THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

APEI - Q4 2011 American Public Education Inc Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 28, 2012 / 10:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Chris Symanoskie *American Public Education Inc - Associate VP of IR*

Wallace Boston *American Public Education Inc - President and CEO*

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

CONFERENCE CALL PARTICIPANTS

Jeff Volshteyn *JPMorgan - Analyst*

Zack Fadem *Barclays Capital - Analyst*

Thomas Allen *Morgan Stanley - Analyst*

James Samford *Citigroup - Analyst*

Jeffrey Silber *BMO Capital Markets - Analyst*

Corey Greendale *First Analysis Securities - Analyst*

Kelly Flynn *Credit Suisse - Analyst*

Adrienne Colby *Deutsche Bank - Analyst*

Jeff Meuler *Robert W. Baird & Company, Inc. - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

Jerry Herman *Stifel Nicolaus - Analyst*

Peter Appert *Piper Jaffray & Co. - Analyst*

Trace Urdan *Wunderlich Securities, Inc - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the fourth quarter 2011 American Public Education Incorporated earnings conference call. My name is Chris, and I will be your conference moderator for today. Presently all participants are in a listen-only mode. Later we will facilitate a question and answer session.

(Operator Instructions)

At this time I would now like to turn the conference over to your presenter for today, Mr. Chris Symanoskie. Sir, you may proceed.

Chris Symanoskie - *American Public Education Inc - Associate VP of IR*

Thank you, operator. Good evening, everyone, and welcome to American Public Education's fourth quarter and full year 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 8-K 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 may be identified by words such as anticipate, believe, could, estimate, expect, intend, may, should, will and would. These forward looking statements include, without limitations, statements about the first 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 risks described in the risk factors section and elsewhere in the Company's annual report on Form 10-K filed with the SEC, the Company's quarterly reports on Form 10-Q filed with the SEC, 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 will turn the call over to Dr. Boston.

Wallace Boston - *American Public Education Inc - President and CEO*

Thank you, Chris. Good evening, ladies and gentlemen. In today's conference call I will discuss the results of our operations, the factors driving our recent growth and review some of our strategies for the future. Then Harry Wilkins, our CFO, will discuss our financial results in more detail and provide additional perspective on our outlook for the first quarter of 2012. Civilian students represented the most rapidly growing segment of our student population in the fourth quarter and the full year of 2011. Our civilian growth was marked by the year-over-year growth in net course registrations by students using federal student aid, otherwise known as Title IV, which increased approximately 100% in 2011. We are pleased by the continued diversification of our student population.

We believe our focus on academic quality, customer satisfaction and affordability is attracting the attention of a growing number of civilian students who increasingly find AMU or APU through referrals or relationship marketing. In 2011, more than 40% of our new students indicated that they were referred to AMU or APU by others, and the number of undergraduate alumni returning for a second degree increased to approximately 50% as judged by the 2009 graduating class. These results speak volumes about the effectiveness of our focus on teaching excellence, student learning and a consultative approach to student advising.

Our focus on building relationships with key constituencies has enabled continued growth in net course registrations by students from military and veteran communities. In 2011, net course registrations by students using DoD Tuition Assistance funds increased 9% year-over-year and net course registrations by students using veterans' benefits increased 44% year-over-year. AMU's success at expanding its presence among active duty students and veterans is especially noteworthy in light of the already sizeable military population at AMU and the potential budgetary constraints facing the US military. These accomplishments illustrate our positive reputation and strong leadership position within military and veteran communities.

For the 12 month period ending December 31, 2011, overall net course registrations increased 32% and net course registrations by new students increased 46% year-over-year. Our active student enrollment increased 31% to approximately 110,000 active students compared to the prior year period. While net course registrations by students using Title IV grew 101% in the fourth quarter of 2011, we believe there may be an increase in the number of civilian course takers who enroll at APUS, in part due to the attractiveness of the federal student aid program and our low tuition. Moreover, we believe some individuals and groups are attempting to abuse the Title IV system. As a result, we believe our growth rate in the fourth quarter was higher than it would have been absent these factors.

While the Company cannot estimate the potential impact of these events, we are taking several proactive steps to address them such as requiring academic assessment exams, additional course work and launching more robust identity verification processes, among other initiatives. While many of these and other policies and procedures have been put into place during the end of the fourth quarter of 2011 and the first quarter of 2012, additional measures are also expected to be implemented in the future.

Moving on to slide number 4, our institution is keenly aware that the key to success and sustainable growth rests in part on providing challenging, engaging and relevant course content that is affordable and delivered by expert faculty to an increasingly diverse population of students. To that end, spouses and dependents of eligible Wal-Mart and Sam's Club associates in the United States can now access the Lifelong Learning Grant, a grant provided by APUS which is equivalent to 15% of tuition. Spouses and dependents of eligible associates may begin enrolling under the program for classes starting April 2, 2012. We're very pleased with the addition of the family benefit to Wal-Mart's Lifelong Learning program, in partnership with APU, and look forward to welcoming to the families of Wal-Mart associates to the APUS learning company.

As part of our consistent drive to provide quality and affordability, APUS has joined the International Open Access movement to combat inflation in the prices of textbooks. Our ePress initiative is an electronic publishing project whereby our faculty members are being commissioned to create advanced course materials and new digital text books that are uniquely tailored to the APUS curriculum. The faculty members will be supported by analysis from our institutional research department and our excellent team of librarians. This undertaking will initially concentrate on specialized areas and high enrollment courses with the goal of providing future cost savings.

In 2011 our faculty members reported delivering more than 800 presentations; earned over 100 awards; and submitted or published over 300 journal articles, papers and books. These accomplishments underscore their superb qualifications and ability to interject real world examples in the classroom discussions. We have recently hired 114 additional full time faculty members, and we plan to continue supporting our faculty by encouraging them to be active in their professional fields and by further strengthening our teaching culture.

As we focus on curriculum quality and teaching excellence, we plan to utilize the Lumina Foundation's Degree Qualifications Profile. This academic model serves as an additional framework and engages faculty, students and other stakeholders in the quality improvement process. The Lumina Foundation for Education is a private foundation committed to enrolling and graduating more students from college, especially adult learners. We plan to use the Lumina Foundation's approach to support academic quality and student learning outcomes in conjunction with the move by our accreditor, The Higher Learning Commission to the Pathways model.

We also plan to further enhance our graduate culture as part of a multi-year plan to eventually bring doctoral programs to APUS. We are concurrently seeking program level accreditation for our undergraduate and graduate programs in nursing, public health and fire science.

