AMERICAN PUBLIC EDUCATION INC
Form 10-Q
November 12, 2008

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 September 30, 2008

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 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 |X|	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 |X|

The total number of shares of common stock outstanding as of November 1, 2008 was 17,951,839.

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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, except per share data)

	As of September 30, 2008	As of December 31, 2007
	(Unaudited)	
ASSETS		
Current assets:		

Cash and cash equivalents	$ 41,350	$ 26,951
Accounts receivable, net of allowance of $625 in 2008 and $385 in 2007	6,888	4,896
Income tax receivable	2,056	1,089
Prepaid expenses	1,690	1,596
Deferred income taxes	931	309
Total current assets	52,915	34,841
Property and equipment, net	16,868	13,364
Other assets	1,253	775
Total assets	$ 71,036	$ 48,980
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,277	$ 2,471
Accrued liabilities	6,373	4,323
Deferred revenue and student deposits	9,610	6,614
Total current liabilities	20,260	13,408
Deferred income taxes	3,241	2,065
Total liabilities	23,501	15,473
Commitments and contingencies (Note 2)		
Stockholders' equity:		
Preferred stock, $.01 par value; Authorized shares - 10,000; no shares issued or outstanding		
Common stock, $.01 par value; Authorized shares - 100,000; 17,870 and 17,688 issued and outstanding in 2008 and 2007, respectively	179	177
Additional paid-in capital	130,885	128,005
Accumulated deficit	(83,529)	(94,675)
Total stockholders' equity:	47,535	33,507
Total liabilities and stockholders' equity	$ 71,036	$ 48,980

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 data)

	Three Months Ended September 30, 2008 (Unaudited)	Three Months Ended September 30, 2007 (Unaudited)	Nine Months Ended September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)
Revenues	$ 27,404	$ 17,612	$ 75,644	$ 47,873
Costs and expenses:				
Instructional costs and services	10,901	7,708	31,334	20,697
Selling and promotional	3,600	1,946	8,390	4,834
General and administrative	5,586	3,695	15,461	10,769
Depreciation and amortization	1,114	685	3,043	2,007
Total costs and expenses	21,201	14,034	58,228	38,307
Income from operations before interest income and income taxes	6,203	3,578	17,416	9,566
Interest income, net	181	257	619	595
Income before income taxes	6,384	3,835	18,035	10,161
Income tax expense	2,568	1,613	6,889	4,368
Net income	$ 3,816	$ 2,222	$ 11,146	$ 5,793
Net Income per common share:				
Basic	$ 0.21	$ 0.18	$ 0.63	$ 0.48
Diluted	$ 0.20	$ 0.18	$ 0.59	$ 0.46
Weighted average number of common shares:				
Basic	17,845,581	12,107,018	17,796,305	11,990,375
Diluted	18,850,558	12,640,799	18,805,922	12,530,269

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

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

	Nine Months Ended September 30, 2008	2007
	(Unaudited)	
Operating activities		
Net income	$ 11,146	$ 5,793
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for bad debt	240	266
Depreciation and amortization	3,043	2,007
Stock-based compensation	1,242	754
Deferred income taxes	554	592
Changes in operating assets and liabilities:		
Accounts receivable	(2,232)	1,241
Prepaid expenses	(94)	(250)
Income tax receivable	(967)	(333)
Accounts payable and accrued liabilities	3,856	1,427
Deferred revenue and student deposits	2,996	2,986
Net cash provided by operating activities	19,784	14,483
Investing activities		
Capital expenditures	(6,547)	(3,489)
Capitalized program development costs and other assets	(382)	(218)
Net cash used in investing activities	(6,929)	(3,707)
Financing activities		
Payments on long-term debt	-	(1,973)
Common stock issuance costs related to public offerings	(96)	(1,044)
Cash paid for repurchase of common stock	-	(55)
Cash received from issuance of common stock, net of issuance costs	635	862
Excess tax benefit from stock based compensation	1,005	17
Net cash provided by (used in) financing activities	1,544	(2,193)
Net increase in cash and cash equivalents	14,399	8,583
Cash and cash equivalents at beginning of period	26,951	11,678
Cash and cash equivalents at end of period	$ 41,350	$ 20,261

Supplemental disclosure of cash flow information

Interest paid	$ -	$ 56
Income taxes paid	$ 6,629	$ 4,092

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

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AMERICAN PUBLIC EDUCATION, INC.
Notes to Consolidated Financial Statements

1. Nature of the Business

American Public Education, Inc. ("APEI") together with its subsidiaries (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 operates 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.

On August 7, 2007, APEI filed a Registration Statement on Form S-1 (Registration No. 333-145185) for its initial public offering, which was completed on November 14, 2007.

On January 25, 2008, APEI filed a Registration Statement on Form S-1 (Registration No. 333-148851) for a public offering, which was completed on February 19, 2008. In the offering 3,744,500 shares were sold, consisting of 25,000 shares sold by the Company and 3,719,500 shares sold by certain stockholders of the Company. Total net proceeds to the Company were $167,000, after deducting underwriting discounts and commissions, and offering expenses.

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, 2008. 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 for the year ended December 31, 2007 included in its Annual Report, on Form 10-K, for the year ended December 31, 2007.

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 December 2007, the FASB issued Statement of Financial Accounting Standards No. 141, (revised 2007), Business Combinations ("SFAS 141R"). The Statement establishes revised principles and requirements for how we 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 141 and 160 are effective for us on January 1, 2009. The adoption of SFAS 141R and 160 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 September 30, 2008, management believes there were no material commitments or contingencies requiring disclosure.

Concentration

Approximately 64% and 65% of the Company's revenues for the three and nine months ended September 30, 2008 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 nine months ended September 30, 2007. A reduction in this assistance 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, warrants, and restricted stock. Stock options, restricted stock, and warrants 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 warrants excluded from the calculation for the three and nine months ended September 30, 2007. There were no warrants outstanding during the three and nine months ended September 30, 2008 and there were no anti-dilutive stock options or restricted stock excluded from the calculation for the three and nine months ended September 30, 2008.

