American Public Education, Inc.

Introduction

A recent addition to the Federal student aid program, American Public Education, Inc. has expanded its offering from solely students affiliated with the armed services to all students. Its rapid growth in student enrollment, Federal funds collected and profit realized in recent years bears monitoring. Today, APEI's performance—measured by student withdrawal and default rates—is better than many of the companies examined, suggesting that students are faring better at this institution.

Company Overview

American Public Education, Incorporated ("APEI") is a publicly traded, for-profit educational institution headquartered in Charlestown, WV. APEI operates two online-only institutions: American Military University and American Public University. American Military University was founded in 1991 and instructs members of the armed services and their spouses. In 2002, the company created American Public University, which instructs civilians. Together, these institutions are known as American Public University System ("APUS"), which offers 87 degree and 68 Certificate programs. Its 10 most popular programs are: business, criminal justice, history, homeland security, information technology, intelligence, management, psychology, sports, and transportation and logistics management.[963] Most students are enrolled in the company's Bachelor's degree programs. American Public University System became eligible to receive title IV funds in 2006.

Like more than half of the regionally accredited brands examined by the committee, APEI is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC). It has been nationally accredited by the Distance Education Training Council (DETC) since 1995.[964] American Military University was previously headquartered in Virginia. It applied for regional accreditation with the Southern Association of Colleges and Schools in 1998. In 1999, American Military University was denied candidacy status because the institution did not meet the accreditors' requirements of having full-time professors and a library.[965] Bloomberg News reported that, "American Military then shifted its headquarters to West Virginia to seek regional accreditation by the Higher Learning Commission of the North Central Association, according to the minutes of a July 2002 meeting of the Virginia Council of Higher Education, based in Richmond." [966]

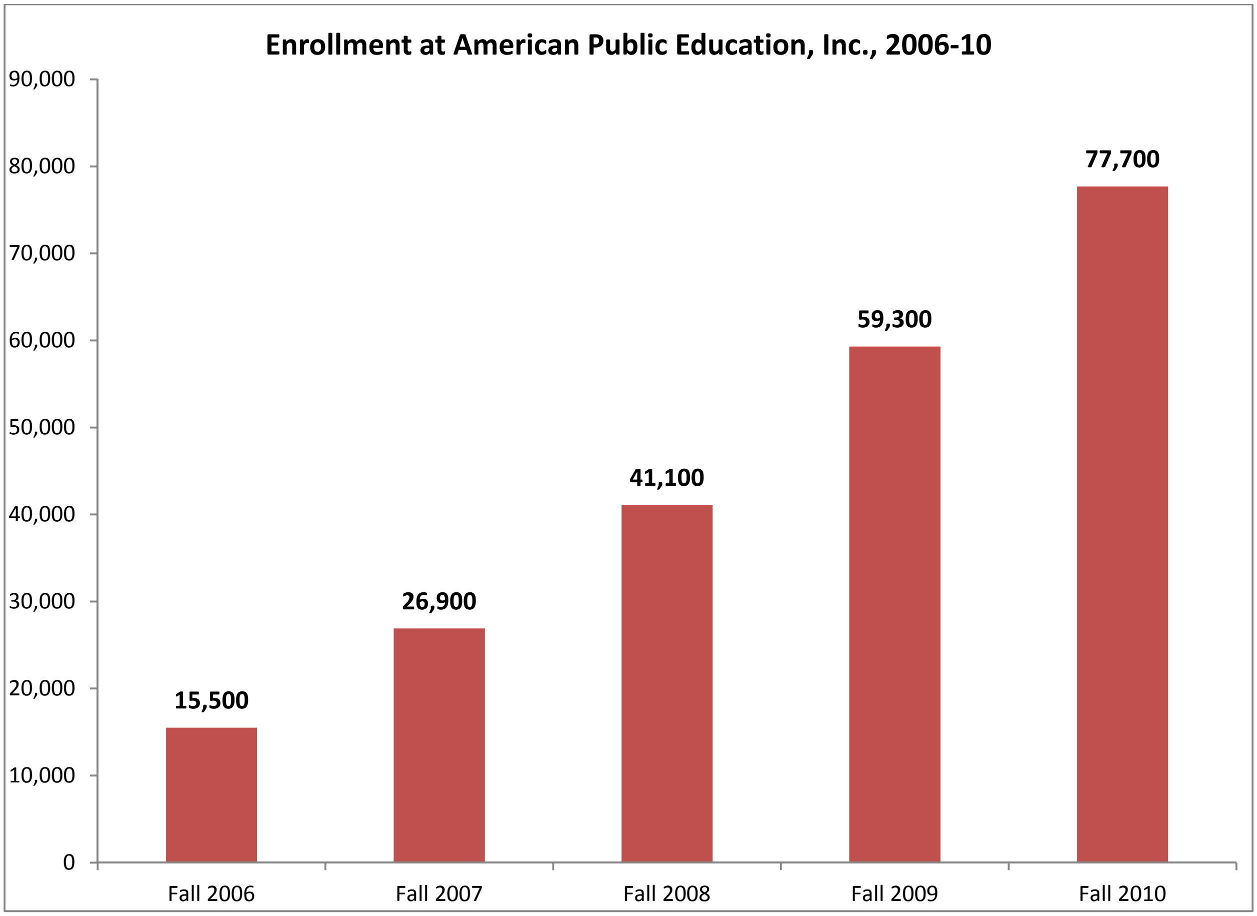
While APEI has been in existence since 1991, two private equity firms ABS Partners and Camden Partners were invested in the company prior to its initial public offering.[967] ABS Partners controlled 54 percent of the company and Camden Partners 13 percent until the November 2007 initial

[963] American Public University System *APUS Facts* 2012 http://www.apus.edu/about-us/facts.htm (accessed, May 5, 2012).
[964] Distance Education and Training Council, http://www.detc.org/school_details.php?id=309 (accessed, May 5, 2012).
[965] Dan Golden,"Marine Can't Recall His Lessons at For-Profit College,"*Bloomberg News*, December 15, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=al8HttoCG.ps (accessed June 12, 2012).
[966] Id.
[967] APEI, Inc., SEC Form 10-K, filed 3/28/2010.

public offering that took the company public.[968] Today, an ABS Capital Partners founding partner remains on the APEI board of directors.

