

AMERICAN PUBLIC EDUCATION INC
Form 10-K
February 29, 2016

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

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2015

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-33810

American Public Education, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

01-0724376
(I.R.S. Employer
Identification No.)

111 West Congress Street
Charles Town, West Virginia 25414
(Address, including zip code, of principal executive offices)

(304) 724-3700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$.01 par value

Name of each exchange on which registered
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$412.5 million. For purposes of this calculation, shares of common stock held by the registrant's chief executive officer, the registrant's chief financial officer, and the registrant's directors were excluded. Exclusion of such shares held by any person should not be construed to indicate that the person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that the person is controlled by or under common control with the registrant.

The total number of shares of common stock outstanding as of February 25, 2016, was 16,050,540.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the registrant's 2015 fiscal year) are incorporated by reference into Part III of this Report.

AMERICAN PUBLIC EDUCATION, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report, including the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business,” contains forward-looking statements. We may, in some cases, use words such as “project,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “should,” “would,” “could,” “potential,” “may,” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this Annual Report include, but are not limited to, statements about:

- changes to the size of our student enrollment, net course registrations, and the composition of our student body, including the pace of such changes;
- our ability to manage and influence our bad debt expense;
 - our ability to maintain, develop, and grow our technology infrastructure to support our student body;
- our conversion of prospective students to enrolled students and our retention of active students;
- our ability to update and expand the content of existing programs and develop new programs in a cost-effective manner or on a timely basis;
- our plans for, and initiatives at, National Education Seminars, Inc., which we refer to as Hondros College of Nursing;
- our ability to leverage our investments in support of our initiatives, students, and institutions;
- our maintenance and expansion of our relationships and partnerships with the United States Armed Forces, corporations, and other organizations, and the development of new relationships and partnerships;
 - actions by the Department of Defense or branches of the United States Armed Forces;
 - federal appropriations and other budgetary matters that affect the ability of our students to finance their education through programs administered by the Department of Education, the Department of Defense, and the Department of Veterans Affairs;
- our ability to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act of 1965, as amended, and the regulations thereunder, as well as state law and regulations and accrediting agency requirements;
- our ability to undertake initiatives to improve the learning experience and attract students who are likely to persist;
- the competitive environment in which we operate;
- our cash needs and expectations regarding cash flow from operations;
- our ability to manage, grow, and diversify our business and execute our business initiatives and strategy; and
- our financial performance generally.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements, which apply only as of the date of this Annual Report. These important factors include those that we discuss in Item 1A “Risk Factors,” Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere. You should read these factors and the other cautionary statements made in this Annual Report as being applicable to all related forward-looking statements wherever they appear in this Annual Report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance, or achievements may vary materially from any future results, performance, or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events, or otherwise, except as required by law.

PART I

ITEM 1. BUSINESS

American Public Education, Inc., or APEI, provides online and on-campus postsecondary education to over 97,500 students through two subsidiary institutions. In this Annual Report, “we,” “our,” “us,” “the Company” and similar terms refer to APEI and its subsidiary institutions collectively unless the context indicates otherwise.

This Item 1 of our Annual Report contains a Company Overview section that provides information regarding our subsidiary institutions, an explanation of our reporting segments, an overview of the postsecondary educational market and market opportunities, our competitive strengths, growth strategy, executive officers, the seasonality of our operations, and where investors can obtain available information. Item 1 also contains a section entitled “Our Institutions” that provides institution specific information regarding each of our two subsidiary institutions, and a section entitled “Regulatory Environment,” which contains information on some of the regulations that impact postsecondary educational institutions.

COMPANY OVERVIEW

Subsidiary Institutions

Our institutions offer programs designed to prepare individuals for productive contributions to their professions and society, and to offer opportunities that may advance students in their current profession or help them prepare for their next career. Our wholly-owned operating subsidiary institutions include the following:

American Public University System, Inc., or APUS, provides online postsecondary education directed primarily at the needs of the military and public safety communities. APUS is an online university that includes American Military University, or AMU, and American Public University, or APU. APUS is regionally accredited by the Higher Learning Commission. APUS has approximately 96,000 students and offers 100 degree programs and 95 certificate programs in fields of study related to national security, military studies, intelligence, homeland security, criminal justice, technology, business administration, education, health science, and liberal arts. APUS employs approximately 410 full-time faculty members and 1,800 part-time faculty members.

Since APUS's founding in 1991 as AMU, a distance learning graduate-level institution for military officers seeking an advanced degree in military studies, APUS has gradually broadened its focus to include other military communities, veterans, public safety, and certain other civilian professional communities. In 2002, AMU was reorganized into a single university system, APUS, with two components: AMU, which is focused on educating military students, and APU, which is focused on educating non-military students. As an online institution of higher learning, we believe APUS is well-suited to meet the needs of its military students who serve in positions requiring extended and irregular work schedules, are on-call for rapid response missions, participate in extended deployments and exercises, travel or relocate frequently or have limited financial resources. Although APUS's focus has broadened, APUS continues to have an emphasis on its relationship with the military community. As of December 31, 2015, approximately 56% of APUS's students self-reported that they served in the military on active duty at the time of initial enrollment. The remainder of APUS's students were military-affiliated individuals (such as veterans, reservists or National Guard members), public safety professionals (such as law-enforcement personnel or other first responders) and other civilians (such as working adult students).

National Education Seminars, Inc., which we refer to as Hondros College of Nursing, or HCON, provides nursing education to students at four campuses in the State of Ohio, as well as online, to serve the needs of the nursing and healthcare communities. HCON's programs are offered in a quarterly format to approximately 1,520 students.

HCON offers a Diploma in Practical Nursing and an Associate Degree in Nursing at its Ohio campuses, which are located in the suburban areas of Cincinnati, Cleveland, Columbus, and Dayton. HCON also offers an online

Registered Nurse to Bachelor of Science in Nursing completion program, which we refer to as the RN-to-BSN Program, predominantly to students in Ohio. HCON is nationally accredited by the Accrediting Council of Independent Colleges and Schools and the RN-to-BSN Program is accredited by the Commission on Collegiate Nursing Education, or CCNE. HCON's locations and programs are approved by the Ohio State Board of Career Colleges and Schools and the RN-to-BSN Program is approved by the Ohio Department of Higher Education. In addition, the Diploma in Practical Nursing and Associate Degree in Nursing programs are approved by the Ohio Board of Nursing. HCON employs approximately 100 full-time faculty members and 45 part-time faculty members.

We acquired HCON on November 1, 2013. Our acquisition of HCON is consistent with our strategy to diversify our education business and expand further into health science and technology focused programs. We believe HCON will potentially serve as a platform for future healthcare related program expansion.

Our Reporting Segments

Our operations are organized into two reporting segments:

American Public Education Segment, or APEI Segment. This segment reflects the operational activities of APUS, other corporate activities, and minority investments.

Hondros College of Nursing Segment, or HCON Segment. This segment reflects the operational activities of HCON. We acquired HCON on November 1, 2013, and therefore the consolidated results for periods prior to November 1, 2013 do not include any results from HCON.

Our consolidated revenue for the year ended December 31, 2015 decreased to \$327.9 million from \$350.0 million in the year ended December 31, 2014. Net income was \$32.4 million for the year ended December 31, 2015, compared to net income of \$40.9 million for the year ended December 31, 2014. Financial information regarding each of our reporting segments, including information regarding segment revenue, net income, and total assets for each of the last three fiscal years, can be found in our Consolidated Financial Statements found in Item 8 of Part II of this Annual Report; financial information is reported in this Annual Report in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Selected Financial Data,” and “Financial Statements and Supplementary Data.”

Postsecondary Education Market Structure and Market Opportunities

Today, the U.S. postsecondary education market comprises more than 4,000 colleges and universities serving both traditional college-aged students and adult learners. The market is highly fragmented with institutions varying by geography, program offerings, delivery method, ownership, affordability, level of academic quality and selectivity of admissions. No single institution holds a significant proportion of the overall postsecondary education market.

We believe that many students are seeking an educational value that offers them the programs they want, at a competitive price, in an engaging and often mobile format that will support their immediate and long-term career aspirations, and that employers are seeking to hire graduates with competencies aligned to their needs. Thus, institutions such as APUS, with affordable pricing, flexible delivery, and a robust catalog of offerings aligned to workforce needs are well-positioned to address the current challenges and to meet the demands of a connected and mobile society.

We believe that with nearly 2.2 million active-duty military and reservists, the U.S. Armed Forces will continue to be a significant market for online education even with planned troop drawdowns. Because of their irregular schedules, geographic mobility and access to tuition assistance funding, we believe service members will continue to seek respected universities that provide military-focused support services coupled with online curriculum that is designed to prepare graduates for career advancement. As part of their longstanding tradition, military leaders often encourage service members to capitalize on their earned education benefits, and to enhance their qualifications for purposes of the military’s compensation, promotion, assignment, and performance systems.

At the same time, elected and private-industry leaders are heavily promoting new policies and campaigns to facilitate the hiring of veterans, with a priority on placing individuals who are transitioning from military service to the private sector. As these policies lower barriers to nonmilitary jobs and federal contracts for veteran-owned businesses, postsecondary distance universities offer valuable educational opportunities for military constituents regardless of where they live, work and learn.