The total number of shares of all classes of stock that the Company has authority to issue is 110,000,000, of which 100,000,000 of such shares are common stock having a par value of $.01 per share and 10,000,000 of such shares are Preferred Stock, having a par value of $.01 per share.

4. Income Taxes

The Company is subject to U.S. Federal income taxes as well as income taxes of multiple state jurisdictions. For Federal tax purposes, tax years 2003-2007 remain open to examination. For state tax purposes, the statute of limitations remains open for tax years 2003-2007. Currently, no examinations are open in any jurisdiction.

The Company anticipates that its effective combined Federal and state statutory tax rate will be approximately 40%. The actual combined effective tax rate for the three and nine months ended September 30, 2008 was 40.2% and 38.2%, respectively. The 1.8% difference between the expected tax rate for the nine months ended September 30, 2008 and the actual rate was attributable to the fact that the taxes due on the 2007 federal and state tax returns when filed were approximately $400,000 less than the 2007 tax liability estimated at December 31, 2007. This adjustment was booked when the final tax returns were prepared in the three months ended June 30, 2008 and resulted primarily from the effects of changes in the state income taxes.

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

5. Stock Based Compensation

On January 1, 2006, the Company 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. We calculate the expected term of stock option awards using the "simplified method" as defined in Staff Accounting Bulletin No. 107 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 the expected stock price's 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. Estimates of fair value are subjective and are not intended to predict actual future events, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made under SFAS 123R.

In February 2002, the Company adopted the 2002 Stock Incentive Plan ("the 2002 Stock Plan"). The 2002 Stock Plan initially allowed the Company to grant up to 990,000 shares of stock options and restricted stock at fair value to employees, officers, directors, and service providers of the Company and its affiliates, at the discretion of the Board of Directors. Options granted to date and currently outstanding vest ratably over periods of three to five years and expire in 10 years from the date of grant. The options are granted to employees at a purchase price that approximates the fair value of the Company's stock. In August 2002, the 2002 Stock Plan was amended to increase the shares of common stock reserved for grant under the plan to 1,815,000. In August 2005, the 2002 Stock Plan was amended to increase the shares of common stock reserved for grant under the plan to 2,200,000.

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 allows APEI to grant 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 available for issuance under the 2007 new equity 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" as defined by Staff Accounting Bulletin 107 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 five-year constant maturity, quoted on an investment basis in effect at the time of grant for that business day. Estimates of fair value are subjective and are not intended to predict actual future events, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made under FAS 123(R).

	September 30, 2008	September 30, 2007
Expected volatility	26.23% - 28.00%	27.75%
Expected dividends	0.00%	0.00%
Expected term, in years	4.0 - 4.5	6.5
Risk-free interest rate	2.59% - 3.41%	4.58-4.76%
Weighted average fair value of options granted during the year	$8.26	$3.89

Options granted through September 30, 2008, 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, 2007	1,537,835	$ 6.13		
Options granted	945	$ 31.00		
Awards exercised	(146,142)	$ 2.20		
Options forfeited	(11,938)	$ 5.45		
Outstanding, September 30, 2008	1,380,700	$ 6.57	6.98	$ 57,592
Exercisable, September 30, 2008	539,313	$ 3.11	6.97	$ 24,360

The following table summarizes information regarding stock option exercises:

	September 30, 2008	September 30, 2007
	(In thousands)	
Proceeds from stock options exercised	$ 322	$ 862
Intrinsic value of stock options exercised	$ 5,369	$ 4,610
Tax benefit from exercises	$ 1,047	$ 27

The table below summarizes the restricted stock activity for the nine months ended September 30, 2008:

	Number of Shares	Weighted-Average Grant Price and Fair Value
Non vested, December 31, 2007	72,573	$ 20.00
Shares granted	5,838	39.01

Vested shares	(6,888)	20.00
Shares forfeited	(720)	20.00
Non vested, September 30, 2008	70,803	$ 21.57

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Stock based compensation cost charged against income during the three and nine months ended September 30, 2008 and three and nine months ended September 30, 2007 is as follows:

	Three Months Ended September 30,		Nine Months September
	2008	2007	2008
	(Unaudited) (In thousands)		(Unaudite (In thousan
Instructional costs and services	$ 55	$ 25	$ 167
Marketing and promotional	17	6	53
General and administrative	324	105	1,022
Stock-based compensation expense in operating income	396	136	1,242
Tax benefit	(135)	(23)	(425)
Stock-based compensation expense, net of tax	$ 261	$ 113	$ 817

As of September 30, 2008, total compensation cost related to non-vested service-based stock options not yet recognized was $2.8 million, which is expected to be recognized over the next 42 months on a weighted-average basis.

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, 2007 (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 Title IV students and assist them in meeting eligibility requirements.

On November 14, 2007, we successfully completed our initial public offering. As a public company, we incur significant additional costs and expenses such as increased legal and audit fees, professional fees, directors' and officers' insurance costs and expenses related to compliance with Sarbanes-Oxley Act regulations and other annual costs of doing business as a public company including hiring additional personnel and expanding our administrative functions. We expect these additional expenses to range from $1.5 million to $2.0 million per year and anticipate funding costs relating to being a public company with cash provided by operating activities and cash on hand.

On January 25, 2008 we filed a Registration Statement on Form S-1 (Registration No. 333-148851) for a public offering, which was completed on February 19, 2008. In the public offering, 3,744,500 shares were sold, consisting of 25,000 shares sold by the Company and 3,719,500 shares sold by certain stockholders of the Company, at a price to the public of $35.50 per share, before underwriting discounts and commissions. Total net proceeds to the Company were $167,000 after deducting underwriting discounts and commissions, and offering expenses. The Company did not receive any of the proceeds from the sale of common stock sold by the selling stockholders. Certain selling stockholders granted the underwriters a 30-day option to purchase up to an additional 500,175 shares at the public offering price to cover over-allotments. On February 27, 2008, the underwriters of the Company's public offering exercised their over-allotment option in full. The closing of the exercise of the over-allotment option occurred on March 3, 2008. The Company did not receive any of the proceeds from the sale of common stock held by the selling stockholders in the over-allotment option exercise.