APUS is both regionally and nationally accredited. I am very pleased to announce that the accrediting commission of the Distance Education and Training Council, DETC, a national accrediting body recently re-accredited APUS. APUS's next full DETC re-accreditation visit is scheduled for fall of 2016, and APUS has an enhancement report due to DETC by May 1, 2012. Earlier in 2011, the Higher Learning Commission, or HLC, our official primary accreditor for Title IV program purposes, reaffirmed APUS accreditation without any stipulations on our affiliation status as a wholly online institution. APUS's next comprehensive HLC evaluation is scheduled for the 2020-2021 academic year, and we have an interim progress report regarding development of university wide coordination and review of graduate studies due in July, 2015.

We also expect to be among the first online schools to undergo the US military's quality review process, called Third Party Education Assessment, formerly known as MIVER, sometime in 2012, and we look forward to that collaborative process.

We have always strived to stay ahead of the curve on matters of academic integrity and student readiness. Thus, we made it a goal to extend our lead and expand on our strengths by proactively refining certain policies and making process enhancements aimed at improving retention and student success. For example, starting in the second quarter of 2012, all uploaded papers and homework assignments will be automatically submitted to turnitin.com, which will check the academic integrity of the work and allow our faculty to compare results across the entire APUS platform.

Moving on to slide number 5, our across the board focus on quality has proven to be enormously beneficial to students, alumni and their employers. In 2011, we graduated more than 6,300 students who joined the ranks of more than 21,300 AMU and APU alumni worldwide. In our most recent one-year post graduation survey, we found that 91% of respondents would recommend AMU or APU to family, friends or co-workers. Our expanding referral base and growing recognition are also supported by the perceptions of organizations that hire our graduates. 99% of alumni employers surveyed would hire another graduate from AMU and APU, 98% would recommend the university to employees and 98% agreed that APUS graduates possess field specific academic skills. These results underscore our success and the importance of our mission.

With a tactical and strategic focus on academic quality, assessing student readiness and preventing FSA abuse, there may be certain prospective students and course takers who are unable or unwilling to meet the basic academic and identity verification requirements to pursue studies at AMU or APU. While the growth rate of new students could be impacted by these initiatives, our goal is to drive improvement in other important areas such as the pass/fail rate, student retention and the overall student experience. In short, our goal is to provide affordable access to students with genuine aspirations and intentions to pursue a degree or certificate.

Moving on to slide number 6. In the Department of Defense fiscal year 2011, the overall number of United States military student enrollments covered by Tuition Assistance remained roughly flat. However, the percentage of those courses taken online by those students rose from 71% in 2010 to 75% in 2011, resulting in a slight increase in demand for online courses by military students. Despite minimal market growth and headwinds from the overall environment, APUS experienced 9% growth in net course registrations by students using TA in the year 2011, thereby continuing to increase our market share and cement our position as the leading provider of voluntary education to service members. Even with this growth, active duty military students represent an increasingly smaller portion of our overall population and growth compared to prior years. Going forward, we believe that a combination of factors may cause military enrollment at AMU to be volatile and possibly decline.

While several tuition financing options exist for service members, potential reductions and changes to the tuition assistance program may limit the ability or willingness of service members to enroll in courses at AMU and other four year institutions. At a recent CCME conference in Orlando, Robert L. Gordon, III, Deputy Under Secretary of Defense, for Military Community and Family Policy and Carolyn Baker, Chief DoD Continuing Education Programs indicated that there would be no change to the TA reimbursement rate until a comprehensive review of all benefit programs was concluded by DoD.

The Company has reason to believe this study may not be concluded in federal fiscal year 2012 which means the current levels may remain until the study is concluded. It is very important to note that these conditions can change without notice, and military service branches do not necessarily follow the DoD standardized TA policy.

On the other hand, there have also been reports in the media about DoD plans for the withdrawal of a certain number of troops from active combat zones such as Afghanistan. This could bode well for future enrollment if more service members pursue higher education after returning home.

According to recent news reports, certain officials have discussed potential reductions in overall troop strength. Such reductions could reduce the number of active duty military pursuing higher education but encourage some of those leaving the military to seek higher education as veterans in order to prepare for civilian careers. The planned reduction of 80,000 Army, 20,000 Marines and 10,000 Air Force personnel has already been announced by various government officials according to media reports. At this time, the Company is not able to estimate the potential impact of these and other developments on its financial and operational results. For additional information on these and other risks, please read the risk factors section in our 10-K filed with the SEC earlier today.

Moving on to slide number 7, civilian market size. Our transition to serving more civilian students is fundamental to our long-term growth and is proceeding more rapidly and ahead of our expectations. We believe the market for our degrees at our price point is much wider than the market for similar degrees at higher price points as illustrated by the chart on slide 7. The chart shows the distribution of adult undergraduates by tuition and fees charged for the 2010/2011 academic year. As the data shows, a higher number of adult undergraduate students are attending public, nonprofit and private sector schools that charge lower annual tuition and fees. Now more than ever, prospective students seem to be wary of taking on debt, but they recognize the advantages that higher education offers, including improving prospects for employment and career advancement. For the 2011/2012 academic year, according to the College Board, public four year universities raise their in-state tuition on average 8.3%. Cost for tuition, fees and books at AMU and APU is currently 20% below the average in-state tuition, fees and books at public four year universities based on the analysis by the College Board. That disparity provides us with several strategic competitive advantage and future financial flexibility.

Moving on to slide 8. In summary, we finished the year 2011 in a very strong position academically, operationally and financially. We believe the market for affordable online higher education is strong, growing and broadening towards affordability, especially in civilian markets. It is important to note that, as we address these opportunities, we will be managing two primary challenges -- one, a continuing shift to a larger civilian population and two, identifying students with the appropriate level of readiness. We are growing in a very challenging economy and regulatory environment while keeping tuition affordable. That's a tremendous accomplishment.

In 2012, in addition to our other initiatives, we will place more emphasis on operating efficiency. A good example of this is our exciting ePress initiative and our initiatives to improve Title IV processing. These projects and others will require expansion of our information technology staff.

Moreover, we continue to manage the institution with a long-term perspective by pursuing growth channels within our existing civilian markets and addressing the new opportunities that are just now emerging such as corporate relationships, community college partnerships and international opportunities, to name a few.

Our strategic vision is to broaden our student diversity, at home and abroad, by continuing to expand our ability to meet the higher education needs of working adults so they in turn can serve the needs of an increasingly complex global community. We believe that by supporting the professional communities we serve and partnering with other institutions of higher learning, we can make a meaningful contribution to the improvement of higher education in America and abroad.

Now, I will turn the call over to Harry Wilkins for a more detailed discussion of our financial results. Harry?

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

Thanks, Wally. Moving on to slide 9 and our fourth quarter, many of the strong trends we saw in the first half of the year generally continued into the fourth quarter. American Public Education's fourth quarter results include a 34% increase in revenues, to $75.7 million compared to the fourth quarter of 2010. The revenue out-performance was primarily driven by stronger than expected growth in net course registrations from civilian students, which were positively impacted by some of the factors that Wally discussed earlier.

