

AMERICAN PUBLIC EDUCATION INC  
Form 10-Q  
May 10, 2011

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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 March 31, 2011

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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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  No

The total number of shares of common stock outstanding as of May 9, 2011 was 17,882,719.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## AMERICAN PUBLIC EDUCATION, INC.

## Consolidated Balance Sheets

(In thousands)

	As of March 31, 2011 (Unaudited)	As of December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 96,530	\$ 81,352
Accounts receivable, net of allowance of \$893 in 2011 and \$1,050 in 2010	9,890	10,269
Prepaid expenses	4,654	4,233
Income tax receivable	-	780
Deferred income taxes	1,553	1,369
<b>Total current assets</b>	<b>112,627</b>	<b>98,003</b>
Property and equipment, net	44,203	42,415
Other assets, net	1,580	1,421
<b>Total assets</b>	<b>\$ 158,410</b>	<b>\$ 141,839</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,162	\$ 9,422
Accrued liabilities	9,444	9,349
Income taxes payable	4,423	-
Deferred revenue and student deposits	22,439	18,815
<b>Total current liabilities</b>	<b>46,468</b>	<b>37,586</b>
Deferred income taxes	6,930	6,953
<b>Total liabilities</b>	<b>53,398</b>	<b>44,539</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; 18,647 issued and 17,933 outstanding in 2011; 18,593 issued and 17,911 outstanding in 2010	186	186
Additional paid-in capital	142,930	141,757
Less cost of 714 shares of repurchased stock in 2011		

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and 682 shares of repurchased stock in 2010	(21,284 )	(19,966 )
Accumulated deficit	(16,820 )	(24,677 )
Total stockholders' equity	105,012	97,300
Total liabilities and stockholders' equity	\$ 158,410	\$ 141,839

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 March 31,	
	2011 (Unaudited)	2010
Revenues	\$58,664	\$47,311
Costs and expenses:		
Instructional costs and services	22,105	18,025
Selling and promotional	10,884	7,109
General and administrative	10,511	7,632
Depreciation and amortization	2,093	1,408
Total costs and expenses	45,593	34,174
Income from operations before interest income and income taxes	13,071	13,137
Interest income, net	27	22
Income before income taxes	13,098	13,159
Income tax expense	5,241	5,511
Net income	\$7,857	\$7,648
Net Income per common share:		
Basic	\$0.44	\$0.42
Diluted	\$0.43	\$0.40
Weighted average number of common shares:		
Basic	17,934,794	18,322,090
Diluted	18,382,313	18,979,621

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

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

	Three Months Ended March 31, 2011		2010
	(Unaudited)		
<b>Operating activities</b>			
Net income	\$	7,857	\$ 7,648
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for (recovery of) bad debt		(157 )	282
Depreciation and amortization		2,093	1,408
Stock-based compensation		862	755
Stock issued for director compensation		33	44
Deferred income taxes		(207 )	(237 )
Changes in operating assets and liabilities:			
Accounts receivable		536	613
Prepaid expenses and other assets		(804 )	(328 )
Income tax receivable		780	863
Accounts payable		740	(2,269 )
Accrued liabilities		95	418
Income taxes payable		4,423	4,679
Deferred revenue and student deposits		3,624	309
<b>Net cash provided by operating activities</b>		<b>19,875</b>	<b>14,185</b>
<b>Investing activities</b>			
Capital expenditures		(3,597 )	(3,711 )
Capitalized program development costs and other assets		(60 )	(131 )
<b>Net cash used in investing activities</b>		<b>(3,657 )</b>	<b>(3,842 )</b>
<b>Financing activities</b>			
Cash paid for repurchase of common stock		(1,542 )	(65 )
Cash received from issuance of common stock		438	337
Excess tax benefit from stock based compensation		64	53
<b>Net cash provided by (used in) financing activities</b>		<b>(1,040 )</b>	<b>325</b>
<b>Net increase in cash and cash equivalents</b>		<b>15,178</b>	<b>10,668</b>
Cash and cash equivalents at beginning of period		81,352	74,866
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>96,530</b>	<b>\$ 85,534</b>
<b>Supplemental disclosure of cash flow information</b>			
Income taxes paid	\$	181	\$ 153

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 exclusively online postsecondary education directed primarily at the needs of the military and public service communities that operates in one reportable segment. APEI has one subsidiary, American Public University System, Inc. (the “University System”), a West Virginia corporation, which is a regionally accredited post secondary online university that includes American Military University and American Public University.

