AMERICAN PUBLIC EDUCATION INC
Form 10-Q
August 04, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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	01-0724376
(State or other jurisdiction of Incorporation or organization)	(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 |X| 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 |X|
Non-accelerated filer |_| (Do not check if a smaller reporting company)	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 |X|

The total number of shares of common stock outstanding as of July 30, 2009 was 18,190,077.

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	As of June 30, 2009	As of Decem 2008

	(Unaudited)		
ASSETS			
Current assets:			
Cash and cash equivalents	$	57,115	$
Accounts receivable, net of allowance of $750 in 2009 and $537 in 2008		5,219	
Prepaid expenses		2,216	
Income tax receivable		2,685	
Deferred income taxes		1,092	
Total current assets		68,327	
Property and equipment, net		21,434	
Other assets, net		1,596	
Total assets	$	91,357	$
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$	3,549	$
Accrued liabilities		4,349	
Accrued bonus		1,784	
Deferred revenue and student deposits		10,573	
Total current liabilities		20,255	
Deferred income taxes		4,266	
Total liabilities		24,521	
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; 18,187 issued and 18,187 outstanding in 2009; 18,030 issued and 18,023 outstanding in 2008		182	
Additional paid-in capital		134,590	
Less cost of 6 shares of treasury stock		-	
Accumulated deficit		(67,936)	
Total stockholders' equity		66,836	
Total liabilities and stockholders' equity	$	91,357	$

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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Revenues	$ 35,713	$ 24,999	$ 68,874	$ 48
Costs and expenses:				
Instructional costs and services	14,373	10,521	27,116	20
Selling and promotional	5,156	2,613	9,487	4
General and administrative	6,042	5,072	12,098	9
Depreciation and amortization	1,360	1,031	2,657	1
Total costs and expenses	26,931	19,237	51,358	37
Income from operations before interest income and income taxes	8,782	5,762	17,516	11
Interest income, net	29	196	40	
Income before income taxes	8,811	5,958	17,556	11
Income tax expense	3,497	2,033	7,004	4
Net income	$ 5,314	$ 3,925	$ 10,552	$ 7
Net Income per common share:				
Basic	$ 0.29	$ 0.22	$ 0.58	$
Diluted	$ 0.28	$ 0.21	$ 0.56	$
Weighted average number of common shares:				
Basic	18,161,700	17,806,884	18,108,649	17,771
Diluted	18,901,803	18,791,644	18,895,343	18,779

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

AMERICAN PUBLIC EDUCATION, INC.

Consolidated Statements of Cash Flows
(In thousands)

	Si
	2009
	(Unaudit
Operating activities	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for bad debt	
Depreciation and amortization	
Stock-based compensation	
Stock issued for director compensation	
Deferred income taxes	
Changes in operating assets and liabilities:	
Accounts receivable	
Prepaid expenses	
Income tax receivable	
Accounts payable	
Accrued liabilities	
Accrued bonus	
Deferred revenue and student deposits	
Net cash provided by operating activities	
Investing activities	
Capital expenditures	
Capitalized program development costs and other assets	
Net cash used in investing activities	
Financing activities	
Cash received from issuance of common stock, net of issuance costs	
Excess tax benefit from stock based compensation	
Net cash provided by financing activities	
Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$
Supplemental disclosure of cash flow information	
Income taxes paid	$

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 education institution operating through two universities, 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 federal student aid programs under Title IV 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 ended December 31, 2009. 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, 2008.

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

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162, ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative GAAP for SEC registrants. The effective date is for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 is not expected to have a material impact on the Company's financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events, ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The effective date is for interim and annual periods ending after June 15, 2009. We have reviewed our business activities through August 4, 2009, the issue date of our financial statements, and have no subsequent events to report.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines and establishes a framework for measuring fair value. In addition, SFAS 157 expands disclosures about fair value measurements. In February 2009, FASB issued FASB Staff Position No. (FSP) 157-2 deferring the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The effective date for the Company was January 1, 2009. In April 2009, FASB issued FASB Staff Position No. (FSP) 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 reaffirms SFAS 157's objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction. Its effective date is for interim and annual periods ending after June 15, 2009 but it may be adopted early for the interim and annual periods ending after March 15, 2009.

