional                            | 113                   | 96                    | 331                   | 288                   |
| General and administrative                           | 685                   | 631                   | 2,020                 | 1,913                 |
| Stock-based compensation expense in operating income | 1,022                 | 940                   | 3,004                 | 2,870                 |
| Tax benefit  | (404 )                | (372 )                | (1,190 )              | (1,136 )              |
| Stock-based compensation expense, net of tax         | \$618                 | \$568                 | \$1,814               | \$1,734               |

As of September 30, 2013, there was \$5.3 million of total unrecognized compensation cost, representing \$0.2 million of unrecognized compensation cost associated with share-based compensation arrangements, and \$5.1 million of unrecognized compensation cost associated with non-vested restricted stock. The total remaining cost is expected to be recognized over a weighted average period of 1.5 years.

## 6. Subsequent Events

On November 1, 2013, the Company announced that it had acquired National Education Seminars, Inc., operating as Hondros College, Nursing Programs (“HCON”), in a stock purchase transaction. The Company acquired all of the outstanding equity of HCON for an adjusted aggregate purchase price, subject to post-closing working capital adjustments, of \$45.0 million. The Company assumed no debt in the acquisition of HCON.

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

The following discussion of our historical results of operations and our liquidity and capital resources should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this report and the audited financial information and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

### Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission (“SEC”). We may, in some cases, use words such as “project,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “should,” “would,” “could,” “potentially,” “will,” or “may,” or other words that convey of future events or outcomes to identify these forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition and results of operations may vary materially from those expressed in our forward-looking statements. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss in this section of this Quarterly Report on Form 10-Q, in the “Risk Factors” section of this Quarterly Report on Form 10-Q, in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the “Annual Report”) and in our

various filings with the SEC. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q in combination with the more detailed description of our business in our Annual Report as being applicable to all related forward-looking statements wherever they appear in this quarterly report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Overview

### Background

American Public Education, Inc. (“APEI” or the “Company”) is a provider of online post-secondary education directed primarily at the needs of the military and public service communities. We operate through the American Public University System (“APUS”), a regionally accredited online university that includes American Military University, or AMU, and American Public University, or APU.

We were founded as American Military University, Inc. in 1991 and began offering graduate courses in January 1993. In 1995, American Military University began offering undergraduate programs primarily directed to members of the armed forces. Over time, American Military University diversified its educational offerings in response to demand by military students for post-military career preparation. With its expanded program offerings, American Military University extended its outreach to the greater public service community, primarily police, fire, emergency management personnel and national security professionals. In 2002, we reorganized into a holding company structure, with APEI serving as the holding company of American Public University System, Inc., which operates APUS, which includes AMU and APU. APUS achieved regional accreditation in May 2006 with The Higher Learning Commission of the North Central Association of Colleges and Schools and became eligible for participation in federal student financial aid programs under Title IV of the Higher Education Act of 1965, which we refer to as Title IV programs, for classes beginning in November 2006. In July 2011, The Higher Learning Commission reaffirmed accreditation of APUS for online courses and programs without any other stipulations on its affiliation status.

APUS offers terms beginning on the first Monday of each month in either eight or sixteen-week formats. Semesters and academic years are established to manage requirements for participation in Title IV programs and to assist students who are utilizing Title IV programs in meeting eligibility requirements.

### Summary

Net course registrations increased 2% and 6% for the three- and nine-month periods ended September 30, 2013, over the comparable prior year periods. For the three- and nine-month periods ended September 30, 2013, our revenue increased from \$77.1 million to \$81.8 million, or by 6%, and from \$227.5 million to \$246.5 million, or by 8%, over the comparable prior year periods. Operating margins decreased to 21.4% from 22.7% and increased to 21.4% from 20.8% for the three- and nine-month periods ended September 30, 2013, over the comparable prior year periods.

In March 2013, in response to automatic, across-the-board reductions in federal spending (also known as “sequestration”), each of the branches of the U.S. armed services suspended new enrollments in the Department of Defense (“DoD”) voluntary education Tuition Assistance (“TA”) programs. As a result of Congressional action, each of the services reinstated enrollments in the TA programs in April 2013. Our results of operations in the second quarter were negatively impacted by the suspension of the TA programs, resulting in fewer enrollments from service members than otherwise would have been expected. While the TA programs were reinstated, budgetary pressures remain, and we do not know what future action will be taken with respect to TA programs, which could include elimination of the programs, reduction of the funds and/or benefits available or new restrictions on participation. Any such changes, or any other reduction in the funding for the TA programs, could have a material adverse effect on our operations.