Operating income for the fourth quarter 2011 increased 25% year-over-year to approximately $19.8 million. General and Administrative Expenses increased as a percentage of revenue to 19.5% from 15.6% in the prior period. This increase was primarily due to costs associated with our increased civilian population, regulatory changes and an increase in bad debt expense.

Selling and promotional expenses as a percentage of revenue were slightly better than expected in the fourth quarter, declining to 16.4% of revenue, compared to 16.8% in the prior period year. We believe this decrease illustrates our ability to attract civilian students primarily through a relationship oriented approach to marketing.

Instructional costs and services decreased to 34.6% of revenue in the fourth quarter of 2011, compared to 36.3% in the fourth quarter of 2010. This decrease was primarily related to the number of full-time academic support staff increasing at a slower rate than revenue.

The fourth quarter of 2011 also benefited from a lower than expected effective tax rate related to an approximately $664,000, or about $0.04 per diluted share, of energy tax credits earned in connection with the solar panel and electric vehicle re-charging stations we installed at our new facility in Charles Town. The bottom line for the fourth quarter, net income increased 35% to approximately $13 million or $0.71 per diluted share, ahead of our guidance.

Our year-end cash balance was approximately $119 million, and we have no debt. Cash from operations for the 12 months ended December 31, 2011 was approximately $70.4 million compared to $47.1 million in the same period of 2010. Capital expenditures were approximately $24.9 million for the 12 months ended December 31, 2011 compared to the $22.5 million in the prior period year. Depreciation and amortization was $9.2 million for the 12 months ended December 31, 2011 and $6.5 million for the same period in 2010.

As illustrated in the bar charts on slide 7, the year 2011 marks yet another consecutive year of success for APEI and its stakeholders. This year net income grew approximately 36% to $40.8 million or $2.23 per diluted share. While this growth was slightly helped by several tax benefits about 14% -- I mean $0.14 per diluted share and a share repurchase program. Pretax income grew to $63 million, an increase of approximately 26% year-over-year. Without a tuition increase and while maintaining or managing several challenging -- several challenges in a very difficult regulatory environment we believe that our quality and affordability are key drivers of growth, and we plan to continue to invest to create a stable and enduring institution.

If you move on to slide 10, our first quarter outlook for 2012, American Public Education expects net course registrations from new students in the first quarter of 2012 to increase approximately 14% year-over-year and net course registrations to increase approximately between 20% and 22% compared to the prior year. Our guidance in part reflects the initial implementation of steps that we outlined earlier when discussing course takers, quality and FSA abuse.

The Company anticipates 2012 revenue growth in the first quarter of approximately 27% compared to the prior period. Earnings per share for the fourth quarter of 2011 -- for the first quarter of 2012 are expected to be between $0.45 and $0.49 per diluted share.

In the first quarter, we expect that our instructional costs as a percentage of revenue may be approximately 3% higher due to the hiring of 114 full-time faculty as course loads will likely increase in the future. G&A expenses are expected to be higher due to expenses related to IT and FSA initiatives that we described earlier. As our mix changes to include more civilian students, not only are we taking steps to limit FSA abuse, but we're also making investments to automate certain processes that may create greater efficiencies in the future and to develop our technology infrastructure. For more information, we recommend that investors read the additional risk disclosures in our 10-K, filed earlier today with the SEC.

A portion of our IT initiatives are in the planning and research phase where the related costs must be expensed. When these initiatives move into the programming and implementation phase, the related expenditures are then capitalized. Lastly, in the back half of the year we expect to realize a partial benefit from our ePress initiative that could potentially save about $8 million on an annualized basis once implemented. We are currently only incurring costs associated with the development of these materials.

In closing, we continue to be pleased with the transition of our student population to include a larger number of civilian students. We expect that this trend will continue and perhaps occur even more rapidly. While managing this mix shift, we're at the same time trying to identify students who have the appropriate level of student readiness to safeguard our academic quality, our growing reputation and our high standards for regulatory compliance and our long-term growth. We're investing now in projects designed to strengthen our institution, such as our IT projects, to further enhance FSA automation and our ePress initiative which incur up front costs but may ultimately prove to be our operating -- to improve operating efficiencies in the long run.

We're also excited about emerging opportunities at home and abroad including corporate and community college relationships and partnerships with nonprofits. We believe the demand for affordable, high quality online degree programs is strong, and there is a substantial opportunity for expansion in our existing channels. Our relatively low cost is a strategic and a financial advantage, and the availability of domestic and international opportunities bode well for our future.

At this time, we would be happy to answer any questions. Operator, can you please open the lines for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

Thank you for taking my question. Let me follow-up on the Wal-Mart partnership. Based on your release it seems that the ground is coming from API. Do you know if they're putting up any of the funding? Are they allocating any grants or loans to their employees?

Wallace Boston - *American Public Education Inc - President and CEO*

They are not yet implementing the grant or funding for the Lifelong Learning program. We have approximately 3,000 students who have gone through that program so far, and both of us are happy with that. I think that it's taken Wal-Mart a little longer to figure out exactly how they want to implement that piece. But we were pleased -- are pleased enough with the relationship that we decided to expand the APUS grant to their family, spouses and dependents, and, once again, Wal-Mart will promote that program through their family portal so we won't incur any marketing costs for it. And we're optimistic about the positive nature of that relationship.

Jeff Volshteyn - *JPMorgan - Analyst*

Makes sense. Let me follow-up on the first quarter guidance. I understand that it's not easy to separate but when I look at deceleration in net course registrations from your students, how much of it is sort of intentional as some of the initiatives that you were doing, and how much of the deceleration is just slowing down from the high levels in the first quarter of last year?

Wallace Boston - *American Public Education Inc - President and CEO*

Well, I think the first quarter of the calendar year, from our military student perspective, has always been fairly flat with the fourth quarter of the previous year. Civilian students we've been growing at a pretty high rate, but from Harry's experience at Strayer, there is some seasonality with civilian students in the first calendar quarter of the year.

So, that also is combined with a number of these initiatives that we put in place to block the course takers. We really don't want course takers for a lot of different reasons. One, it's very inconvenient to our faculty and staff to have to deal with people who's only goal is to access federal loans and not to become students and, two, we don't want them obviously because they would ultimately impact our default rates and bad debt. But to fine tune it and tell you how much of that is related to which initiative, it would be pretty difficult.

Jeff Volshteyn - *JPMorgan - Analyst*

Okay, thank you very much.

Operator

Gary Bisbee, Barclays Capital.

Zack Fadem - *Barclays Capital - Analyst*

It's Zack Fadem for Gary. A question on your e-textbooks -- to what extent do you plan to roll out the e-textbooks to achieve what was at the $8 million in savings -- is that 50% of your courses or would that be based on 100% of your courses or a much smaller amount? Can you give me a little color on that?