The University System 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 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.

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, 2011. 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, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 announcements since our last filing.

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.

On February 28, 2011 the U.S. Department of Education began an on-site program review of the University's administration of the Title IV programs. In general, after the Department of Education conducts its site visit and reviews data supplied by the institution, the Department of Education sends the institution a program review report. The institution has the opportunity to respond to the findings in the program review report. The Department of Education then issues a final program review determination letter, which identifies any liabilities. The institution may appeal any monetary liabilities specified in the final program review determination letter. The site visit for the University's program review, which covered the 2009-2010 and 2010-2011 award years, took place from February 28, 2011 through March 4, 2011.

The Company recently received the program review report and plans to respond timely to it. The report includes three findings, two of which involve individual student-specific errors. The third finding is that the University's policies improperly failed to treat certain students as having unofficially withdrawn from the institution and that the University consequently failed to calculate and return federal student financial aid that the University was required to return to the Department of Education as the result of these unofficial withdrawals. As part of the process of responding to this finding, the Company is conducting a file review for the period from July 1, 2009 through December 31, 2010. The Department of Education has not specified a potential penalty, and the Company has not accrued any amounts in connection with the program review. The Company believes that if it is liable for refunds to the Department of Education for these students, the amount could be up to approximately \$1.2 million and would be offset in the Company's financial results by any amounts that the Company may eventually collect from the students to whom the funds were disbursed or amounts these students may have already repaid the Department. The Company has disclosed more information on the program review in Item 2 of this Quarterly Report on Form 10-Q under the heading "Regulatory Update."

#### Concentration

Approximately 47% of the Company's revenues for the three month period ended March 31, 2011 were derived from students who received tuition assistance from tuition assistance programs sponsored by the United States Department of Defense compared to approximately 53% of the Company's revenues for the three months ended March 31, 2010. Approximately 30% of the Company's revenues for the three months ended March 31, 2011 were from students using financial aid under Title IV programs compared to 20% for the three months ended March 31, 2010. A reduction in either of these programs or the change in maximum benefits allowed to students 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 and restricted stock are not included in the computation of diluted earnings per share when their effect is anti-dilutive. There were no anti-dilutive stock options or restricted stock excluded from the calculation for the three months ended March 31, 2011 and March 31, 2010.

### 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, tax years 2007-2010 remain open to examination.

### 5. Stock Based Compensation

On August 3, 2007, the Board of Directors adopted the American Public Education, Inc. 2007 Omnibus Incentive Plan (the "new equity plan"), and APEI's stockholders approved the new equity plan on November 6, 2007. The new equity plan was effective as of August 3, 2007. As of March 31, 2011 there were 180,397 shares available for grant under the plan. Awards under the new equity plan may be 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 that uses the assumptions noted in the following table. We calculate the expected term of stock option awards using the "simplified method" in accordance with Staff Accounting Bulletins (SAB) No. 107 and 110 because we lack sufficient historical data and are 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.

	March 31, 2011		March 31, 2010	
Expected volatility	39.04	%	26.46	%
Expected dividends	0.00	%	0.00	%
Expected term, in years	4.5		4.5	
Risk-free interest rate	2.01	%	2.65	%
Weighted-average fair value of options granted during the year	\$ 13.22		\$ 9.37	

Options granted through March 31, 2011 vest ratably over periods of three to five years and expire in seven to ten years from the date of grant. Option activity is summarized as follows (unaudited):

	Number of Options	Weighted Average Exercise Price	Weighted-Average Contractual Life (Yrs)	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2010	1,022,726	\$ 16.63		
Options granted	177,950	\$ 37.52		
Awards exercised	(39,761 )	\$ 11.29		
Awards forfeited	(2,733 )	\$ 25.19		
Outstanding, March 31, 2011	1,158,182	\$ 20.01	5.34	\$ 23,678
Exercisable, March 31, 2011	806,965	\$ 13.39	4.95	\$ 21,834