In October 2013, the TA programs were temporarily suspended as a result of the U.S. government partial shutdown. On October 1, 2013, prior to the government shutdown, course registrations for October 2013 were approximately 41,200. As of October 14, 2013, however, approximately 13,100 registrations had been dropped, resulting in a net course registration reduction of approximately 20% compared to October 2012. We believe that many of these dropped registrations resulted from the suspension of the TA programs. We anticipate, but cannot assure, that many of

the students who were dropped from courses due to the suspension of the TA programs may reenroll now that the government has reopened. We are currently unable to estimate the potential impact of the government shutdown and the suspension of the TA programs on our overall course enrollments and revenues for the fourth quarter and for the fiscal year. The shutdown and suspension, and any other shutdown or suspension, could have a material adverse effect on our operations. The potential risks associated with these events are further addressed in the risk factors appearing elsewhere in this Form 10-Q.

In the beginning of the third quarter, we transitioned from using the services of a third party to assist us with the administration and management of our participation in Title IV programs to utilizing an internal solution that relies, in part, on software and services provided by a third party vendor. We experienced unexpected delays and difficulties in financial aid processing as a result of various software and programming errors, resulting in, among other things, the Department of Education's rejection of certain student records and the inability to disburse federal student aid to some students. These problems, and the related customer service and reputational issues that they caused, could have the effect of permanently deferring or, in some cases, causing us to lose course registrations by students that would otherwise have been realized. We continue to experience some delays and customer service issues, and although we and our software vendor are working to resolve the outstanding software and programming defects, we are unable to estimate when the remaining processing delays will be fully resolved. As a result, we are unable to estimate the extent to which the delays and any related customer service and reputational issues will affect our overall course enrollments and revenues for the fourth quarter. The potential risks associated with this transition are further addressed in the risk factors in our Annual Report on Form 10-K.



On November 1, 2013, we acquired all of the outstanding equity of National Education Seminars, Inc., operating as Hondros College, Nursing Programs (“HCON”), for an adjusted aggregate purchase price, subject to post-closing working capital adjustments of approximately \$45.0 million. The Company assumed no debt in the acquisition of HCON. The acquisition was financed from existing cash. HCON offers nursing programs including a diploma in practical nursing, an associate degree in nursing, and an online registered nurse to bachelor of science in nursing completion program to more than 1,500 students at four campus locations in the suburban areas of Cincinnati, Columbus, Dayton and Cleveland, Ohio. The potential risks associated with this transaction are further addressed in the risk factors appearing elsewhere in this Form 10-Q.

### Critical Accounting Policies

Critical accounting policies are disclosed in our consolidated financial statements and footnotes in the audited financial statements for the year ended December 31, 2012 included in our Annual Report for the year ended December 31, 2012. There have been no significant changes in our critical accounting policies from those disclosed in the Annual Report.

### Results of Operations

The following table sets forth statements of income data as a percentage of revenues for each of the periods indicated:

|  | Three Months Ended |   |               |   | Nine Months Ended |   |               |   |
|--|--------------------|---|---------------|---|-------------------|---|---------------|---|
|  | September 30,      |   | September 30, |   | September 30,     |   | September 30, |   |
|  | 2013               | % | 2012          | % | 2013              | % | 2012          | % |
| Revenues   | 100.0              | % | 100.0         | % | 100.0             | % | 100.0         | % |
| Costs and expenses:  |                    |   |               |   |                   |   |               |   |
| Instructional costs and services                               | 34.4               |   | 34.2          |   | 34.0              |   | 35.4          |   |
| Selling and promotional  | 19.6               |   | 18.7          |   | 19.7              |   | 19.0          |   |
| General and administrative                                     | 20.4               |   | 20.8          |   | 20.9              |   | 21.2          |   |
| Depreciation and amortization                                  | 4.2                |   | 3.6           |   | 4.0               |   | 3.6           |   |
| Total costs and expenses                                       | 78.6               |   | 77.3          |   | 78.6              |   | 79.2          |   |
| Income from operations before interest income and income taxes | 21.4               |   | 22.7          |   | 21.4              |   | 20.8          |   |
| Interest income, net   | 0.1                |   | —             |   | 0.1               |   | —             |   |
| Income from operations before income taxes                     | 21.5               |   | 22.7          |   | 21.5              |   | 20.8          |   |
| Income tax expense   | 8.1                |   | 8.7           |   | 8.1               |   | 8.0           |   |
| Investment loss, net of taxes                                  | (0.1               | ) | —             |   | —                 |   | —             |   |
| Net Income   | 13.3               | % | 14.0          | % | 13.4              | % | 12.8          | % |

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Revenues. Our revenues for the three months ended September 30, 2013 were \$81.8 million, an increase of \$4.7 million, or 6%, compared to \$77.1 million for the three months ended September 30, 2012. The increase was primarily a result of an increase in the number of net course registrations from civilian and military students in addition to increased revenue per course as a result of implementing a technology fee for courses beginning after September 1, 2012.