The current chief executive officer (CEO) of APEI is Wallace Boston. Boston joined APEI in 2002 as its executive vice president and chief financial officer. He was named president and CEO in July 2004.[969]

Enrollment at APEI grew from 15,500 in the fall of 2006 to 77,700 students in the fall of 2010, a fivefold increase. [970]



The growth in enrollment has led to growth in revenue. Since APEI became eligible for title IV Federal financial aid funds, revenue nearly tripled from $69 million in 2007 to $198 million in 2010.[971]

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[968] Statement by CEO Wallace Boston at American Public Education, Inc. Presentation at Credit Suisse Group Global. Services Conference, 2/25/2008 (accessed via Fair Disclosure Wire).
[969] American Public Education, Inc., *Executive Management, Dr. Wallace E. Boston*, http://www.americanpubliceducation.com/phoenix.zhtml?c=214618&p=irol-govBio&ID=170845 (accessed May 5, 2012).
[970] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.
[971] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[972] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006. [973]

In 2010, APEI reported 26.0 percent of revenue from title IV Federal financial aid programs.[974] However, this amount does not include the Departments of Defense and Veterans Affairs education programs. Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 51.4 percent of APEI's revenue, or $101.6 million.[975] With these funds included, 77.4 percent of APEI's total revenue was comprised of Federal education funds.[976]

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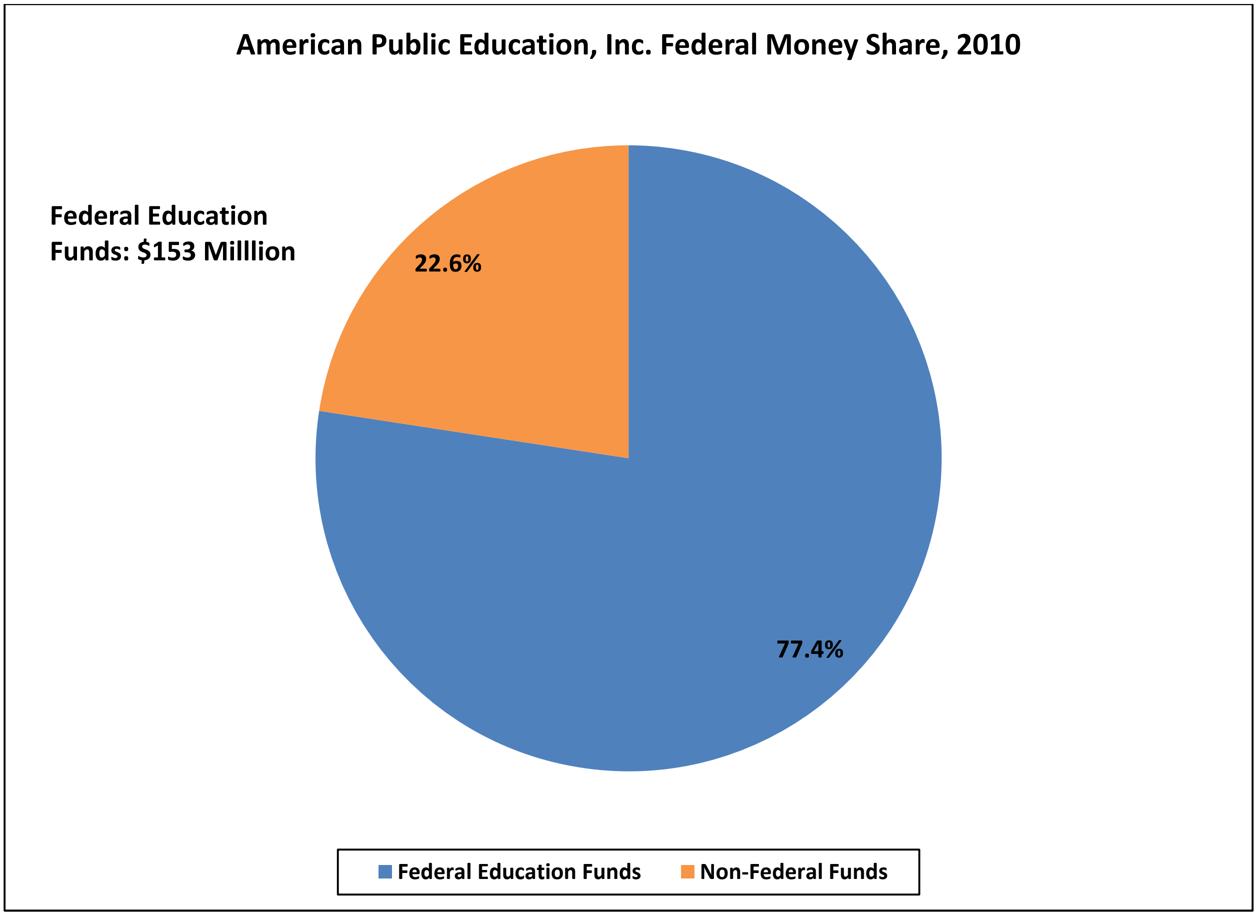
[972] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.
Senate HELP committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.

