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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2011 American Public Education Incorporated earnings conference call. My name is Larry and I will be your operator for today. At this time all participants are in listen-only mode. Later, we'll conduct a question-and-answer session. (Operator Instructions) I would now like to turn the conference over to your host for today, Mr. Christopher Symanoskie. Please proceed.

Christopher Symanoskie - American Public Education Inc - Director of IR

Thanks, Larry. Good evening, everyone, and welcome to American Public Education's third quarter 2011 earnings conference call. Presentation materials for today's call are available in the webcast section of our Investor Relations website and are included as an exhibit to our current report on Form 8K filed earlier today. Please note that statements made in this conference call regarding American Public Education or its subsidiaries that are not historical facts are forward-looking statements based on current expectations, assumptions, estimates, and projections about American Public Education and the industry.

These forward-looking statements are subject to risks and uncertainties that could cause actual future events or results to differ materially from such statements. Forward-looking statements can be identified by words such as anticipate, believe, could, estimate, expect, intend, may, should, will and would. These forward-looking statements include without limitation statements about the fourth quarter 2011 and full year 2012, as well as other statements regarding expected future growth.

Actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the risk factors described in the risk factor section and elsewhere in the Company's annual report on Form 10K filed with the SEC, the Company's



quarterly reports on Form 10Q, and the Company's other SEC filings. The Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. This evening it is my pleasure to introduce Dr. Wallace Boston, our President and CEO; and Harry Wilkins, our Executive Vice President and Chief Financial Officer. At this time I'll turn the call over to Dr. Boston.

Wallace Boston - *American Public Education Inc - CEO, Pres*

Good evening, ladies and gentlemen. Moving on to slide number 3 in our Power Point presentation. In today's conference call, I will review the results of our operations for the third quarter of 2011 and discuss the various factors that are driving our recent successes. Then Harry Wilkins, our CFO, will discuss our third quarter financial results and provide additional perspective on our outlook for the fourth quarter of 2011.

During the three months ended September 30, 2011, we continued to see strong interest from civilian students. Year-over-year growth in net course registrations from students using Title IV programs increased 105% in the third quarter of 2011. This quarter, approximately 39% of net course registrations were from students using Title IV programs compared to 25% in the same period of 2010. Net course registrations from students using veterans benefits increased 22% year-over-year.

Moreover, the growth of our military student population increased in line with our expectations as net course registrations from students using military tuition assistance, TA, increased 6% year-over-year. Approximately 40% of net course registrations in the quarter were from students who received TA compared to approximately 48% in the same period of 2010. As you can see from these results, the diversity of our student population is rapidly increasing.

In the third quarter of 2011, total net course registrations increased 32% and total net course registrations from new students increased 53% over a relatively slower growth quarter last year. We believe that our strong results are being driven by a growing population of prospective students who seek a recognized reputable university that provides them a superior university experience and a high academic quality at an affordable price. Our results also illustrate the growing effectiveness of our integrated awareness campaigns that rely mostly on referrals, interactive media, brand awareness campaigns, and relationship building within the communities we serve.

At the same time, we believe that there may be an increase in the number of civilian students who recognize the attractiveness of the federal student aid program to cover cost of living expenses while taking classes; and therefore, are attracted to APUS because of our relatively lower tuition and an ability to receive higher loan refund checks than at other institutions. While many of these course takers are completing classes, the Company is unable to estimate the impact this may have on future results, including persistence and retention rates. Similarly as you know, the Department of Education's Inspector General released a report about an increasing number of cases involving so-called fraud rings, who conspire to defraud the Title IV programs by taking advantage of the availability of Title IV credit balance payments where the cost of attendance exceeds the cost of tuition and fees.

As reported in previous quarters, we have been one of the many targets of fraudulent activity by individuals and groups with respect to student enrollment and Title IV programs, and have consistently worked with the Office of the Inspector General to assist their potential ability to stop and prosecute the leaders of these rings. We have discussed with other colleges some of the tools for preventing these types of fraudulent activities from occurring and look to continue to implement best practices to reduce our exposure to these individuals. In summary, I consider our strong overall results to be a clear reflection of the tremendous value our university provides students. While the third quarter results ultimately speak for themselves, I think they also will reveal a great deal about the effectiveness of our unique approach and the AP West strategic plan, which has as its core, our institutional mission.

Moving on to slide 4, academic and operational highlights. Central to this mission is the unyielding commitment of our faculty and staff to high academic quality and to the advancement of the various communities we serve. Recently, Dr. Phil Ice, our Vice President of Research and Development delivered the key note address on the future of learning analytics at the National Association of Distance Education Organizations of South Africa, also known as NADEOSA at their annual conference. We are pleased that our faculty and staff are active in professional associations and continue to gain international recognition for their expertise on critically important matters such as this.



We previously reported our participation in the predictive analytics reporting framework project managed by WCET and funded by the Bill and Melinda Gates Foundation. Six institutions participated in the first round, analyzing over 640,000 anonymized student records contributing to over 3 million course level records. At the WCET annual conference two weeks ago, the tentative findings from round one were presented. Among these findings are that at-risk students taking a higher number of concurrent courses are more than likely to disenroll from college. That finding correlates to one of our practices, which encourage first-time online military students to take one course initially.

As we grow, we will continue to invest in management to reach even higher levels of student satisfaction, academic quality, and recognition. We recently hired Dr. Ron Kovach as Vice President of Student Services at APUS. He was formerly the Assistant Vice Chancellor for Academic Affairs at Purdue University, Calumet. Ron brings a tremendous amount of experience with matters related to student retention, student success, and experiential education to our APUS team. Dr. Kovach currently serves on the board of directors and is the Treasurer for the National Society of Experiential Education.

We believe that the learning experience at AP West will also continue to improve with the conversion of our LMS to Sakai, a migration which was completed in September when our last classes were migrated to Sakai. Shortly after that migration, we experienced temporary unplanned down time related to Sakai's communication with our databases whenever the number of concurrent users reached a certain number, usually during the end of the week assignments and submissions. We believe that the temporary database spikes occurred because our total number of active students as of September exceeded the number used in the stress test conducted before the migration began 13 months earlier.