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

Sure. First of all, we estimate that the $8 million is annualized. So, if we do this on time, we would hope to get $4 million in benefit in the second half of the year. And it's really designed to be our top -- initially our top 25 high-volume courses. But, depending on the success of the project, we would continue to commission faculty members to write additional e-textbooks. I think it also nicely aligns with the fact that we mentioned that we are part of the International Open Access movement, and we have the ability to contribute some of these textbooks to the Open Access which would, in turn, give us the rights to access textbooks contributed by other colleges and universities. So, all in all, we think this is the right way to go. It will lower some of our operating costs since we paid for traditional textbooks over the past. It also aligns quite nicely with our green initiatives of offering electronic books which we think over time more and more students are going to migrate to.

Zack Fadem - *Barclays Capital - Analyst*

Okay. And on your courses, can you give me a sense on how many courses per term the average student is taking for both military and civilian, and how is this trending? I believe civilians take a little bit or maybe a course or two more per term, and how that is expected to impact revenue per student going forward?

Wallace Boston - *American Public Education Inc - President and CEO*

The per term is actually a little difficult to analyze, but we'll start with the average military student using tuition assistance takes approximately three courses per year and currently our average FSA is running about four courses per year, which is lower than what we thought it would be, but part of the problem is we're kicking out these course takers as rapidly as we can. So, I don't know where that number will settle out but ideally it should -- it was a larger number back in 2007/2008 before we saw any of this type of activity. But, when you look at it per term, the fact of the matter is, because we do monthly starts, our students are all across the cycle. For example, the headcount that we report to the Federal Government for the fall semester differs dramatically from the headcount that we report for our total number of active students. So, to be able to measure how many they take per term, the military -- those students who are active for a given term are traditionally about 1 or 1.1. The FSA students are going to have to take two or three courses depending on whether they're grad or undergrad to meet the minimum FSA requirements.

Zack Fadem - *Barclays Capital - Analyst*

Okay, that's very helpful. Thank you.

Operator

Suzanne Stein, Morgan Stanley.

Thomas Allen - *Morgan Stanley - Analyst*

Hey, guys it's Thomas Allen filling in for Suzy. Related to the civilian students, can you provide us with any additional detail related to how conversion trends are running? We have heard from some of other schools that they are seeing greater competition in the marketplace, especially since the beginning of the year. Do you think you're feeling that? Thanks.

Wallace Boston - *American Public Education Inc - President and CEO*

We've actually seen slightly lower conversion trends with civilian students, but we -- before we picked up on the conversions dropping a little bit as far as a percentage goes, we did a marketing study and found that our civilian students who matriculate shop on average four different institutions, which makes sense in that we don't have an outbound call center. So we really have built ourselves to be in a position to respond to students once they contact us versus responding instantly if you buy leads or something like that.

So my guess is that our conversion rate probably hasn't shifted as much as other people because of that particular nuance related to us, but it has dropped a little bit for the civilian students. It's about the same for our military students.

Thomas Allen - *Morgan Stanley - Analyst*

Great. Thanks. And then on gross margins, it appears that you guys are benefiting from kind of the scalability of your model. Is there -- what kind of the leverage there would be capped? Or do you think that can continue to improve? Thanks.

Wallace Boston - *American Public Education Inc - President and CEO*

Well, I'll start off, and then I'll let Harry comment. There are certain items that are scalable, but then there's also certain items that are seasonal. For example, the first quarter of the calendar quarter we start re-accruing all of the FICA, FUTA and SUTA taxes. I think we have a little different model. We try to employee more full-time faculty than others just because we think it improves our quality and gives us a guarantee to making sure that we keep our best faculty members on our staff year after year. In this particular year, also in the first quarter, we're incurring costs for both writing the textbooks for our e-textbooks project as well as incurring costs for designing and speccing out IT programs that are going to be implemented later in the year, and we're not allowed to capitalize on them. So, we're building for the future. There are certain things that will scale, but, at the same time, we have a process focused orientation and culture where we try to automate as much as possible that allows us to scale even more in the future as long as we continue to grow.

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

Yes, I mean you would expect it to improve. Our margins -- you would expect to improve in the long-term. That doesn't mean it's going to happen in the short-term, however. Just as we saw in the fourth quarter we ended up having more student enrollment than we had anticipated. And we hired a large number of faculty in January to help handle that growth and the assumed growth we would get from this new relationship with Wal-Mart. You can't get them all in place and teaching right away, but you're paying their salaries. As they become engrained, and we start scheduling for more classes, we'll gain efficiency from operations there. You may not see it in the first quarter, in fact, you won't see it in the first quarter, but we should see it in the latter part of the year. Same thing with our IT spend. A lot of that causes some upfront costs but, in the long run, benefits us by continuing to improve our in-house system, our PAD system, which has really made us efficient and helped us keep our tuition low all these years. We need to continue to invest in that. The civilian students have different needs than the military students. We need to automate some of the functions related to those civilian students, and we're incurring those costs now that should benefit us down the road.

Thomas Allen - *Morgan Stanley - Analyst*

Great. Thank you very much.

Operator

James Samford, Citigroup.

James Samford - *Citigroup - Analyst*

Just along those lines. I just wanted to touch on, again, I think your guidance implies about 400 basis points in margin de-leverage in Q1. I guess a big part of that is the new faculty and some of the other initiatives. Should we think of that as the relatively low water mark as far as de-leverage as the year progresses and you start lapping some of those investments?

Wallace Boston - *American Public Education Inc - President and CEO*

I think timing is a little difficult, but certainly the first three or four months from the IT cost and the faculty cost, we ought to be able to manage those into reasonable numbers after that. I think there's -- Harry, you want to comment about -- I think there's probably -- we ratchet up the bad debt a little but just to continue to account for these potential course takers that we may have. Is there anything else?

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

Yes, again, we're going to spend as we need to, to make improvements in our system and improve our academic quality. It's difficult to tell at this point which quarters those improvements will take place. But I certainly think that our spending is appropriate at this level and that we'll see improvement in the second half of the year from our e-book initiative and from the IT spend and the faculty costs that we're incurring in the first quarter.

James Samford - *Citigroup - Analyst*

If I could touch on just the mix of students -- where are you in terms of master's versus bachelor? And I'm just curious, it sounds like a lot of competition is really for that master's and the adult learner programs by traditional colleges and universities, and you're squarely focused I think primarily on the bachelor's side. Is that helping you -- I assume it is -- but I just wanted to get your comments on where you are in the mix and how things are going there?

Wallace Boston - *American Public Education Inc - President and CEO*

In fiscal year 2010, 22% of our students were master's students and then the remainder, 78% were undergrad. We just -- and the year we just wrapped up 2011, the master's decreased as a percentage, did not decrease in totality but decreased as a percentage to 20% because we grew the undergraduate programs at a much higher rate. I think we hold a unique position. If you compare our master's costs to just about anyone, it is substantially less. We don't provide textbooks for that as we provide textbooks for the undergraduate program, but, at the same time, we would say that our master's students are particularly price sensitive. That a number of master's students will sign up for programs as long as they're funded through FSA. At other institutions, without thinking about the total cost, we really stress our affordability in our advertising. So we typically find people who are much more price sensitive in our master's pool, and, while it did not grow at the same rate as the undergraduate pool in 2011, it did grow, and I think it will continue to grow.