In April 2008, FASB issued FASB Staff Position No. (FSP) 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP 142-3 was effective for the Company on January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141, (revised 2007), Business Combinations ("SFAS 141R") which was amended and clarified in April 2009 when FASB issued FASB Staff Position No. (FSP) 141(R)-1. The Statement establishes revised principles and requirements for how the Company will recognize and measure assets and liabilities acquired in a business combination. The Statement is effective for business combinations completed on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. In addition, in December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements -- An Amendment of ARB No. 51 ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires non-controlling interests or minority interests to be treated as a separate component of equity and any changes in the parent's ownership interest (in which control is retained) are to be accounted for as equity transactions. However, a change in ownership of a consolidated subsidiary that results in deconsolidation triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining non-controlling ownership interests. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the non-controlling interests. SFAS 141R and 160 were effective for the Company on January 1, 2009.

The adoption of the above standards did not have a material impact on the financial statements for the three and six months ended June 30, 2009 and is not expected to have a material impact on the Company's financial statements.

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. In the opinion of management, the Company is not aware of any pending or threatened litigation matters that will have a material adverse effect on the Company's business, operations, financial condition or cash flows. As of June 30, 2009, management believes there were no material commitments or contingencies requiring disclosure.

Concentration

Approximately 62% and 63% of the Company's revenues for the three and six months ended June 30, 2009, respectively, were derived from students who received tuition assistance from tuition assistance programs sponsored by the United States Department of Defense compared to approximately 65% and 66% of the Company's revenues for the three and six months ended June 30, 2008, respectively. A reduction in this program by the United States Department of Defense 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 also 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 84,809 anti-dilutive stock options excluded from the calculation for the three months ended June 30, 2009 and no anti-dilutive stock options excluded from the calculation for the six months ended June 30, 2009 or the three months and six months ended June 30, 2008.

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 2005-2008 remain open to examination. Currently, no examinations are open in any jurisdiction.

The actual combined effective tax rate for the three months and six months ended June 30, 2009 was 39.7% and 39.9%, respectively. These rates are in line with the 40.0% effective combined Federal and state statutory rate the Company was anticipating.

The Company does not anticipate any significant increases or decreases in unrecognized tax benefits within the next twelve months.

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. Upon adoption of the new equity plan, APEI ceased making awards under the 2002 Stock Plan. The new equity plan authorized the grant of up to 1,100,000 shares plus any shares of common stock remaining available for issuance under the 2002 Stock Plan as of the effective date of the new equity plan and any shares of APEI common stock that are subject to outstanding awards under the new equity plan or the 2002 Stock Plan that expire or are forfeited, canceled or settled for cash without delivery of shares of APEI common stock after the effective date of the new equity plan. As of December 31, 2007, there were 3,751 shares available for issuance from the 2002 Stock Plan which were added to the 1,100,000 shares then available for issuance under the new equity plan. As of June 30, 2009 there were 635,105 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.

The Company has adopted the provisions of FASB Statement No. 123R -- Share Based Payment, a revision of FASB Statement No. 123 -- Accounting for Stock Based Compensation ("SFAS 123R"). This standard requires companies to recognize the expense related to the fair value of their stock-based compensation awards. The Company elected to use the modified prospective approach to transition to SFAS 123R, as allowed under the statement; therefore, the Company has not restated financial results for prior periods.

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 No. 107 and 110 because we lack 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 three-year and five-year constant maturity, quoted on an investment basis in effect at the time of grant for that business day.

	June 30, 2009	June 30
Expected volatility	26.75%-29.20%	2
Expected dividends	0.00%	
Expected term, in years	4.0 - 4.5	
Risk-free interest rate	1.00%-2.46%	
Weighted-average fair value of options granted during the year	$ 9.10	$

Options granted through June 30, 2009 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)	(In
Outstanding, December 31, 2008	1,257,441	$ 7.02		
Options granted	88,862	$ 37.16		
Awards exercised	(155,618)	$ 2.98		
Awards forfeited	(4,665)	$ 30.23		
Outstanding, June 30, 2009	1,186,020	$ 9.71	$ 6.41	$
Exercisable, June 30, 2009	644,359	$ 5.71	$ 6.48	$