**Costs and expenses.** Costs and expenses for the three months ended September 30, 2013 were \$64.3 million, an increase of \$4.7 million, or 8%, compared to \$59.6 million for the three months ended September 30, 2012. Costs and expenses as a percentage of revenues increased to 78.6% for the three months ended September 30, 2013 from 77.3% for the three months ended September 30, 2012.

**Instructional costs and services expenses.** Our instructional costs and services expenses for the three months ended September 30, 2013 were \$28.1 million, representing an increase of 6% from \$26.4 million for the three months ended September 30, 2012. This increase was directly related to an increase in the number of classes offered due to the increase in net course registrations. Instructional costs and services expenses as a percentage of revenues were 34.4% for the three months ended September 30, 2013, compared to 34.2% for the three months ended September 30, 2012. Instructional costs as a percentage of revenue increased in the three months ended September 30, 2013 as a result of higher utilization of adjunct faculty.

**Selling and promotional expenses.** Our selling and promotional expenses for the three months ended September 30, 2013 were \$16.0 million, representing an increase of 11% from \$14.4 million for the three months ended September 30, 2012. This increase was primarily due to higher costs associated with online advertising as well as increased staff focused on strategic relationships. Selling and promotional expenses as a percentage of revenues increased to 19.6% for the three months ended September 30, 2013 from 18.7% for the three months ended September 30, 2012.

**General and administrative expenses.** Our general and administrative expenses for the three months ended September 30, 2013 were \$16.8 million, representing an increase of 5% from \$16.0 million for the three months ended September 30, 2012. The increase in expense was a result of an increase in expenditures for financial aid processing fees and expenditures for technology projects for a larger student body. General and administrative expenses as a percentage of revenues decreased to 20.4% for the three months ended September 30, 2013 from 20.8% for the three months ended September 30, 2012. This decrease was primarily due to bad debt expense as a percentage of revenue decreasing to 4.1% for the three months ended September 30, 2013, compared to 4.4% for the three months ended September 30, 2012.

**Depreciation and amortization.** Depreciation and amortization expenses were \$3.4 million for the three months ended September 30, 2013, compared with \$2.8 million for the three months ended September 30, 2012. This represents an increase of 21%. This increase resulted from greater capital expenditures and higher depreciation and amortization on a larger fixed-asset base.

**Stock-based and other compensation expenses.** Stock-based compensation expenses included in instructional costs and services, selling and promotional, and general and administrative expense were \$940,000 and \$1,022,000 in the aggregate for each of the three months ended September 30, 2012 and September 30, 2013, respectively.

**Income tax expense.** We recognized income tax expense for the three months ended September 30, 2013 and September 30, 2012 of \$6.6 million and \$6.7 million, respectively, or effective tax rates of 37.6% and 38.3%, respectively. The reduction in our effective tax rate in 2013 is primarily due to lower state tax rates.

**Net income.** Our net income was \$10.9 million for the three months ended September 30, 2013, compared to net income of \$10.8 million for the three months ended September 30, 2012, an increase of \$0.1 million, or 1.0%. This increase was related to the factors discussed above.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Revenues. Our revenues for the nine months ended September 30, 2013 were \$246.5 million, an increase of \$19.0 million or 8%, compared to \$227.5 million for the nine months ended September 30, 2012. The increase was primarily a result of an increase in the number of net course registrations from civilian and military students in addition to increased revenue per course as a result of implementing a technology fee for courses beginning after September 1, 2012.

Costs and expenses. Costs and expenses for the nine months ended September 30, 2013 were \$193.6 million, an increase of \$13.5 million, or 7%, compared to \$180.1 million for the nine months ended September 30, 2012. Costs and expenses as a percentage of revenues decreased to 78.6% for the nine months ended September 30, 2013 from 79.2% for the nine months ended September 30, 2012.

Instructional costs and services expenses. Our instructional costs and services expenses for the nine months ended September 30, 2013 were \$83.7 million, representing an increase of 4% from \$80.5 million for the nine months ended September 30, 2012. This increase was directly related to an increase in the number of classes offered due to the increase in net course registrations. Instructional costs and services expenses as a percentage of revenues were 34.0% for the nine months ended September 30, 2013, compared to 35.4% for the nine months ended September 30, 2012. Instructional costs as a percentage of revenue improved in the nine months ended September 30, 2013 as a result of increased utilization of full-time faculty and improved textbook costs due to our e-press initiative.

Selling and promotional expenses. Our selling and promotional expenses for the nine months ended September 30, 2013 were \$48.6 million, representing an increase of 12% from \$43.3 million for the nine months ended September 30, 2012. This increase was primarily due to higher costs associated with online advertising as well as increased staff focused on strategic relationships. Selling and promotional expenses as a percentage of revenues increased to 19.7% for the nine months ended September 30, 2013 from 19.0% for the nine months ended September 30, 2012.