[973] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[974] Senate HELP Committee staff analysis of fiscal year 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

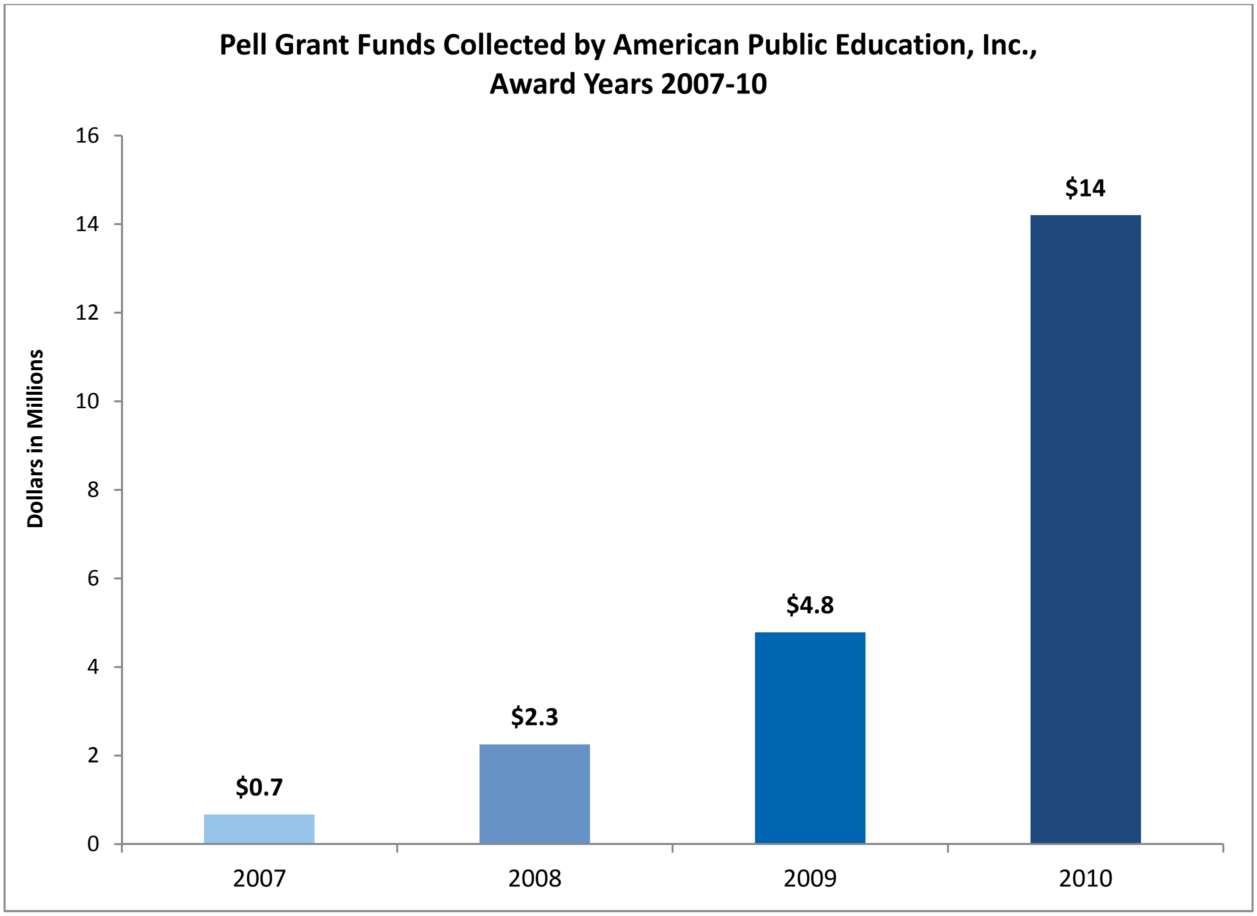
[975] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

[976] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[977] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[977] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



APEI increased the amount of Pell grants it collects more than twentyfold, from $667,907 in 2007 to $14 million in 2010.[978]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profits. On average, among the 15 publicly traded education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[979] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[980] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