The Department of Defense (DoD) uniform tuition assistance policy offers service members a variety of affordable education and financial aid options. Additionally, veterans (and certain service members) are entitled to educational benefits from the Department of Veterans Affairs (VA). For more information, refer to “Our Institutions” and “Regulatory Environment - Student Financing Sources and Related Regulations/Requirements.”

We believe that, like the U.S. military community, our nation's public service professionals need access to affordable and flexible education that fits their changing schedules. More and more, we believe leadership advancement within many public service agencies requires an advanced degree. Often public service professionals have extended and shifting schedules preventing them from attending traditional or in-class programs. Many traditional institutions lack the broad selection of degrees, certifications, and concentrations that are specifically relevant to public service careers. APUS addresses this void by offering a broad array of industry-specific programs that are continually assessed against learning outcomes, and enhanced through guidance and input from selected industry leaders.

On a national level the expanding healthcare sector is driving demand for nursing education. According to the U.S. Bureau of Labor Statistics' Occupational Outlook Handbook, 2016-17 Edition, job opportunities for registered nurses are expected to grow approximately 16% between 2014 and 2024, faster than the average growth for all occupations. Despite anticipated growth in job opportunities, a 2014 report from the American Association of Colleges of Nursing stated that over 53,000 qualified applications were not accepted by entry-level baccalaureate programs at nursing schools in 2013. These statistics suggest there may be unmet demand from qualified students for on-campus and online nursing educational programs. These statistics may not be indicative of demand on a regional or local level, including in Ohio.

Our institutions continue to face significant competition and other challenges, including challenges related to federal policies governing education providers and financial aid. Most public institutions are aided by substantial government subsidies. Public and private nonprofit institutions benefit from government and foundation grants, in addition to tax-exempt status, tax-deductible contributions, and other financial resources not widely available to for-profit institutions. Many public competitors benefit from longstanding name recognition, and they are able to directly recruit students more cost-effectively, especially in their local markets. In addition, competitors are upgrading the way they deliver their academic programs, which involves a variety of traditional, blended, and asynchronous learning platforms. Additionally, non-traditional competitors, such as entities offering coding bootcamps, are offering new alternative educational paths. Some institutions are shifting their delivery models to include a mix of traditional, nontraditional, credit-bearing and non-credit-bearing education programs, and massively open online courses (MOOCs) can be offered at little to no cost. This trend is accelerating as many institutions realign and adopt the flexible and cost-effective benefits that online education offers the modern learner.

Our Competitive Strengths

We believe our institutions demonstrate the following competitive strengths:

Academic Excellence. We are committed to continually assessing and enhancing our academic programs and our student services to support successful outcomes for our students and graduates. APUS invests significant resources in faculty, learning technologies, curriculum design, and student support for its learning community. APUS's academic program offerings are overseen by an independent Board of Trustees that includes former college presidents and executive team members, active accreditation evaluators, a former Commandant of the Marine Corps, a former Navy Admiral, and a former Department of the Army Inspector General. Additionally, APUS utilizes Industry Advisory Councils (IACs) to evaluate and inform the overall and program-specific academic learning strategy. This facilitates efforts to connect APUS's curriculum to the industry and the students it serves. Similarly, HCON focuses on educational support by hiring experienced industry professionals while enhancing student services to assist students with courses, labs, and clinical offerings. HCON's faculty includes individuals with research experience, and specialized nursing credentials.

Affordable Tuition. The combined tuition and fees at APUS are less expensive for undergraduate and graduate students than the average in-state cost at a public university. This, when combined with APUS's undergraduate book grant, which is provided to all undergraduate students, results in significant savings for students. Following a tuition increase that was effective in July 2015, undergraduate tuition at APUS is \$270 per semester hour, or \$810 per three-credit course. A full 121-credit hour undergraduate degree may be earned for \$32,670 in tuition costs at current tuition rates. Following the July 2015 tuition increase, APUS's graduate tuition is \$350 per semester hour, or \$1,050 per three-credit course, which means many APUS graduate degrees may be earned for \$12,600 in tuition at current tuition rates. APUS provides a tuition grant to support students who are U.S. Military active-duty service members, Guard, Reserve, military spouses and dependents, and veterans. For such individuals tuition is set at pre-July 2015 rates, with undergraduate course tuition at \$250 per semester hour, and graduate course tuition at \$325 per semester hour. APUS estimates that the tuition grant applies to approximately 75% of its total net course registrations. Tuition and fees at HCON are also designed to be affordable and competitive with those of similar institutions offering the same level of flexibility, accessibility, and student experience. After taking into account the tuition grant that is available to service members, APUS's undergraduate tuition is covered 100% by DoD tuition assistance and graduate tuition is approximately 80% covered. Tuition, fees, and books at HCON are also designed to be affordable and competitive with those of similar institutions offering the same level of flexibility, accessibility, and student experience.

Online Higher Education and Diverse Program Offerings. APUS designs courses and programs specifically for online delivery. APUS recruits and prepares its faculty exclusively to deliver online instruction. Because students are located worldwide, APUS focuses on providing asynchronous, interactive education to students that fits their busy lives. APUS offers 100 degree programs in fields ranging from homeland security, space studies, and emergency and disaster management, to liberal arts and electrical engineering. HCON currently offers a Diploma in Practical Nursing, an Associate Degree in Nursing, and an online registered nurse to Bachelor of Science in Nursing completion program.

Our Strategic Approach

To grow our revenue and improve our financial performance, we plan to employ the following strategies:

Maintain Our Leading Position in the Military Market. APUS has focused on the needs of the U.S. military community since being founded as AMU. The combination of our online model, focused curriculum, and outreach to military communities has enabled APUS to maintain market share against more established schools, many of which are traditional schools offering on-campus instruction that have served the military market for longer periods. APUS remains firmly committed to providing exceptional service and support to the military community. One example of this commitment and the resources dedicated to it is APUS's Virtual Veterans Center, which is an online information repository, a gateway to personalized support services, and a gathering place for veteran and active-duty students and alumni. It provides users with branch-specific discussion boards, career services, academic advising, Student Veterans of America chapter information, and a range of other resources.

Broaden APUS's Acceptance in the Civilian Market. APUS designs its curriculum to be relevant to public safety professionals and civilian professionals with extended and irregular work schedules, and other adult learners. We believe that today's adult students, regardless of their specific career requirements, are looking for a highly-tailored educational experience that prepares them for success. While APUS's quality, affordable, and diverse academic offerings are highly attractive options for students.

Add New Degree Programs and Offerings at Our Institutions. Over the long term, we intend for our institutions to continue expanding their degree offerings to meet student needs and marketplace demands, with a focus on new programs in fields exhibiting higher than average growth. Our acquisition of HCON, and the type of program offerings at HCON, reflect this strategy, and we plan to focus on increasing student enrollments in HCON's programs, grow HCON's on-campus and online program offerings, and open new campuses for HCON. APUS is also preparing, academically and culturally, to potentially begin offering doctoral programs in the next few years.

Pursue and Expand Strategic Partnerships. We believe that articulation agreements and partnerships with other institutions of higher learning, corporations, professional associations, and other organizations are important to institutional performance, enrollment growth and expanding access to higher education. We plan for our institutions to continue pursuing such relationships.

Utilize Innovative Education Technology. APUS has developed proprietary technologies and systems to enhance student services, classroom instruction, learning outcomes, and the overall student experience. To further improve student outcomes, satisfaction rates, access, our institutional efficiency and our brand differentiation, we are focused on providing a unique and advanced learning environment, including through enhancing our existing technologies and investing in emerging technologies and companies. For example, as a result of our investment in Fidelis Education, Inc., or Fidelis Education, we pursued a pilot program to provide students with access to Fidelis Education's ClearPath system. The ClearPath system is designed to help online students interact with faculty and staff in meaningful ways outside the classroom, improve persistence, and help students successfully prepare for career transitions. After a successful pilot, in 2015 we opened the ClearPath system to all APUS students.

Improve Student Persistence. Our ability to maintain and increase enrollment depends largely on our ability to attract new students and provide them with an effective university experience. We are focused on increasing the percentage of our students who are prepared for the rigors of higher education and capable of successfully completing courses and graduating from our programs. We have launched several projects at APUS to accomplish these goals, including initiatives to attract college-ready students, increase the level of engagement and collaboration in the classroom, and introduce new classroom interventions to help students succeed academically. In addition, we research and explore new ways to improve student persistence and academic quality through collaborative initiatives with non-profit organizations and other universities.

To assist us in achieving elements of our growth strategy and further develop our business capabilities, we will continue to assess and pursue strategic investments and acquisitions. Future strategic investments or acquisitions could include, among other things, investments in partnerships or joint ventures with, or the acquisition of, other schools, service providers, or education technology-related companies. Examples of our investments and acquisitions include: Hondros College of Nursing. In November 2013, we acquired all of the issued and outstanding capital stock of National Education Seminars, Inc., which we refer to as HCON, for an approximate adjusted aggregate purchase price of \$46.8 million. As described more fully elsewhere in this Annual Report, HCON offers a Diploma in Practical Nursing, an Associate Degree in Nursing, and an online RN-to-BSN program.