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

	June 30, 2009	June 30, 2008
	(In thousands)	
Proceeds from stock options exercised	$ 463	$ 188
Intrinsic value of stock options exercised	$ 5,985	$ 3,421
Tax benefit from exercises	$ 1,394	$ 696

The table below summarizes the restricted stock activity for the six months ended June 30, 2009 (unaudited):

	Number of Shares	Weighted-Average Grant Price and Fair Value
Non vested, December 31, 2008	48,988	$ 22.27
Shares granted	27,677	$ 37.01
Vested shares	(6,039)	$ 38.91
Shares forfeited	(1,050)	$ 29.33
Non vested, June 30, 2009	69,576	$ 26.58

Stock based compensation cost charged against income during the three and six month period ended June 30, 2009 and June 30, 2008 is as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
	(Unaudited) (In thousands)	
Instructional costs and services	$ 124	$ 56
Marketing and promotional	41	18
General and administrative	387	395
Stock-based compensation expense in operating income	552	469
Tax benefit	(197)	(162)
Stock-based compensation expense, net of tax	$ 355	$ 307

As of June 30, 2009, there was $3.1 million of total unrecognized compensation cost, representing $1.7 million of unrecognized compensation cost associated with share-based compensation arrangements, and $1.4 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 .88 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," "should," "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 our Form 10-Q and in the "Risk Factors" section of our annual report on Form 10-K for the fiscal year ended December 31, 2008 (the "Annual Report") and 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 two universities, American Military University, or AMU, and American Public University, or APU, which together constitute the American Public University System.

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 our two universities, 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 federal student aid programs under Title IV for classes beginning in November 2006. In September 2007, we received approval from the Higher Learning Commission to offer seven new degree programs in Education and Information Technology.

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

Our course enrollments, or net course registrations, representing the aggregate number of classes in which students remain enrolled after the date by which they may drop the course without financial penalty, increased at a compound annual growth rate (CAGR) of 64% from 2006 to 2008. Over that same time, total revenue increased at a CAGR of 64%, from $40.0 million in 2006 to $107.1 million in 2008. We believe achieving regional accreditation in May 2006 and gaining access to Title IV programs beginning with classes that started in November 2006 have been additional factors driving our recent acceleration in growth. Net course registrations increased 55% in 2008 over 2007. Our revenue increased from $69.1 million to $107.1 million, or by 55%, over the same time period and operating margins increased to 24% from 21% over the same time period. Net course registrations increased 44% and 42% for the three month and six month period ended June 30, 2009 over the three month and six month period ended June 30, 2008. Our revenue increased from $25.0 million to $35.7 million, or by 43%, and $48.2 million to $68.9 million, or by 43% for the three and six month period ended June 30, 2009 over the three month and six month period ended June 30, 2008, respectively. Operating margins increased to 24.6% from 23.0% and 25.4% from 23.2% for the three month and six month period ended June 30, 2009 over the three and six month period ended June 30, 2008, respectively.

While we have experienced substantial growth in recent periods, you should not rely on the results of any prior periods as an indication of our future growth in net course registrations or revenue as our historical growth rates may not be sustainable. Similarly, you should not rely on the improvement in our operating margins in any prior periods as an indication of our future operating margins. You should also note that our rates of growth in net course registrations, revenues and earnings from 2007 to 2008 were all lower than our rate of growth from 2006 to 2007. We do not expect to return to the levels of growth that we had from 2006 to 2007, when we had a particularly strong growth rate, which we think is largely as a result of our receipt of regional accreditation in late 2006.

Our difficulty in forecasting future growth rates and operating margins is in part due to our inability to fully estimate the actual impact of gaining access to Title IV programs. We first became eligible to use Title IV funds beginning with classes that started in November 2006. Because of our limited history with Title IV programs and because we cannot estimate the growth of new students that may result from our participation in Title IV programs, estimating the costs and expenses associated with administering Title IV programs and complying with the associated regulations is difficult. For the year ended December 31, 2008, 14% of our net course registrations were from students using financial aid under Title IV programs. For the three and six months ended June 30, 2009, 18% and 17%, or approximately 8,400 and 15,900, respectively, of our net course registrations were from students using financial aid under the Title IV programs compared to 13% and 13%, or approximately 4,200 and 8,200 for the three and six months ended June 30, 2008, respectively. This represents an increase of 100.0% and 93.9%, respectively.