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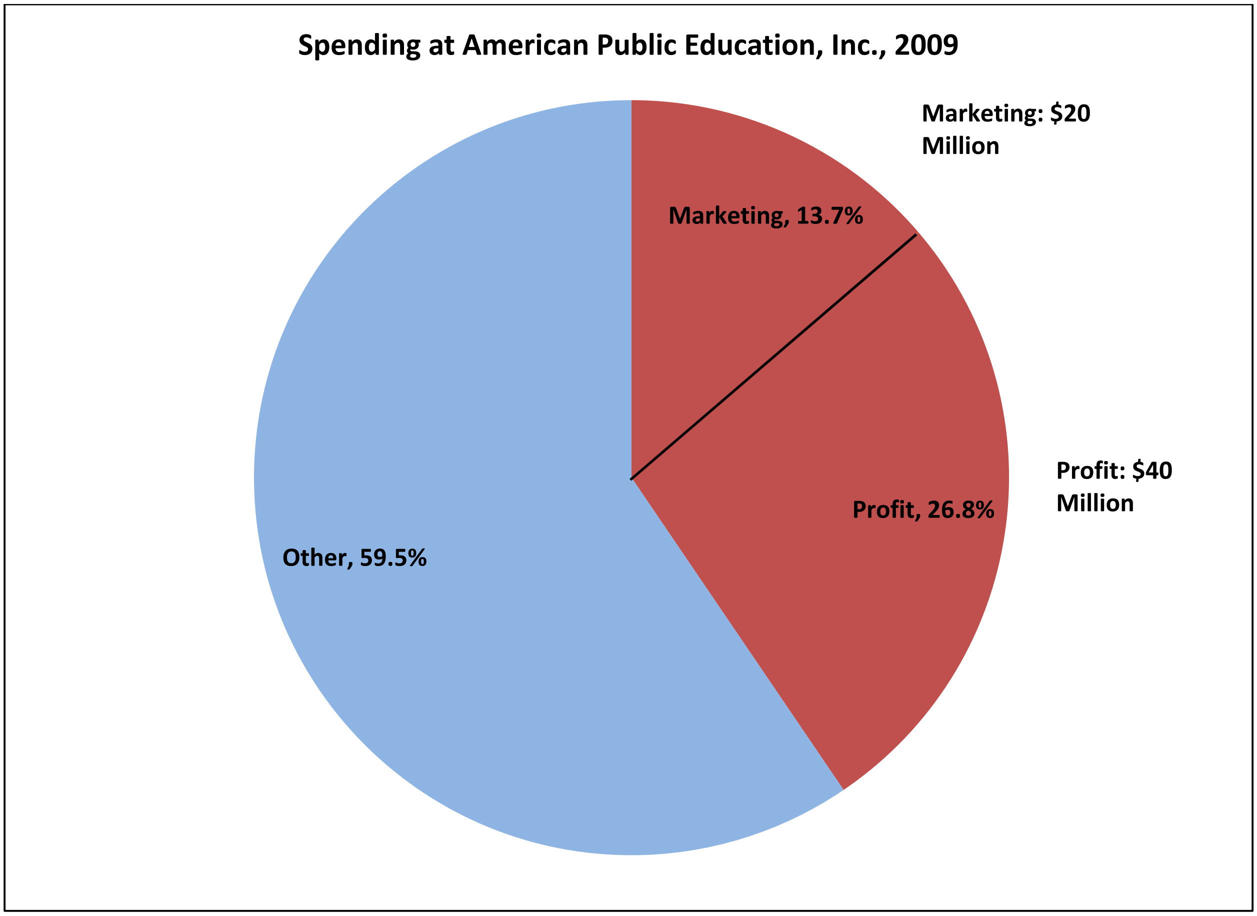
[978] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 through 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.

[979] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

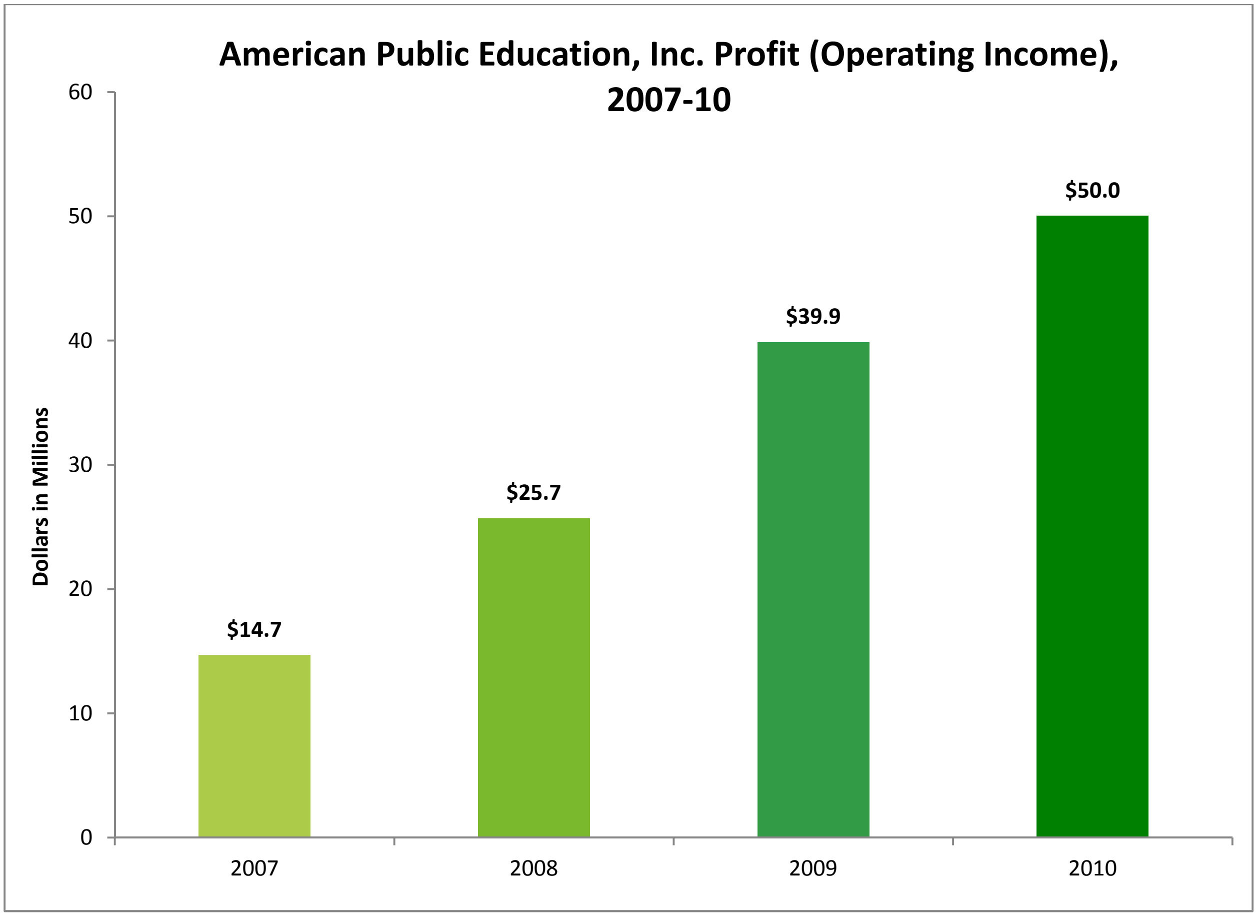
[980] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit is based on operating income. See Appendix 19.