General and administrative expenses. Our general and administrative expenses for the nine months ended September 30, 2013 were \$51.4 million, representing an increase of 7% from \$48.2 million for the nine months ended September 30, 2012. The increase in expense was a result of an increase in expenditures for financial aid processing fees and expenditures for technology projects for a larger student body. General and administrative expenses as a percentage of revenues decreased to 20.9% for the nine months ended September 30, 2013 from 21.2% for the nine months ended September 30, 2012. This decrease was primarily due to bad debt expense as a percentage of revenue decreasing to 4.1% for the nine months ended September 30, 2013, compared to 4.7% for the nine months ended September 30, 2012.

Depreciation and amortization. Depreciation and amortization expenses were \$9.9 million for the nine months ended September 30, 2013, compared with \$8.1 million for the nine months ended September 30, 2012. This represents an increase of 22%. This increase resulted from greater capital expenditures and higher depreciation and amortization on a larger fixed-asset base.

Stock-based and other compensation expenses. Stock-based compensation expenses included in instructional costs and services, selling and promotional, and general and administrative expense were \$2.9 million and \$3.0 million in the aggregate for the nine months ended September 30, 2012 and September 30, 2013, respectively.

Income tax expense. We recognized income tax expense for the nine months ended September 30, 2013 and September 30, 2012 of \$20.0 million and \$18.3 million, respectively, or effective tax rates of 37.6% and 38.5%, respectively. The reduction in our effective tax rate in 2013 is primarily due to lower state tax rates.

Net income. Our net income was \$33.0 million for the nine months ended September 30, 2013, compared to net income of \$29.1 million for the nine months ended September 30, 2012, an increase of \$3.9 million, or 13%. This increase was related to the factors discussed above.

## Liquidity and Capital Resources

### Liquidity

We financed operating activities and capital expenditures during the nine months ended September 30, 2013 and September 30, 2012 primarily through cash provided by operating income and proceeds received from the exercise of stock options. In the first quarter of 2013, we also used cash for a minority investment in Fidelis Education, a company that is developing a technology platform that will assist working adult students with education advising and career mentoring services as they pursue college degrees. Cash and cash equivalents were \$143.8 million and \$101.6 million at September 30, 2013 and September 30, 2012, respectively, representing an increase of \$42.2 million, or 42%.

We derive a significant portion of our revenues from tuition assistance programs from the DoD. Generally, these funds are received within 60 days of the start of the classes to which they relate. A growing source of revenue is derived from our participation in Title IV programs, for which disbursements are governed by federal regulations. We have typically received disbursements under Title IV programs within 30 days of the start of the applicable class.

These factors, together with the number of classes starting each month, affect our operational cash flow.

Our costs and expenses have increased with the increase in student enrollment, as well as our increased selling and promotional expenses, and we expect to fund these costs and expenses through cash generated from operations. On November 1, 2013, we used approximately \$45.0 million of existing cash to acquire all of the outstanding equity of HCON, which provides nursing programs to more than 1,500 students at four campus locations in Ohio. Even with this capital expenditure, based on our current level of operations and anticipated growth, we believe that our cash flow from operations and other sources of liquidity, including cash and cash equivalents, will provide adequate funds for ongoing operations and planned capital expenditures for the foreseeable future.

### Operating Activities

Net cash provided by operating activities was \$54.2 million and \$34.5 million for the nine months ended September 30, 2013 and September 30, 2012, respectively.

### Investing Activities

Net cash used in investing activities was \$19.3 million and \$41.6 million for the nine months ended September 30, 2013 and September 30, 2012, respectively. Cash used in investing activities is primarily for capital expenditures, the majority of which have been related to buildings to support expansion, software development related to Partnership At a Distance, our customized student information and services system, and computers and equipment to support increased staff. In addition, we made an equity investment in Fidelis Education for \$4.0 million.

We expect that we will continue to incur expenses for investing activities in strategic opportunities, or to enhance our business capabilities, such as our investment in Fidelis Education. Capital expenditures could be higher in the future as a result of the acquisition of existing structures or potential new construction projects that arise as a result of our ongoing evaluation of our space needs and opportunities for physical growth. We will continue to explore opportunities to invest in the education industry, which could include purchasing other education-related companies or investing in companies developing new technologies.

### Financing Activities

Net cash used in financing activities was \$6.0 million and \$10.3 million for the nine months ended September 30, 2013 and March 31, 2012, respectively. Cash used in financing activities was from the repurchase of our common stock, net of cash received from the issuance of common stock as a result of stock option exercises, and the excess tax benefit from stock-based compensation.