Our results of operations normally fluctuate as a result of variations in our business, principally due to 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. While our number of enrolled students has grown in each sequential quarter over the past three years, we believe that the growth in the number of enrolled students will tend to be slower in the first half of each year and the growth in the number of enrolled students will be proportionally greatest in the fourth quarter of each year. Because a significant portion of our general and administrative expenses do not vary proportionately with fluctuations in revenues, we expect to see seasonal fluctuations in our results of operations. Due to our historical growth rates and our relatively new participation in Title IV programs, these patterns are hard to predict and may change, including as a result of new program introductions and increased enrollments of students.

Regulation of our Business

American Public University System is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, one of six regional accrediting agencies recognized by the Secretary of Education, and by the Accrediting Commission of the Distance Education and Training Council, or DETC, which is a national accrediting agency recognized by the Secretary of Education. To remain accredited, American Public University System must continuously meet certain criteria and standards and comply with certain policies relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Because the for-profit education sector is growing at such a rapid pace, it is possible that these accrediting bodies would respond to that growth by adopting additional criteria, standards and policies that are intended to monitor, regulate or limit the growth of for-profit institutions like us. For example, in June 2009, The Higher Learning Commission adopted new policies related to institutional control, structure and organization. Part of The Higher Learning Commission's rationale for these changes was to better define the range of its oversight of transactions related to change of ownership at institutions. The new policies extend The Higher Learning Commission's oversight to transactions that change, or have the potential to change, the control of an institution or its fundamental structure and organization. Under the new policies, The Higher Learning Commission also now extends its oversight to defined changes that occur in a parent or controlling entity, and not necessarily in the institution itself. Actions by, or relating to, an accredited institution, including a significant acquisition of another institution, significant changes in board composition or organizational documents, and accumulations by one stockholder of greater than 25% of the capital stock, could open up an accredited institution to additional reviews by The Higher Learning Commission and possible change from an accredited status to candidate status, which enhances the risks of these types of actions. In particular, the change from accredited status to candidate status could adversely impact an institution's ability to participate in Title IV programs. For profit institutions may also be less attractive acquisition candidates because of the enhanced scrutiny of change in control transactions, the explicit ability to move an institution from accredited status to candidate status and The Higher Learning Commission will now also be looking more closely at entities that own accredited institutions.

Additional information on the accreditation process and its impact on our operations is contained in our Annual Report on Form 10-K, including in the Regulation of Our Business section of Part I, Item 1.

Critical Accounting Policies

Critical accounting policies are disclosed in our consolidated financial statements and footnotes in the audited financial statements for the fiscal year ended December 31, 2008 included in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2008. There have been no significant changes in our critical accounting policies from those disclosed in the Form 10-K.

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

	Three Months Ended June 30,

	2009	2008
Revenues	100.0%	100.0%
Costs and expenses:		
Instructional costs and services	40.2	42.1
Selling and promotional	14.4	10.5
General and administrative	16.9	20.3
Depreciation and amortization	3.8	4.1
Total costs and expenses	75.3	77.0
Income from operations before interest income and income taxes	24.7	23.0
Interest income, net	0.0	0.8
Income from operations before income taxes	24.7	23.8
Income tax expense	9.8	8.1
Net Income	14.9%	15.7%

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Revenues. Our revenues for the three months ended June 30, 2009 were $35.7 million, an increase of $10.7 million, or 43%, compared to $25.0 million for the three months ended June 30, 2008. The increase was primarily a result of a 43% increase in the number of net course registrations.

Costs and Expenses. Costs and expenses were $26.9 million for the three months ended June 30, 2009, an increase of $7.7 million, or 40%, compared to $19.2 million for the three months ended June 30, 2008. Costs and expenses as a percentage of revenues decreased to 75.3% for the three months ended June 30, 2009 from 77.0% for the three months ended June 30, 2008. This increase resulted from the factors described below.

Instructional costs and services expenses. Our instructional costs and services expenses for the three months ended June 30, 2009 were $14.4 million, representing an increase of 37% from $10.5 million for the three months ended June 30, 2008. 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 40.2% for the three months ended June 30, 2009, compared to 42.1% for the three months ended June 30, 2008. This decrease was primarily due to efficiencies realized through a higher volume of students and the number of staff and expenses increasing at a slower rate than enrollment.