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

	March 31, 2011		March 31, 2010	
	(In thousands)			
Proceeds from stock options exercised	\$ 449		\$ 337	
Intrinsic value of stock options exercised	\$ 1,197		\$ 3,108	
Tax benefit from exercises	\$ 365		\$ 146	

The table below summarizes the restricted stock activity for the three months ended March 31, 2011 (unaudited):

	Number of Shares	Weighted-Average Grant Price and Fair Value
Non vested, December 31, 2010	59,119	\$ 37.03
Shares granted	40,375	\$ 37.52
Vested shares	(18,946 )	\$ 36.48
Shares forfeited	(183 )	\$ 35.62
Non vested, March 31, 2011	80,365	\$ 37.41

Stock based compensation cost charged against income during the three month period ended March 31, 2011 and March 31, 2010 is as follows:

	2011	Three Months Ended March 31, 2010 (Unaudited) (In thousands)
Instructional costs and services	\$ 254	\$ 176
Marketing and promotional	87	59
General and administrative	521	520
Stock-based compensation expense in operating income	862	755
Tax benefit	(334 )	(280 )
Stock-based compensation expense, net of tax	\$ 528	\$ 475

As of March 31, 2011, there was \$6.0 million of total unrecognized compensation cost, representing \$3.5 million of unrecognized compensation cost associated with share-based compensation arrangements, and \$2.5 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 1.2 years.

## 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.

### Forward-Looking Statements

Some of the statements contained in this 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 Form 10-Q is filed with the Securities and Exchange Commission ("SEC"). We may, in some cases, use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend,"

“would,” “could,” “potentially,” “will,” or “may,” or other words that convey uncertainty of future events or outcomes to 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 Form 10-Q, in the “Risk Factors” section of this Form 10-Q, in the “Risk Factors” section of our annual report on Form 10-K for the fiscal year ended December 31, 2010 (the “Annual Report”) and in our various filings with the Securities and Exchange Commission. You should read these factors and the other cautionary statements made in this 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. is a provider of online postsecondary education directed primarily at the needs of the military and public service communities. We operate through the American Public University System, 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. Following initial national accreditation by the Accrediting Commission of the Distance Education and Training Council, or DETC, 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 American Public Education, Inc. serving as the holding company of American Public University System, Inc., which operates the American Public University System, which includes AMU and APU. Our university system 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.

The university system 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

Adjusted net course registrations increased 31% for the three month period ended March 31, 2011 over the three month period ended March 31, 2010. Adjusted net course registrations are net course registrations that are adjusted to reflect that beginning January 3, 2011, the Company combined one-credit lab courses with their related three-credit classes. As a result, adjusted net course registration growth rates exclude other non-credit registrations and are presented as if labs and classes were combined in the prior year period. Our revenue increased from \$47.3 million to \$58.7 million, or by 24% for the three month period ended March 31, 2011 over the three month period ended March 31, 2010. Operating margins decreased to 22.2% from 27.8% for the three month period ended March 31, 2011 over the three month period ended March 31, 2010.

Our results of operations normally fluctuate as a result of variations in our business, principally due to the level of our selling and promotional expenses and changes in enrollment, and we expect that going forward as our overall growth rate declines we will see a more pronounced seasonal fluctuation in new enrollments. In the second quarter of 2010, we experienced slower growth in active duty military registrations. As a result, beginning with the third quarter of 2010 we increased, and in subsequent quarters we continued to increase, our marketing spend to attempt to increase civilian registrations. In what we believe is a challenging time for the industry, we believe that the long term health of our business is best served by continuing to focus on marketing and promotional activities intended to expand awareness of our brand and increase net registrations from the civilian market.





## 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, 2010 included in our Annual Report for the year ended December 31, 2010. 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 March 31,	
	2011		2010	
Revenues	100.0	%	100.0	%
Costs and expenses:				
Instructional costs and services	37.7		38.1	
Selling and promotional	18.6		15.0	
General and administrative	17.9		16.1	
Depreciation and amortization	3.6		3.0	
Total costs and expenses	77.8		72.2	
Income from operations before interest income and income taxes	22.2		27.8	
Interest income, net	-		-	
Income from operations before income taxes	22.2		27.8	
Income tax expense	8.9		11.6	
Net Income	13.3	%	16.2	%

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

**Revenues.** Our revenues for the three months ended March 31, 2011 were \$58.7 million, an increase of \$11.4 million, or 24%, compared to \$47.3 million for the three months ended March 31, 2010. The increase was primarily a result of an increase in the number of net course registrations from new civilian students.