On May 14, 2012, our Board of Directors authorized a program to repurchase up to \$20 million of shares of our common stock. On March 14, 2013, our Board of Directors increased the authorization by an additional \$15 million of shares. Subject to market conditions, applicable legal requirements and other factors, the repurchases may be made from time to time in open market transactions or privately negotiated transactions. The authorization does not obligate us to acquire any shares, and purchases may be commenced or suspended at any time based on market conditions and other factors that we deem appropriate. For the nine-month period ended September 30, 2013, we repurchased 226,389 shares under the repurchase program for an aggregate amount of \$7.4 million. As of September 30, 2013, \$15.6 million remained authorized for repurchase under the expanded program.

### HCON Acquisition Regulatory Review

The acquisition of HCON was required to be reported to, and in some cases approved by, various education regulatory bodies. An institution must obtain U.S. Department of Education (“Department of Education”) approval for a change in ownership and control in order to continue to participate in Title IV programs under the new ownership. The Department of Education does not provide pre-closing approval, but at the request of the parties, the Department of Education will conduct a “pre-acquisition review” of a proposed change. Upon completion of the pre-acquisition review, the Department of Education sends the institution a letter that identifies any conditions that the Department of Education anticipates imposing on the institution in connection with its continued participation in Title IV programs after closing. In this case, the parties requested that the Department of Education conduct a “pre-acquisition review.” The Department of Education issued a letter that identified no concerns regarding the transaction and no conditions on HCON’s eligibility to continue to participate in the

Title IV programs while the Department of Education completes its postclosing review, other than those conditions that are imposed in the ordinary course on institutions that undergo a change in ownership and control. The Department of Education letter also noted that the Department of Education expects to resolve an audit finding related to late returns of Title IV funds when a student withdraws from HCON. As required, we intend to timely notify the Department of Education about the occurrence of the change in ownership of HCON and submit a materially complete application for approval to participate in Title IV programs. As part of the application for final approval, we must provide other required documents to the Department of Education by the end of December 2013. If we do so, HCON may continue to participate in Title IV programs pending Department of Education action on the application.

The Accrediting Council for Independent Colleges and Schools (“ACICS”), which accredits HCON as an institution, and the Commission on Collegiate Nursing Education (“CCNE”), which accredits the registered nurse to bachelor of science in nursing completion program, have been notified of the change in ownership of HCON. ACICS accreditation criteria provide for an automatic, self-executing discontinuation of an institution’s accreditation effective on the date of a change in the institution’s ownership. The institution then must seek reinstatement of accreditation. Upon receipt of our application, ACICS may grant a temporary reinstatement of accreditation for a period of time sufficient to consider the application. ACICS will not grant final reinstatement of accreditation until it has conducted a site visit, which must occur within six months of the date of the change. CCNE notified us that its Substantive Change Advisory Group and CCNE Executive Committee will review the change of ownership and notify us if it has been approved. CCNE approval is not required to proceed with the change.



Post-closing approvals from certain state agencies, including the Ohio State Board of Career Colleges and Schools and the Ohio Board of Regents, are required in connection with the acquisition of HCON. The Ohio State Board of Career Colleges and Schools has approved administratively the change, and we are awaiting final approval. We are in the process of seeking administrative approval of the change from the Ohio Board of Regents, with final approval contingent upon receipt of final approval from ACICS and the Ohio State Board of Career Colleges and Schools. The Ohio Department of Veterans Services must approve each HCON location in order for students to use veterans benefits to finance their attendance; we have notified the Department of the change in order to begin that post-closing approval process, which requires on-site visits. The change has also been approved by the Kentucky Council on Postsecondary Education, which authorizes the delivery of online courses to residents of Kentucky. HCON has notified the Indiana Board for Proprietary Education (“Indiana Board”) and the Nevada Commission on Postsecondary Education (“Nevada Commission”) of the change in ownership; The Indiana Board and the Nevada Commission each authorizes HCON to deliver online courses to residents of their respective states. Neither the Indiana Board nor the Nevada Commission requires HCON to obtain approval for the change in order for HCON to continue to offer online courses to residents of either state.

#### Off-Balance Sheet Arrangements

We do not have off-balance sheet financing arrangements, including any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

#### Contractual Commitments

There were no material changes to our contractual commitments outside of the ordinary course of our business during the three months ended September 30, 2013.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to risk from adverse changes in interest rates, primarily relating to our investing of excess funds in cash equivalents bearing variable interest rates, which are tied to various market indices. Our future investment income will vary due to changes in interest rates. At September 30, 2013, a 10% increase or decrease in interest rates would not have a material impact on our future earnings or cash flows related to investments in cash equivalents. We have no derivative financial instruments as of September 30, 2013. There has been no material change to our interest rate sensitivity during the nine months ended September 30, 2013.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2013 as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we have been and may be involved in various legal proceedings. We currently have no material legal proceedings pending.