James Samford - *Citigroup - Analyst*

If I could have one little last one just on 90/10 rates. Where are you today on 90/10 with and without military?

Wallace Boston - *American Public Education Inc - President and CEO*

Well, we have a chart. If you can look at the slide --

James Samford - *Citigroup - Analyst*

I'm sorry.

Wallace Boston - *American Public Education Inc - President and CEO*

We have a pie chart that gives you the exact breakdown for the year. That's why we put the year in there. It's on slide 3, and it shows that 13% of our students in the last year were strictly cash paying, 37% were paid with Title IV funds, 41% were active in the military with TA and 9% were VA.

James Samford - *Citigroup - Analyst*

Perfect. (inaudible) sorry.

Wallace Boston - *American Public Education Inc - President and CEO*

And that's by primary pay type. There may be some that pay with both TA funds and cash, if they're in our graduate program. Those would be reflected under TA in this chart, for instance. So, there can be students have a mix of both.

James Samford - *Citigroup - Analyst*

Fair enough, thank you.

Operator

Jeff Silber, BMO capital.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Thank you so much. Last quarter you guys were kind enough to quantify the impact of I guess the so-called stipend chasers on your new course -- your net course registration by new students. Would it be possible to do the same thing in terms of the impact of this quarter?

Wallace Boston - *American Public Education Inc - President and CEO*

Jeff, we tried to do that and, unfortunately, as soon as we realized the problem was occurring, we started putting a number of steps in place. And so there are probably somewhere between half a dozen and a dozen different things that we did that made our quantifying pretty difficult to do. I can assure you, though, that Harry and our accounting staff, as well as the outside auditors, made sure that we reserved enough for the bad debt to get comfortable that our estimates would be correct and that our revenues were booked.

But, to tell you the exact number, we actually backed off from giving you an exact number because -- and just throwing a couple of things out, whether it was registrations that came from a specific zip code that we had identified as a high course taker zip code, or whether it was registrations that came from people who were either living in the same household or it -- there were too many things that we had put in place to block it, unlike the previous quarter, where we did a few simple things, and it was easier to estimate. We actually don't have an internal number. I wish we did, but the good news was that we're pretty comfortable that coming into the first quarter and going into the second quarter with a couple more things that we're doing that we're sufficiently blocking these types of people from enrolling.

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

I would say in the third quarter the vast majority of those students were able to enroll in our school, and in the first quarter of this year, the vast majority are not able to enroll in our school. Trying to judge what percentage in the fourth quarter fell into that category is problematic.

Jeffrey Silber - *BMO Capital Markets - Analyst*

Okay, I understand. That's fair. Just on a few numbers questions -- in terms of modeling, what should we be expecting for bad debt expense for both the first quarter and for the year? And then if you can give us the same thing on depreciation and amortization and then also your capital spending budget for the year. Thanks.

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

We have -- we shied away from giving full year guidance at this point. We're giving quarterly guidance. I think you should expect somewhere in the vicinity of about 3%, between 3% and 4% for bad debt for the first quarter, and we're not giving full year guidance. Some of the capitalized projects are in IT. At this point it's difficult to tell when they -- right now they're expensed because they're in the planning phase. As they advance into the programming phase, we can start to capitalize some of those expenses. And we're not quite sure when that's going to be at this point. We're not giving full year guidance right now on our CapEx spend, and we're not giving it for expenses -- individual expense finance.

Jeffrey Silber - *BMO Capital Markets - Analyst*

How about at least for the first quarter? For D&A and capital spending?

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

Our depreciation and amortization, I wouldn't think it would change much from the -- again, we have always shied away from trying to give individual line item guidance.

Jeffrey Silber - *BMO Capital Markets - Analyst*

I understand. I'll follow this up off-line. Thanks so much.

Operator

Corey Greendale, First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Couple questions first about the civilian market. There was a time, I think, when you talked about civilian students at least theoretically being profitable as TA students because -- higher costs of sales and promotions involved, but there were some offsets in terms of revenue per learner and that sort of thing. Is that still your thinking, or, given all these measures that you are putting in place with FSA and those sorts of things, do you think the civilian student is most likely not as profitable as the TA student?

Wallace Boston - *American Public Education Inc - President and CEO*

Good question, Corey, we actually looked at some statistics on that. If we can get our civilian students to complete three courses at the undergraduate level and attain satisfactory academic progress, which is a 2.0 GPA minimum, we are seeing a very close correlation to a similar graduation rate to our military students, but they're actually taking more courses per year. It's all this churn that we've seen, particularly with the course takers in the last year, that makes that attainment with the short-term FSA students not what pleases us and is why we're implementing some of these quality measures in addition to the measures just to block out the students who have no intent to complete a course. But I believe, once the dust settles, and we've put our measures in place, I think that we'll see -- and by the way some of our measures also include marketing being much more focused on what we call a quality civilian student, someone with a true desire to finish a degree or certificate, that we'll see that, on an annual basis, they will take more courses per year than a military student, and it's really still too soon. Because we allow seven years to graduate and we've only had FSA since effectively the first full year was 2007, we still can't compare the graduation rate. But assuming that they graduate at least at the same rate as the military students and given their really requirement under the regs to meet the FSA standards, they'll take more courses per year. I think it will be okay.

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

The civilians, the margin is a little less up front because you do incur up front financial processing charges we don't have with the military students, and the marketing costs are a little higher. We don't get the referral rates with civilians we get with military. But once they're in the door and once they matriculate, they take more courses per year. The percentage that take graduate courses is a little higher than with the military so they tend to our higher margin programs. So I would say that the new civilian students the margin is lower but as they mature the margin is better.

Corey Greendale - *First Analysis Securities - Analyst*

Okay. I understand. And in terms of the measures you are putting in place could you -- (inaudible) just elaborate a little bit on -- is the idea entirely to filter out people who have no intention of getting a degree, or are you also putting in place measures to make sure students are prepared. And so some people may get filtered out who do intend to get a degree but might not be well suited to your program?

Wallace Boston - *American Public Education Inc - President and CEO*

No, we're actually doing both. We've put into place in the fourth quarter in our college 100 class for new students assessments that determine whether or not they're prepared. But then we've done other things that try to block the people who have no intent on completing college. But the assessments are there as well as some other things we've loaded certain assignments in the front part of a number of our first year courses. So, we're focused on weeding -- I don't know if the right words are weeding out, but we're certainly focused on making sure that we have the right types of civilian students and, without getting too specific on a recorded call since some of these people are quite sophisticated and actually employ what appears to be call center tactics to enroll so we would rather not get too specific on this call.