New Horizons Worldwide, Inc. In September 2012, we made a \$6.8 million equity investment and a \$6.0 million debt investment in a holding company that acquired New Horizons, a global information technology training company operating over 300 locations around the world through franchise arrangements in approximately 70 countries. In connection with the investment we acquired approximately 19.9% of the fully diluted equity of New Horizons and are entitled to certain rights, including rights to representation on the Board of Directors of the holding company. In December 2014, New Horizons prepaid the \$6.0 million debt investment we made in connection with the transaction.

Fidelis Education, Inc. In February 2013, we made a \$4.0 million investment in preferred stock of Fidelis Education, representing approximately 21.6% of its fully diluted equity. On February 1, 2016, the Company made an additional \$950,000 investment in preferred stock of Fidelis Education, increasing its investment in Fidelis Education to approximately 22% of its fully diluted equity. Fidelis Education offers a learning relationship management platform that has the goal of improving education advising and career mentoring services offered to students as they pursue college degrees. In connection with its investments, APEI is entitled to certain rights, including the right to representation on Fidelis Education's Board of Directors.

For additional information regarding these and our other investments and acquisitions, please refer to the "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements."

Executive Officers of the Registrant

Set forth below is certain information concerning our executive officers serving as of the date of this Annual Report.

Name	Age	Position
Dr. Wallace E. Boston	61	President, Chief Executive Officer and Director of APEI and President and Chief Executive Officer of APUS
Richard W. Sunderland, Jr., CPA	55	Executive Vice President, Chief Financial Officer
Dr. Karan Powell	62	Executive Vice President, Provost of APUS
Carol S. Gilbert	57	Executive Vice President, Marketing
Peter W. Gibbons	63	Senior Vice President, Chief Administrative Officer

Dr. Wallace E. Boston joined us in September 2002 as Executive Vice President and Chief Financial Officer of APUS and, since June 2004, has served as President, Chief Executive Officer, and a member of the Board of Directors of APEI and President and Chief Executive Officer of APUS. From August 2001 to April 2002, Dr. Boston served as Chief Financial Officer of Sun Healthcare Group. From July 1998 to May 2001, Dr. Boston served as Chief Operating Officer and, later, President of NeighborCare, Inc. From February 1993 to May 1998, Dr. Boston served as Vice President of Finance and later, Senior Vice President of Acquisitions and Development of Manor Healthcare Corporation, now Manor Care, Inc. From November 1985 to December 1992, Dr. Boston served as Chief Financial Officer of Meridian Healthcare.

Richard W. Sunderland, Jr., CPA joined us in February 2011 as a consultant and became Senior Vice President of Finance at APUS in December 2012. Effective January 1, 2014, Mr. Sunderland was appointed as Executive Vice President and Chief Financial Officer of APEI. Prior to joining APUS, Mr. Sunderland served as the Chief Financial Officer of NovaSom, Inc. from 2008 to 2010. In addition, Mr. Sunderland served as Chief Financial Officer of Active Day, Inc. between 2005 and 2008, and in various roles, including as Controller, Senior Vice President and Chief Financial Officer, at NeighborCare, Inc. from 1993 to 2004.

Dr. Karan Powell joined us in April 2004 as Interim Chancellor after serving on the Board of Trustees of APUS for two years. From October 2005 to December 2005, Dr. Powell served as the Dean of the School of Business, Management and Graduate studies. From January 2006 to July 2008, Dr. Powell served as Vice President and Academic Dean. In July 2008, Dr. Powell was promoted to Senior Vice President and served as Senior Vice President and Academic Dean until August 2011 when she was promoted to Executive Vice President and Provost. In 2010, Dr. Powell joined the board of the Higher Education Resource Services (HERS) and was elected to the HERS executive board as Secretary in 2014. From 2011 to 2012, Dr. Powell served as Chair of the HERS' 40th Anniversary Committee, and in 2012, was appointed as Program Committee Chair, and in 2015 was appointed to the Finance Committee. Dr. Powell has served on the Board of Trustees for Garrison Forest School in Baltimore, Maryland since 2012, and is currently chair of the Human Resources Committee. Dr. Powell was elected to the Board for the Association of Chief Academic Officers in 2014. Dr. Powell also serves as an academic advisor to the Board of Directors of Fidelis Education, Inc. Between 1988 and 2007, Dr. Powell served at Georgetown University in various roles, including Director of Professional Development in the School of Continuing Education, Director of Organization Development Programs, and Director of IRS Executive Development Program. While at Georgetown University, Dr. Powell also served as an Executive Instructor at the School of Business.

Carol S. Gilbert joined us in May 2004 as Vice President, Programs and Marketing, was promoted to Senior Vice President, Marketing in January 2005 and was promoted to Executive Vice President, Marketing in January 2009. From 1998 to 2000, Ms. Gilbert served as Brand Team Vice President, Marketing/Strategic Planning, Fairfield Inn, and from 2000 to 2003 served as Brand Vice President, SpringHill Suites by Marriott. From April 1996 to October

1997, Ms. Gilbert served as Vice President, Strategic Planning at Choice Hotels International (formerly owned by Manor Care, Inc.). From 1991 to 1996 Ms. Gilbert served as Director, then Senior Director of Marketing Strategy for Manor Care, Inc.

Peter W. Gibbons joined us in October 2002 as Vice President, Student Services and became Senior Vice President, Chief Operating Officer in January 2005. In May 2007, Mr. Gibbons' title was changed to Senior Vice President, Chief Administrative Officer. From June 2000 to October 2002, Mr. Gibbons served as Vice President, Human Resources for Sitel Corporation. From May 1975 to June 2000, Mr. Gibbons served as a field artillery officer in the United States Army. Mr. Gibbons commanded soldiers in combat, held senior staff positions at the Department of Army, and taught at the United States Military Academy for three years.

Seasonality

Our quarterly results fluctuate and, therefore, the results in any quarter may not represent the results we may achieve in any subsequent quarter or full year. Our revenue and operating results normally fluctuate as a result of seasonal or other variations in our enrollments. Our student population varies as a result of new enrollments, graduations, student attrition, the success of our marketing programs, and other reasons that we cannot always anticipate. We expect quarterly fluctuations in operating results to continue as a result of these factors.

Available Information About Us

APEI was incorporated in Delaware in 2002, as the successor to a Virginia corporation incorporated in 1991. Our website is www.americanpubliceducation.com. The information on our website is expressly not incorporated by reference in this Annual Report on Form 10-K. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition to visiting our website, you may read and copy materials we file with the Securities and Exchange Commission, or SEC, at the SEC's Public Reference Room at 100 F. Street, NE, Washington DC 20549, or at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

OUR INSTITUTIONS

We provide postsecondary education through two subsidiary institutions, APUS and HCON. Our institutions are licensed or otherwise authorized by state authorities, or are in the process of obtaining such licenses or authorizations, to offer postsecondary education programs to the extent the institutions believe such licenses or authorizations are required, and are certified by the United States Department of Education, or ED, to participate in student financial aid programs authorized under Title IV of the Higher Education Act of 1965, as amended, or Title IV programs.

American Public University System

APUS is regionally accredited by the Higher Learning Commission, or HLC, and is based in Charles Town, West Virginia. In 2002, APUS was organized into a single university system, with two component universities, AMU, which is focused on appealing to military students, and APU, which is focused on appealing to non-military students. APUS traces its roots to AMU, which was founded as a distance learning graduate-level institution for military officers seeking an advanced degree in military studies. APUS has gradually broadened its focus to include other military communities, veterans, public safety, and certain other non-military communities. APUS is an online institution of higher learning, which we believe is well-suited to its students, especially its military students, who serve in positions requiring extended and irregular work schedules, are on-call for rapid response missions, participate in extended deployments and exercises, travel or relocate frequently and have limited financial resources.

Although APUS's focus has broadened, it continues to have an emphasis on its relationship with the military community. As of December 31, 2015, approximately 56% of APUS's students self-reported that they served in the military on active duty at the time of initial enrollment. The remainder of APUS's students are military-affiliated professionals (such as veterans, reservists or National Guard members), public safety professionals (such as law-enforcement personnel or other first responders) and other civilians (such as working adult students).