### Item 1A. Risk Factors

An investment in our stock involves a high degree of risk. You should carefully consider the risks set forth in the Risk Factors section of our Annual Report for the year ended December 31, 2012 and all of the other information set forth in this Quarterly Report on Form 10-Q and our Annual Report and the additional information in the other reports we file with the Securities and Exchange Commission. If any of the risks contained in those reports actually occur, our business, results of operation, financial condition and liquidity could be harmed, the value of our securities could decline and you could lose all or part of your investment. In addition, you should also consider the risk factors set forth below, which amend and supplement the risks set forth in the Risk Factors section of our Annual Report.

Suspension of tuition assistance programs offered to United States Armed Forces personnel may have negatively affected our net course registrations, and any future suspension, even temporary, may also negatively affect our operations.

In October 2013, tuition assistance programs offered to United States Armed Forces personnel (the “TA programs”) were temporarily suspended as a result of the U.S. government partial shutdown. On October 1, 2013, prior to the government shutdown, course registrations for October 2013 were approximately 41,200. As of October 14, 2013, however, approximately 13,100 registrations had been dropped, resulting in a net course registration reduction of approximately 20% compared to October 2012. We believe that many of these dropped registrations resulted from the suspension of the TA programs. We anticipate, but cannot assure, that many of the students who were dropped from courses due to the suspension of the TA programs may re-register now that the government has reopened. We are currently unable to estimate the potential impact of the government shutdown and the suspension of the TA programs on our overall course enrollments and revenues for the fourth quarter and for the fiscal year. The shutdown and suspension could have a material adverse effect on our operations.

The bill passed by the U.S. Congress and signed into law by President Obama to end the U.S. government partial shutdown extended government funding at its current levels through January 15, 2014. If funding is not extended beyond that date, another government shutdown could occur, resulting in another suspension of the TA programs. Any future government shutdown or suspension of the TA programs could have a material adverse effect on our operations.

As part of our business strategy, we have entered into and may enter into or seek to enter into business combinations and acquisitions that may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

On November 1, 2013, we completed our acquisition of National Education Seminars, Inc., operating as Hondros College, Nursing Programs (“HCON”), or the HCON acquisition. We may seek to enter into additional business combinations or acquisitions in the future. Acquisitions are typically accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. Any inability to integrate completed acquisitions in an efficient and timely manner, including the HCON acquisition, could have an adverse impact on our results of operations. If we are

not successful in completing acquisitions that we may pursue in the future, we may incur substantial expenses and devote significant management time and resources without a productive result. In addition, future acquisitions could require use of substantial portions of our available cash (as in the HCON acquisition) or dilutive issuances of securities.

We may be unable to realize the benefits anticipated by the HCON acquisition, including estimated cost savings and synergies, or it may take longer than we anticipate for us to achieve those benefits.

Our realization of the benefits anticipated as a result of the HCON acquisition will depend in part on the integration of HCON's business with ours. There can be no assurance that we will be able to operate HCON's business profitably or integrate it successfully into our operations in a timely fashion, or at all. Our future success as a combined company depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for our management, including challenges related to the management and monitoring of on-ground operations and associated increased costs and complexity. The dedication of management resources to this integration could detract attention from our current day-to-day business, and we cannot assure you that there will not be substantial costs associated with the transition process or other negative consequences as a result of these integration efforts. These effects, including, but not limited to, incurring unexpected costs or delays in connection with integration of the two businesses, or the failure of HCON's business to perform as expected, could harm our results of operations.

The loss of key HCON personnel could negatively affect our ability to realize the benefits anticipated by the HCON acquisition.

The success of the HCON acquisition will depend, in part, on our ability to retain certain key employees of HCON. If any of these employees terminated their employment, HCON's operations may be negatively impacted and management's attention may be diverted from successfully integrating HCON's operations. In addition, we might not be able to locate suitable replacements on reasonable terms for any such employees who leave HCON.

Natural disasters or other extraordinary events may cause us to close one or more of HCON's campuses.

HCON may experience business interruptions resulting from natural disasters, inclement weather, transit disruptions or other events in one or more of the cities in Ohio in which it operates. These events could cause HCON to close campuses - temporarily or permanently - and could affect student recruiting opportunities in those locations, causing enrollment and revenues to decline.

Our ability to open new HCON campuses depends on regulatory approvals and requires financial and human resources.

As part of our strategy, we intend to open new campuses for HCON. Such actions require us to obtain appropriate federal, state and accrediting agency approvals. In addition, adding new locations may require significant financial investments and human resource capabilities. The failure to obtain appropriate approvals or to properly allocate financial and human capital would adversely impact HCON's future growth.

The success of the HCON acquisition will also depend on maintaining enrollments, which may be affected by student preferences or public attitudes about the HCON acquisition.