**Costs and Expenses.** Costs and expenses for the three months ended March 31, 2011 were \$45.6 million, an increase of \$11.4 million, or 33%, compared to \$34.2 million for the three months ended March 31, 2010. Costs and expenses as a percentage of revenues increased to 77.8% for the three months ended March 31, 2011 from 72.2% for the three months ended March 31, 2010.

**Instructional costs and services expenses.** Our instructional costs and services expenses for the three months ended March 31, 2011 were \$22.1 million, representing an increase of 23% from \$18.0 million for the three months ended March 31, 2010. 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 37.7% for the three months ended March 31, 2011, compared to 38.1% for the three months ended March 31, 2010.

**Selling and promotional expenses.** Our selling and promotional expenses for the three months ended March 31, 2011 were \$10.9 million, representing an increase of 54% from \$7.1 million for the three months ended March 31, 2010. This increase was primarily due to an increase in civilian outreach, online advertising, and media advertising expenses. Selling and promotional expenses as a percentage of revenues increased to 18.6% for the three months ended March 31, 2011 from 15.0% for the three months ended March 31, 2010. This increase reflects additional marketing expense to attempt to increase civilian registrations and to expand awareness of the APU brand to the civilian market.

**General and administrative expenses.** Our general and administrative expenses for the three months ended March 31, 2011 were \$10.5 million representing an increase of 38% from \$7.6 million for the three months ended March 31, 2010. The increase in expense was a result of an increase in expenditures for stock-based compensation, recruiting, financial aid processing fees, bad debt expense and an increase in expenditures for technology required to support the increase in civilian students and regulatory changes. General and administrative expenses as a percentage of revenues increased to 17.9% for the three months ended March 31, 2011 from 16.1% for the three months ended March 31, 2010. The percentage increase was primarily due to stock-based compensation, recruiting, financial aid processing, bad debt expense and technology spending increases to manage the increase in civilian students and regulatory changes.

**Depreciation and amortization.** Depreciation and amortization expenses were \$2.1 million for the three months ended March 31, 2011, compared with \$1.4 million for the three months ended March 31, 2010. This represents an increase of 50%. This increase resulted from greater capital expenditures and higher depreciation and amortization on a larger fixed asset base and from the amortization of a software license related to our learning management system.

**Stock-based and other compensation expenses.** Stock-based compensation expenses included in instructional costs and services, selling and promotional, and general and administrative expense for the three months ended March 31, 2011 were \$862,000 in the aggregate, representing an increase of 14% from \$755,000 for the three months ended March 31, 2010. The increase in stock-based compensation for the three months ended March 31, 2011 is primarily attributable to new grants issued in the first quarter of 2011.

Interest income, net. Our interest income, net increased by \$5,000 for the three months ended March 31, 2011 to \$27,000 from \$22,000 for the three months ended March 31, 2010, representing an increase of 23%. This increase was principally due to an increase in cash and cash equivalents compared to the same period last year.

Income tax expense. We recognized income tax expense for the three months ended March 31, 2011 and March 31, 2010 of \$5.2 million and \$5.5 million, respectively, or effective tax rates of 40.0% and 41.9%, respectively.

Net income. Our net income was \$7.9 million for the three months ended March 31, 2011, compared to net income of \$7.6 million for the three months ended March 31, 2010, an increase of \$209,000, or 3%. This increase was related to the factors discussed above.

## Liquidity and Capital Resources

### Liquidity

The Company financed operating activities and capital expenditures during the three months ended March 31, 2011 and 2010 primarily through cash provided by operating income and proceeds received from the exercise of stock options. Cash and cash equivalents were \$96.5 million and \$85.5 million at March 31, 2011 and March 31, 2010, respectively, representing an increase of \$11.0 million, or 13%.

We derive a significant portion of our revenues from tuition assistance programs from the Department of Defense, or 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 and our increased selling and promotional expenses, and we expect to fund these expenses through cash generated from operations. 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 \$19.9 million and \$14.2 million for the three months ended March 31, 2011 and 2010, respectively. As revenue and profits have grown, cash has increased.