In 2009, APEI allocated 13.7 percent, or $20 million, to marketing and recruiting and 26.8 percent of its revenue, or $40 million, to profit.[981]



APEI devoted a total of $60 million to marketing, recruiting and profit in fiscal year 2009.[982] The amount of profit APEI has generated has also increased rapidly, tripling from $14.7 million in 2006 to $50 million in 2010.

[981] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.
[982] "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.



Executive Compensation

Executives at APEI, like most for-profit executives are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions. In 2010, APEI CEO Wally Boston received $1.7 million in compensation, more than three times as much as the president of the West Virginia University who received $464,700in total compensation for 2009-10.[983]

[983] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

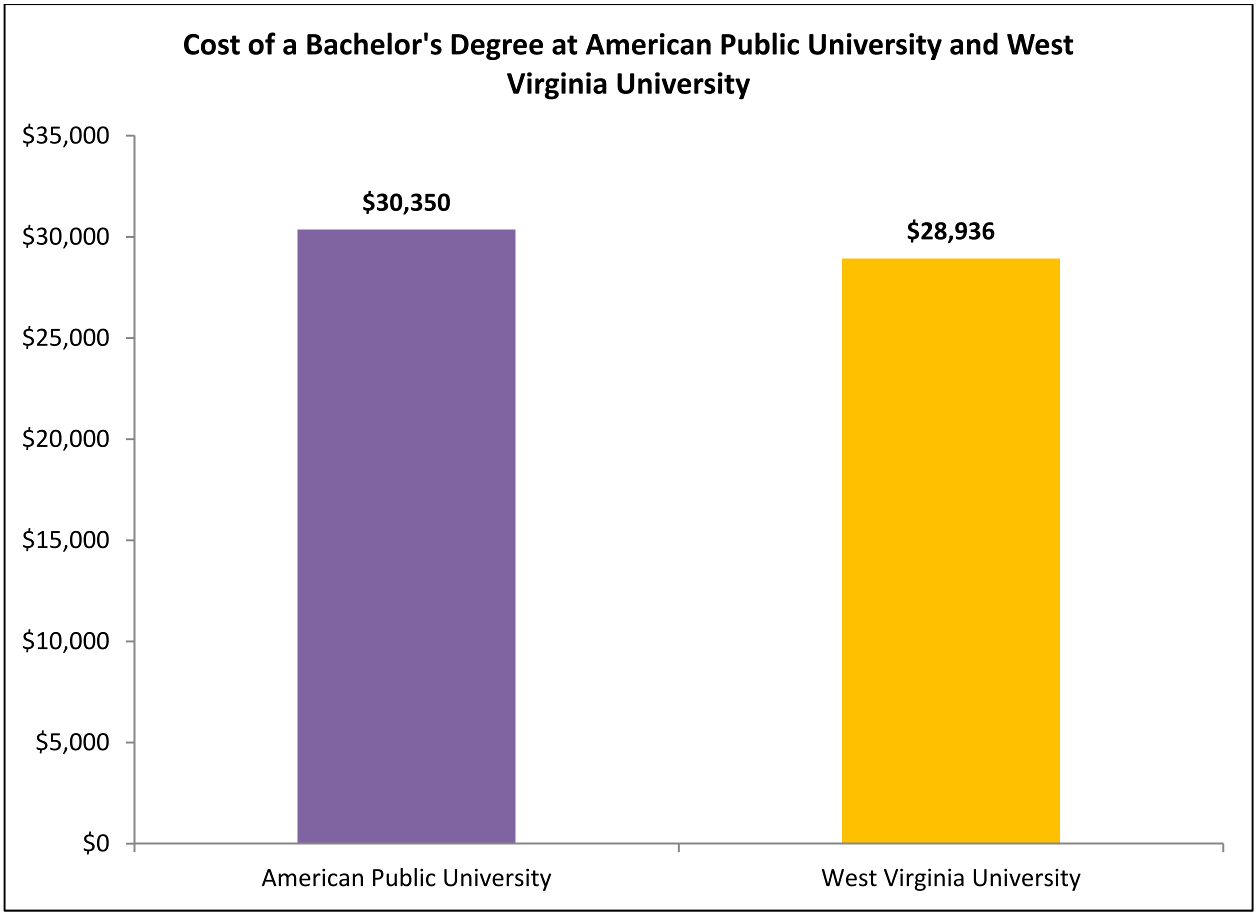
Executive	Title	2009 Compensation	2010 Compensation
Wallace E. Boston	President and Chief Executive Officer	$961,148	$1,659,360
Harry T. Wilkins	Executive Vice President and Chief Financial Officer	$517,333	$668,143
Sharon van Wyk	Executive Vice President and Chief Operating Officer	N/A	$761,304
Carol S. Gilbert	Executive Vice President, Marketing and Programs	$490,614	$456,168
Frank B. McCluskey	Executive Vice President, Provost	$465,725	$450,111
Total [984]		$2,434,820	$3,995,086