Moreover, our students appear to be more active and spend more time in the classroom than they did a year ago, which is an intentional development planned by academics and designed to improve learning and student engagement. As a result of the down time, we moved quickly to identify the cause and make hardware and software upgrades, secure additional assistance through multiple vendors, and increase monitoring of specific areas of our systems. We continue to be pleased with our selection of Sakai and the open source community of colleges and universities that utilize it as their LMS. Through the latest version, students are able to access the classroom through a multitude of mobile devices.

The use of mobile devices at AMU and APU is now reflected in our new APU television branding campaign, Ready When You Are. The commercials began running in October on national cable television with additional local radio and broadcast television coverage underway in 15 to 20 cities. A complementary online and print advertising campaign will soon be launched to further support these efforts. The TV ads designed to appeal to serious-minded students can be viewed on YouTube at the link provided on slide 4. Our brand awareness campaigns and integrated approach to marketing continue to produce an attractive return on investment.

Today, some of you may have read about our e-textbooks initiative and inside higher ed. This initiative led by our provost, Dr. Karan Powell, and our Dean of Libraries, Dr. Fred Stielow, is designed to move approximately half of our textbooks to e-textbooks by the end of 2012. Until we finalize the contracts with authors including completion dates, we will not be able to provide an estimate of the savings we expect in 2012. According to the college boards, 2011 trends and college pricing survey, our tuition is now approximately 20% less than the average 4 year public university in-state tuition. That gives us great product differentiation and-or pricing flexibility should we choose to exercise that option; however, we currently have no plans to increase tuition.

We can't anticipate and predict the impact of every risk. But because our industry leading affordability, the ongoing focus on academic quality and student retention, our unique and cost effective approach to advertising, our consultative approach to enrollment, the diversity of our 87 program offerings, our differentiated brand, and the highly efficient delivery of instruction and services, we believe that we are significantly better equipped than most universities and most companies for that matter to manage through times of change. APEI is in a strong financial position. We believe our long-term strategy is the right approach to addressing the need for affordable higher education, and that our approach properly aligns the interest of all APUS stakeholders with the well being of our students and alumni.

In closing, the third quarter of 2011 marks yet another quarter of continued strong results, driven by our unique and intense focus on academic quality, affordability, and relationship marketing. While our nation faces an unusual amount of change, risk, and uncertainty; I'm grateful to our faculty and our staff for their hard work and steadfast dedication to fulfilling our institutional mission. Our success is a reflection of their efforts, helping students achieve their academic and professional goals is a noble cause. In fact, it is the combination of these efforts by our faculty and

staff that have led us to recently be ranked number 2 by Forbes in its listing of the best public small companies in America. Now I will turn the call over to Harry Wilkins for additional details about the most recently reported quarter. Harry?

Harry Wilkins - American Public Education Inc - EVP/CFO

Thanks, Wally. Many of the strong trends we saw in the first half of the year generally continued into the third quarter. The American Public Education's third quarter results include a 35% increase in revenues to \$65.3 million compared to the third quarter of 2010. The revenue out performance was primarily driven by stronger than expected growth in net course registrations from civilian students.

Operating income for the third quarter of 2011 increased 61% to approximately \$15 million compared to the third quarter of 2010. We're very excited about this, because we believe it proves once again that APUS can grow in civilian markets with reasonable marketing cost while charging affordable tuition rates and while maintaining high standards for quality education.

Now turning to individual expense line items as a percent of revenue for the third quarter, instructional costs and services decreased to 36.7% of revenue compared to 40.3% during the third quarter of 2010. This improvement as a percent of revenue was primarily related to higher than expected revenues and better leverage of textbook costs. Selling and promotional costs as a percent of revenue declined to 17.9% from 19.9% in the prior year period and was largely due to revenue out performance and lower than expected advertising expenses. Remember our goal is to grow while keeping S&P below 20% of revenue on a full-year basis. Obviously we met that goal this quarter.

While G&A expenses increased as a percent of revenue to 18.6%, overall margins improved year-over-year. The increase in G&A costs was largely the result of additional investments in infrastructure to support a larger student population, increased costs associated with compliance and security matters, and an increase in bad debt expense related to our growing civilian population. Also included in G&A are costs associated with our voluntary and proactive efforts to detect and limit federal student aid abuse.

As Wally mentioned, we believe there is an increase in the number of civilian course takers who may enroll at APUS in part due to the attractiveness of the federal student aid program, but ultimately those students may not succeed or persist. Moreover, some individuals and groups are attempting to abuse the FSA system. As a result of these facts, we believe our growth rate in the third quarter was higher than it would have been and we have taken that into account in various ways, including with respect to our bad debt expense as previously discussed.

While APEI can not estimate the potential impact of these factors, we are working to implement several proactive steps to address these matters such as requiring some additional academic assessment exams, launching some robust identity verification processes in the admissions process. We expect these and other new items to be in place by early next year. In the third quarter of 2011, the course failure rate of new students using FSA increased, resulting in additional net course registrations with a failing grade. A portion of the overall increase may be attributable to these course takers. Excluding this year-over-year increase, the percentage of net course registrations for new students in the third quarter would have been approximately 38%.

In the third quarter of 2011, the effective tax rate of 27% reflects a tax adjustment equal to the difference between the income tax accrued and the actual taxes paid for the full year 2010, and an adjustment to the income tax accrual for the nine months ended September 30, 2011; as well as the tax credits for software, research and development in both periods. As a result, the Company realized a tax benefit of approximately \$1.8 million, or \$0.10 per share in the third quarter of 2011. The adjustments resulted from state tax research and development tax credit studies that were completed during the third quarter. The Company expects the effective tax rate to be approximately 38% in the fourth quarter of 2011 and for the full year in 2012.

In the third quarter of 2011, net income increased 95% to \$10.9 million, ahead of expectations. Earnings per diluted share increased 100% year-over-year from \$0.30 a share to \$0.60 per diluted share, a slightly higher growth rate than net income due to share repurchases. Our third quarter 2011 cash balance was approximately \$107.3 million and we have no debt. Cash from operations for the nine months ended September 30, 2011 was approximately \$47.5 million compared to \$32.8 million in the same period of 2010. CapEx was approximately \$13.8 million for the nine months ended September 30, 2011, compared to \$14 million in the prior year period. Depreciation and amortization was \$6.7 million for the 9 months ended September 30, 2011, and \$4.7 million for the same period of 2010.