Curriculum and Scheduling

APUS offers 195 degree and certificate programs through over 1,600 unique courses that are offered in either eight- or sixteen-week formats. Academic terms begin on the first Monday of each month. APUS's programs are as follows:

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Programs	Number
Masters Degrees	34
Bachelors Degrees	44
Associates Degrees	22
Total Degree Programs:	100
Certificates	Number
Graduate	43
Undergraduate	52
Total Certificates:	95
TOTAL PROGRAMS AND CERTIFICATES	195

At the graduate level, APUS offers programs in the following fields of study:

Master of Arts in:	Master of Business Administration
Criminal Justice	
Emergency and Disaster Management	Master of Education in:
Emergency and Disaster Management and Homeland Security	Educational Leadership
Entrepreneurship	Teaching
History	
Homeland Security	Master of Public Administration
Humanities	Master of Public Health
Intelligence Studies	Master of Public Policy
International Relations and Conflict Resolution	
Legal Studies	Master of Science in:
Management	Accounting
Military History	Cybersecurity Studies
Military Studies	Environmental Policy and Management
National Security Studies	Health Information Management
Political Science	Information Technology
Psychology	Nursing
Reverse Logistics Management	Space Studies
Security Management	Sports and Health Sciences
Transportation Management and Logistics	Sports Management

At the undergraduate level, APUS offers programs in the following fields of study:

Bachelor of Arts in:

Criminal Justice
Emergency and Disaster Management
English
Entrepreneurship
General Studies
Government Contracting and Acquisition
History
Homeland Security
Hospitality Management
Human Development and Family Studies
Intelligence Studies
International Relations
Management
Marketing
Middle Eastern Studies
Military History
Philosophy
Political Science
Psychology
Religion
Retail Management
Reverse Logistics Management
Security Management
Sociology
Transportation and Logistics Management

Legal Studies
Mathematics
Natural Sciences
Nursing
Public Health
Space Studies
Sports and Health Sciences
Sports Management

Associate of Arts in:

Business Administration
Communication
Counter-Terrorism Studies
Criminal Justice
Early Childhood Care and Education
General Studies
History
Hospitality
Management
Military History
Real Estate Studies
Retail Management
Weapons of Mass Destruction Preparedness

Associate of Applied Science in Health Sciences

Bachelor of Business Administration _

Bachelor of Science in:

Accounting
Criminal Justice - Forensics
Cybersecurity
Electrical Engineering
Environmental Science
Health Information Management
Fire Science Management
Information System Security
Information Technology
Information Technology Management

Associate of Science in:

Accounting
Computer Applications
Database Application Development
Explosive Ordnance Disposal
Fire Science
Paralegal Studies
Public Health
Web Publishing

APUS's certificate programs generally consist of a minimum of 18 semester hours and focus on a particular component of a broader degree program. Students may earn discrete certificates or earn certificates in combination with work toward a degree program. APUS also offers several Learning Tracks comprised of one two-week "Classroom Success" orientation course about online learning, and three academic courses in a related area of interest. A Learning Track allows students to pursue a course of study without having to commit to a degree or certificate program.

Enrollment and Student Body

The active student body of APUS consists of approximately 96,000 students, most of whom hold full-time employment. Active students are defined as those who have completed a course in the past 12 months, or are currently enrolled or registered for an upcoming course. APUS disenrolls students who fail to register for and complete at least one course in a calendar year, although students may apply for re-admission and active status. Students on extended military deployments may apply for a program hold, which keeps such students active until they return and are able to resume their studies.

Accreditation

APUS is regionally accredited by HLC, which accredits degree-granting institutions located in a 19-state region, including West Virginia, and is recognized by ED. The status and meaning of this institutional accreditation is described more fully below in “Regulatory Environment - Accreditation.”

In addition to institutional accreditation by HLC, certain programs offered by APUS have received specialized accreditations or professional recognition. For example, the Accreditation Council for Business Schools and Programs, or ACBSP, accredits the following programs:

- Associate of Science, Bachelor of Science and Master of Science in Accounting;

- Associate of Arts, Bachelor and Master of Business Administration;
- Associate of Arts and Bachelor of Arts in Hospitality Management;
- Associate of Arts, Bachelor of Arts, and Master of Arts in Management;
- Associate of Arts in Real Estate Studies;
- Associate of Arts and Bachelor of Arts in Retail Management;
- Bachelor of Arts and Master of Arts in Reverse Logistics Management;
- Bachelor of Arts in Marketing; and
- Bachelor and Master of Arts in Transportation and Logistics Management.

CCNE accredits the Bachelor of Science in Nursing. Furthermore, APUS has obtained professional recognition for its program concentrations in Human Resources from the Society for Human Resource Management, certain courses in the Sports and Health Sciences program from the American Sport Education Program for Bronze Level Certification and the National Academy of Sports Medicine Performance Enhancement Specialist, for the Information Systems Security program from the National Security Agency - Information Assurance Courseware Evaluation, and certain courses in the Human Development and Family Studies program from the National Council on Family Relations for the Certified Family Life Educator. These accreditations and recognitions are described more fully below in “Regulatory Environment - Accreditation.”

Student Recruitment and Marketing

APUS’s marketing strategy traditionally focused on building long-term, mutually beneficial relationships with organizations and individuals in military and public safety communities. The core of APUS’s referral strategy is rooted in our military and public safety outreach teams, which serve those primary communities and develop lasting partnerships. We believe APUS’s reputation as a trusted educator yields peer-to-peer referrals, and positions APUS as a respected institution among top federal and private sector employers. These relationships, as well as APUS’s student and alumni networks, also create personal referrals. This relationship-based marketing approach enables APUS to achieve student acquisition costs lower than we believe it would otherwise have if it focused more heavily on traditional media advertising.

APUS supplements relationship-based marketing with traditional media advertising and multifaceted interactive marketing campaigns to create greater brand awareness, particularly for the APU brand outside the military and public safety communities, and to increase inquiries from potential students. In these campaigns, APUS utilizes digital marketing channels such as organic search, pay-per-click, banner advertising, and online social media, among others. This aspect of APUS’s marketing strategy, along with increased competition and more investment in marketing the less well known APU brand, has resulted in increased student acquisition costs, and has also attracted students who generally did not perform as well as those who enrolled through relationship-based marketing. In the fourth quarter of 2014, APUS revised this strategy to use a more targeted and narrower geographical approach that was intended to attract students with greater college readiness.

Student Admissions

APUS welcomes prospective students to apply for admission at any time through an online application process. The current qualifications for most undergraduate programs are a high school diploma or General Education Development certificate. Applicants for graduate programs must hold a bachelor’s degree from an accredited U.S. institution or an equivalent foreign institution. Certain programs may have additional admissions standards and restrictions. Following admission students are issued a student ID number and password, and are provided information on how to finalize their admission and apply for evaluation of transfer credits. Students are also provided information on how to register for courses, arrange for payment, and navigate the online student environment.

In April 2015, APUS implemented an admissions process requiring prospective students to complete a free, non-credit admissions assessment if they are not (i) active duty military or veteran applicants; (ii) graduates of certified federal,

state or local law enforcement or public safety academies; or (iii) students with at least nine hours of transfer credit from an accredited institution with a grade of “C” or better for each course.

APUS continues to improve the learning experience and attract students who are more likely to persist in its programs, and may implement a number of important changes and initiatives to admit more college ready students. Such initiatives may include altering admissions standards, which may have an adverse effect on APUS’s enrollment and our financial condition.

For additional information on the risks associated with such initiatives and the APUS admissions process please refer to “Risk Factors - Risks Related to Our Business.”

Cost of Attendance and Financial Aid

We believe that APUS's ability to offer affordable programs is one of its competitive strengths. Many APUS students also transfer a significant number of previously earned academic credit hours, which reduces the cost and time of earning their degrees.

Beginning in July 2015, APUS increased undergraduate and graduate tuition by approximately 8%. Undergraduate tuition at APUS is now \$270 per semester hour, or \$810 per three-credit course. A full 121-credit hour undergraduate degree may be earned for \$32,670 in tuition costs at current tuition rates. APUS's graduate tuition is now \$350 per semester hour, or \$1,050 per three-credit course, which means many APUS graduate degrees may be earned for \$12,600 in tuition at current tuition rates. The combined tuition, fees and books at APUS are designed to be less expensive for undergraduate and graduate students than the average in-state cost at a public university. APUS provides a tuition grant to support students who are U.S. Military active-duty service members, Guard, Reserve, military spouses and dependents, and veterans. For such individuals tuition is set at pre-July 2015 rates, with undergraduate course tuition at \$250 per semester hour, and graduate course tuition at \$325 per semester hour. APUS estimates that the tuition grant applies to approximately 75% of its total net course registrations.

The July 2015 tuition increase was APUS's first undergraduate tuition increase since 2000, and the first graduate tuition increase in four years. Based on information in the College Board's 2015 Trends in College Pricing (undergraduate) and the National Center for Education Statistics Digest of Educational Statistics 2013-14 (graduate), we estimate that, after the tuition increase, APUS's combined tuition, fees, and books remain approximately 19% less for undergraduate students and 38% less for graduate students than the average published in-state rates at public universities.

Undergraduate students enrolled in courses for academic credit receive their textbooks and certain course materials at no additional cost to them through a book grant program. This book grant represents an average potential savings over the course of a student's undergraduate degree program of approximately \$5,192 as compared to public four-year colleges and universities according to comparative information from The College Board's Trends in College Pricing 2015 report. APUS also utilizes open access and online library materials where applicable and works with various publishers to reduce the cost of textbooks and course materials.

APUS does not charge an admission fee or fees for services such as registration, course drops, and similar events that trigger fees at many other institutions. Because APUS is an exclusively online institution, there are no required resident fees, such as for parking, food service, student union, and recreation. APUS charges students a technology fee, but provides a grant to cover the technology fee for students using DoD tuition assistance programs. When applicable, APUS students are charged certain additional fees, such as graduation, late registration, transcript request, and comprehensive examination fees.

DoD tuition assistance programs cover \$750 of the tuition costs per course for military students, and these students may also be able to use VA education benefits or aid from ED's Title IV programs to cover any remaining cost, as described more fully below in "Sources of Student Financing" and "Regulatory Environment - Student Financing Sources and Related Regulations/Requirements." APUS has set its tuition grant so that the DoD tuition assistance program covers the full tuition cost of undergraduate courses for members of the military up to the annual maximum benefit.