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[985] Boston's $961,148 compensation package for 2009 is considerably below average for publicly traded companies.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is about the same at American Public University System. A Bachelor's degree in Business Administration at the American Public University System costs $30,350.[986] The same degree at West Virginia University costs $28,936.[987] However, American Public University charges $15,250 for an Associate degree in Business Administration[988] while Blue Ridge Community and Technical College charges $8,900.[989]

[984] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities and Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17a.
[985] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[986] See Appendix 14; see also, American Public University, *Bachelor of Business Administration*, http://www.apu.apus.edu/academic/programs/degree/15/bachelor-of-business-administration (accessed June 12, 2012).
[987] See Appendix 14; see also, West Virginia University, *West Virginia University*, http://www.wvu.edu/ (accessed June 12, 2012).
[988] See Appendix 14; see also, American Public University, *Associate of Arts in Business Administration*, http://www.apu.apus.edu/academic/programs/degree/1326/associate-of-arts-in-business-administrationhttp://www.apu.apus.edu/academic/programs/degree/1326/associate-of-arts-in-business-administration (accessed June 12, 2012).
[989] See Appendix 14; see also, Blue Ridge Community and Technical College, *Blue Ridge Community and Technical College*, http://www.blueridgectc.edu/ (accessed June 12, 2012).



APEI is public about the fact that their institutions tie the cost of attending to the amount of available benefits from the Department of Defense Tuition Assistance program. At a conference with investors in 2009 CEO Wallace Boston said, "One of the things that makes us very attractive to military professionals is we are affordable. We've pegged our tuition exactly at what the military reimburses under the Tuition Assistance Program." [990] At a 2012 investor conference, Boston said, "We have had a mission to be affordable. We haven't increased our undergraduate tuition in 11 years." [991] Undergraduate tuition at APEI's schools costs $250 per credit hour, while graduate school tuition costs $325 per credit hour. As a result, the cost of attending American Public University System is low compared to other for-profit colleges, even for non-military students.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges must recruit as many students as possible to sign up for their programs.

Documents reviewed by the committee demonstrate that APEI emphasizes its convenience, low cost and regional accreditation as its primary selling points. APEI training materials instruct recruiters

[990] Statement of CEO Wally Boston American Public Education, Inc. at UBS Technology and Services Conference, 6/8/09 (accessed Fair Disclosure Wire).
[991] American Public Education, Inc., *Investor Presentation*, March 1, 2012.

how to respond to questions posed by potential students and emphasize the institutions' double accreditation as a selling point. APEI's proposed response states, "The Admissions Representative will inform the prospective student that we are both regionally and nationally accredited which many employers look into these accreditations [sic]." [992]

Internal company documents make clear that recruiters employed by AEPI are expected to pursue prospective students. In many cases, prospective students are new to higher education and are unaware that for-profit education companies are conducting what is a sales process, rather than a college counseling session. One APEI recruiting presentation with the title "Managing Prospects & Applicants[:] Driving the Conversation" states: "Whoever asks the questions are in control of the conversation." Further it instructs, "Ask open-ended question … this helps you understand their needs as well as any objections that may be preventing their commitment [sic]." The presentation finally goes on to list examples of "leading" questions for recruiters to ask potential students.[993] Another APEI recruiting presentation, titled "Managing Prospects & Applicants[:] Dealing with Objections," is focused in part on overcoming student "fear" and "doubt" to gain an enrollment.[994]

Yet students have little opportunity for recourse; APEI like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement.[995] This clause severely limits the ability of students to have their complaints heard in court, especially in cases in which students with similar complaints seek redress as a group.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[996]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll at APEI are not achieving their educational and career goals.

<u>Retention Rates</u>

Information APEI provided to the committee indicates that of the 19,659 Associate and Bachelor's students who enrolled at APEI in 2008-9, 37.9 percent, or 7,451 students, withdrew by mid-

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[992] American Public Education, Inc. *Admissions Quiz 4.* (2APEI-HELP-24-00000457 at 2APEI-HELP-24-00000458). NOTE: Internal Training Document with title, no date.
[993] American Public Education, Inc. *Managing Prospects & Applicants: Driving the Conversation,* (APEI, 2APEI-HELP-16-00000064 at 2APEI-HELP-16-00000064, 2APEI-HELP-16-00000067, 2APEI-HELP-16-00000069, 2APEI-HELP-16-00000070). NOTE: Internal Training Document with title, no date.
[994] American Public Education, Inc., *Managing Prospects & Applicants: Dealing with Objections* (2APEI-HELP-16-00000001, at 2APEI-HELP-16-00000001, 2APEI-HELP-16-00000004-7). NOTE: Internal Training Document with title, no date.
[995] American Public Education, Inc. No Date, *Student Enrollment Agreement* (*2APEI*-HELP-18-00000100).
[996] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 2, 2012).