If you turn to slide 6, according to the recent announcement, the US Marine Corp has cancelled its previous plan to reduce and modify its tuition assistance program. Currently the Marine Corp and other service branches provide an undergraduate tuition benefit of \$250 per credit hour with an annual maximum of \$4,500. Thus far we do not believe that APUS has experienced a material adverse impact resulting from the recent Marine Corp announcements and the confusion that they have caused with current and prospective students. Based on public statements made by the Department of Defense, the Department of Defense is still considering possible changes to the tuition assistance program.

At this time the Company cannot predict the financial and operational impact of future changes to the DOD's tuition assistance program. However, we believe that most of our active duty service members are eligible for alternative funding sources such as Top-Up benefit with the VA program, Title IV, and Pell grants. Top-Up is a program that enables active duty military service members to utilize their GI bill benefits pursuant to certain limitations while they're on active duty.

The American Public Education expects net course registrations from new students in the fourth quarter of 2011 to increase approximately 29% year-over-year, and net course registrations to increase approximately 28% compared to the prior period. Our net course registration guidance reflects the initial implementation of steps that I outlined earlier when discussing course takers and FSA abuse. The Company anticipates fourth quarter 2011 revenue growth of approximately 29% compared to the prior period. Earnings per share in the fourth quarter of 2011 are expected to be between \$0.58 and \$0.60 per diluted share. This implies full-year 2011 earnings of between \$2.10 and \$2.12 per diluted share, an increase of between 32% and 33% over the prior year.

In closing, we continue to be very pleased with the transition of our student mix to a larger civilian population. We expect that trend will continue. The expanding diversity of our student population improves the learning experience and is important in reducing certain risk. A lot has happened in our industry over the last several years, yet by being nimble, by focusing on the right principles, and by having many operational and financial levers at our disposal, we have grown consistently. At this time, we're happy to answer any questions from the audience. Operator, can you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of James Sanford of Citigroup. Please proceed.

James Sanford - Citigroup - Analyst

Great. Thank you. I just wanted to dig into the outlook a little bit. Based on sort of my back of the envelope calculations, looks like margin deleveraged pretty significantly in Q4. I was just wondering is that primarily a more active marketing campaign? Are there any one-time items in Q4 that we should be aware of?

Harry Wilkins - American Public Education Inc - EVP/CFO

Some of it is a timing or marketing expense. To be honest, we have a really nice marketing campaign that we're rolling out to 10 new cities that Wally talked about. We thought we were going to be able to implement some of it in the third quarter. It really didn't get done, and we're rolling it out in the fourth quarter. We also have been -- we're conservative in our bad debt expense guidance as we deal with this growing civilian population.

I said -- when we went public, even before we went public, I said as we grow to a population that is getting closer to 90% civilians like a lot of our competition, our bad debt expense will increase to closer to 5%. For the first six months of this year, our bad debt expense was 1.2%. For the third quarter, we estimated it to be about 3%, and we're using 3% as our guidance for the fourth quarter. So as we get more civilians, we're going to have a little bit more bad debt. The other thing about the civilian population you have to realize is, when you are dealing with civilians, they cost

a bit more up front. It costs a little bit more to market to them, costs a little bit more to provide -- well, it costs a lot more to provide finance aid processing.

But that is an all up front cost. So as those civilians matriculate, as they are retained, you get those margins back on the back end; but because we have such growth in new civilian students -- new civilian students up 105%, that means you'll have a little bit of margin impact when you are going through those high growth periods. But again, we're focussed right now on trying to maintain a high quality education and grow the business, get the word out about APU, and we're not focussed so much right now on just trying to get margin improvement because we have a great opportunity to grow the business.

James Sanford - Citigroup - Analyst

If I could just follow up real quick on the pricing, I think you mentioned no intention of raising tuition even though you're a significant discount to other schools, have you tested your audience to see whether they would be willing to take on any pricing increases, or is it just a fundamental philosophy at this point not to raise tuition?

Wallace Boston - American Public Education Inc - CEO, Pres

We have not done it in a while. We have tested the military population, and that community is not willing to take on additional pricing. It is very price sensitive. We have known that.

And the last time we did some testing when our civilian population was much more heavily populated with firemen and police -- law enforcement, that was a fairly price sensitive population as well. So perhaps we may take a look at that as these civilian populations are growing at these rates and reexamine it. But we want to be clear that we continue to pride ourselves on being able to offer an affordable and quality education.

James Sanford - Citigroup - Analyst

Great, thank you.

Operator

Our next question comes from the line of Adrienne Colby of Deutsche Bank. Please proceed.

Adrienne Colby - Deutsche Bank - Analyst

Hi. Thanks for taking my question. I was wondering if the issues that you experienced with a full Sakai conversion, were they mostly in the third quarter? Did some spread into the fourth quarter? Just trying to get a sense of how comfortable you are with the existing infrastructure you have in place now.

Wallace Boston - American Public Education Inc - CEO, Pres

We're pretty comfortable. It is interesting, when we tested the system we tested for our outlook; but as you can see, our active students are much higher than what we originally planned for. And 13 months later, that makes a difference on the number of concurrent users. Not everyone submits their classes at the same -- their assignments at the same time, nor do they take their tests at the same time.

But for those that have written assignments, typically Sunday evenings at 11.59 PM is the due date. And so as you might imagine when you have a heavy adult learner population they're going to need Saturday and Sunday, most of the day to complete their work, and beginning about 6.00



PM on Sunday evenings, we see a tremendous spike in the usage. And so what happened to us for a four weekend period was we saw some slow downs, that at some point you have an automatic fail over in your database where one database trips into the other one, you get to be too slow where it degrades the speed and then it resets.

So there were momentary outages, we worked each Monday through the following week to make enhancements such as increase the number of servers recommended by one of our consultants. And finally, we think we've stabilized it; but by actually upgrading the My SQL database that we were using at the beginning of the migration, and we'll see. But we subsequently found out through the Sakai community that we now are the largest concurrent user of Sakai, so we're going to have to find other creative ways to stress test it and make sure that we're leading the pack for the rest of the community.

Adrienne Colby - *Deutsche Bank - Analyst*

Great, is there any way to sort of scale how much that additional spend was relative to your CapEx budget?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

It wasn't CapEx for fixing the problems, that was just all expensed. And I would say it is not that material.

Adrienne Colby - *Deutsche Bank - Analyst*

Thank you.

Operator

Our next question comes from the line of Corey Greendale of First Analyst. Please proceed.