Selling and promotional expenses. Our selling and promotional expenses for the three months ended June 30, 2009 were $5.2 million, representing an increase of 97% from $2.6 million for the three months ended June 30, 2008. This increase was primarily due to an increase in civilian outreach, online, and media advertising expenses. Selling and promotional expenses as a percentage of revenues increased to 14.4% for the three months ended June 30, 2009 from 10.5%

for the three months ended June 30, 2008. This increase reflects additional marketing 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 June 30, 2009 were $6.0 million representing an increase of 19% from $5.1 million for the three months ended June 30, 2008. The increase in expense was a result of an increase in expenditures for stock-based compensation, recruiting, professional services, financial aid processing fees, and an increase in expenditures for technology, staffing, and facilities required to support a larger student body. General and administrative expenses as a percentage of revenues decreased to 16.9% for the three months ended June 30, 2009 from 20.3% for the three months ended June 30, 2008. The decrease was primarily due to efficiencies realized through a higher volume of students and the number of staff and related expenses increasing at a slower rate than enrollment.

Depreciation and amortization. Depreciation and amortization expenses were $1.4 million for the three months ended June 30, 2009, compared with $1.0 million for the three months ended June 30, 2008. This represents an increase of 32%. 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 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 June 30, 2009 were $552,000 in the aggregate, representing an increase of 17% from $469,000 for the three months ended June 30, 2008. The increase in stock-based compensation for the three months ended June 30, 2009 is primarily attributable to stock options and restricted stock granted during the three months ended June 30, 2009 and continued vesting of prior grants.

Interest income, net. Our interest income, net decreased by $167,000 for the three months ended June 30, 2009 to $29,000 from $196,000 for the three months ended June 30, 2008, representing a decrease of 85%. This decrease is due to lower investment returns because of a decline in interest rates and from the adoption of a more conservative investment strategy offset by increased cash on hand.

Income tax expense. We recognized income tax expense for the three months ended June 30, 2009 and 2008 of $3.5 million and $2.0 million, respectively, or effective tax rates of 39.7% and 34.1%, respectively. The increase was attributable to the fact that the tax due on the 2007 federal and state tax returns when filed was approximately $400,000 less than the 2007 tax liability estimated at December 31, 2007. This adjustment was booked when the tax returns were finalized in the three months ended June 30, 2008 and resulted primarily from the effects of changes in the state income tax rates applied.

Net income. Our net income was $5.3 million for the three months ended June 30, 2009, compared to net income of $3.9 million for the three months ended June 30, 2008, an increase of $1.4 million, or 35%. This increase was related to the factors discussed above.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenues. Our revenues for the six months ended June 30, 2009 were $68.9 million, an increase of $20.7 million, or 43.0%, compared to $48.2 million for the six months ended June 30, 2008. The increase was primarily a result of an increase in the number of net course registrations.

Costs and Expenses. Costs and expenses were $51.4 million for the six months ended June 30, 2009; an increase of $14.4 million, or 39%, compared to $37.0 million for the six months ended June 30, 2008. Costs and expenses as a percentage of revenues decreased to 74.6% for the six months ended June 30, 2009 from 76.8% for the six months ended June 30, 2008. This increase resulted from the factors described below.

Instructional costs and services expenses. Our instructional costs and services expenses for the six months ended June 30, 2009 were $27.1 million, representing an increase of 33% from $20.4 million for the six months ended June 30, 2008. 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 39.4% for the six months ended June 30, 2009, compared to 42.4% for the six months ended June 30, 2008. The decrease was primarily due to efficiencies realized through a higher volume of students and the number of staff and expenses increasing at a slower rate than revenue.

Selling and promotional expenses. Our selling and promotional expenses for the six months ended June 30, 2009 were $9.5 million, representing an increase of 98% from $4.8 million for the six months ended June 30, 2008. This increase was primarily due to an increase in civilian outreach, online, and media advertising expenses. Selling and promotional expenses as a percentage of revenues increased to 13.8% for the six months ended June 30, 2009 from 9.9% for the six months ended June 30, 2008. This increase reflects additional marketing to expand awareness of the APU brand to the civilian market.