2010. These withdrawn students were enrolled a median of 2 months.[997] Overall, APEI's retention rate is much lower than the sector-wide withdrawal rate of 54.3 percent. Further, APEI's Bachelor's degree withdrawal rate of 35.1 percent is the second lowest of all companies examined.[998] APEI's Associate degree withdrawal rate of 46.4 percent is significantly better than the sector-wide rate of 62.8 percent. [999]

Status of Students Enrolled in American Public Education, Inc. in 2008-9, as of 2010						
Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn	Median Days
Associate Degree	4,859	2.8%	50.8%	46.4%	2,256	54
Bachelor's Degree	14,800	2.3%	62.6%	35.1%	5,195	55
All Students	19,659	2.4%	59.7%	37.9%	7,451	55

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Student Loan Defaults

The number of students leaving APEI with no degree correlates with the rates of student loan defaults by students who attended APEI. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1000]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[1001] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1002] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1003] The

[997] Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions. See Appendix 15.
[998] Id. This does not include Vatterott who has the lowest bachelor's withdrawal rate of any of the 30 companies examined, because the company had a sample of only 20 students.
[999] Id. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.
[1000] Direct Loan Default Rates, 34 CFR 668.183(c).
[1001] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
[1002] Id.
[1003] Id.

consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1004]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1005] This change represents a 32.6 percent increase over 4 years.[1006] Three-year default rates at APEI were only measured during fiscal years 2008 and 2009 because of the company's recent participation in the title IV program. In 2008, APEI's default rate was 3.3 percent; it increased precipitously to 11.1 percent in 2009.

Because of factors unique to APEI, the number of students measured in these default rates may not demonstrate a complete picture of how its students are faring. In 2007, APEI's default rate measured just 90 students and in 2008 it measured 820 students. As of the fall 2011, APEI enrolled 105,000 students in American Public University System. Because many of its students receive funding from solely the post-9/11 GI bill or the Department of Defense Tuition Assistance program, fewer borrow title IV funds to pay for their education. In addition, because APEI's enrollment at American Public University has grown so quickly in recent years, many students have not yet entered repayment and thus are not measured.

Executives at APEI are aware of the potential for higher default rates associated with their new student population. An internal memo reads, "To the extent that APUS moves toward accepting civilian students who rely upon title IV loans, it may need to modify its open enrollment to accommodate these elements, with a corresponding impact on enrollment growth." [1007]

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. APEI, like other companies, has contracted with a third-party to manage the default rates by contacting delinquent students and sign them up for temporary forbearances and deferments. APEI hired Horizon Educational Resources to ensure that the company's default rates remain low, hoping for a fiscal year 2009 default rate below 8 percent. In an email to CEO Wallace Boston an APEI executive wrote, "APUS recently contracted with Horizon Educational Resources to monitor and reduce cohort default rates. … cure rates = 60%-70% is the goal to lead to a rate below 8% in FY09." [1008] A December 2009 default management update to the APEI board states "Horizon has cured 129 borrowers [between] October 1, 2009 – November 16, 2009." [1009] The update also states "overall more [students] are in deferment than forbearance." [1010] Deferment is a preferable option for the student because interest does not accrue. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

[1004] Id.
[1005] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-2008, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
[1006] Id.
[1007] Russell Kitchner, *FW: Neg Reg Issues*, June 2010 (*2APEI*-HELP-26-00000315). NOTE: internal email.
[1008] Keith Wellings, *Re: Financial Aid Benchmarks*, August 11, 2009 (2APEI-HELP-26-00000651). NOTE: internal email.
[1009] American Public Education, Inc., *Default Management Update,* December 2009 (2APEI-HELP-26-00000543); American Public Education, Inc., *Board Meeting Online*, December 2009 (2APEI-HELP-26-00000544).
[1010] Id.

Instruction and Academics

The quality of any college's academics is difficult to measure; however the amount that a school spends on instruction per student compared to other spending is a useful measure.

APEI spent $1,784 per student on instruction in 2009, compared to $832 on marketing and $1,619 on profit.[1011] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit schools, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other West Virginia-based colleges spent, on a per student basis, $9,862 at West Virginia University, $2,296 at Blue Ridge Community and Technical College, and $3,571 at Mountain State University.[1012]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time, higher in some companies.[1013] In 2010, APEI employed 261 full-time and 1,062 part-time faculty. [1014]

Staffing

While for-profit education companies employ large numbers of recruiters to enroll new students, the same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, APEI employed 80 recruiters, 28 career services employees and 205 student services employees.[1015] APEI performs better than others in the industry as the number of recruiters reported to the committee is far lower than the total number of student and career services employees.