The success of the HCON acquisition will depend on our ability to maintain and increase student enrollments in HCON's programs. Our failure to maintain and increase enrollments could harm our reputation, while also negatively impacting HCON's financial condition and results of operations, as well as our financial condition and results of operations.

Charges to earnings resulting from the HCON acquisition may cause our operating results to suffer.

Under accounting principles, we will allocate the total purchase price of the HCON acquisition to HCON's net tangible assets and intangible assets based on their fair values as of the date of the HCON acquisition, and we will record the excess of the purchase price over those fair values as goodwill. Our management's estimates of fair value will be based upon assumptions that they believe to be reasonable but that will be inherently uncertain. After the HCON acquisition, the following factors, among others, could result in material charges that would cause our financial results to be negatively impacted:

impairment of goodwill;  
charges for the amortization of identifiable intangible assets and for stock-based compensation; and  
accrual of newly identified pre-acquisition contingent liabilities that are identified subsequent to the finalization of the purchase price allocation.

Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated amortization of deferred equity compensation and severance payments, reorganization or closure of facilities, taxes and termination of contracts that provide redundant or conflicting services. Some of these costs may have to be accounted for as expenses that would decrease our net income and earnings per share for the periods in

which those adjustments are made.

Failure to obtain necessary regulatory approvals of the HCON acquisition may result in our inability to operate HCON or in the ineligibility of HCON to participate in Title IV programs.

The HCON acquisition caused HCON to experience a change of control under the standards of applicable state education agencies, the Department of Education, the Accrediting Council for Independent Colleges and schools, and other regulators. As a result, we were required to notify or seek approval of each relevant regulatory agency. If we fail to obtain necessary approval to participate in Title IV programs by the U.S. Department of Education, final reinstatement of accreditation by the Accrediting Council for Independent Colleges and Schools, or approval to operate by the Ohio State Board of Career Colleges and Schools or the Ohio Board of Regents, we will have incurred substantial expenses for which no ultimate benefit will have been received. In addition to payment of the purchase price, we have incurred out-of-pocket expenses in connection with the transaction for legal, accounting and other fees. Furthermore, the market price of our common stock may decline to the extent that the market price prior to closing reflects a market assumption that the HCON acquisition will be approved by the U.S. Department of Education and relevant accrediting agencies and state regulatory agencies.

Failure to comply with Ohio state regulatory requirements related to nursing education programs may result in loss of enrollment and revenues.

HCON's nursing education programs must be approved by the Ohio Board of Nursing in order for graduates of those programs to be eligible for initial licensure. If we fail to retain such approval for the diploma in practical nursing or associate degree in nursing programs, such failure could harm our enrollments and reputation, while also negatively impacting HCON's financial condition and results of operations, as well as our financial condition and results of operations.

The requirements of some states' regulations could make it more difficult for us to successfully pursue HCON program initiatives and expansion.

Outside of Ohio, other states' regulatory bodies may have regulations that apply to HCON programs. For example, a number of states may require that we obtain additional authorizations for HCON students enrolled in the online registered nurse to bachelor of science in nursing completion program to participate in practicum courses in those states, even where HCON has no other physical presence in the state. These types of provisions may make it more difficult to offer online education programs in those states. The inability to efficiently or successfully expand existing programs and pursue new program initiatives would harm our ability to grow the business and could expose us to adverse actions by state regulators.

Regulatory changes by the Department of Education may have a material adverse effect on our business.

In September 2013, the U.S. Department of Education ("ED") convened a negotiated rulemaking committee to prepare proposed regulations for the Title IV programs. The proposed regulations would establish standards for programs that prepare students for gainful employment in a recognized occupation. Prior to the September 2013 committee meeting, ED released draft regulations on gainful employment. The draft regulations require ED to calculate two rates to evaluate whether a program categorized as a "gainful employment program" is a Title IV-eligible program: one rate is based on the discretionary income of students who completed the program and the other rate is based on the annual earnings of those students. The substance of the final regulations and their effects on our business (including our continued ability to offer certain programs) cannot be predicted at this time. Also, in September 2013, ED announced that it plans to convene a negotiated rulemaking committee to prepare proposed regulations to address the changes to the campus safety and security reporting requirements in the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act), made by the Violence Against Women Reauthorization Act of 2013 (VAWA). The substance of the final regulations and their effects on our business cannot be predicted at this time.

We have no experience operating physical campuses where students attend class and otherwise participate in educational activities. Having students physically present on such campuses may result in breaches of security and related issues with which we have no experience.