Corey Greendale - *First Analysis Securities - Analyst*

Hi, good afternoon. Question on -- I think, Harry, in your script you said that new student growth or new registration growth will be more like 38% ex the increase in the failure rate. Can you -- and yet, there was a lot of commentary about FSA fraud. Can you just give us a sense, how much of that do you think is really that kind of impact, and how much of it is more just once you're getting into the civilian market, maybe people are coming in less prepared; and you may need to do more on that front?

Wallace Boston - *American Public Education Inc - CEO, Pres*

I mean, I think that we have anticipated in our guidance, we're guiding to where we think traditional student levels would be if you've excluded these students. I think if you look back on the guidance that we gave in the third quarter, I think we even beat that a little bit. I would be careful with the word fraud, we have no idea whether these students are committing fraud or not.

They're taking advantage of the system a little bit, and they're telling us that they're enrolling as degree students and we take them on their word. And you really don't know until they're finishing up their first course, heading into their second courses, whether or not they're really going to do the work and whether they're really serious college students or not. So it is a little bit difficult to determine up front whether they're telling you the truth or not. But we're picking up on some trends for these students, and we're putting the appropriate policies in place.

And I think this is going to be a temporary thing, we'll just have to deal with it like anything else. However, the numbers for the third quarter accurately reflect our revenue and the bad debt expense associated with these students. I think our guidance accurately reflects to the best of our



ability and takes into consideration the fact that we're going to try to eliminate this type of student from our population base. So I don't know how to explain it anymore. I just think it is something we're dealing with.

It is one of those things that come up when you're running a business. But certainly we're happy with our growth rates and certainly our message of affordability and academic quality is hitting its mark with the civilian students. Our civilian growth continues -- with really good students continues to be higher than we anticipated.

Corey Greendale - *First Analysis Securities - Analyst*

Okay, and on the TA side, can you just give us some description of given that -- there is likelihood of some changes to come. What you're doing ahead of time to communicate with students, what their funding alternatives might be, and make sure that they're prepared if and when the time does come?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

Yes, we have our field reps -- our outreach representatives to the various spaces who have office hours. And they have been meeting with both the ESOs and students to talk about the proposed cutbacks, although interestingly since the Marines pulled theirs back and DOD issued a press release saying that they're going to consider the cuts of TA and relative to the consideration of all other benefits is how I think they worded it. There are fewer questions now than we were getting in the period of time where the Marines had issued a release. So -- but we're looking at what the ESOs plan on recommending and how they plan on recommending, as well as we're pointing students to our web pages on the Top-Up benefit, and how that is calculated and how they can use it.

As well as in some cases students who ask about it, we're telling them about the availability of Pell if that applies to them. So we'll see how it goes. We think we're doing a good job of educating prospective students both on the web and in person with the field reps, and until you know what the ultimate outcome's going to be, you really can't do much more than just plan for it.

Wallace Boston - *American Public Education Inc - CEO, Pres*

That is a good point, though. The point is that there is plenty of funding available for active duty military students, either through the Department of Defense program or through the federal student loan program or through the VA program. They just never had to rely on that as a funding source to go to our school before. But if they do have to rely on it, we're confident that we can explain to them how to fund.

Corey Greendale - *First Analysis Securities - Analyst*

Great. Thank you.

Operator

Our next question comes from the line of Jerry Herman of Stifel Nicolaus. Please proceed.

Jerry Herman - *Stifel Nicolaus - Analyst*

Thanks. Good evening, everybody. I just wanted to go back to the adjusted 38% number and get some clarification on that. Harry, is that to say that 15% of the -- 15 percentage points of the net new dropped out. Is that how we think about that?



Harry Wilkins - American Public Education Inc - EVP/CFO

That would be the -- I think it worked out to about 2,200 registrations that we thought were higher than normal of failures and withdrawal rates for the first course.

Jerry Herman - Stifel Nicolaus - Analyst

Okay. And then with regard to you mentioned assessment and verification, could you maybe give some more color in exactly what you're doing there?

Harry Wilkins - American Public Education Inc - EVP/CFO

Yes, we haven't done it yet. And we're planning on the first -- to implement these things in the fourth quarter and the first quarter of next year. But go ahead, Wally.

Wallace Boston - American Public Education Inc - CEO, Pres

I was going to say we have done some manual things, Jerry, and quite frankly, don't want to talk about them on a call that's recorded because some of these rings are very well organized. But we've collaborated with the OIG as well as a number of the colleges that have seen similar problems. It is primarily online programs, and if you read the Dear Colleague letter where they recommend collecting more types of identity and information, we're already doing that manually, which is why Harry referred to some of the increased G&A cost. So what we want to do is put some automated detectors in that will take us, this quarter and next quarter, and our ultimate goal is to not have those types of students attend our institution.

Jerry Herman - Stifel Nicolaus - Analyst

Okay, great, I'll turn it over.

Operator

Our next question comes from the line of Peter Appert of Piper Jaffray. Please proceed.

Peter Appert - Piper Jaffray & Co. - Analyst

So, Harry, can you give us an estimate of what your current spend on textbooks is?

Harry Wilkins - American Public Education Inc - EVP/CFO

Yes, we haven't seriously given that number out. We've really hesitated in the past to give out specific line item guidance. But we're spending -- I don't know, we haven't given that number out before.

Peter Appert - Piper Jaffray & Co. - Analyst

Okay. I'm trying to -- obviously I'm trying to figure out the migration to the e-textbook model, how meaningful it is to the economic story. Can you give us any help on that?

Wallace Boston - American Public Education Inc - CEO, Pres

Well, I think it will be meaningful when -- this is Wally, when we get to the end of 2012. We have had some success in piloting some e-textbooks that we were responsible for creating. And ultimately, determined that particularly in the high volume general education courses where the subject matter does not change so quickly, it would be to our best efforts and to our shareholders to actually write the textbooks ourselves, get collaboration among the faculty, offer the opportunity for the faculty to write them, and then have them peer reviewed by outsiders because that one-time cost to write a textbook that we can use over and over again, particularly in high volume classes; we think has a huge ROI, provides the ability by the way if something does change where you can just throw out a chapter, not throw out the textbook as many publishers do.

So the bottom line was the e-textbooks that were coming from publishers were in multiple formats that were not congruent. They were -- our students were reacting to different types of computers wouldn't receive certain formats very well. So we said rather than only going to a common service that could adapt to different formats to people's different computers, we would engage in an activity to write our own e-textbooks for the bulk of our gen ed courses so that we could control the cost and provide better services to our students, so that is what we're doing.