### Investing Activities

Net cash used in investing activities was \$3.7 million and \$3.8 million for the three months ended March 31, 2011 and 2010, respectively. Capital expenditures were related to the acquisition of existing structures, new construction projects due to our ongoing evaluation of space needs, and our continued investment in systems. We expect these factors, and potentially others, to cause capital expenditures to increase in future periods, including in the near term.

### Financing Activities

Net cash used in financing activities for the three months ended March 31, 2011 was \$1.0 million 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. Net cash provided by financing activities for the three months ended March 31, 2010 was \$325,000 from cash received from the issuance of common stock as a result of stock option exercises and the excess tax benefit from stock based compensation offset by the repurchase of common stock.

The Board of Directors has authorized a repurchase program to repurchase up to the cumulative number of shares issued or deemed issued under the Company's equity incentive and stock purchase plans after January 1, 2011, which for 2011 management currently estimates to be approximately 219,208 shares of the Company's common stock. As of March 31, 2011 the Company had repurchased 32,000 shares under the repurchase program for an aggregate amount of \$1.3 million.

#### Regulatory Update

In February 2011, The Higher Learning Commission conducted a site visit in connection with our reaccreditation process, which was scheduled in the normal course for the 2010-2011 academic year. We have not yet received a final report and decision on our reaccreditation from The Higher Learning Commission.

On February 28, 2011 the U.S. Department of Education began an on-site program review of the University's administration of the Title IV programs. In general, after the Department of Education conducts its site visit and reviews data supplied by the institution, the Department of Education sends the institution a program review report. The institution has the opportunity to respond to the findings in the program review report. The Department of Education then issues a final program review determination letter, which identifies any liabilities. The institution may appeal any monetary liabilities specified in the final program review determination letter.

The site visit for our program review, which covered the 2009-2010 and 2010-2011 award years, took place from February 28, 2011 through March 4, 2011. We recently received the program review report, and we plan to respond timely to it. The report includes three findings, two of which involve individual student-specific errors. The third finding is that our policies improperly failed to treat certain students as having unofficially withdrawn from the institution and that we consequently failed to calculate and return federal student financial aid that we were required to return to the Department of Education as the result of these unofficial withdrawals. The Department has taken the position that students who did not "earn an F grade" in a payment period should be treated as having unofficially withdrawn from the school, even if they had future course registrations in the next payment period. We disagree with this interpretation of Department of Education regulations and are considering the manner in which we will respond to the Department of Education. As part of the process of responding to this finding, we are conducting a file review for the period from July 1, 2009 through December 31, 2010. While the Department of Education has not specified a potential penalty, we believe that if we are liable for refunds to the Department of Education for these students, the amount could be up to approximately \$1.2 million and would be offset in our financial results by any amounts that we may eventually collect from the students to whom the funds were disbursed or amounts these students may have already repaid the Department.

More information on the Title IV programs is contained in Part I, Item 1 of our Annual Report on Form 10-K under the heading "Regulation of our Business – Regulation of Title IV Financial Aid Programs" and in Part I, Item 1A of our Annual Report on Form 10-K under the heading "Risks Related to the Regulation of our Business."

#### 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 March 31, 2011, 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 March 31, 2011.

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 March 31, 2011 as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2011.

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

On August 12, 2010, a putative class action lawsuit was commenced against the Company, Wallace E. Boston, Jr. ("Boston"), Frank B. McCluskey and Harry T. Wilkins ("Wilkins"), in the United States Court for the Northern District of West Virginia (Martinsburg Division), encaptioned Douglas N. Gaer v. American Public Education, Inc. et al, C.A. No. 3:10 CV-81. The plaintiff alleges that the Company and the individual defendants violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. The plaintiff purports to be acting on behalf of a class consisting of purchasers or acquirers of the Company's stock between February 22, 2010 to August 5, 2010 (the "Class Period"). The plaintiff alleges that, as a result of the defendants' allegedly false misleading statements or omissions concerning the Company's prospects, the Company's common stock traded at artificially inflated prices throughout the Class Period. The plaintiff seeks compensatory damages and fees and costs, among other relief, but has not, at this time, specified the amount of damages being sought in this action. In an order dated November 10, 2010, Douglas Gaer and the City of Miami Firefighters' and Police Officers' Retirement Trust were appointed co-lead plaintiffs and lead plaintiffs' counsel was approved. On January 25, 2011, plaintiffs filed an Amended Complaint asserting the same statutory claims against the Company, Boston and Wilkins. On or about March 10, 2011, defendants moved to dismiss the complaint in its entirety. On or about April 25, 2011, plaintiffs filed an opposition to the motion to dismiss. Defendants reply memorandum is due on or about May 16, 2011.