Corey Greendale - *First Analysis Securities - Analyst*

Interesting. If I could just take one more and I'll get back in queue. On the military -- so you outlined a number of factors that could impact the TA enrollment. Could you just put a little finer point on that? How much -- some of those points look like they could actually be positive as far as people coming back from Afghanistan. I could imagine if TA is going to be cut maybe that could accelerate some demand with people wanting to take classes before it gets cut. Can you just -- how much of that is actually happening now, and how much of it is more keeping us aware of risks nine months/12 months down the road?

Wallace Boston - *American Public Education Inc - President and CEO*

There's always units that are coming back from Afghanistan, and if you notice our fourth quarter -- or I guess it was -- we gave out the number you could actually calculate the fourth quarter numbers for TA and VA. The VA growth -- I'll throw them out. -- I don't think we did them on the call, but the fourth quarter growth number for VA was 79% year-over-year. So, what we're seeing, as a number of people come back, particularly reservists because they qualify for chapter 33 after they served in Afghanistan or Iraq, our VA utilization is going up quite a bit, 79% year-over-year. And I think we attribute that -- if we actually had a lower active duty component in these hot spots, that the reservists who are being deployed would have qualified had they been deployed. And the 100,000 or so that are currently planned on being discharged more than likely would have qualified because of the multiple deployments. So we'll see it in VA if we don't see it in TA.

Corey Greendale - *First Analysis Securities - Analyst*

All right, I'll get back in the queue, thank you.

Operator

Kelly Flynn, Credit Suisse.

Kelly Flynn - *Credit Suisse - Analyst*

Actually you started to address my question in your last answer. I was wondering if you could actually give the Q4 net registrations by category -- the growth active duty Title IV cash. I think you just gave VA.

Wallace Boston - *American Public Education Inc - President and CEO*

Sure, we actually -- FSA was up 101%. TA was up 6%, VA was up 79%, and the cash was down 17%.

Kelly Flynn - *Credit Suisse - Analyst*

Okay. Great. And then just going back to also what you were saying in your last answer. Just to clarify again the slowdown you're expecting in new registrations for the first quarter, is that all related to the kind of stipend chaser initiatives or is there any implied military growth related to some -- military growth slowdown related to some of the phenomena you just cited?

Wallace Boston - *American Public Education Inc - President and CEO*

We're not planning any -- what I said, and we don't break down our guidance, but what I said earlier to an earlier question is typically the first quarter military registrations match the fourth quarter military registrations. So we're flat from quarter to quarter from Q4 to Q1, and that's typically how we project it out. The FSA growth for the first quarter we are planning on two things occurring. One, these initiatives that we've done to block the course takers should lower that number. But the other thing is that we've noticed a trend -- a more seasonal trend with our civilian students and as they become an increasingly large percentage, and Harry could perhaps address this a little better than I since he served at Strayer in addition to working here. So we think that that first calendar quarter will not likely be as high of a growth period for civilians as the fourth quarter was due to seasonality for civilians but also because we're doing everything we can to block the course takers.

Kelly Flynn - *Credit Suisse - Analyst*

Okay, got it. Could you talk quickly about persistence? It's down a lot I think. Is that because of this stipend chaser issue, or is there anything --?

Wallace Boston - *American Public Education Inc - President and CEO*

I totally blame the persistence. When we've looked at the military students, the persistence is flat. It's unchanged. So, it's really the stipend chasers and, like I said, there's a lot of good reasons why we don't want them as students and you have to -- unfortunately you have to be very careful. There's lots of rules and registrations on how you do it. You have to set up the right policies and procedures in order to block them, but it's the right thing for us to do, and, over the long haul, it will be the best thing for us to do.

Kelly Flynn - *Credit Suisse - Analyst*

Great, thank you.

Operator

Adrienne Colby, Deutsche Bank.

Adrienne Colby - *Deutsche Bank - Analyst*

I was hoping you could talk a little bit more about your plans to roll out new courses -- if there are particular areas in terms of (inaudible) that you're focusing on or certain degree levels and maybe talk a little bit more about your PhD plans. I think you had had three PhD programs in the pipeline when you had chosen to sort of delay those initiatives I think maybe a year or two back.

Wallace Boston - *American Public Education Inc - President and CEO*

Sure, courses -- we're constantly developing new courses and, to the extent that Harry and I don't even worry about what academics are planning as far as courses. New degree programs are far different because new degree programs have to be approved by our accrediting body, the HLC. We have one degree program which we'll announce when it's approved that we have on the books for this year. And we sort of took a moratorium for a lot of reasons but basically the e-book initiative that we have is occupying a lot of our faculty time. And we wanted them to focus more on that than on new degree programs. But they have a healthy backlog of degree programs that they would like to develop, and I think, after this year, we'll be back on the cycle of where in the past we've done anywhere between 3 and 6 a year on average.

The doctoral programs -- we did develop three doctoral programs. We deferred going for approval of those programs because of what we viewed as a doctoral degree really not being something that in a tough economy people would want to go spend money to do because they could earn extra money but being a luxury. And we -- when we went through our re-accreditation with the Higher Learning Commission this past year, in a self study you're supposed to talk about decisions that you make and so we talked about the fact that we had developed these degrees but not sought the Commission's approval.

And that one of the things that we were concerned about as an institution, faculty and staff was that we wanted to make sure that our culture did not dramatically change, that we had the right graduate culture to offer not just Master's degrees but doctoral degrees but that we also had the right culture to continue to teach a very large undergraduate student population. So as I mentioned, when I talked about academic quality, that we have a report due to the Higher Learning Commission in 2015 on graduate culture and graduate readiness. And that's not a bad thing. That's a good thing. It's emanated from our internal debate about when to launch -- when to seek approval and launch these doctoral degrees. And there's no reason why we can't seek approval earlier than 2015, but the initiatives that we're going through this year on the graduate side are really all related to saying okay, if we're ready to launch the doctoral degrees, it's much more than just is marketing ready and is the rest of the -- are all of our systems ready but it's culturally are we ready to do that. I know that's a complicated answer but that's -- you asked the question. And it's a very academic answer, but it's much more than a business model. It's really -- it really goes right to the source of our accreditation and our mission.

Adrienne Colby - *Deutsche Bank - Analyst*

That's great. And if I could just ask one more. Could you update us a little bit on your marketing plans? I think you had deferred some of your expected rollout on a multi-city marketing program last quarter, and so it was expected to kind of move into the fourth quarter a little bit. Just if you could give us an idea of what your plans are as we move into 2012?