Summary

In recent years, we have experienced substantial growth. 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 39% from 2003 to 2007. Over that same time, total revenue increased at a CAGR of 40%, from $17.8 million in 2003 to $69.1 million in 2007. 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 73% in 2007 over 2006. Our revenue increased from $40.0 million to $69.1 million, or by 73%, over the same time period and operating

margins increased to 21.3% from 7.2% over the same time period. Net course registrations increased 54% and 57% for the three and nine-month periods ended September 30, 2008 over the three and nine-month periods ended September 30, 2007. Our revenue increased from $17.6 million to $27.4 million, or by 56%, and $47.9 million to $75.6 million, or by 58% for the three and nine-month period ended September 30, 2008 over the three and nine-month period ended September 30, 2007. Operating margins increased to 22.6% from 20.3% and 23.1% from 20.0% for the three and nine-month period ended September 30, 2008 over the three and nine-month period ended September 2007.

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. 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. Following the start of our participation in Title IV programs, for the year ended December 31, 2007, 10.6% of our net course registrations were from students using financial aid under Title IV programs. For the three and nine months ended September 30, 2008, 14.2% and 13.1%, or approximately 5,525 and 13,800, of our net course registrations were from students using financial aid under the Title IV programs compared to 11.6% and 10.0%, or approximately 2,925 and 6,700 for the three and nine months ended September 30, 2007. This represents an increase of 89% and 106%, respectively. 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, we cannot estimate the costs and expenses associated with administering Title IV programs and complying with the associated regulations.

During the second quarter of 2008, we received full certification from the Department of Education to participate in Title IV programs. Until that time, we had been provisionally certified because we were in our initial period of certification.

In August 2008, funds affiliated with ABS Capital Partners reduced their beneficial ownership interest from approximately 26% to approximately 24% of our outstanding common stock by distributing to their limited partners and general partners 400,000 shares of our stock. As a result of this distribution of shares, we were deemed to have undergone a change in ownership and control requiring review by the Department of Education in order to reestablish our eligibility and continue participation in Title IV programs. In connection with that review, we were required to submit to the Department of Education a change in ownership application. On October 2, 2008 the Department of Education concluded its review of our change in ownership application, determined that we are eligible and may continue to participate in Title IV programs, and provisionally certified us until September 30, 2010. Department of Education regulations require an institution to be provisionally certified following a change in ownership and control.In addition to the review by the Department of Education, we also consulted with state regulators and our accreditors. After its review of the distribution, The Higher Learning Commission informed us that it considered the distribution to be a change in ownership under its policies and it approved the change in ownership. The Higher Learning Commission also informed us that it plans to conduct a focused evaluation in Spring 2009 as its policies require it to do when a change of ownership occurs. Now that the regulatory review of the August distribution is completed, we expect that in the future the funds affiliated with ABS Capital Partners will continue to seek opportunities to reduce their ownership interest.

During a period of provisional certification, we must comply with any additional conditions included in our program participation agreement, which include, among other things, limitations on our operations. Our program participation agreement provides that as a provisionally certified institution, we must apply for and receive approval by the Secretary for any substantial change. Under our program participation agreement, substantial changes include but are not limited to establishment of additional locations, an increase in the level of academic offering, and addition of any non-degree or short-term training program. The Department of Education may also more closely review us while we are provisionally certified. The conditions to provisional certification or closer review by the Department of Education could impact, among other things, our ability to add educational programs, acquire other schools or make other significant changes. In addition, while we are provisionally certified if the Department of Education determines that we are unable to meet our responsibilities, it may seek to revoke our certification to participate in federal student aid programs with fewer due process protections than if we were fully certified. Limitations on our operations could, and the loss of our certification to participate in federal student aid programs would, adversely affect our ability to grow our presence outside the military sector in addition to having adverse effects on our enrollment, revenues and result of operations.

The foregoing discussion of certification for participation under Title IV programs, provisional certification and review by The Higher Learning Commission is only a brief summary. Additional information on certification by the Department of Education, the impact of provisional certification and accreditation of our university is contained in Item 1 of our Annual Report on Form 10-K under the heading Regulation of our Business.

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, 2007 included in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2007. There have been no significant changes in our critical accounting policies from those disclosed in the Form 10-K.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	100.0%	100.0%	100.0%	100.0
Costs and expenses:				
Instructional costs and services	39.8	43.8	41.4	43.2
Selling and promotional	13.1	11.0	11.1	10.1
General and administrative	20.4	21.0	20.4	22.5
Depreciation and amortization	4.1	3.9	4.0	4.2
Total costs and expenses	77.4	79.7	76.9	80.0
Income from operations before interest income and income taxes	22.6	20.3	23.1	20.0
Interest income, net	0.7	1.5	0.7	1.2
Income from operations before income taxes	23.3	21.8	23.8	21.2
Income tax expense	9.4	9.2	9.1	9.1
Net Income	13.9%	12.6%	14.7%	12.1

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Revenues. Our revenues for the three months ended September 30, 2008 were $27.4 million, an increase of $9.8 million, or 56%, compared to $17.6 million for the three months ended September 30, 2007. The increase was primarily a result of an increase in the number of net course registrations.

Costs and Expenses. Costs and expenses were $21.2 million for the three months ended September 30, 2008; an increase of $7.2 million, or 51%, compared to $14.0 million for the three months ended September 30, 2007. Costs and expenses as a percentage of revenues decreased to 77.4% for the three months ended September 30, 2008 from 79.7% for the three months ended September 30, 2007. This decrease resulted from the factors described below.

Instructional costs and services expenses. Our instructional costs and services expenses for the three months ended September 30, 2008 were $10.9 million, representing an increase of 41% from $7.7 million for the three months ended September 30, 2007. 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 39.8% for the three months ended September 30, 2008, compared to 43.8% for the three months ended September 30, 2007. 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 September 30, 2008 were $3.6 million, representing an increase of 85% from $1.9 million for the three months ended September 30, 2007. This increase was primarily due to an increase in print and online advertising expenses. Selling and promotional expenses as a percentage of revenues increased to 13.1% for the three months ended September 30, 2008 from 11.0% for the three months ended September 30, 2007. This increase reflects additional marketing to expand awareness of the APU brand to the civilian market, including several advertising initiatives to promote our new Masters of Education degrees.