General and administrative expenses. Our general and administrative expenses for the six months ended June 30, 2009 were $12.1 million representing an increase of 23% from $9.9 million for the six months ended June 30, 2008. The increase in expense was a result of an increase in stock-based compensation, recruiting, professional services, financial aid processing fees, and an increase in expenditures for technology, staffing, and facilities required to support a larger student body. General and administrative expenses as a percentage of revenues decreased to 17.6% for the six months ended June 30, 2009 from 20.5% for the six months ended June 30, 2008. The decrease was primarily due to efficiencies realized through a higher volume of students and the number of staff and related expenses increasing at a slower rate than revenue.

Depreciation and amortization. Depreciation and amortization expenses were $2.7 million for the six months ended June 30, 2009, compared with $1.9 million for the six months ended June 30, 2008. This represents an increase of 38%. 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 compensation expenses. Stock-based compensation expenses included in instructional costs and services, selling and promotional, and general and administrative expense for the six months ended June 30, 2009 was $1.1 million in the aggregate, representing an increase of 28% from $0.8 million for the six months ended June 30, 2008. The increase in stock-based compensation for the six months ended June 30, 2009 is primarily attributable to expense for stock options and restricted stock granted subsequent to June 30, 2008 and continued vesting of prior grants.

Interest income, net. Our interest income, net decreased by $398,000 for the six months ended June 30, 2009 to $40,000 from $438,000 for the six months ended June 30, 2008, representing a decrease of 91%. This decrease is due to lower investment returns because of a decline in interest rates and from the adoption of a more conservative investment strategy offset by increased cash on hand.

Income tax expense. We recognized income tax expense for the six months ended June 30, 2009 and 2008 of $7.0 million and $4.3 million, respectively, or effective tax rates of 39.9% and 37.1%, respectively. The increase was attributable to the fact that the tax due on the 2007 federal and state tax returns when filed was approximately $400,000 less than the 2007 tax liability estimated at December 31, 2007. This adjustment was booked when the tax returns were finalized in the three months ended June 30, 2008 and resulted primarily from the effects of changes in the state income tax rates applied.

Net income. Our net income was $10.6 million for the six months ended June 30, 2009, compared to net income of $7.3 million for the six months ended June 30, 2008, an increase of $3.3 million, or 44%. This increase was related to the factors discussed above.

Liquidity and Capital Resources

Liquidity

The Company financed operating activities and capital expenditures during the six months ended June 30, 2009 and 2008 primarily through cash provided by operating income and proceeds received from the exercise of stock options. Cash and cash equivalents were $57.1 million and $34.9 million at June 30, 2009 and June 30, 2008, respectively, representing an increase of $22.2 million, or 64%.

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. As a result, our costs and expenses have increased with the increase in student enrollment, and we expect to fund these expenses through cash generated from operations.

We have available to us a line of credit with a maximum borrowing amount of up to $5.0 million. The line bears interest at LIBOR plus 200 basis points. The line is secured by substantially all of our assets. We have never borrowed under this line of credit facility. The terms of our credit facilities are reviewed on a regular basis.

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.

We continue to evaluate our space needs and opportunities for continued physical growth; these include considering additions to existing structures and potential new construction projects. In particular, we have acquired six acres of land for $0.8 million in Charles Town, West Virginia, with the intent of constructing a new 40,000 square foot facility on the site. The project should result in the expenditure of approximately $10.0 million over the next 18 to 30 months.

Operating Activities

Net cash provided by operating activities was $12.6 million and $12.0 million for the six months ended June 30, 2009 and 2008, respectively. As revenue and profits have grown, cash has increased. Cash and cash equivalents were $57.1 million and $47.7 million at June 30, 2009 and December 31, 2008.

Investing Activities

Net cash used in investing activities was $4.9 million and $5.1 million for the six months ended June 30, 2009 and 2008, respectively. Capital expenditures remain relatively consistent for the six months ended June 30, 2009 over the six months ended June 30, 2008. Capital expenditures could be significantly 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.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2009 was $1.6 million from cash received from the issuance of common stock and the excess tax benefit from stock based compensation. Net cash provided by financing activities for the six months ended June 30, 2008 was $1.0 million from cash received from the issuance of common stock including the net proceeds to us from the public offering, and the excess tax benefit from stock based compensation.

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 June 30, 2009, 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 or derivative commodity instruments as of June 30, 2009.

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 June 30, 2009 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 June 30, 2009.