Wallace Boston - *American Public Education Inc - President and CEO*

We fully rolled it out in the fourth quarter in our multi-city. I don't have off of the top of my head -- it's either 18 or 20 markets. We got some great buys using cable television, instead of the networks. So you wouldn't have seen any of our ads at the Super Bowl because they would have been networks and very expensive. But we've gotten very positive responses in certain cities. We did, because of the course takers, cancel our ads in one market in the Southeast. I'll give you that much specificity, but we've actually -- now that we've got a number of processes in place to block them we've actually -- beginning in February gone back on the air in that particular Southeastern market. So, we're not planning on adding any other cities -- or markets other than the 20 markets that we're using but so far it's still an experiment. It's good branding experience. We continue to find that our conversion rates on our internet leads that we generate ourselves are two to four points higher in markets where we're doing television and radio advertising than in markets where we're not. So it seems to be working, but it's still a relatively new program and, from time to time, we may find that some markets are working better than others.

Adrienne Colby - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Jeff Meuler, Robert W. Baird.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

In terms of the cash payment students down 17%. Any additional color there, because it makes it seem like maybe there is some slowing on top of the FSA abuse student crackdown that is going on?

Wallace Boston - *American Public Education Inc - President and CEO*

I think we could probably run an absolute number. I think as far as absolute numbers, they grew, but the problem is when you grow 101% in FSA, 79% in VA and even 6% in TA that it just -- they didn't grow at the same rates that everybody else did. So the actual number, and I don't have a math -- a sheet in front of me to do the math. But I don't believe that the actual numbers shrunk. I just think that the percentage growth was down year-over-year.

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

I would say that we are seeing some employers who used to sponsor education programs for their employees start to back off of that. I think that's a fact of the economy. I also think that just more people are relying on federal aid financing rather than paying cash out of their own pocket in this economy right now. It's a good source of borrowing a little extra money, and I think people are taking advantage of it -- even legitimate students. So, I think it's just a trend that we're seeing.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Okay and then in terms of -- you've answered this a couple of times in one way or another, but in terms of the FSA student abuse in Q1, I think you said something like we're getting the majority of them or something along those lines. Is there a chance that we'll see another step-down in the Q2 growth rate as you go from say getting 70% of them to 95% of them, or are you pretty much at the point in Q1 where you think you're preventing almost all of them from enrolling?

Wallace Boston - *American Public Education Inc - President and CEO*

It's impossible to give you guidance for the second quarter, but I would tell you that we have a very good relationship with the OIG and the Department of Education because we've been proactively reporting these types of students. And, as a result, other schools are proactively reporting these types of students. And you may remember the report last summer where the OIG complimented the schools that were proactive on this. As a result, they are sharing information, and there are more and more sophisticated rings, and I can't go into specifics sometimes because of the cases that are out there. But, for example, recently we've been notified when a certain ring has been identified at a specific school in the US that's online. The OIG has come to us with a list of students and asked us if we happened to have those students enrolled with us. And they're not necessarily always meeting the profile because there are people who are getting very sophisticated at gaming the system and so to tell you that we will -- we've got 100% of them? I'm not sure I could ever tell you that we've got 100% of them, but we are certainly getting much more effective on our screening and managing this process and so, from my perspective, I think that what we're seeing in the first quarter from our preventative efforts is, unless someone comes in with some new slick gaming system that we haven't anticipated and the Department of Education hasn't anticipated, I feel pretty comfortable that we're not going to see a bigger slide.

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

We don't have a long enough time to predict any trends right now. A lot of these initiatives were done quickly, and we were operating in a changing environment, and to try to predict what the short-term outcome is going to be -- we're much more concerned with the long-term outcome. In the long-term we're going to do a good job of keeping these students from attending our institution. All of that is subject to monthly fluctuations. We really can't predict it. It's too far in advance.

Jeff Meuler - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, guys.

Operator

Brandon Dobell, William Blair and Company.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks, I'll make it relatively quick. Wally, I'm assuming that all of these things that you are doing or have done the third quarter, fourth quarter around filtering students is probably catching some military students who aren't prepared as well and not just civilian students, or is there a different way to separate out who the assessments and who the filters apply to?

Wallace Boston - *American Public Education Inc - President and CEO*

I would tell you that there may be a couple but it would be a very, very small number of military students who would get filtered out just because of the way the military students are prepared. They-- there is a percentage of military student who use FSA. I don't have an exact number, but we noticed a pickup with the recession that we now have a larger number of military student who use FSA than before, but I don't think they're using it to abuse the system. I think they're using it to maybe supplement some of their cost of living expenses, but that's a legitimate utilization. For example, we haven't seen a noticeable change in the flunk rate of military students. It's been pretty consistent. So, from that prospective I would tell you that I don't think that these abusers are coming from the military population.

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

And the military have to have an incentive. If they get an 'F', the TA doesn't pay for the course. They have to pay for it themselves out-of-pocket. Even though we may make the course a little more difficult, the military are really insentivized to buck up and do the work, or they have to come out-of-pocket.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. You talked a little bit about potentially understating the graduation rates of the civilian students. Any sense on what the average duration may look like? So are you seeing the average student come in with half their bachelor's degree done and so you figure you've got them for another 2 to 2 1/2 years. Or they are coming in with just a quarter of it done so you've got them for four plus years. I guess I'm trying to get an idea of the students that graduate what their duration or lifetime duration would look like with you guys.

Wallace Boston - *American Public Education Inc - President and CEO*

It's too soon to tell you on that, but I will tell you, though, that on the abusers, the course takers, most of them aren't taking the time to fill out the forms to indicate that they want to transfer credit. That's one of our red flags that we're looking for since the majority of our military students -- roughly 90% transfer in credits, and a lot of our civilian students transfer in credits that are legitimate civilian students. These course takers are not transferring in credits which is a flag. It's not a reason to not accept them, but it's certainly a red flag.

Brandon Dobell - *William Blair & Company - Analyst*

And then final question from me. I guess somewhat implied in the cash pay, kind of Title IV dynamic. I guess a little bit of color on what the corporate reimbursement channel may be doing for you guys either in terms of registration growth or contribution, or if you're seeing your corporate contracts reimburse you directly, or if those students are accessing Title IV and then getting reimbursed by their corporation?

Wallace Boston - *American Public Education Inc - President and CEO*

I don't have color on that, and I don't know if Harry does.

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

We really don't have any way of knowing that. If a student applies for Title IV funds, we don't necessarily know whether they're being reimbursed by their employer. In fact we don't know in most of the cases. That could very well be the case, but we don't know.

Wallace Boston - *American Public Education Inc - President and CEO*

As far as activity we can continue to have very good activity, Brandon, with corporations that we approach or that are approaching us as far as signing corporate contracts.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Great, appreciate it, guys.

Operator

Jerry Herman, Stifel Nicolaus.

Jerry Herman - *Stifel Nicolaus - Analyst*

Thanks, guys, I'll try and be quick too. On the civilian side, do you guys know the average PELL or Stafford Loan that those students are taking out? You can see what I'm getting at. I'm trying to figure out what stipend they might be going after?