General and administrative expenses. Our general and administrative expenses for the three months ended September 30, 2008 were $5.6 million representing an increase of 51.2% from $3.7 million for the three months ended September 30, 2007. The increase in expense was a result of an increase in expenditures for stock-based compensation, recruiting, professional services, management and the administrative facilities required to support a larger student body, as well as increased expenses associated with being a public company. General and administrative expenses as a percentage of revenues decreased to 20.4% for the three months ended September 30, 2008 from 21.0% for the three months ended September 30, 2007. The slight 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 $1.1 million for the three months ended September 30, 2008, compared with $0.7 million for the three months ended September 30, 2007. This represents an increase of 63%. The increase resulted from greater capital expenditures and higher depreciation and amortization on a larger fixed asset base.

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 September 30, 2008 were $396,000 in the aggregate, representing an increase of 191% from $136,000 for the three months ended September 30, 2007. The increase in stock-based compensation for the three months ended September 30, 2008 is primarily attributable to expense for options granted subsequent to September 30, 2007.

Interest income, net. Our interest income, net decreased by $76,000 for the three months ended September 30, 2008 to $181,000 from $257,000 for the three months ended September 30, 2007, representing a decrease of 30%. This decrease is attributable to increased cash on hand which was offset by lower investment returns due to a decline in interest rates and adoption of a more conservative investment strategy.

Income tax expense. We recognized income tax expense for the three months ended September 30, 2008 and 2007 of $2.6 million and $1.6 million, respectively, or effective tax rates of 40.2% and 42.1%, respectively. The decrease in the effective tax rate was generally a result of the effects of a reduction in the aggregate state income tax rate.

Net income. Our net income was $3.8 million for the three months ended September 30, 2008, compared to net income of $2.2 million for the three months ended September 30, 2007, an increase of $1.6 million, or 72%. This increase was related to the factors discussed above.

Nine Months EndedSeptember 30, 2008 Compared to Nine Months Ended September 30, 2007

Revenues. Our revenues for the nine months ended September 30, 2008 were $75.6 million, an increase of $27.7 million, or 58.0%, compared to $47.9 million for the nine months ended September 30, 2007. The increase was primarily a result of an increase in the number of net course registrations.

Costs and Expenses. Costs and expenses were $58.2 million for the nine months ended September 30, 2008; an increase of $19.9 million, or 52%, compared to $38.3 million for the nine months ended September 30, 2007. Costs and expenses as a percentage of revenues decreased to 76.9% for the nine months ended September 30, 2008 from 80.0% for the nine months ended September 30, 2007. This decrease resulted from the factors described below.

Instructional costs and services expenses. Our instructional costs and services expenses for the nine months ended September 30, 2008 were $31.3 million, representing an increase of 51% from $20.7 million for the nine months ended September 30, 2007. 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 41.4% for the nine months ended September 30, 2008, compared to 43.2% for the nine months ended September 30, 2007. 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 nine months ended September 30, 2008 were $8.4 million, representing an increase of 74% from $4.8 million for the nine months ended September 30, 2007. This increase was primarily due to an increase in online advertising expenses. Selling and promotional expenses as a percentage of revenues increased to 11.1% for the nine months ended September 30, 2008 from 10.1% for the nine months ended September 30, 2007. This increase reflects additional marketing to expand awareness of the APU brand to the civilian market, including several advertising initiatives to promote our new Masters of Education degrees.

General and administrative expenses. Our general and administrative expenses for the nine months ended September 30, 2008 were $15.5 million representing an increase of 44% from $10.8 million for the nine months ended September 30, 2007. The increase in expense was a result of an increase in expenditures for additional technology, financial staff positions, stock-based compensation, recruiting, professional services, management and the administrative facilities required to support a larger student body as well as increased expenses associated with being a public company. General and administrative expenses as a percentage of revenues decreased to 20.4% for the nine months ended September 30, 2008 from 22.5% for the nine months ended September 30, 2007. 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 $3.0 million for the nine months ended September 30, 2008, compared with $2.0 million for the nine months ended September 30, 2007. This represents an increase of 52%. This increase resulted from greater capital expenditures and higher depreciation and amortization on a larger fixed asset base.

Stock-based compensation expenses. Stock-based compensation expenses included in instructional costs and services, selling and promotional, and general and administrative expense for the nine months ended September 30, 2008 was $1.2 million in the aggregate, representing an increase of 65% from $0.8 million for the nine months ended September 30, 2007. The increase in stock-based compensation for the nine months ended September 30, 2008 is primarily attributable to expense for options granted subsequent to September 30, 2007.

Interest income, net. Our interest income, net increased by $24,000 for the nine months ended September 30, 2008 to $619,000 from $595,000 for the nine months ended September 30, 2007, representing an increase of 4%. This increase is attributable to increased cash on hand, which was offset by lower investment returns due to a decline in interest rates and a change in the allocation of investments.

Income tax expense. We recognized income tax expense for the nine months ended September 30, 2008 and 2007 of $6.9 million and $4.4 million, respectively, or effective tax rates of 38.2% and 43.0%, respectively. The decrease in the effective tax rate was generally a result of the effects of a reduction in the aggregate state income tax rate.

Net income. Our net income was $11.1 million for the nine months ended September 30, 2008, compared to net income of $5.8 million for the nine months ended September 30, 2007, an increase of $5.3 million, or 92%. This increase was related to the factors discussed above.

Liquidity and Capital Resources

Liquidity

The Company financed operating activities and capital expenditures during the nine months ended September 30, 2008 and 2007 primarily through cash provided by operating income. Cash and cash equivalents were $41.4 million and $20.3 million at September 30, 2008 and September 30, 2007, representing an increase of $21.1 million, or 104%.

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 now that we are a public company, 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.