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 Commissions 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

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 on Form 10-K for the year ended December 31, 2008, and all of the other information set forth in this Form 10-Q and our Form 10-K before deciding to invest in our common stock. In addition, you should also consider the following risk factor:

If we fail to maintain our institutional accreditation, we would lose our ability to participate in the tuition assistance programs of the United States Armed Forces and also to participate in Title IV programs.

American Public University System is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, one of six regional accrediting agencies recognized by the Secretary of Education, and by the Accrediting Commission of the Distance Education and Training Council, or DETC, which is a national accrediting agency recognized by the Secretary of Education. Accreditation by an accrediting agency that is recognized by the Secretary of Education is required for participation in the tuition assistance programs of the United States Armed Forces. In 2008, we derived approximately 65% of our net course registrations from these tuition assistance programs. Accreditation by an accrediting agency that is recognized by the Secretary of Education for Title IV purposes is also required for an institution to become and remain eligible to participate in Title IV programs. American Public University System achieved regional accreditation from The Higher Learning Commission in 2006 and has had national accreditation from the Distance Education and Training Council since 1995. We have identified The Higher Learning Commission as our primary accreditor for Title IV purposes. Either The Higher Learning Commission or DETC may impose restrictions on our accreditation or may terminate our accreditation.

To remain accredited American Public University System must continuously meet certain criteria and standards and comply with certain policies relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. In addition to the stringent criteria, standards and policies that already apply to us, our accrediting agencies have the ability to adopt new standards and procedures that could significantly affect our operations and future prospects. We have limited ability to influence the substance and adoption of these criteria, standards and policies. Because the for-profit education sector is growing at such a rapid pace, it is possible that these accrediting bodies would respond to that growth by adopting criteria, standards and policies that are intended to monitor, regulate or limit the growth of for-profit institutions like us. For example, in June 2009, The Higher Learning

Commission adopted new policies related to institutional control, structure and organization, that we believe would make it more difficult for us to acquire or merge with other institutions or issue large amount of stock in strategic transactions. Similarly, these policies make institutions like ours a less attractive acquisition target, which could prevent takeover attempts that could be beneficial to our shareholders.

Failure to meet any of the criteria or standards, or comply with the policies of, our accrediting agencies could result in the loss of accreditation at the discretion of the accrediting agencies. Furthermore, many prospective students may view accreditation by a regional accrediting agency to be more prestigious than accreditation by a national accrediting agency, and we believe that loss of regional accreditation may reduce the marketability of American Public University System even if national accreditation were maintained. The complete loss of accreditation would, among other things, render our students and us ineligible to participate in the tuition assistance programs of the United States Armed Forces or Title IV programs and have a material adverse effect on our enrollments, revenues and results of operations.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

APEI's Annual Meeting of Stockholders was held on May 15, 2009. Following are descriptions of the matters voted on and the results of such voting:

Proposal 1: Election of Directors:

The following members were elected to APEI's Board of Directors to hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal:

	Votes For		Votes Withheld	
Wallace E. Boston, Jr.	17,072,985	94.4%	41,634	0.2%
Phillip A. Clough	16,914,630	93.6%	199,989	1.1%
J. Christopher Everett	17,081,527	94.5%	33,092	0.2%
General Barabar G. Fast	17,105,614	94.6%	9,005	0.0%
F. David Fowler	17,032,073	94.2%	82,546	0.5%
Jean C. Halle	17,092,495	94.5%	22,124	0.1%
Timothy J. Landon	17,097,350	94.6%	17,269	0.1%
David L. Warnock	11,195,489	61.9%	5,919,130	32.7%
Timothy T. Weglicki	16,953,294	93.8%	161,325	0.9%

Proposal 2: Ratification of the appointment of McGladrey & Pullen, LLP as the Company's independent registered public accounting firm for the

fiscal year ending December 31, 2009 :

The proposal was approved by the following vote:

Votes For		Votes Against		Abstentions		[Broker Non-Votes]	
17,089,885	94.5%	12,316	0.1%	12,416	0.1%	0	0

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.

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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.

AMERICAN PUBLIC EDUCATION, INC.

/s/ Wallace E. Boston, Jr. August 4, 2009

Wallace E. Boston, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Harry T. Wilkins August 4, 2009

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