Wallace Boston - *American Public Education Inc - President and CEO*

That was a Harry question.

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

I really don't have that information on the call.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay and then just two quick ones. Bad debt for the fourth quarter. Did you give that?

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

I think we said that our bad debt was about 4.3% in the fourth quarter, and we are guiding to between 3% and 4% in the first quarter.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great and then last question. A preliminary read on the civilian CDRs for '10?

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

The two year draft rate came out today, and it's -- for 2010 it's 6.1%. The three year draft rate comes out shortly, and we'll know when you do.

Jerry Herman - *Stifel Nicolaus - Analyst*

Great, thanks guys.

Operator

George Tong, with Piper Jaffray.

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

It's Peter Appert impersonating George this morning. So, Wally, on the Wal-Mart deal -- I'm sort of surprised it's taking them so long to start coughing up the money. Do you have any sense of when and if they're going to start providing reimbursement, and is that a catalyst for enrollments?

Wallace Boston - *American Public Education Inc - President and CEO*

I think it would be when it happens. You know, we have found the leadership team at Wal-Mart to be a great group of people. I think that they will fund the plan eventually. I think that at one point they realized, you may or may not recall, that one of the things that we were asked to do was to analyze a significant number of job codes -- it was more than 80 -- for learning to award academic credit. And in two particular areas of retail management degree and a transportational logistics degree, and we've done that. We analyzed all of the job codes but as we went through that process, they in turn analyze their training programs and how they provide training and who provides training whether it's outsources or in-sourced. Where the learning on the job is. So I think that they just want to study the issue more using data that we've agreed to share in the aggregate, not students specific data but in the aggregate on the roughly 3,000 student who have participated so far. So I think it's going to happen. We feel pretty good about that, but I think that's a company that, when you talk about data analytics, they drive their business off of data analytics. And I think they decide they'd made a decision to be more comfortable looking at how the voluntary associates enrolled and how they did in the program and what attracted them before they made a decision on how they were going to reimburse participants in the program.

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

And is 15% the same deal you offer broadly to corporate partnerships?

Wallace Boston - *American Public Education Inc - President and CEO*

It is not. It is not. We won't offer that type of deal in corporate partnerships. Usually we don't offer anything, but if we're going to offer a discount, we either have to be one of a couple or in the case of Wal-Mart, get an exclusive, which is why we gave them that large of a discount.

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

Yes, okay and last thing, in terms of the movement to the or the incremental full-time faculty. Can you remind me what is the mix currently -- and where do you want to take it in terms of full-time versus adjunct?

Wallace Boston - *American Public Education Inc - President and CEO*

We had 315 full-time faculty last year, and we added 114 at the beginning of this year. Roughly, we have about 1500 adjuncts. So, looking at that difference, what we try to do is we really try to move our best adjuncts into full-time faculty roles. We can't do that with -- we have a lot of great faculty members. Some of our adjuncts simply don't have the time or desire to be full-time. But for the ones that do have a desire, if we can move them into full-time faculty position, we think it improves our retention -- that there's less distractions. If you study some of the adjunct market, you will know that some of the adjuncts teach at four or five different institution. And so that's what we're trying to avoid by putting somebody on the payroll as a full-time faculty member -- really have them dedicated to us and do a much better job by being able to focus on us full-time.

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

And is this an annual thing, Wally, where you add more people full-time as the year progresses?

Wallace Boston - *American Public Education Inc - President and CEO*

No, I don't think we will add more people full-time as the year progresses unless we just see a tremendous [lug] in growth, which has happened a couple of times. I think in 2007 we had a 70% growth a year, and we did add some full-time faculty member in the middle of the year. But we typically do it -- if we're going to do it, we do it in January. We issue annual contracts, and that's the time to too it rather than in the middle of the year. It makes it difficult to manage if you do it in the middle of the year.

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

Got it. Thanks.

Operator

Corey Greendale, First Analysis.

Corey Greendale - *First Analysis Securities - Analyst*

Thanks for taking the follow-up. I'll be quick. Back when the Marine announced the cut in TA that they later rescinded, Wally, I think you talked about the fact that you were -- just how far below the market your tuition pricing is and that there could be an opportunity to increase a little bit to offset some of that cut. Can you talk about how you're thinking about pricing in the current state of the market?

Wallace Boston - *American Public Education Inc - President and CEO*

I think we're still thinking the same thing we thought before which is that the TA reimbursement hasn't gone up in 11 years which is why our tuition has been flat. They do a 75/25 thing -- with things being flat, we're going to try to manage this through sort of stressing the benefits under the GI Bill, which we've noticed, by the way, a number of our military graduate students are more and more using chapter 33 GI Bill benefits for graduate tuition. So, our continuing review of this is that we certainly hope since DOD has indicated that they're looking at tuition assistance as part of overall benefits that they'll come to the conclusion that not raising their tuition in 11 years when the public institution tuitions have more than doubled during that time period is a bad idea.

Corey Greendale - *First Analysis Securities - Analyst*

Thank you.

Operator

Trace Urdan, Wunderlich

Trace Urdan - *Wunderlich Securities, Inc - Analyst*

Hey, just wanted to ask actually a follow-up to Corey's first question, which is why haven't we seen any kind of acceleration in TAP benefits given that there's been so much publicity about their eminent cut and I presume the base education officers are aware of that issue. Why haven't we seen what you would typically see in this sort of situation of people trying to get the benefits before they go away?

Wallace Boston - *American Public Education Inc - President and CEO*

I think there's a lot of different troop movements, people coming back from Iraq, which most of those have come back and people moving in and out of Afghanistan. But, you know, what's interesting -- we told you our fourth quarter growth was 6%, and we didn't have anyone hardly utilize TA in the month of October, so I thought the 6% growth in the fourth quarter with the Marines didn't utilize TA at all and most of the other services didn't utilize it because they didn't get approvals until mid month. But, for example, Trace, the Air Force has moved to a 30 day policy so that no airmen can enroll in a course or get approval for a course more than 30 days out. That was not the case before, but that's certainly changed or sent a message that, on a month by month basis, the budgets are tight because of what is going on in Congress with the fact that the Pentagon's going to have to absorb half of the cuts if they can't reach any agreements on the budget. So, I think those are contributing to why we're not just seeing pent-up demand. I think the ESOs and the -- ultimately the commanders at the bases that have the budgets are trying to manage their budgets as appropriately as they can.

Trace Urdan - *Wunderlich Securities, Inc - Analyst*

Got it. Okay. That's very helpful. Thanks.

Operator

And we have no further questions at this time. I would now like to turn the conference back over to Mr. Symanoskie.

Chris Symanoskie - *American Public Education Inc - Associate VP of IR*

Thanks, operator. That will conclude our call for the day. We wish to thank all of today's callers for your 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 so much for your participation. You may now disconnect. Have a great day.