Harry Wilkins - American Public Education Inc - EVP/CFO

Peter, I think we have talked publicly before that we think the textbook cost is about \$65 per class. So that will give you an idea.

Peter Appert - Piper Jaffray & Co. - Analyst

Okay, and I apologize for not knowing this, you give -- books are free to the military students and do the civilian students pay or they get it free also?

Harry Wilkins - American Public Education Inc - EVP/CFO

No, undergraduate students we get a book grant if they have a 2.0 average. Military students get a book grant and graduate students have to pay for their books.

Wallace Boston - American Public Education Inc - CEO, Pres

Right, and we apply the book grant to all civilian and military students currently?

Peter Appert - Piper Jaffray & Co. - Analyst

Got it. Okay, that is helpful, thanks. Just on the military funding situation, have you talked about what portion of the TA students are using Top-Up at this point?

Harry Wilkins - American Public Education Inc - EVP/CFO

Actually, to be honest with you, we wouldn't necessarily know that?

Peter Appert - Piper Jaffray & Co. - Analyst

You don't know.



Harry Wilkins - *American Public Education Inc - EVP/CFO*

Now the undergraduate students wouldn't have to use it, because TA covers the cost of tuition. The graduate students could be using it. But right now the way it works is that they would have to go to the VA and apply for that and the Top-Up money goes to them. Especially if they were under the old GI bill.

So we wouldn't necessarily see that. So they would probably pay us cash or put it on a credit card. And they get reimbursed by the VA. Now, we will probably change that procedure if we get more involved in helping them get funding.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Got it. And then one last thing, Wally, you mentioned I think you see a high level of pricing sensitivity amongst the military students. Would you view -- have the incremental work they might have to do to use Top-Up if the benefits are cut as a significant hindrance.

Wallace Boston - *American Public Education Inc - CEO, Pres*

I think it depends on how well we do a good job of explaining it and the relative attitude of the ESOs in the field to explaining that to students. My guess is there will be a few ESOs and students who will opt for community colleges. I guess the good news for us and other folks in the sector that have higher tuition than community colleges is that the general availability of community college courses, either online or on ground has been significantly cut back in many states because of the budget crisis.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Right.

Wallace Boston - *American Public Education Inc - CEO, Pres*

So we -- 87% of our students transferring credits from other institutions they have attended. So it is tough to predict how individual basis and ESOs will react and how individual students will; but we're certainly going to be prepared to try to explain to them the relative benefits, and how they can cover their costs without dipping into their pocket. It may seem to be them to be a little cumbersome.

But we have worked through transitions like this before. And I note that prior to the most recent GI bill, the chapter 33, the old GI bill, I think the highest -- the institution with the largest number of Top-Up students at that time was the University of Phoenix who recommended that their students use it because they were not matching the tuition price point that we were at that time.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Right. Great. Thanks, Wally.

Wallace Boston - *American Public Education Inc - CEO, Pres*

Yes.

Operator

Our next question comes from the line of Kelly Flynn of Credit Suisse. Please proceed.



Kelly Flynn - *Credit Suisse - Analyst*

Hi, thanks. With respect to the fraudulent students. Can you just walk us through the return of Title IV funds implications, and how if at all that impacts bad debt. I mean basically, what happens if someone's fraudulently enrolled? Do you end up ever having to pay back more to the government than the student has paid you?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

No, and again we're not talking about fraud students here, we're talking about students who are taking advantage of the system. They're not committing any type of fraud. They tell -- we're -- that is not our job anyways, that is up to the OIG to enforce. But the way it would generally work with these students is they're really -- they can borrow more money than it costs for the tuition and books.

They usually stay for one disbursement. They will do whatever they need to do to be able to get a grade for the class, even if it is an F grade. And then they will just stop attending. So generally your exposures, the \$1000 or \$2000 that you have returned to them and maybe given them in excess, then we have to return -- we do a Title IV calculation. Whatever money's due to the government, some of the money we can keep. We taught the course, they earned a grade.

Other money we can't keep, we turn it to the government. So we -- I think that number, whatever our potential is there, is accurately reflected in the bad debt expense, why it is going from 1.2% for the first 6 months up to 1.9% for the 9 months ended September 30th. And that is why we're giving guidance to 3% in the fourth quarter. Actually it was 3% in the third quarter too.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, got it. And just to be clear, it sounds like you don't think fraud is the right term, so when we adjust the new student registrations from 53 to 38, what do you want us to call it? Or what are you calling it?

Wallace Boston - *American Public Education Inc - CEO, Pres*

Well, we're calling them course takers. In other words, they may register for a degree, but they're basically signing up for courses, getting one disbursement as Harry said, and they're doing enough work to get a grade. Because if they don't do enough work to get a grade, we're actually removing them from the class and we're not counting them in any of our numbers. But if they're doing enough work to get the grade, if it is an F, their ability to return the next time is very slim. There is a way they can appeal and come back.

But for the most part when we look at these, they're not necessarily fraud, even though in the Dear Colleague letter it was mentioned that perhaps there were organizers who go through apartment complexes or whatever in certain areas of the country, and try to solicit people to do this by saying you can get a check. And we don't know what all the in's and out's are, but when we see suspicious data, we're collecting that data and we're certainly doing things like collecting more identities as they recommended in the Dear Colleague letter; and trying to ultimately be in the position where these types of students who we know have no long-term intentions of going to college, they're just here for a couple thousand bucks on an excess loan are no longer students at our university.

Harry Wilkins - *American Public Education Inc - EVP/CFO*

Again, but we don't really know that until they don't do well academically. And what is happening is there's an increase in the number of new students who haven't done well academically in the first class. And that's the number that I gave you. While we had 53% growth in new students, there was only about 38% of them that transitioned the way we thought new students ordinarily would transition. But there is nothing wrong, I mean there is nothing wrong with somebody signing up for a college and flunking the first course and then dropping out. It happens all the time. Happened with a nephew of mine.



Kelly Flynn - *Credit Suisse - Analyst*

Okay. I'm sure he will appreciate that. Thanks.

Operator

Our next question comes from the line of Jeff Silber of BMO. Please proceed.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Thank so much. I wanted to go back to a comment where you talked about the military students being a little bit more sensitive to price changes. And this is more of a theoretical question than anything else. But if the Department of Defense does cut the tuition assistance program, would the Company consider reducing prices for military students?