Operating Activities

Net cash provided by operating activities was $19.8 million and $14.4 million for the nine months ended September 30, 2008 and 2007, respectively. As revenue and profits have grown, cash has increased.

Investing Activities

Net cash used in investing activities was $6.9 million and $3.7 million for the nine months ended September 30, 2008 and 2007, respectively. The $3.2 million increase related to improvements on property leased and acquired in 2007 and 2008, increased software development and IT infrastructure costs and purchase of a perpetual software license.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2008 was $1.5 million from cash received from the issuance of common stock including the net proceeds to us from public offerings, and the excess tax benefit from stock based compensation. Net cash used by financing activities for the nine months ended September 30, 2007 was $2.2 million which was primarily a result of the repayment of two mortgages notes that were obtained in 2006 and common stock issuance costs in anticipation of our intial public offering.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to the impact of interest rate changes and may be subject to changes in the market values of future investments. We invest excess cash in bank and money market mutual fund overnight deposits. We have no derivative financial instruments or derivative commodity instruments as of September 30, 2008.

Future investment income may fall short of expectations due to changes in interest rates. At September 30, 2008, 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2008 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 September 30, 2008.

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, 2007, 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. The following risk factors are provided to supplement and update the risk factors set forth in our Form 10-K and supercede the discussion under the heading "Risk Factors - Risks Related to the Regulation of Our Industry" contained in the Risk Factors section of our Form 10-K resulting from, among other things, recent changes to our certification status under Title IV programs and recent changes to applicable federal law.

Risks Related to Our Industry

The Department of Education has placed us on provisional certification as a result of our recent change in ownership and control, and the terms of our provisional certification could limit our potential for growth outside the military sector and adversely affect our enrollment, revenues and results of operations.

In August 2008, funds affiliated with ABS Capital Partners reduced their beneficial ownership interest from approximately 26% to approximately 24% of our outstanding common stock by distributing to their limited partners and general partners 400,000 shares of our stock. As a result of this distribution of shares, we were deemed to have undergone a change in ownership and control requiring review by the Department of Education in order to reestablish our eligibility and continue participation in Title IV programs. As required under Department of Education regulations, we timely notified the Department of Education of our change in ownership and control. In connection with the Department of Education's review of the change, we submitted to the Department of Education a change in ownership application that included the submission of required documentation, including a letter from our regional accrediting agency, The Higher Learning Commission of the North Central Association of Colleges and Schools indicating that it had approved the change. On October 2, 2008, we received a letter from the Department of Education approving the change in ownership and control and granting us provisional certification until September 30, 2010.

During a period of provisional certification, we must comply with any additional conditions included in our program participation agreement, which include, among other things, limitations on our operations. Our program participation agreement provides that as a provisionally certified institution, we must apply for and receive approval by the Secretary for any substantial change. Under our program participation agreement, substantial changes include but are not limited to establishment of additional locations, an increase in the level of academic offering, and addition of any non-degree or short-term training program. The Department of Education may also more closely review us while we are provisionally certified. The conditions to provisional certification or closer review by the Department of Education could impact, among other things, our ability to add educational programs, acquire other schools or make other significant changes. In addition, while we are provisionally certified if the Department of Education determines that we are unable to meet our responsibilities, it may seek to revoke our certification to participate in Title IV programs with fewer due process protections than if we were fully certified. Limitations on our operations could, and the loss of our certification to participate in Title IV programs would, adversely affect our ability to grow our presence outside the military sector in addition to having adverse effects on our enrollment, revenues and results of operations.

If we fail to comply with the extensive regulatory requirements for our business, we could face penalties and significant restrictions on our operations, including loss of access to federal tuition assistance programs for members of the United States Armed Forces and federal loans and grants for our students.

We are subject to extensive regulation by (1) the federal government through the U.S. Department of Education and under the Higher Education Act, (2) state regulatory bodies and (3) accrediting agencies recognized by the U.S. Secretary of Education. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition.

These regulatory requirements can also affect our ability to add new or expand existing educational programs and to change our corporate structure and ownership.

Institutions of higher education that grant degrees, diplomas or certificates must be authorized by an appropriate state education agency or agencies. In addition, in certain states as a condition of continued authorization to grant degrees and in order to participate in various federal programs, including tuition assistance programs of the United States Armed Forces, a school must be accredited by an accrediting agency recognized by the

Secretary of Education. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution. The Higher Education Act requires accrediting agencies recognized by the Department of Education to review and monitor many aspects of an institution's operations and to take appropriate action when the institution fails to comply with the accrediting agency's standards.

Our operations are also subject to regulation due to our participation in Title IV programs. Title IV programs, which are administered by the Department of Education, include educational loans with below market interest rates that are guaranteed by the federal government in the event of default. Title IV programs also include several grant programs for students with economic need as determined in accordance with the Higher Education Act and Department of Education regulations. To participate in Title IV programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting agency recognized by the Secretary of Education and be certified as an eligible institution by the Department of Education. Our growth strategy is partly dependent on enrolling more students who are attracted to us because of our continued participation in these programs.

The regulations, standards and policies of the Department of Education, state education agencies and our accrediting agencies change frequently, and changes in, or new interpretations of, applicable laws, regulations, standards or policies, or our noncompliance with any applicable laws, regulations, standards or policies, could have a material adverse effect on our accreditation, authorization to operate in various states, activities, receipt of funds under tuition assistance programs of the United States Armed Forces, our ability to participate in Title IV programs, or costs of doing business. Furthermore, findings of noncompliance with these laws, regulations, standards and policies also could result in our being required to pay monetary damages, or being subjected to fines, penalties, injunctions, limitations on our operations, termination of our ability to grant degrees, revocation of our accreditation, restrictions on our access to Title IV program funds or other censure that could have a material adverse effect on our business.

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 2007, we derived approximately 66% of our revenues 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 relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Failure to meet any of these criteria or standards 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.

We have only recently begun to participate in Title IV programs, and our failure to comply with the complex regulations associated with Title IV programs would have a significant adverse effect on our operations and prospects for growth.