Sources of Student Financing

APUS's students finance their education through a combination of individual resources, DoD tuition assistance programs, VA education benefits, ED's Title IV programs, private loans, state and federal grants, and corporate reimbursement programs. Most of APUS's students rely on some form of financial aid in addition to their individual

resources. Students utilizing ED's Title IV programs accounted for 32% of APUS's net course registrations in 2015, and we believe that the ability of our students to participate in these programs is essential to APUS's success. Participation in the DoD tuition assistance programs, VA education benefits and ED's Title IV programs add to APUS's regulatory burden, as described more fully below in "Regulatory Environment - Student Financing Sources and Related Regulations/Requirements." Participation in these programs means that changes to or interruptions in federal appropriations for these programs or other actions by the federal government will impact APUS's operations and our financial condition.

As described more fully below in "Regulatory Environment- Recent Legislative and ED Activity - Federal Legislative Activity - Sequestration and Budgetary Matters," in March 2013, in response to automatic across-the-board reductions in federal spending (also known as "sequestration"), each of the military services suspended new enrollments in DoD's tuition assistance programs. As a result of Congressional action, each of the services reinstated enrollments in DoD tuition assistance programs in April 2013. However, our results of operations in the second quarter of 2013 were negatively impacted by these actions, resulting in what we believe were fewer enrollments from service members than otherwise would have been expected.

In October 2013, DoD tuition assistance programs were temporarily suspended as a result of the partial U.S. government shutdown. On October 1, 2013, prior to the government shutdown, APUS's course registrations for October 2013 were approximately 41,200. However, as of October 14, 2013, approximately 13,100 registrations had been dropped, resulting in a net course registration reduction of approximately 20% compared to October 2012. We believe that many of these dropped registrations resulted from the suspension of DoD tuition assistance programs. After the government shutdown ended, DoD resumed its tuition assistance programs; however, we do not believe that APUS's registrations for subsequent periods replaced all of the dropped registrations.

As a result of continued uncertainty about the availability of funding, several of the military branches announced changes to their tuition assistance programs that took effect in federal fiscal year 2014. For example, the Air Force is no longer authorizing tuition assistance for associates degrees if the service member already has an associates degree from the Community College of the Air Force, the Army now requires service members to complete one year of service after graduation from Advanced Individual Training in order to be eligible for tuition assistance, the Army has reduced the total annual benefit per service member from \$4,500 to \$4,000, and the Marine Corps now requires Marines to have 24 months on active duty prior to being eligible to apply for tuition assistance. In October 2015, the Coast Guard restored tuition assistance funding to \$250 per semester hour, an increase from the previous cap of \$187.50 per semester hour, which was implemented in 2014. For additional information regarding the risks associated with DoD tuition assistance programs, please refer to "Risk Factors - Risks Related to Our Business."

While DoD's tuition assistance programs have been reinstated, subject to the modifications described above, budgetary pressures remain, and we do not know what future action will be taken with respect to DoD tuition assistance programs, which could include eliminating those programs, reducing the funds or benefits (or both) available under those programs, or enacting new restrictions on participation in those programs. Any such changes, or any other reductions in the funding for DoD tuition assistance programs, could have a material adverse effect on APUS's enrollments and our financial condition. The potential risks associated with these and similar events are described more fully below in "Risk Factors - Risks Related to Our Business."

Faculty and Staff

APUS's faculty consists of approximately 2,210 full and part-time faculty members with relevant teaching and practitioner experience as well as a professional staff of approximately 950 non-faculty employees administering APUS's academic, technology, service, and business operations. Most of APUS's non-faculty employees work at either its headquarters in Charles Town, West Virginia, or at its administrative offices in Manassas, Virginia. None of APUS's employees are parties to any collective bargaining arrangement. We believe that APUS has a good relationship with its employees.

Approximately 410 faculty members are designated as full-time faculty with the remainder designated as part-time. APUS establishes full-time and part-time positions based on program and course enrollment. Many of APUS's full-time faculty began their careers with APUS as part-time faculty. We expect that APUS's faculty headcount and the composition of full-time and part-time faculty will vary with fluctuations in enrollment.

We believe that APUS's well-regarded faculty, which includes many former and current practitioners in their fields, attracts new students to APUS. A significant majority of APUS's graduate faculty hold a doctorate in the relevant field, while virtually all undergraduate faculty have earned a graduate degree. Exceptions have been granted for a limited number of APUS's faculty members who do not meet these degree standards but evidence significant experience and achievement in the field of study that they teach. Many APUS faculty members have relevant experience at leading universities and within military and government institutions.

We believe that the quality of APUS's faculty is critical to the student experience and student outcomes and is therefore vital to APUS's success. APUS regularly reviews the performance of its faculty by, among other things, monitoring the amount of online contact that faculty have with students, reviewing student feedback, and evaluating the learning outcomes achieved by students. If APUS determines that a faculty member is not performing at an acceptable level it works with the faculty member to improve performance, including through assigning the faculty member a mentor. If the faculty member's performance does not improve, APUS will no longer allow that faculty member to teach. APUS does not offer its faculty tenure.

We believe that the composition of APUS's student body and curriculum are particularly attractive to potential faculty members because of the opportunity to teach relevant material to students who can implement classroom lessons at their workplaces. APUS recruits faculty members through referrals by current faculty members, advertisements in education and trade association journals, and its internet presence. Upon selection for a position, APUS requires each new faculty member to complete an orientation and training program that leads to their certification to teach at APUS and assignment to courses.

Information Technology

APUS has invested significant capital and resources into developing proprietary information systems and processes to support what we refer to as Partnership At a Distance™, or PAD. PAD is APUS's platform for interacting with APUS's students. PAD is an information system designed to enable APUS to provide each student with individualized support at appropriate times from pre-enrollment through and beyond graduation, including student advising, administrative support, and community networking.

APUS uses Sakai Collaboration and Learning Environment, or "Sakai CLE," an open-source Learning Management System for its online classroom. There are approximately 350 educational institutions around the world reportedly using Sakai CLE to support teaching, learning, research, and collaboration. PAD and Sakai CLE are APUS's two core enterprise systems.

APUS has several other systems that are used to support financial aid processing, financial management, human resources processes, marketing, and decision support.

The backbone of APUS's information technology infrastructure consists of two data centers: one in Virginia, and one at a co-location facility in Texas. APUS's technology environment is managed internally. Student access to APUS's systems is provided through redundant data carriers in both data centers. We believe that APUS has established a functional, secure, and reliable technology system that helps support its mission.

Information technology systems are an essential part of the APUS student experience and our business operations, and we continue to invest in technology operations and enhancements to support our systems and mission and evaluate when it is appropriate to make significant changes, modifications or upgrades. For example, in 2010, we selected Sakai CLE to replace APUS's existing provider as the foundational software for APUS's online classroom, and in 2015 APUS selected Global Financial Aid Services for financial aid processing services, which required meaningful information technology changes. These types of changes are not without risk to our operations and financial results. We continually evaluate our PAD system for possible changes and upgrades, and such changes and upgrades may result in us incurring significant costs that could affect our financial results in the near term.

The performance and reliability of APUS's networks and technology infrastructure, including those of third parties systems APUS uses, is critical to its reputation and ability to attract and retain students. Any system error or failure could interrupt APUS's ability to operate and could result in the unavailability of its online classrooms, preventing students from accessing their courses and adversely affecting our results of operations. APUS's technology infrastructure, and the technology infrastructure of its third-party vendors, could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, cyber attacks, hacker or terrorist activities, and telecommunications failures. APUS's computer networks, and the networks of its third-party vendors, may also be vulnerable to unauthorized access, computer hackers, computer viruses, and other security problems. APUS performs security assessments on a periodic basis to review and assess its security. APUS utilizes this information to audit itself to ensure that it is adequately monitoring the security of its technology infrastructure. However, we cannot ensure that these security assessments and audits will protect APUS's computer networks against the threat of security breaches. Similarly, although APUS requires its third-party vendors to maintain a level of security that is acceptable to us and works closely with its third-party vendors to address potential and actual security concerns and attacks, we cannot ensure that APUS and its systems and proprietary information or personal information about its students or employees will be protected against the threat of security attacks on third-party vendors that affect APUS systems or such information. System disruptions and security breaches to APUS's online computer networks, technology infrastructure, or online classroom infrastructure, or to the networks, infrastructures and systems of third parties could have an

adverse effect on our financial condition.

For additional information regarding risks related to our information technology please refer to “Risk Factors - Risks Related to Our Business.”

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Intellectual Property

APUS exercises rights associated with patents, copyrights, trademarks, service marks, domain names, agreements, and registrations to protect its intellectual property. APUS's course syllabi are its property, may be used in current and future courses as needed to facilitate instruction, and may be modified to meet evolving course or curriculum requirements. Intellectual property of APUS's individual faculty members remains the property of each such faculty member and is reserved specifically for use only by the faculty member who owns it, unless the faculty member grants permission for use by others. APUS relies on agreements under which it obtains rights to use course content developed by faculty members and other third party content providers.

APUS has secured rights to trademarks for various names and terms used in its business, including "American Public University System," "American Military University," "American Public University" and logos incorporating the foregoing terms and acronyms of those terms, as well as "Ready When You Are," "Educating those Who Serve," "RESPECTED. AFFORDABLE. ONLINE." and the term "Partnership At a Distance." We believe these trademarks and brand names are important to how prospective students identify APUS and are central to a number of its marketing efforts. APUS also owns rights to more than 200 internet domain names pertaining to APUS, AMU, APU and other unique descriptors. The U.S. Patent and Trademark Office issued APUS a patent for PAD in February 2011.