Wallace Boston - *American Public Education Inc - CEO, Pres*

We have stated since August, when we talked about the second quarter, and we alerted everybody that there was a buzz about some type of cut. And by the way, I think Congress has asked DOD to report back by a certain date in February, what the merits of going to like a 75-25 TA system would be -- that it wasn't our intention -- the way I look at it -- maybe perhaps APUS and AMU, its military subsidiary and the others who served this market have not done a good job of talking about the fact that we haven't increased our tuition in 11 years.

But we still view our primary competition in the military market as state schools. And there are a lot of state schools that are not going to be able to match this. And they're certainly not going to be cutting it. In some cases, in many cases they probably have to get legislative approval.

We'll see. I mean if perhaps at the end of the day if there is some dramatic change that we're not expecting we may look at something. But for right now, we say the Top-Up program is intact, although who knows with the mandatory cuts that the special committee in Congress is doing, they may change that too. But all I can tell you is that we're planning to communicate the options available, and we'll strongly watch to see if there are changes in attendance patterns.

Harry Wilkins - *American Public Education Inc - EVP/CFO*

We also can't anticipate how many schools might drop out of the program. There's a lot -- I have heard personally from a number of schools who have indicated that if the military cuts tuition assistance by 25%, they're not going to actively recruit military students anymore.

Jeffrey Silber - *BMO Capital Markets - Analyst*

And just a quick numbers question, which share count is imbedded in your fourth quarter guidance for earnings per share?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

We'll get you that in one second. If you want to move back and just circle back to me later.

Wallace Boston - *American Public Education Inc - CEO, Pres*

It is about 18.350 million shares.



Operator

And our next question comes from the line of Suzy Stein of Morgan Stanley. Please proceed.

Suzy Stein - Morgan Stanley - Analyst

Hi. Thank you. Can you just give us an update on Wal-Mart how that's tracking relative to your expectations, and also I know you added head count and corporate sales. Can you just talk about how these relationships are developing?

Wallace Boston - American Public Education Inc - CEO, Pres

Sure, I would be glad to talk about that. We're very happy with the Wal-Mart relationship. We have achieved what we had agreed to do, which is evaluating a certain number of job codes for the merits of academic credit. And almost all of those codes have been evaluated, and we had actually had an 18 month period to do it.

So we're a little ahead of schedule. The company has not yet had a roll-out meeting for its reimbursement plan, but we're hopeful that they do. But meanwhile, without that plan having been announced, we're happy with the number of students. And we think at some point in the future that -- no conditions changed, that if Wal-Mart rolls that out, that the employees will respond in larger numbers.

Suzy Stein - Morgan Stanley - Analyst

Okay --

Wallace Boston - American Public Education Inc - CEO, Pres

And because I have a confidentiality agreement, I can't give you the specifics on that. But back to the other corporate relationships, I think through the creativity that we showed and demonstrated on the Wal-Mart contract, we've received so many in-bound inquiries with companies that we view as potential significant partners that we continue to adjust and increase the number of our corporate representatives who meet with companies and talk about their needs on the education side.

And certainly our price point is very attractive. Particularly since a lot of companies have reimbursement levels that match the federal tax code for deductibility, so \$5400 or \$5500, I forget the exact amount is a typical cap. And when you look at how many classes you can take at our institution, whether they're undergraduate or masters courses, that fits in quite nicely.

Suzy Stein - Morgan Stanley - Analyst

Okay. And just given all the noise surrounding funding for the military and the 90-10 issue, have you noticed any change competitively or other for profits backing away from the military at all?

Wallace Boston - American Public Education Inc - CEO, Pres

I can't say that we have seen that. There were a number of opportunities -- the VA asked the 10 largest for profit providers to meet with them a couple of weeks ago, and I attended that meeting and I think all of us are dedicated to serving that market. And had a great discussion about things that we do, and things that we see, and how we serve the service members and the veterans. So I didn't hear anyone at that meeting of the top 10 certainly, who was talking about walking away or backing off.

Suzy Stein - Morgan Stanley - Analyst

Okay. All right, great, thank you.

Operator

And our next question comes from the line of Arvind Bhatia of Sterne, Agee. Please proceed.

Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst

Okay, thanks for taking my question. I wanted to go back to the bad debt discussion a little bit. I think you said it is going to be 3% in the third and fourth quarters of this year. That's for the overall percentage of revenue so that implies roughly I guess about 5% on the Title IV civilian population. Can you give us the delta that represents versus the first six months of last year if you will? And then I know you haven't given any guidance for next year, but should we assume this trend continues, or are there other things that might offset that bad debt expense rate?

Harry Wilkins - American Public Education Inc - EVP/CFO

I have always said and I was very consistent about this since the time we went public in 2007 that as we grew our civilian population, we thought if we had about 90% of our students were civilians, our bad debt would probably be about 5%. So right now it's -- we're doing 3% for this quarter. But we're going through a period where we have a tremendous amount of new civilian students.

So I think those are the numbers you're talking about, somewhere between 3% and 5% is where I think we would max out. Now we're 1.9% for the 9 months ended September 30th. Historically we've been a little below 1%, so it is just as we have grown the civilian population, the bad debt creeps up a bit. Because you are exposed when a student drops out and you have to return the funds to the federal government. You are entitled to collect that money from the student, but it is difficult.

Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst

Right, and in light of your, but a 3% is overall, right? So that would imply you are at that 5% now in civilian, given military is about 40% of your mix. Am I doing that right?

Harry Wilkins - American Public Education Inc - EVP/CFO

Well, I think we're being a little -- I think we're doing the appropriate bad debt reserve for the fourth quarter. We are implementing -- most of the bad debt expense is going to be with new civilian students. And we're doing our best to try to implement policies and procedures that will eliminate to make sure that only the best -- civilian students or true students get through the process. So while we go through this period in the third and fourth quarter, I think our bad debt expenses is appropriate.

Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst

That sounds good. Thanks, guys.

Operator

And our next question comes from the line of Amy Junker of Robert W Baird. Please proceed.



Amy Junker - *Robert W. Baird & Company, Inc. - Analyst*

Hi, thanks. I was hoping you could just talk a little bit about your influencers. You operated differently than most of your peers in terms of enrolling students, given that so many of them come in for these individuals at military bases or police stations. Can you just talk about your ability to attract them over the next several quarters and how you expect that to scale as you move forward.