We first became certified to participate in Title IV programs for classes beginning in November 2006. We expect a significant portion of our growth in enrollments and revenues to come from students who are utilizing funds from Title IV programs. However, compliance with the requirements of the Higher Education Act and Title IV programs is highly complex and imposes significant additional regulatory requirements on our operations, which require additional staff, contractual arrangements, systems and regulatory costs. We have limited to no demonstrated history of compliance with these additional regulatory requirements. If we fail to comply with any of these additional regulatory requirements, the Department of Education could, among other things, impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds, which would limit our potential for growth outside the military sector and adversely affect our enrollment, revenues and results of operations.

If American Public University System does not maintain its authorization in West Virginia, our operations would be curtailed and we may not grant degrees.

A school that grants degrees, diplomas or certificates must be authorized by the relevant education agency of the state or states in which it is located. State authorization is also required for an institution to be eligible to participate in Title IV programs. American Public University System is headquartered in the State of West Virginia and is authorized by the West Virginia Higher Education Policy Commission. If we maintain our regional accreditation, we will likely remain in good standing with the West Virginia Higher Education Policy Commission. However, the West Virginia Higher Education Policy Commission may also take disciplinary action or revoke authorization if an institution's bond is cancelled, if the institution fails to take corrective action to bring it into compliance with West Virginia Higher Education Policy Commission policies, or if the owner is convicted for a felony or crime involving institution administration of Title IV programs. If we do not maintain regional accreditation, our state authorization may be continued based on our national accrediting agency, DETC, if the West Virginia Higher Education Policy Commission finds that it is an acceptable alternative accrediting agency. If we lose accreditation from both accrediting agencies, or accreditation by DETC is not an acceptable alternative accrediting agency in case of loss of Higher Learning Commission accreditation, the West Virginia Higher Education Policy Commission may suspend, withdraw, or revoke our authorization. In addition, in order to maintain our eligibility for accreditation by The Higher Learning Commission, we must remain headquartered in one of the states in its region, which includes West Virginia. If we were to lose our authorization from the West Virginia Higher Education Policy Commission we would be unable to provide educational services, and we would lose our regional accreditation.

Our failure to comply with regulations of various states could have a material adverse effect on our enrollments, revenues and results of operations.

Various states impose regulatory requirements on educational institutions operating within their boundaries. Several states have sought to assert jurisdiction over online educational institutions that have no physical location or other presence in the state but offer educational services to students who reside in the state, or that advertise to or recruit prospective students in the state. State regulatory requirements for online education are inconsistent among states and not well developed in many jurisdictions. As such, these requirements change frequently and, in some instances, are not clear or are left to the discretion of state regulators. Our changing business and the constantly changing regulatory environment require us to evaluate continually our state regulatory compliance activities. In the event we are found not to be in compliance, and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit students from that state and may have to cease providing service to students in that state.

American Public University System has a physical presence in the Commonwealth of Virginia based on administrative offices in that state, and it is authorized by the State Council of Higher Education for Virginia. We are currently reviewing the licensure requirements of other states to determine whether our activities in these states constitute a presence or otherwise require licensure or authorization by the respective state educational agencies, and we have received, and are in the process of seeking, licensure or authorization in additional states. State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters. To the extent that we have obtained, or obtain in the future, additional authorizations or

licensure, state laws and regulations may limit our ability to offer educational programs and award degrees. Some states may also prescribe financial regulations that are different from those of the Department of Education, the West Virginia Higher Education Policy Commission, The Higher Learning Commission or DETC. If we fail to comply with state licensing or authorization requirements, we may be subject to the loss of state licensure or authorization. If we fail to comply with state requirements to obtain licensure or authorization, we may be the subject of injunctive actions or penalties. Although we believe that the only state licensure or authorization that is necessary for American Public University System to participate in the tuition assistance programs for the United States Armed Forces and in Title IV programs is our authorization from the West Virginia Higher Education Policy Commission, loss of licensure or authorization in other states or the failure to obtain required licensures or authorizations could prohibit us from recruiting or enrolling students in those states, reduce significantly our enrollments and revenues and have a material adverse effect on our results of operations.

We must periodically seek recertification to participate in Title IV programs, and may, in certain circumstances, be subject to review by the Department of Education prior to seeking recertification, and our future success may be adversely affected if we are unable to successfully maintain certification or obtain recertification.

An institution generally must seek recertification from the Department of Education at least every six years and possibly more frequently depending on various factors, such as whether it is provisionally certified. The Department of Education may also review an institution's continued eligibility and certification to participate in Title IV programs, or scope of eligibility and certification, in the event the institution undergoes a change in ownership resulting in a change of control or expands its activities in certain ways, such as the addition of certain types of new programs, or, in certain cases, changes to the academic credentials that it offers. In certain circumstances, the Department of Education must provisionally certify an institution, such as when it is an initial participant in Title IV programs or has undergone a change in ownership and control. In 2006 we applied to participate in Title IV programs for the first time and were provisionally certified for a period through June 30, 2007. We timely submitted our application for recertification, and the Department of Education granted us provisional certification through June 30, 2008. In May 2008, we were fully recertified to participate in Title IV programs. In August 2008, we were deemed to have undergone a change in ownership and control requiring review by the Department of Education in order to reestablish our eligibility and continue participation in Title IV programs. As required under Department of Education regulations, we timely notified the Department of Education of our change in ownership and control. In connection with the Department of Education's review of the change, we submitted to the Department of Education a change in ownership application that included the submission of required documentation, including a letter from The Higher Learning Commission indicating that it had approved the change. On October 2, 2008, we received a letter from the Department of Education approving the change in ownership and control and granting us provisional certification until September 30, 2010. A provisionally certified institution must apply for and receive Department of Education approval of substantial changes and must comply with any additional conditions included in its program participation agreement. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified. The Department of Education may withdraw our certification if it determines that we are not fulfilling material requirements for continued participation in Title IV programs. If the Department of Education does not renew or withdraws our certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our enrollments, revenues and results of operations. In addition, regulatory restraints related to the addition of new programs could impair our ability to attract and retain students and could negatively affect our financial results.