Competition

Within the postsecondary education market, APUS competes primarily with not-for-profit public and private two-year and four-year colleges as well as other for-profit schools, particularly those that offer online learning programs. APUS also competes in specific targeted markets, such as those discussed below. For additional information regarding APUS's competitive environment, please refer to "Business - Company Overview."

APUS has focused on serving the military community since its founding as AMU, and the military market continues to be the primary market for APUS. Within the military market, there are more than 2,700 institutions that serve military students and receive funds through the DoD tuition assistance program. The primary competitors for military students are other institutions offering online instruction, and colleges and universities offering on-campus instruction located near military installations. Over the last several years, a number of APUS's competitors have expanded their outreach and marketing efforts directed at active duty and reserve service members, as well as veterans.

We believe that APUS will continue to see increased competition in the military community from both non-profit and for-profit schools. We believe that competition from for-profit schools will continue to increase as those schools seek to attract students eligible for DoD tuition assistance programs and VA education benefits, rather than ED's Title IV programs, in an attempt to comply with ED's regulatory requirement known as the 90/10 Rule. This regulatory requirement is described more fully below in "Regulatory Environment - Student Financing Sources and Related Regulations/Requirements".

Within the market for public safety professionals, such as law-enforcement personnel or other first responders, and non-military professionals and other working adults with extended and irregular work schedules, APUS faces broad competition with not-for-profit public and private two-year and four-year colleges as well as other for-profit schools, particularly those that offer online learning programs.

Hondros College of Nursing

HCON is nationally accredited by the Accrediting Council of Independent Colleges and Schools, or ACICS. HCON's programs are generally designed to prepare individuals for productive careers in the field of nursing. HCON's students principally receive instruction on-campus at one of HCON's four campuses in Ohio, which are located in the suburban

areas of Cincinnati, Cleveland, Columbus, and Dayton. HCON also offers certain courses and its RN-to-BSN Program via online delivery. As discussed more fully below in “Regulatory Environment - Regulatory Actions and Restrictions on Operations - Change of Ownership Resulting in a Change of Control,” HCON participates in ED’s Title IV programs pursuant to a Provisional Program Participation Agreement.

Curriculum and Scheduling

HCON offers on-campus instruction leading to a Diploma in Practical Nursing, or PN Program, and an Associate Degree in Nursing, or ADN program. Graduates of the PN Program are eligible to seek licensure as a licensed practical nurse after passing the NCLEX-PN exam. Graduates of the ADN Program are eligible to seek licensure as a registered nurse after passing the NCLEX-RN exam. HCON also offers online instruction leading to a Bachelor of Science in Nursing, through its RN-to-BSN Program, for students who already possess an associate's degree in the field. HCON's programs are offered in a quarterly format. Academic terms for the PN and the ADN programs begin four times each year, with courses starting in January, April, July and October. In an effort to better serve students and increase enrollments, HCON has increased its offering of evening and weekend courses.

Enrollment and Student Body

HCON's student enrollment as of December 31, 2015, was approximately 1,520 students. This number includes those HCON students who enrolled in at least one course either on campus or online during 2015.

Accreditation

HCON is accredited on the institutional level by ACICS, which is recognized by ED as a national accrediting agency. The RN-to-BSN Program has received programmatic accreditation from CCNE. The status and meaning of these accreditations and recognitions is described more fully below in "Regulatory Environment - Accreditation."

Student Recruitment and Marketing

HCON's marketing strategy is focused on building long-term relationships with businesses, organizations and individuals in the healthcare community, primarily in Ohio. We believe this strategy will continue to generate a significant number of referrals. In addition, HCON utilizes traditional media as well as internet-focused marketing channels, including organic search, local display advertising and pay-per-click.

Student Admissions

HCON welcomes prospective students to apply for admission at any time by submitting an application along with an application fee. To be accepted into any HCON program, an applicant must be a U.S. citizen or permanent resident, be at least 18 years old at the time of starting the program, and hold a high school diploma or General Education Development certificate. HCON's programs also have program-specific admissions requirements.

Applicants for both the PN Program and the ADN Program are required to complete an interview with an admissions representative, and complete and pass a criminal background check and a drug screening. Applicants for the PN Program are also generally required to take and pass the Health Education Systems Admissions Assessment, or HESI Exam.

Applicants for the ADN program who graduated from the PN Program must have graduated from that program within two quarters of their enrollment in the ADN program, or must hold an active, unencumbered practical nurse license. Applicants for the ADN program who have not graduated from the PN Program must have completed their practical nursing training at an approved program, and must hold an active, unencumbered practical nurse license.

Applicants for the RN-to-BSN Program must hold an active, unencumbered registered nurse license in the state in which they desire to complete their practicum. Applicants must also have graduated from an approved registered nursing program with a cumulative grade point average of at least 2.0, and must complete an interview with an

admissions representative. Applicants applying to begin the RN-to-BSN Program in the quarter immediately following graduation from the ADN Program may be admitted without a license, but are required to obtain one prior to their third quarter in the RN-to-BSN Program.

Cost of Attendance and Financial Aid

HCON's tuition costs vary among its three programs. HCON's PN Program may be completed for approximately \$19,065 in tuition and fees, the ADN program may be completed for approximately \$30,175 in tuition and fees, and the RN-to-BSN Program may be completed for approximately \$16,790 in tuition and fees.

HCON's students also incur costs for textbooks and supplies. These costs vary among HCON's three programs and are paid for by HCON's students as the textbooks or supplies are needed. HCON estimates that over the life of its programs a student's costs related to textbooks and supplies will be approximately \$2,723 for the PN Program, \$4,382 for the ADN Program, and \$1,723 for the RN-to-BSN Program.

HCON's students pay various other fees and charges, including application fees and graduation fees. Additionally, students in HCON's PN program and ADN program, are charged a one-time fee of \$489 for its technology package. HCON's students also incur additional costs for uniforms, examination review materials, examination fees, and fees for applications with the Ohio Board of Nursing, among others. Some of these costs are payable to HCON and others are payable directly to third parties.

Sources of Student Financing

HCON's students finance their education through a combination of individual resources, VA education benefits, ED's Title IV programs, private loans, state and federal grants, and corporate reimbursement programs. Most HCON students rely on some form of financial aid in addition to their individual resources. The substantial majority of HCON's revenue is derived from students utilizing ED's Title IV programs, which results in increased regulatory risks, as discussed more fully below in "Regulatory Environment - Student Financing Sources and Related Regulations/Requirements - Department of Education - Regulation of Title IV Financial Aid Programs - The '90/10 Rule.'" As a result, HCON's management may find it necessary to decrease HCON's exposure to Title IV students, which could have a negative impact on its operating results and our financial condition.

While HCON does not currently participate in DoD's tuition assistance programs it may attempt to do so in the future. Should HCON choose to participate in the DoD tuition assistance program, it will be subject to such program's requirements and restrictions, which are more fully discussed in the "Our Institutions - American Public University System - Sources of Student Financing," "Regulatory Environment - Student Financing Sources and Related Regulations/Requirements," "Regulatory Environment - Recent Legislative and Regulatory Activity - Federal Legislative Activity - Sequestration and Budgetary Matters," and "Risk Factors" sections of this Annual Report.

Faculty and Staff

HCON's faculty consists of approximately 145 faculty members with relevant teaching and nursing or healthcare practitioner experience. HCON also employs approximately 80 staff members who administer HCON's academic, technology, service, and business operations. HCON's faculty and staff largely work at one of its four campuses. None of HCON's employees are parties to any collective bargaining arrangement. We believe that HCON has a good relationship with its employees.

Approximately 100 of HCON's faculty members are designated as full-time faculty with the remainder designated as part-time faculty. All faculty whose instruction is focused within the PN Program must have earned the minimum of a bachelor's degree in nursing. All faculty whose instruction is focused within the ADN Program and RN-to-BSN Program must have earned the minimum of a master's degree. All HCON faculty whose instruction is nursing theory-based must have an active license to practice as a Registered Nurse. In addition to the formal education of HCON's faculty, many have also obtained specialized certifications in the field of nursing.

We believe that selecting well-educated and qualified faculty members is a key component to HCON's success. In addition to having the necessary educational requirements, HCON seeks faculty who have demonstrated experience in the field of nursing. Almost all faculty who teach HCON's nursing courses have nursing experience in a clinical setting, which we believe helps teach HCON's students the skills needed to be effective and safe caregivers.

HCON trains and develops new faculty through a formal, structured on-boarding, training, and mentoring program. All new HCON faculty members receive a 90-day on-boarding experience, which includes a formal orientation to the organization, policies and procedures, teaching strategies, performance expectations and role responsibilities.

Information Technology

In 2015, the hosting and maintenance of HCON's information technology infrastructure was transitioned from a third-party affiliated with HCON's previous ownership to APUS which provides services through an intercompany arrangement. For information regarding the security and reliability of APUS provided systems please refer to "Our Institutions - American Public University System - Information Technology."