Wallace Boston - *American Public Education Inc - CEO, Pres*

Well, I think Amy we have always said that scaling referrals and scaling influencers isn't as easy as just spending marketing money to create your own leads. It does take a little longer. It's certainly a longer tale. We're actually very happy, I mean we're still getting about a 40% referral rate with our civilian students. And I think we're -- that is not bad. I don't know of anybody else that is citing a referral figure that high for their civilian students.

So it is helping keeping our costs low, both if you try to calculate based on the relative percentage of the sectors, between military and civilian, what that average cost is divided into our sales and promotion costs. But the reason that Harry and I consistently say our target for sales and promotion over the long haul is 20% or less, is we think by spending no more than that, we can certainly -- we want to because of our referrals to not have marketing dominate our culture, we want academic, student persistence, quality, to dominate the culture of our institution. And we think we have picked that number.

There is no rhyme or reason for it. But we've picked that number to sort of force all of us, to work on making sure we hire the best key influencers, making sure we give them the best assistance so they can do their job, and making sure that we do a good job internally to keep the students that we kind. So I would say, just like we said in the third quarter last year when we saw that dip in the military that we were spending some money on outside lead generators just to pick up the flow. Because we couldn't influence our influencers, so to speak. That is not a short-term thing.

So we continue to work on it, we're really, really happy with it. I'm satisfied with that department. It is unusual to the extent that I really get descriptive about it, I am fearful that some of my competitors might emulate it.

Operator

Our next question comes from the line of Gary Bisby of Barclays. Please proceed.

Zach Fadem - *Barclays Capital - Analyst*

Hi, it's Zach Fadem for Gary. Just to follow-up on the last question, given the 100% growth in your Title IV in the last year, how have you been focusing your marketing efforts to basically drive the increase in civilian students? Thanks.

Wallace Boston - *American Public Education Inc - CEO, Pres*

We have been working on a branding campaign, since -- I think it started November 18th of last year and rolled through all the quarters this year. We talked about that branding campaign. Key to our branding campaign were the words affordability and also the availability of access that most of our courses are offered every month.

But affordability, it is right up there in our mission. And it is something that we wanted to promote. We didn't want -- most of the -- I mean we still view our day-to-day competition as state institutions and their in-state tuition rate, no matter where we're advertising. And so we think that our affordability resonates very strongly. We still believe that the primary student we're looking for is a working adult. And that resonates pretty well as well if they have to go less out of pocket or borrow less money to go back to school.



So we're looking at that as the driver in marketing, the branding; and what we have seen so far, which is why we increased from those 8 markets in the first 9 months, 8 months, 9 months to now we've rolled out. And at the end of the third quarter, and the beginning of the fourth quarter campaign in 15 to 20 additional markets, and we're focusing on affordability. I think it worked. It increased the conversion rate for our internet generated leads that we do ourselves. And so the awareness is working.

Zach Fadem - *Barclays Capital - Analyst*

And -- sorry, go ahead.

Harry Wilkins - *American Public Education Inc - EVP/CFO*

I was just going to say that when you're the number 1 provider to the military, that helps get the word out. When you are the exclusive provider of post-secondary education to Wal-Mart, it helps get the word out. So for the first 6 months of our relationship with Wal-Mart, for every Wal-Mart employee that signed up with us, we had another person sign up who said they heard about us through Wal-Mart. So that does help get the word out.

Zach Fadem - *Barclays Capital - Analyst*

Great, and just a quick follow-up with the expanded civilian population are you satisfied with your current program offerings? Or have you considered expanding your program offerings to accommodate more civilian students?

Wallace Boston - *American Public Education Inc - CEO, Pres*

I think we have done that in some of the -- we -- we had either 7 or 8 programs approved, in the second quarter, reverse logistics is one that comes to mind that if you look at how many of our civilian students are working for manufacturing companies and distribution companies, the faculty noted that a lot of them were interested in the reverse logistics. Environmental science is another area that is very popular, and we've marketed that to civilian students. So what is interesting is that we sort of moved into civilian market over time, to reduce the risk of being in the military market. But a service member who enlists at 18 and is 38 when they retire after 20 years and becomes a civilian is interested not just in enhancing their career while they're in the military, but enhancing their career in civilian life.

So a number of the degrees we had like all of our liberal arts degrees, you wouldn't think that a liberal arts degree would apply much to a person in the military, but it does apply to somebody who might want to learn about the basics and then go to graduate school, whether it's law school or get an MBA or something like that. So I think that we're well positioned, we'll continue to look at strategic markets where the employees in that sector have a demand, or their employer will pay for the degree or a portion of the degree and give them a promotion in return, so that's -- for example that is how we moved into education for teachers. We'll continue to look at sectors like that where our affordability will resonate pretty strongly with them, and if we need to add a degree or two, we'll do that.

Harry Wilkins - *American Public Education Inc - EVP/CFO*

And we're up to 87 degree programs now.

Zach Fadem - *Barclays Capital - Analyst*

Got it, thanks a lot.



Wallace Boston - *American Public Education Inc - CEO, Pres*

Sure, thanks.

Operator

Our next question comes from the line of Brandon Dobell of William Blair. Please proceed.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks, a couple of questions on civilian, and then one quick numbers one. On the civilian side, maybe some color or commentary on your level of confidence or I guess satisfaction around processing those students through financial aid, through the on boarding process. Do you think you still have room to get more efficient or do you think you have the right process in place? And then also in terms of how those students are acting relative to your expectations around the number of credits or courses they're taking per year, I guess it is more of a revenue per student question, if anything else, I want to get a sense of if they continue to do what you thought they would be doing at this point.

Wallace Boston - *American Public Education Inc - CEO, Pres*

There is a lot of questions in there, Brandon. I'll try to answer some, and Harry will try to answer some. I think our focus around here is to always be compliant, to err on the conservative side, double check files, triple check files, staff appropriately. So our ramp-up in G&A cost, if we were in a stable sector as in the percentage of FSA students wasn't changing like it is with some of our competition, I think you would actually see some economies of scale, and we would be coming down; but because that population grew at 105%, we're continuing to grow the FSA processors and all the other people involved with compliance, and they're all classified in the G&A sector.