If regulators do not approve or delay their approval of transactions involving a change of control of our company, our ability to operate could be impaired.

If we or American Public University System experience a change of control under the standards of applicable state education agencies, the Department of Education, DETC, The Higher Learning Commission, or other regulators, we must notify or seek the approval of each relevant regulatory agency. A change of control occurred in August 2008 and we have completed the required notification and approval processes. As a result of its review and approval of the change, The Higher Learning Commission informed us that it plans to conduct a focused evaluation in Spring 2009 as its policies require it to do as a result of a change of the type we experienced in August 2008. Transactions or events that constitute a change of control include significant acquisitions or dispositions of an institution's common stock and significant changes in the composition of an institution's board of directors. Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in receiving, approval of any change of control from the West Virginia Higher Education Policy Commission, the State Council of Higher Education for Virginia, the Department of Education, DETC or The Higher Learning Commission could have a material adverse effect on our business and financial condition. Our failure to obtain, or a delay in receiving, approval of any change of control from other states in which we are currently licensed or authorized could require us to suspend our activities in that state or otherwise impair our operations. The potential adverse effects of a change of control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the regulatory burdens and risks associated with a change of control also could have an adverse effect on the market price of your shares.

Government and regulatory agencies and third parties may conduct compliance reviews, bring claims or initiate litigation against us, any of which could disrupt our operations and adversely affect our performance.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of noncompliance and lawsuits by government agencies, regulatory agencies and third parties, including claims brought by third parties on behalf of the federal government. For example, the Department of Education regularly conducts program reviews of educational institutions that are participating in Title IV programs and the Office of Inspector General of the Department of Education regularly conducts audits and investigations of such institutions. If the results of compliance reviews or other proceedings are unfavorable to us, or if we are unable to defend successfully against lawsuits or claims, we may be required to pay monetary damages or be subject to fines, limitations, loss of Title IV funding, injunctions or other penalties, including the requirement to make refunds. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or to defend against those lawsuits or claims. Claims and lawsuits brought against us may damage our reputation, even if such claims and lawsuits are without merit.

Our regulatory environment and our reputation may be negatively influenced by the actions of other for profit institutions.

We are one of a number of for-profit institutions serving the postsecondary education market. In recent years, regulatory investigations and civil litigation have been commenced against several companies that own for-profit educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with Department of Education regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall for-profit school sector may negatively affect public perceptions of other for-profit educational institutions, including American Public University System. In addition, recent reports on student lending practices of various lending institutions and schools, including for-profit schools, and investigations by a number of state attorneys general, Congress and governmental agencies have led to adverse media coverage of postsecondary education. Adverse media coverage regarding other companies in the for-profit school sector or regarding us directly could damage our reputation, could result in lower enrollments, revenues and operating profit, and could have a negative impact on our stock price. Such allegations could also result in increased scrutiny and regulation by the Department of Education, Congress, accrediting bodies, state legislatures or other governmental authorities with respect to all for-profit institutions, including us.

Congress may change the law or reduce funding for Title IV programs, which could reduce our student population, revenues and profit margin.

The Higher Education Act comes up for reauthorization by Congress approximately every five to six years. When Congress does not act on complete reauthorization, there are typically amendments and extensions of authorization. On August 14, 2008, President Bush signed into law the Higher Education Opportunity Act, or HEOA, which reauthorizes the Higher Education Act. Additionally, Congress reviews and determines appropriations for Title IV programs on an annual basis through the budget and appropriations process. We cannot predict with certainty the effect HEOA will have on our business. Further, many of the provisions of HEOA are effective upon enactment, even though the Department of Education has not yet promulgated regulations related to such provisions. If our efforts to comply with the provisions of HEOA are inconsistent with how the Department of Education interprets those provisions in final regulations or otherwise, we may be found to be in noncompliance with such provisions and the Department of Education could impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds. In addition, there is no

assurance that Congress will not in the future enact changes that decrease Title IV program funds available to students, including students who attend our institution. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs, would require us to arrange for other sources of financial aid and would materially decrease our enrollment. Such a decrease in enrollment would have a material adverse effect on our revenues and results of operations. Congressional action, including HEOA, may also require us to modify our practices in ways that could result in increased administrative and regulatory costs and decreased profit margin. Further, since 2005, President Bush has signed three major laws that amend the Higher Education Act. Among other measures, those laws reauthorize the federal student loan programs, reduce interest rates on certain federal student loans, reduce government subsidies to lenders that participate in federal student loan programs, and seek to facilitate student loan availability in light of current market conditions. We are not in a position to predict with certainty whether any legislation will be passed by Congress or signed into law in the future. The reallocation of funding among Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different Title IV programs could reduce the ability of certain students to finance their education at our institution and adversely affect our revenues and results of operations.

Investigations by state attorneys general, Congress and governmental agencies regarding relationships between loan providers and educational institutions and their financial aid officers may result in increased regulatory burdens and costs.

In recent years, the student lending practices of postsecondary educational institutions, financial aid officers and student loan providers have been subjected to several investigations by state attorneys general, Congress and governmental agencies. These investigations concern, among other things, possible deceptive practices in the marketing of private student loans and loans provided by lenders pursuant to Title IV programs. HEOA contains new requirements pertinent to relationships between lenders and institutions. In particular, HEOA requires institutions to have a code of conduct, with certain specified provisions, pertinent to interactions with lenders of student loans, prohibits certain activities by lenders and guaranty agencies with respect to institutions, and establishes substantive and disclosure requirements for lists of recommended or suggested lenders of federal and private student loans. In addition, HEOA imposes substantive and disclosure obligations on institutions that make available a list of recommended lenders for potential borrowers. The

Department of Education promulgated regulations, generally effective July 1, 2008, that in part address institutions' student loan activity. In particular, the Department of Education's regulations clarify and expand rules pertinent to relationships between institutions and lenders and establish new rules applicable to institutions that make available a list of recommended or suggested lenders for use by potential borrowers. State legislators have also passed or may be considering legislation related to relationships between lenders and institutions. Because of the evolving nature of these legislative efforts and various inquiries and developments, we can neither know nor predict with certainty their outcome or effects, or the potential remedial actions that might result from these or other potential inquiries. Governmental action may impose increased administrative and regulatory costs and decreased profit margins.