Intellectual Property

In connection with our acquisition of HCON, we received the right to the corporate name National Education Seminars, Inc. and a royalty-free, irrevocable, exclusive, transferable, sublicensable license to use the names "Hondros College" and "Hondros College of Nursing" (or, instead of "Nursing," any other qualifier directly related to nursing, medicine or healthcare in connection with the business and operations of HCON).

HCON exercises rights associated with copyrights, trademarks, service marks, domain names, agreements, and registrations to protect its intellectual property.

Competition

HCON competes with other schools offering nursing programs in the regions where it has campuses, including for-profit and not-for-profit public and private colleges. Because HCON's RN-to-BSN Program is offered online, it also competes in a broader market against other online nursing programs. For additional information regarding HCON's competitive environment, please refer to "Business - Company Overview."

REGULATORY ENVIRONMENT

In the United States, postsecondary education institutions are overseen by a three-part regulatory framework comprised of (i) accrediting agencies recognized by the U.S. Secretary of Education, (ii) state regulatory bodies, and (iii) the federal government, through the U.S. Department of Education, or ED. Because APUS participates in military tuition assistance and APUS and HCON participate in veterans education benefits programs administered by the U.S. Department of Defense, or DoD, and the U.S. Department of Veterans Affairs, or VA, respectively, we are also subject to oversight by those agencies. The regulations, standards, and policies of these organizations cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations, and financial condition.

The postsecondary education regulatory environment continues to become more complex. Applicable regulations, standards, and policies frequently change, and changes in, or new interpretations of existing regulations, standards, and policies, as well as applicable laws, could have material consequences for our accreditation, authorization to operate in various states, permissible activities, receipt of funds under federal student financial aid programs, and costs of doing business. In recent years ED has been actively issuing new rules which have had a substantial impact on the proprietary postsecondary education industry. For example, in 2010, ED adopted a new set of rules, which we refer to as the Program Integrity Regulations, which were generally effective on July 1, 2011, establishing significant new compliance requirements for institutions of higher education. In 2014, ED adopted a new set of rules, which we refer to as the Final GE Regulations, defining the circumstances under which an education program prepares students for "gainful employment in a recognized occupation," as is required in order for students enrolled in such programs to be eligible to receive student financial aid under Title IV of the Higher Education Act of 1965, as amended. Certain portions of the Program Integrity Regulations and the Final GE Regulations are discussed in this Annual Report.

Accreditation

Accreditation is a voluntary, non-governmental process through which an institution or a program submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution or program. Accrediting agencies establish criteria for accreditation, conduct peer-review evaluations of institutions or programs, and publicly recognize those institutions or programs that meet the stated criteria. Accredited schools and programs are subject to periodic review by accrediting agencies to ensure continued high performance, institutional and program improvement, and institutional and program integrity, and to confirm that accreditation criteria

continue to be satisfied. An institution or program that is determined not to meet the criteria may have its accreditation limited, revoked, or not renewed.

Pursuant to provisions of the Higher Education Act of 1965, as amended, or the HEA, ED relies on accrediting agencies to determine whether the academic quality of an institution's educational programs is sufficient to qualify the institution to participate in student financial aid programs authorized under Title IV of the HEA, or Title IV programs. Institutional accreditation by an accrediting agency recognized by the Secretary of Education is also necessary to participate in DoD tuition assistance programs. To be recognized by the Secretary of Education, accrediting agencies must adopt specific standards and procedures for the review of educational institutions or programs. As described more fully above in each reporting segment's "Our Institutions - Accreditation" section, each of our institutions are accredited by an institutional accrediting agency recognized by the Secretary of Education:

American Public University System, or APUS, is institutionally accredited by The Higher Learning Commission, or HLC, a regional accrediting agency. In July 2011, HLC reaffirmed the accreditation status of APUS. In February 2017, HLC will conduct a site visit at APUS and perform a comprehensive evaluation as part of a mid-cycle review. The next comprehensive evaluation for reaffirmation of accreditation is scheduled for the 2020-2021 academic year.

In 2015, as required by HLC in connection with the 2011 reaffirmation of accreditation, APUS submitted an interim progress report to HLC on the development of a university system-wide coordination and improvement of graduate studies and the report was subsequently accepted by HLC. HLC also from time to time may schedule site visits for other reasons, including a focused visit related to a change of control, structure or organization transaction, a substantive change, or conformity with HLC's Criteria for Accreditation (related to topics such as teaching and learning, and resources).

Hondros College of Nursing, or HCON, is institutionally accredited by the Accrediting Council for Independent Colleges and Schools, or ACICS, a national accrediting agency. On August 13, 2013, ACICS acted to award HCON a new grant of accreditation through December 31, 2016. After completion of our acquisition of HCON, ACICS acted to reinstate HCON's accreditation through December 31, 2016, effective from the date of the acquisition. During the first quarter of 2016, ACICS conducted a site visit at each of HCON's campuses as part of ACICS' evaluation of HCON's renewal of accreditation application. For more information, see "Regulatory Environment - Regulatory Actions and Restrictions on Operations - Change in Ownership Resulting in a Change of Control" and "Risk Factors - Risks Related to the Regulation of Our Industry."

Institutional accreditation is an important attribute of our institutions. Colleges and universities depend, in part, on accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accredited status of institutions when evaluating a candidate's credentials, and students, corporations, and government sponsors under tuition reimbursement programs look to accreditation for assurance that an institution maintains quality educational standards.

The National Advisory Committee on Institutional Quality and Integrity, or NACIQI, is charged with advising the Secretary of Education on whether to recognize accrediting agencies for federal purposes, including for participation in Title IV programs. In December 2009, the ED Office of the Inspector General, or OIG, recommended that ED consider limiting, suspending, or terminating HLC's recognition as an accreditor for purposes of determining institutional eligibility to participate in Title IV programs. HLC received additional scrutiny in June 2010 during a House Education and Labor Committee hearing focused on OIG's findings with regard to credit hour policies. In November 2015, ED announced several executive actions to increase transparency and rigor in accreditation, including an announcement that ED will ensure that NACIQI members have student outcomes data, state and federal litigation reports, and other information about the schools accredited by each accrediting agency. Increased scrutiny of accrediting agencies by the Secretary of Education and Congress in connection with ED's recognition process may

result in increased scrutiny of institutions by accrediting agencies.

In December 2010, NACIQI reviewed HLC's status as a recognized accrediting agency. At that time, NACIQI voted to continue HLC's recognition as an accrediting agency but also ordered the agency to submit an additional compliance report in one year. At its December 2011 meeting, NACIQI characterized HLC's report as "informational" and noted that no vote was to be taken on it. In June 2013, NACIQI voted to recommend continuation of HLC's recognition as an accrediting agency until it reached a final decision on whether to re-recognize HLC. In June 2015, NACIQI voted to recommend that ED renew HLC's recognition as an accrediting agency through December 2017. ED subsequently accepted NACIQI's recommendation and continued HLC's recognition through December 2017. If HLC were to lose its recognition as an accrediting agency, APUS could lose its eligibility to participate in Title IV programs and DoD tuition assistance programs. For additional information

regarding the risks associated with loss of accreditation please refer to the “Risk Factors - Risks Related to the Regulation of Our Industry” section of this Annual Report.

In addition to institutional accreditation, we have obtained specialized accreditation or professional recognition for several specific programs at our institutions, as described more fully above in each reporting segment’s section entitled “Our Institutions - Accreditation.” Accreditation of a program by a specialized accrediting agency or granting of professional recognition by a professional organization signifies that the program meets the standards of that agency or organization. If we fail to satisfy the standards of these specialized accrediting agencies and professional organizations, we could lose the specialized accreditation or professional recognition for the relevant programs, which could result in materially reduced student enrollments in those programs, prevent us from offering the programs in certain states, or prevent our students from seeking and obtaining appropriate licensure in their desired fields or employment from particular employers.

State Licensure/Authorization

We are subject to extensive regulations by the states in which we are authorized to operate. The level of regulatory oversight varies substantially from state to state, and state regulations change frequently. State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations, and other operational matters. Some states may also prescribe regulations related to an institution’s financial condition, and some states require the posting of surety bonds. State laws and regulations may also affect our ability to offer educational programs, open locations, and award degrees. If we fail to comply with a state’s regulatory requirements, we may lose our state licensure or authorization, which would result in our inability to enroll students in that state, and could result in our inability to receive Title IV program funds and DoD tuition assistance funds, at least for students in that state.

Some states assert authority to regulate an institution if its educational programs are offered to residents of those states, regardless of whether the institution maintains a physical presence in the state where the student resides. The increased popularity of online education has led and may further lead to the adoption of new laws and regulatory practices and new interpretations of existing laws and regulations in various states. States may also revise their regulations in this area as a result of future ED regulations, as discussed more fully below in “State Licensure/Authorization Requirements.” New laws, regulations, or interpretations related to doing business over the internet could increase our cost of doing business and affect our ability to recruit students in particular states, which could, in turn, negatively affect enrollments and revenue and have a material adverse effect on our business. For additional information regarding the risks related to the regulation of the internet, please refer to “Risk Factors - Risks Related to Our Business.”