As far as the number of courses per year, on the good news perspective, some of the phenomena with the course takers is really a fairly recent phenomena. We've always had those, but to some extent, I think that the duration of this recession has through word of mouth caused people to look for sources of money to either pay off their credit card bills or to borrow or use money that they can't get credit for. And the buzz is saying look for an online program and if you dot your i's and cross your t's right and some people may be advising them, which we're not sure is illegal by the way. That is why Harry hesitated to call this fraudulent. But that increase, which we gave an estimate of is fairly recent. And so we're going to work to block those students, because we don't think they're appropriate students.

But there are rules and regulations as to how you have to ascertain, and you have to treat everybody equally. So certain types of preventives that we put in, we have to look at how that impacts our entire population. We'll continue to do that, and I think that all in all, I'm happy with the output and abilities at 105% increase in FSA students in the quarter that Harry's team in the financial aid department did a good job. Harry you want to add to that?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

We've done that in the most regulatory sense of environment I can imagine it and we really haven't had any regulatory issues unlike a lot of other companies. So I'm very proud of our group. But we can always get more efficient, Brandon, there are ways we can do that. But in this period of time, we have to make sure we're effective. We can't really screw up when it comes to federal regulations. So if it is something that's very sensitive like refunds or students making satisfactory academic progress, we have a multiple redundant tests in place that don't make it very efficient but make it pretty darn well effective to make sure we're in compliance with regulations in areas where we know that a part of that is sensitive, and where we want to make sure that we're following the regulations.

I think we can always get more efficient. And at some point in time we may choose to do that. Right now we're erring on the side of effectiveness and trying to stay ahead of the growth. None of us in here anticipated the growth in civilian students and FSA students we have had this year. And

we're trying to spend ahead of it and continue to do that because we certainly don't want to screw up. But if some point that slows up a bit, we can always back off and get more efficient.

Wallace Boston - *American Public Education Inc - CEO, Pres*

And the other question you asked was about persistence vis-a-vis expectations -- the 38% of new students that we thought was a more realistic number, we expect them all to still persist in the manners in which we've articulated in the past.

Brandon Dobell - *William Blair & Company - Analyst*

Fair enough. Then one other question to confirm, I think Harry said 38% tax rate for the coming quarter and for next year as well?

Harry Wilkins - *American Public Education Inc - EVP/CFO*

Yes, that is a very good question, nobody has asked about that. But we have for the first time conducted a very thorough investigation, we now file in all 50 states. And we did what is called a performance study of state taxes. And we've come up with ways that we think comply with state regulations and be a little more effective in saving money. So yes, we think 38% is the new tax rate for us going forward.

Brandon Dobell - *William Blair & Company - Analyst*

All right thanks.

Operator

Our next question comes from the line of Kelly Flynn of Credit Suisse. Please proceed.

Kelly Flynn - *Credit Suisse - Analyst*

Thanks. I just wanted to clarify something you said in response to Suzy's question about Wal-Mart. I think you said they had not launched it with their employees or something like that. I just want you to repeat what you said there and just clarify, is that a disappointment relative to what you expected and has there been some sort of change in the traction there. Or do you ultimately expect it will pan out as initially expected? Thanks.

Wallace Boston - *American Public Education Inc - CEO, Pres*

Well, actually, what we said was they hadn't announced how they were going to spend their reimbursement program, how they were going to set that program up. As you might imagine, 1.4 million US employees is a lot to cover, so they have shared their thinking over time with us. And I think have gone through what typical calculations you might on how big this impact is. I mean, who wouldn't if you're looking at a margin want to have a large number. At the same time, I think in some ways, we're grateful that the program has progressed the way it has, because we have been able to build it and automate interfaces and be prepared for an influx should they roll this out at some point.

And as you might imagine, issues like verifying that somebody is an employee, whereas when it was initially announced, none of that was automated. Now, it's an automated interface that computers talk to computers, and we're very happy that as we see that verifications and things like that can be done for reimbursement without having to do it manually, which could be pretty expensive. So while anyone would have loved to have larger numbers earlier, I think that we think the world of the management team down there that we have dealt with. They're very professional, they have a very noble cause to enhance the education of their associates, and we think they'll get to it. It is not on our schedule, but that's okay, we'll get to it.

Harry Wilkins - American Public Education Inc - EVP/CFO

Yes, and we're very pleased with the volume of Wal-Mart students. We have a good number of Wal-Mart students. We just think the volume will pick up. Right now the students have to pay for the education themselves, and if Wal-Mart announces a scholarship plan or reimbursement plan as they've said they would, we think the volume will pick up when they do that.

Kelly Flynn - Credit Suisse - Analyst

Okay, thank you.

Operator

Our last question comes from the line of Suzy Stein of Morgan Stanley. Please proceed.

Suzy Stein - Morgan Stanley - Analyst

Hi. Just a quick question back to the issue that you're having with financial aid. I know that cohort default rates have not been a problem for you in the past, but does this issue have the potential to cause a spike in CDRs as it kind of works its way through?

Wallace Boston - American Public Education Inc - CEO, Pres

Well, the risk of course, when you're dealing with students like this is bad debt expense would go up a bit, and your cohort default long term or your cohort default rate could. It will be one or the other. If we're paying back the loans and our bad debt expense goes up as the students -- if we keep the money, the students don't pay their loans, then the cohort default risk goes up. But we'll manage it appropriately as we always have. Right now we have not seen any spike that you're talking about. If -- we'll manage, whatever a cohort default risk we have when it becomes apparent we have one. Right now I'll put our cohort default rates up with anybody in the space.

Harry Wilkins - American Public Education Inc - EVP/CFO

And I think the other issue too is that because they're one and done, we're calling them course takers, they're going in for that initial funding, they get the excess funding, they don't complete with passing grades would indicate they're going to come back as students again. The amount that they're borrowing is much lower than what people are borrowing at institutions that charge upfront for an entire program.

We've always been big on people can pick the number of courses and either be half time, three quarters time or full-time. But even so our numbers are much lower. So we think that there is a better ability to repay a \$4,000 loan that may be your only student loan, than there is an ability to repay \$60,000 worth of student loans.

Suzy Stein - Morgan Stanley - Analyst

Right. Okay. All right. Thank you.

Operator

With no further questions, I would like to turn the call over to Mr. Christopher Symanoskie. Please proceed.



Christopher Symanoskie - American Public Education Inc - Director of IR

Thank you. That will conclude our call for today. We wish to thank everyone for their participation and interest in American Public Education. Thank you and have a great evening.

Operator

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

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