We are subject to sanctions that could be material to our results and damage our reputation if we fail to calculate correctly and return timely Title IV program funds for students who withdraw before completing their educational program.

A school participating in Title IV programs must correctly calculate the amount of unearned Title IV program funds that have been disbursed to students who withdraw from their educational programs before completion and must return those unearned funds in a timely manner, generally within 45 days after the date the school determines that the student has withdrawn. Because we began to participate in Title IV programs in 2006, we have limited experience complying with these provisions. Under Department of Education regulations, late returns of Title IV program funds for 5% or more of students sampled in connection with the institution's annual compliance audit constitutes material non-compliance. If unearned funds are not properly calculated and timely returned, we may have to repay Title IV funds, post a letter of credit in favor of the Department of Education or otherwise be sanctioned by the Department of Education, which could increase our cost of regulatory compliance and adversely affect our results of operations.

A failure to demonstrate "financial responsibility" may result in the loss of eligibility by American Public University System to participate in Title IV programs or require the posting of a letter of credit in order to maintain eligibility to participate in Title IV programs.

To participate in Title IV programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the Department of Education, or post a letter of credit in favor of the Department of Education and possibly accept other conditions, such as provisional certification, additional reporting requirements or regulatory oversight, on its participation in Title IV programs.

The Department of Education may also apply such measures of financial responsibility to the operating company and ownership entities of an eligible institution and, if such measures are not satisfied by the operating company or ownership entities, require the institution to post a letter of credit in favor of the Department of Education and possibly accept other conditions on its participation in Title IV programs. Any obligation to post a letter of credit could increase our costs of regulatory compliance. If we were unable to secure a letter of credit, we would lose our eligibility to participate in Title IV programs. In addition to the obligation to post a letter of credit under certain circumstances, an institution that is determined by the Department of Education not to be financially responsible may be transferred from the "advance" system of payment of Title IV funds, which allows the institution to obtain Title IV program funds from the Department of Education prior to making disbursements to students, to cash monitoring status or to the "reimbursement" system of payment, which requires the institution to make Title IV disbursements to students and seek reimbursement from the Department of Education. A change in our system of payment could increase our costs of regulatory compliance. If we fail to demonstrate financial responsibility and thus lose our eligibility to participate in Title IV programs, our students would lose access to Title IV program funds for use in our institution, which would limit our potential for growth outside the military community and adversely affect our enrollment, revenues and results of operations.

A failure to demonstrate "administrative capability" may result in the loss of American Public University System's eligibility to participate in Title IV programs.

Department of Education regulations specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV programs. See "Regulation of our Business" in this prospectus for more information on the Department of Education's regulations on administrative capability. If an institution fails to satisfy any of these criteria or comply with any other Department of Education regulations, the Department of Education may require the repayment of Title IV funds, transfer the institution from the "advance" system of payment of Title IV funds to cash monitoring status or to the "reimbursement" system of payment, place the institution on provisional certification status, or commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs. If we are found not to have satisfied the Department of Education's "administrative capability" requirements we could be limited in our access to, or lose, Title IV program funding, which would limit our potential for growth outside the military sector and adversely affect our enrollment, revenues and results of operations.

We rely on a third party to administer our participation in Title IV programs and its failure to comply with applicable regulations could cause us to lose our eligibility to participate in Title IV programs.

We only recently became eligible to participate in Title IV programs, and we have not developed the internal capacity to handle without third-party assistance the complex administration of participation in Title IV programs. Global Financial Aid Services, Inc. assists us with administration of our participation in Title IV programs, and if it does not comply with applicable regulations, we may be liable for its actions and we could lose our eligibility to participate in Title IV programs. In addition, if it is no longer able to provide the services to us, we may not be able to replace it in a timely or cost-efficient manner, or at all, and we could lose our ability to comply with the requirements of Title IV programs, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operation.

We are subject to sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in recruiting, admissions or financial aid activities.

A school participating in Title IV programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in enrolling students or securing financial aid to any person involved in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. If we violate this law, we could be fined or otherwise sanctioned by the Department of Education, or we could face litigation brought under the whistleblower provisions of the Federal False Claims Act. Any such fines or sanctions could harm our reputation, impose significant costs on us, and have a material adverse effect on our results of operations.

We may lose eligibility to participate in Title IV programs if our student loan default rates are too high, and if we lose that eligibility our future growth could be impaired.

An educational institution may lose its eligibility to participate in some or all Title IV programs if, for three consecutive federal fiscal years, 25% or more of its students who were required to begin repaying their student loans in the relevant fiscal year default on their payment by the end of the next federal fiscal year. In addition, an institution may lose its eligibility to participate in some or all Title IV programs if its default rate exceeds 40% in the most recent federal fiscal year for which default rates have been calculated by the Department of Education. HEOA modifies the Higher Education Act's default rate provisions. Beginning with default rate calculations for federal fiscal year 2009, the cohort default rate will be calculated by determining the rate at which borrowers who become subject to their repayment obligation in the relevant federal fiscal year default by the end of the second federal fiscal year. The current method of calculating rates will remain in effect and will be used to determine institutional eligibility until three consecutive years of cohort default rates calculated under the new formula are available. In addition, effective as of federal fiscal year 2012, the cohort default rate threshold of 25% will be increased to 30%. HEOA also requires certain default prevention action by an institution with a default rate of 30% or more. Because we have just begun to enroll students who are participating in the federal student loan programs, we have no historical cohort default rates. Relatively few students are expected to enter the repayment phase in the near term, which could result in defaults by a few students having a relatively large impact on our cohort default rate. If American Public University System loses its eligibility to participate in Title IV programs because of high student loan default rates, our students would no longer be eligible to use Title IV program funds in our institution, which would significantly reduce our enrollments and revenues and have a material adverse effect on our 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

None.

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.

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 November 12, 2008

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

/s/ Harry T. Wilkins November 12, 2008

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