Prior to the HCON acquisition, we were a provider of exclusively online post-secondary education. As a result of the HCON acquisition, we will now manage and monitor on-the-ground operations associated with at four physical campuses where HCON provides services to its students. The presence of students on physical campuses requires us to consider and respond to issues related to student safety, security, and violence. We have no experience these issues or with others that may arise in connection with on-the-ground operations on physical campuses. Failure to prevent, or adequately respond to, breaches of security or other problems could harm our reputation, causing enrollment and revenues to decline.

In connection with our operation of physical campuses, we face new regulatory requirements with which we have no experience. We must comply with the campus safety and security reporting requirements in the Jeanne Clery

Disclosure of Campus Security Policy and Campus Crime Statistics Act (“Clery Act”), including recent changes made to the Clery Act made by the Violence Against Women Reauthorization Act of 2013 (“VAWA”). Failure to comply with the procedural or reporting requirements of the Clery Act could result in action by the U.S. Department of Education to fine us or to limit or suspend our participation in Title IV programs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases

During the nine-month period ending September 30, 2013, we repurchased 226,389 shares of our common stock, par value \$0.01 per share. The chart below provides further detail as to our repurchases during the period.



|  | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or Programs | Maximum Number<br>(or Approximate<br>Dollar Value) of<br>Shares that May Yet<br>Be Purchased Under<br>the Plans or<br>Programs (1)(2)(3) |
|--|--|------------------------------------|--|--|
| January 1, 2013                        |  |                                    |  | \$ 7,992,647   |
| January 1, 2013 – January 31, 2013     | 3,638                                  | \$ 34.79                           | 3,638  | 7,866,068  |
| February 1, 2013 – February 28, 2013   | —                                      | —                                  | —  | 7,866,068  |
| March 1, 2013 – March 31, 2013         | 150,587                                | \$ 32.30                           | 150,587  | \$ 18,001,740  |
| April 1, 2013 – April 30, 2013         | 2,164                                  | \$ 33.00                           | 2,164  | 17,930,337   |
| May 1, 2013 – May 31, 2013             | 60,000                                 | \$ 32.55                           | 60,000   | 15,977,321   |
| June 1, 2013 – June 30, 2013           | —                                      | —                                  | —  | 15,977,321   |
| July 1, 2013 – July 31, 2013           | —                                      | —                                  | —  | 15,977,321   |
| August 1, 2013 – August 31, 2013       | —                                      | —                                  | —  | 15,977,321   |
| September 1, 2013 – September 30, 2013 | 10,000                                 | \$ 37.91                           | 10,000   | 15,598,221   |
| Total                                  | 226,389                                | \$ 32.66                           | 226,389  | \$ 15,598,221  |

- (1) On December 9, 2011, our Board of Directors approved a stock repurchase program for its common stock, under which we may annually purchase up to the cumulative number of shares issued or deemed issued under our equity incentive and stock purchase plans. Repurchases may be made from time to time in the open market at prevailing market prices or in privately negotiated transactions based on business and market conditions. The stock repurchase program may be suspended or discontinued at any time, and will be funded using our available cash.
- (2) On May 14, 2012, our Board of Directors authorized a program to repurchase up to \$20 million of shares of our common stock. On March 14, 2013, our Board of Directors increased this authorization by an additional \$15 million of shares. Subject to market conditions, applicable legal requirements and other factors, the repurchases may be made from time to time in open market transactions or privately negotiated transactions. The authorization does not obligate us to acquire any shares, and purchases may be commenced or suspended at any time based on market conditions and other factors that we deem appropriate. As of September 30, 2013, \$15.6 million remained authorized for repurchase under the expanded program.
- (3) During the nine months ended September 30, 2013, we were deemed to have repurchased 20,540 shares of common stock forfeited by employees to satisfy minimum tax-withholding requirements in connection with the vesting of restricted stock grants. These repurchases were not part of the Board authorized stock repurchase program.

### Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit No. | Exhibit Description   |
|-------------|---|
| 2.1         | Stock Purchase Agreement, dated August 28, 2013, by and among, American Public Education, Inc., National Education Seminars, Inc., the Selling Stockholders, the Founders and the Stockholder Representative. |
| 31.01       | Certification of Chief Executive officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                           |
| 31.02       | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                           |
| 32.01       | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                 |

EX-101.INSXBRL Instance Document

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EX-101.SCHXBRL Taxonomy Extension Schema Document

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EX-101.CALXBRL Taxonomy Extension Calculation Linkbase Document

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EX-101.DEFBRL Taxonomy Extension Definition Linkbase Document

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EX-101.LABXBRL Taxonomy Extension Label Linkbase Document

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EX-101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Dr. Wallace E. Boston  
Dr. Wallace E. Boston  
President and Chief Executive Officer  
(Principal Executive Officer)

AMERICAN PUBLIC EDUCATION, INC.  
November 5, 2013

/s/ Harry T. Wilkins  
Harry T. Wilkins  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial and Principal Accounting  
Officer)

November 5, 2013