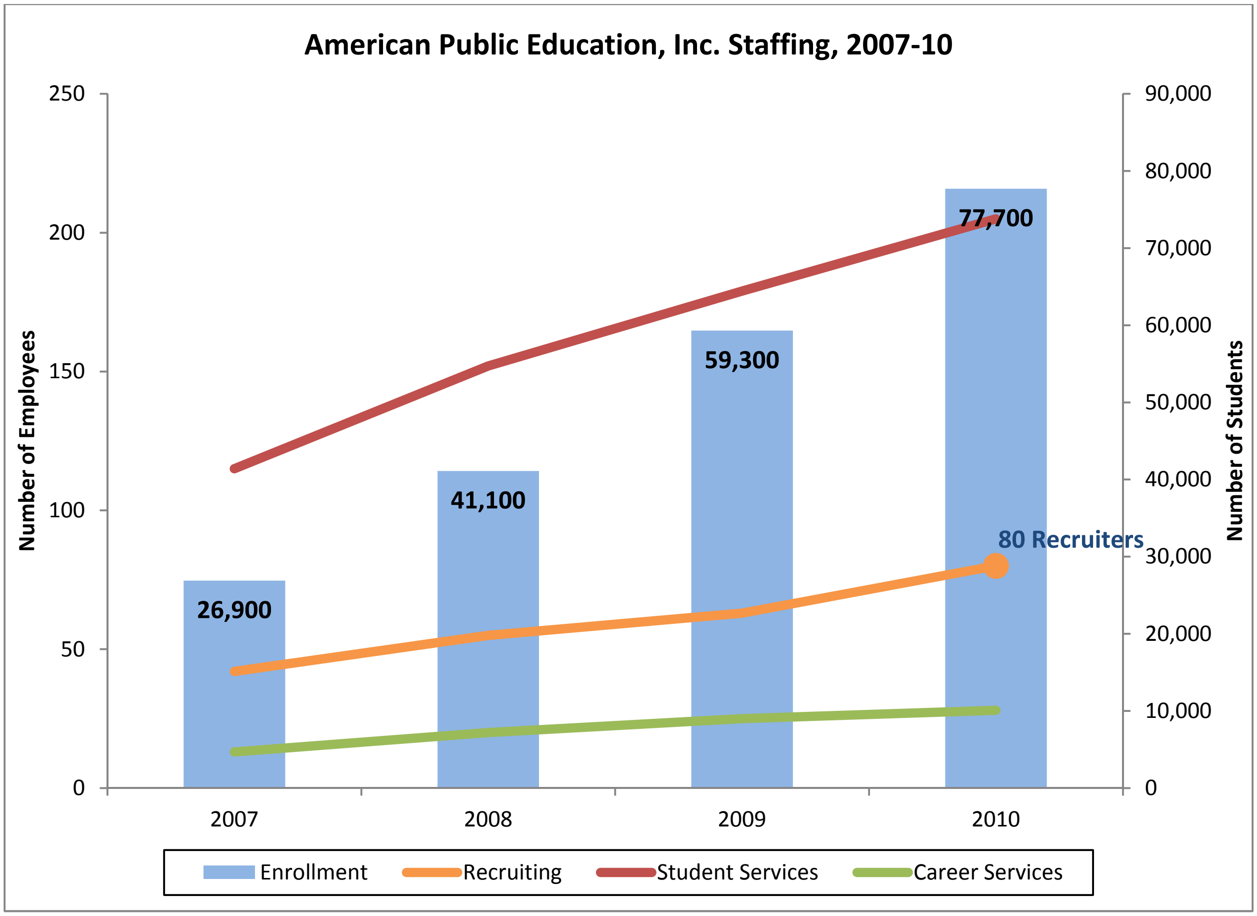
[1011] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Due to deficiencies in the data, it is unclear as to whether this instructional figure includes American Military University students.

[1012] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing, and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1013] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

[1014] Id.

[1015] Id. See Appendix 24.



Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenues come from title IV Federal financial aid programs and that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed in the main body of this report, some companies lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

Because of the large number of students who receive education benefits from the Departments of Defense and Veterans Affairs, APEI reports a very low 90/10 percentage. In 2010, APEI had a 90/10 ratio of 26 percent. APEI began as an institution that served solely military servicemembers, thus the military funding it collects cannot be viewed as an easy convenience to comply with the 90/10 threshold. However, like all for-profit colleges examined by the committee, APEI's reliance on Federal Government funds is considerable. During the 2010-11 Federal fiscal year, APEI collected $98 million in Tuition Assistance funds from the Department of Defense to educate 48,530 servicemen and women. In 2010-11, APEI also received $11.9 million in funds from students receiving post-9/11 GI bill benefits. Finally, in June 2010 the company announced a partnership with Wal-Mart Stores, Inc. in which APEI will provide credit for job experience and provide online classes to Wal-Mart associates.[1016]

[1016] American Public Education, Inc., "American Public University to Expand Higher Education Opportunities for Walmart Associates *Press Release*, June 3, 2010, http://www.americanpubliceducation.com/phoenix. zhtml?c=214618&p=irol-newsArticle&ID=1434260&highlight= (accessed June 14, 2012).

According to a May 2012 report by *Inside Higher Ed*, 2,800 Wal-Mart employees have enrolled in American Public University System programs.[1017] The retailer will reportedly provide up to $50 million in tuition assistance for store associates to attend American Public University over 3 years.[1018] Taken together, these considerable resources outside the Federal financial aid program explain why the company's 90/10 ratio is low.

Conclusion

Students attending APEI have significantly better rates of retention than the companies of comparable size, particularly when compared to other publicly traded companies. The students that APEI enrolls appear to be faring much better than at many companies the committee examined: just 35 percent of Bachelor's students and 46 percent of Associate students withdrew from the school during the 1-year analyzed. Moreover, the company appears to be having success in expanding its long-time model of low-cost online programs for military students to a general student population. The company is unique in that it offers tuition prices that are competitive with public colleges and universities. Even with revenues received from military students and veterans factored in, the company has well diversified sources of revenue and does not appear to face regulatory compliance challenges. This is due in part to employer partnerships, particularly with Wal-Mart that helps to pay student tuition.

However, APEI has also experienced rapid enrollment growth in recent years, growing from 15,500 students to 77,700 in the 3 years between 2006 and 2010. Moreover, the company is quite new to the Federal financial aid program. Thus it will be interesting to see if APEI is able to maintain its record of student success and low-cost programs with this rapid expansion.

[1017] Paul Fain, "Online Classes. Low Prices. Every Day." *Inside Higher Ed*, May 8, 2012, http://www.insidehighered.com/news/2012/05/08/walmart-and-american-public-u-chart-new-ground-partnership (accessed June 14, 2012).

[1018] Stephanie Clifford, and Stephanie Rosenbloom, "Wal-Mart to Offer Its Workers a College Program," *New York Times*, June 3, 2010, http://www.nytimes.com/2010/06/04/business/04walmart.html?_r=2 (accessed June 14, 2012).