### 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 on Form 10-K for the year ended December 31, 2010, and all of the other information set forth in this Form 10-Q and our Form 10-K and the additional information in the other reports we file with the Securities and Exchange Commission. In addition, you should also consider the risk factor[s] set forth below, which amend[s] and supplement[s] the risk factors referred to above, before deciding to invest in our common stock. If any of the risks contained in those reports, or described below, 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.





Tuition assistance programs offered to United States Armed Forces personnel constituted 50% of our net course registrations for 2010, and our revenues and number of students would decrease if we are no longer able to receive funds under these tuition assistance programs or tuition assistance is reduced or eliminated.

Service members of the United States Armed Forces are eligible to receive tuition assistance from their branch of the armed forces that they may use to pursue postsecondary degrees. Service members of the United States Armed Forces can use tuition assistance at postsecondary schools that are accredited by accrediting agencies recognized by the U.S. Secretary of Education. Our tuition is currently structured so that tuition assistance payments for service members fully cover the service member's per semester credit hour tuition cost of our undergraduate courses and cover more than 75% of the per course tuition cost of our graduate courses. The current debate on the federal deficit has led to proposals to decrease the overall appropriations to the Department of Defense, which could lead to reductions in the size of the tuition assistance program or the amount that individual service members can use for particular courses. If we are no longer able to receive tuition assistance payments or the tuition assistance program is reduced or eliminated, our enrollments and revenues would be significantly reduced resulting in a material adverse effect on our results of operations and financial condition.

A recent congressional investigation of Department of Defense, or DoD, tuition assistance programs used for distance education and proprietary institutions and a DoD rulemaking that would increase oversight of educational programs offered to active servicemembers could result in legislation that limits in whole or in part our participation in the tuition assistance program. See "Risks Related to the Regulation of our Industry" in the Risk Factors section of our Annual Report on Form 10-K for additional information on these developments.

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

### Repurchases

During the three month period ending March 31, 2011, the Company repurchased 32,000 shares of the Company's common stock, par value \$0.01 per share. The chart below provides further detail as to the Company's repurchases during the period.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)(2)
January 1, 2011 – January 31, 2011	-	-	-	219,208
February 1, 2011 – February 28, 2011	-	-	-	219,208
March 1, 2011 – March 31, 2011	32,000	\$ 41.21	32,000	187,208
Total	32,000	\$ 41.21	32,000	187,208

(1) On March 5, 2011, the Company's Board of Directors approved a stock repurchase program for its common stock, under which the Company may purchase up to the cumulative number of shares issued or deemed issued under the Company's equity incentive and stock purchase plans, which the Board of Directors estimates to be up to 219,208 shares of the Company's common. Repurchases may be made from time to time in the open market at prevailing

market prices or in privately negotiated transactions from time to time based on business and market conditions. The stock repurchase program may be suspended or discontinued at any time, and will be funded using the Company's available cash.

(2) During the three months ended March 31, 2011, the Company was deemed to have repurchased 6,050 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. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description
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.INS \*\* XBRL Instance Document

EX-101.SCH \*\*XBRL Taxonomy Extension Schema Document

EX-101.CALXBRL Taxonomy Extension Calculation Linkbase Document  
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EX-101.DEF \*\*XBRL Taxonomy Extension Definition Linkbase Document

EX-101.LABXBRL Taxonomy Extension Label Linkbase Document  
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EX-101.PRE \*\* XBRL Taxonomy Extension Presentation Linkbase Document

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.

AMERICAN PUBLIC EDUCATION, INC.

/s/ Wallace E. Boston, Jr.

May 10, 2011

Dr. Wallace E. Boston, Jr.

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Harry T. Wilkins

May 10, 2011

Harry T. Wilkins

Executive Vice President and Chief Financial Officer

(Principal Financial and Principal Accounting Officer)