Changes in our business or changes in the nature or amount of our contact with or presence within a particular state could lead states that do not currently require us to be licensed or authorized to require such licensure or authorization in the future. For example, programs that include “on the ground” components that may be described as instructional activities, such as student teaching and clinical internships, may be viewed by some state regulatory agencies as constituting a physical presence for regulatory purposes. As those programs expand, it is possible that we will need to seek formal authorization to operate in some states where historically we have not been required to do so. The extent of this expansion in regulatory requirements, and the associated costs, are not known at this time, but we anticipate they may be significant. Furthermore, there may be some states where it takes a significant amount of time to meet the applicable regulatory requirements with respect to a new program initiative, or where we are not able to do so at all.

Many states also have specific requirements that an individual must satisfy in order to be licensed as a professional in a specified field. Students often seek to obtain professional licensure in their chosen fields after graduation. Their success in obtaining licensure typically depends on several factors, including, for example: the individual merits of the

graduate; whether the institution and the program were approved by the state in which the graduate seeks licensure, or by a professional association; whether the program meets all state requirements for professional licensure; and the accreditation of the institution and the specific program.

State Licensure/Authorization Requirements

“Home” State Authorization

The final Program Integrity Regulations adopted by ED address certain institutional and program eligibility issues, including state authorization. The Program Integrity Regulations specify how an institution may demonstrate that it is authorized to offer postsecondary educational programs by the state(s) where it is located, which we refer to as its “home” state. If requested by ED, an institution must be able to document its home state’s approval in order to participate in Title IV programs. In addition, the home state must have a process to review and take appropriate action on complaints concerning

postsecondary institutions. ED has stated that it will not publish a list of states that meet, or fail to meet, these requirements. If ED determines that an institution does not have the required state approval, the institution will be ineligible to participate in Title IV programs. After ED stayed implementation of the home state authorization rules from July 1, 2011 to July 1, 2015, the rules were implemented effective July 1, 2015. We cannot predict the extent to which ED will determine that the institutional authorization or complaint review process of any state satisfies ED's regulations. If one of our institutions were to lose its ability to participate in Title IV programs because it failed to obtain authorization by the state in which it is located or because a state's institutional authorization and complaint process did not satisfy ED's requirements, it could have a material adverse effect on our business and financial condition.

State Authorization of Online Education

In November 2013, ED announced its intent to establish a negotiated rulemaking panel to consider regulations for, among other issues, state authorization of programs offered through distance education. Negotiated rulemaking sessions occurred in the winter and spring of 2014, but the negotiating committee did not reach consensus. In June 2014 ED announced that it would delay the release of proposed rules regarding state authorization for distance education. ED had included provisions regarding state authorization for distance education in the Program Integrity Regulations, which provided that, if an institution offered postsecondary education through distance education to students in a state, it was required to obtain any necessary state approvals to do so. However, on June 5, 2012, the U.S. Court of Appeals for the District of Columbia affirmed the U.S. District Court for the District of Columbia's July 12, 2011 ruling upholding ED's power to promulgate regulations on state authorization for distance education but vacating on procedural grounds those provisions of the Program Integrity Regulations. In a Dear Colleague Letter dated July 27, 2012, ED warned that while it cannot enforce the vacated provision, institutions continue to be responsible for complying with all state laws as they relate to distance education. No assurance can be given with respect to whether ED will adopt new rules on state authorization for distance education or, in the event that such regulations are adopted, our ability to comply with the new regulations.

SARA

The State Authorization Reciprocity Agreement, or SARA, is a voluntary agreement among member states, districts and territories that establishes comparable national standards for interstate offering of postsecondary distance education courses and programs. SARA is intended to make it easier for students to take online courses offered by postsecondary institutions based in another state. SARA is overseen by a National Council and administered by four regional education compacts, which accept applications from states in their regions to join SARA. SARA requires states to approve institutions in their state to participate in SARA, based upon institutional accreditation and financial stability, and to resolve student complaints. SARA membership is open to degree-granting postsecondary institutions from all sectors, including public colleges and universities as well as non-profit and for-profit independent institutions. An institution must be accredited by an agency recognized by the U.S. Secretary of Education. SARA member states agree to impose no additional (non-SARA) authorization requirements on institutions from other SARA states. For SARA purposes, an institution's "home state" is the state where its main campus or central unit holds its principal legal domicile. SARA shifts principal oversight responsibilities from the state in which the distance education is being received to the "home state" of the institution offering the instruction. For purposes of SARA, an institution has a physical presence in a state and therefore must meet the state's non-SARA licensure requirements if it conducts certain activities in a state. Membership in SARA was opened to states in January 2014. The State of West Virginia joined SARA effective December 1, 2014. APUS's initial application to become a SARA institution was approved on December 8, 2014, and APUS has been a participating SARA institution since that time.

State Authorization/Licensure of Our Institutions

APUS is physically headquartered in the State of West Virginia, with administrative offices in the Commonwealth of Virginia. At present, APUS enrolls students from each of the 50 states, as well as the District of Columbia. APUS is currently authorized to offer its programs by the West Virginia Higher Education Policy Commission, or WVHEPC, the regulatory agency governing postsecondary education in the State of West Virginia. We believe that under current law the only state authorization or licensure necessary for APUS to participate in DoD tuition assistance programs is its authorization from WVHEPC. We believe the same is true for Title IV programs. Failure to comply with the requirements of WVHEPC could result in APUS losing its authorization from WVHEPC, its eligibility to participate in Title IV programs and DoD tuition assistance, or its ability to offer certain programs, any of which could force APUS to cease operations.

Due to APUS having administrative offices located in Virginia, under Virginia law APUS is also required to be authorized by the State Council of Higher Education for Virginia, or SCHEV. Accordingly, APUS has obtained SCHEV's authorization to operate as an out-of-state institution in Virginia.

Since December 2014, APUS has been a participating institution in SARA, which is described more fully above, resulting in APUS being authorized through reciprocity in 34 SARA states. West Virginia is a SARA state but, as discussed above, APUS is required to be authorized by the WVHEPC due to West Virginia being its home state. Virginia is a SARA state but, as discussed above, APUS is required to be authorized in Virginia due to having administrative offices located within Virginia; therefore, SCHEV's regulation of APUS is outside the scope of SARA. Additionally, APUS has obtained licensure or authorization to operate or conduct activities in three states that have not joined SARA. APUS has also sought and received confirmation that its operations do not require state licensure or authorization, or has been notified that it is exempt from licensure or authorization requirements, in 11 states.

HCON is physically headquartered in Westerville, Ohio, and has four campuses in Ohio. HCON is currently authorized to offer its programs by the Ohio State Board of Career Colleges and Schools, the regulatory agency that is responsible for authorizing for-profit and non-profit private career schools offering associate degree, certificate, and diploma programs in the State of Ohio. HCON's Practical Nursing Diploma and Associate Degree in Nursing programs are approved by the Ohio Board of Nursing. HCON's online completion program leading to a Bachelor of Science in Nursing is approved by the Ohio Department of Higher Education, the regulatory agency in Ohio responsible for authorizing education programs at the bachelor's degree level and above. HCON is approved as an out-of-state institution by the Kentucky Council on Postsecondary Education and the Nevada Commission on Postsecondary Education. As of December 31, 2015, HCON is not a participating SARA institution.

Failure to comply with state authorization or licensure requirements could restrict our institutions' ability to recruit or enroll students in certain states or result in other sanctions being imposed on our institutions, including fines and penalties. In some cases, state authorization or licensure may impose limitations on certain activities and may impose particular requirements with respect to certain programs. We review the licensure requirements of states to determine whether our institutions' activities in those states may constitute a presence or otherwise may require authorization or licensure by the respective state education agencies. We cannot predict the extent to which SARA will impact our institutions' regulatory burden and costs, whether states will join and retain membership in SARA, the manner in which SARA's rules will be interpreted and enforced by SARA's member states, APUS's ability to comply with SARA's requirements and retain membership eligibility, or the impact that failure to meet the SARA requirements may have on our business. To date, state-specific limitations and requirements have not had a material effect on our institutions' operations. However, new laws, regulations, interpretations, or changed circumstances related to our institutions' educational programs could increase our cost of doing business and affect our ability to recruit students and offer programs in particular states, which could, in turn, adversely affect our institutions' enrollments and revenue and have a material effect on our business.

Student Financing Sources and Related Regulations/Requirements

Our students finance their education through a combination of Title IV programs administered by ED, tuition assistance programs administered by the DoD, education benefits administered by the VA, private loans, corporate reimbursement programs, and individual resources. Participation in federal student aid programs, including those administered by DoD and VA, adds to the regulation of our operations. In particular, the HEA and the regulations issued thereunder by ED subject us to significant regulatory scrutiny in the form of numerous standards we must satisfy in order to participate in and administer Title IV programs.

Department of Education

The federal government provides a substantial part of its support for postsecondary education through Title IV programs, in the form of grants and loans to eligible students who can use those funds at any institution that has been certified by ED to participate in Title IV programs, provided the student's program satisfies Title IV program eligibility requirements. An institution may participate in Title IV programs only if it is certified to do so and it enters

into a written program participation agreement, or PPA, with the Secretary of Education. The PPA conditions initial and continued participation in Title IV programs upon compliance with ED regulations, including regulations applicable to individual Title IV programs, and any additional conditions specified in the PPA.

Types of Title IV Financial Aid Programs.

Title IV program aid is primarily awarded to students on the basis of financial need, generally defined as the differenc