

AMERICAN PUBLIC EDUCATION INC

Form 424B5

December 08, 2008

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The information in this prospectus supplement is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2008

PROSPECTUS SUPPLEMENT

To Prospectus Dated December 2, 2008

**Filed Pursuant to Rule 424(b)(5)
Registration No. 333-155300**

3,806,657 Shares

Common Stock

We are offering 15,000 shares of our common stock and the selling stockholders identified in this prospectus supplement are offering 3,791,657 shares of our common stock. We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

The common stock is listed on The NASDAQ Global Market under the symbol APEI. The last reported sale price of the common stock on December 5, 2008 was \$42.20 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-8 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

| | Per Share | Total |
|--|------------------|--------------|
| Public offering price | \$ | \$ |
| Underwriting discount | \$ | \$ |
| Proceeds to the Company (before expenses) | \$ | \$ |
| Proceeds to the selling stockholders (before expenses) | \$ | \$ |

The selling stockholders have granted the underwriters an option for a period of 30 days from the date of this prospectus supplement to purchase up to 421,295 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

The underwriters expect to deliver the shares to purchasers on or about _____, 2008.

William Blair & Company

Stifel Nicolaus

Piper Jaffray

BMO Capital Markets

Signal Hill

ThinkPanmure

Barrington Research

First Analysis Securities

The date of this prospectus supplement is December , 2008

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or to which we have referred you. We and the selling stockholders have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this prospectus supplement.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Before deciding to invest in shares of our common stock, you should read the entire prospectus supplement and the accompanying prospectus carefully, including the documents incorporated by reference, especially the matters discussed under Risk Factors beginning on page S-8 and the financial statements and related notes included in this prospectus supplement and the accompanying prospectus by reference. Unless the context otherwise requires, the terms we, us and our refer to American Public Education, Inc. and its wholly owned subsidiary, American Public University System, Inc.

We are a provider of exclusively online postsecondary education directed at the needs of the military and public service communities. We operate through two universities, American Military University, or AMU, and American Public University, or APU, which together constitute the American Public University System. Our universities share a common faculty and curriculum that includes 73 degree programs and 49 certificate programs in disciplines related to national security, military studies, intelligence, homeland security, criminal justice, technology, business administration, liberal arts and education. We currently serve over 41,000 students living in all 50 states and more than 130 foreign countries. Our university system is regionally and nationally accredited.

From 2003 to 2007, our total revenue increased from \$17.8 million to \$69.1 million, a compound annual growth rate (CAGR) of 40%, while our total revenue increased 58% to \$75.6 million for the first nine months of 2008 from \$47.9 million for the corresponding period in 2007. We believe the recent acceleration in our growth is attributable to: (i) high student satisfaction and referral rates; (ii) achieving regional accreditation in May 2006; (iii) increasing acceptance of distance learning within our targeted markets; and (iv) achieving certification to participate in federal student aid programs under Title IV of the Higher Education Act of 1965, or Title IV programs, beginning with classes starting in November 2006. Net income attributable to common stockholders improved to \$11.1 million for the first nine months of 2008 from \$5.8 million for the corresponding period in 2007 and improved to \$8.8 million in 2007 from a loss of \$217,000 in 2003.

Over 80% of our students currently serve in the United States military on active duty, in the reserves, or in the National Guard or are veterans. Most of our other students are public service professionals including federal, national and local law enforcement personnel or other first responders. Our programs are designed to help these working adult students advance in their current professions or prepare for their next career. Our online method of instruction is well-suited to these students, many of whom serve in positions requiring extended and irregular schedules, are on-call for rapid response missions, participate in extended deployments and exercises, travel or relocate frequently and have limited financial resources. Our satisfied students have been a significant source of referrals for us, reducing our marketing costs per new student. Over 50% of our new students in 2007 who responded to our surveys tell us they inquired about enrolling in either AMU or APU as the result of a personal referral.

As of September 30, 2008, we had approximately 137 full-time and over 661 adjunct faculty, virtually all of whom have advanced degrees and many of whom are former or current leading practitioners in their fields. Our adjunct faculty also includes professors who teach at leading national and state universities. We believe quality faculty members are attracted to us because of the high percentage of military and public service professionals in our student body who can immediately apply lessons learned in our classroom to their daily work. In addition, our faculty members are attracted to the flexible nature of teaching online, the numerous support services we provide them, and our per student pay structure for our adjunct faculty.

We have invested significant amounts of capital and resources on developing proprietary information systems and processes to support what we refer to as Partnership At a Distance, or PAD. PAD is our approach to how we interact with our students, and at its center is the PAD system. The PAD system allows prospective and current students to interact with us exclusively online, on their schedule. The PAD system also allows us to manage on an automated and cost-effective basis the complex administrative tasks resulting from offering monthly semester starts for over 1,100 classes in over 700 unique courses to our over 41,000 students taught by over 790 faculty members. Our systems and processes also help us measure and manage the activities of our faculty, student support personnel, and prospective and active students, allowing us to continuously

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improve our academic quality, student support services and marketing efficiency. We believe these proprietary systems and processes will support a much larger institution and provide us important competitive and cost advantages.

Our university system achieved regional accreditation in May 2006 with The Higher Learning Commission of the North Central Association of Colleges and Schools, or The Higher Learning Commission. Our university system has been nationally accredited by the Accrediting Commission of the Distance Education and Training Council, or DETC, since 1995. In September 2007, we received approval from The Higher Learning Commission and DETC to offer seven new degree programs in Education and Information Technology. In May 2008, we also became fully certified to participate in Title IV programs after a provisional certification period that had begun in 2006. In August 2008, as a result of a partial distribution of shares by the selling stockholders, we underwent a change in ownership and control under Department of Education regulations. Because of that change in ownership and control, we were required to submit a change in ownership application to the Department of Education. After review of that application, the Department of Education determined that we remain eligible to participate in Title IV programs and provisionally certified us. Provisional certification will allow us to continue to participate in Title IV programs but with certain limitations. We do not believe that these limitations will have an adverse effect on our current operations or growth plans. See [Recent Developments](#) below and see [Regulation of Our Business](#) in the accompanying prospectus for additional information regarding our provisional certification.

Market Overview

Within the postsecondary education market, we believe that there is significant opportunity for growth in online programs. We believe that increasing requirements for workers to have job mobility, combined with the growing acceptance of online learning from employers, and the flexibility associated with online learning should attract more students, both traditional and adult, to distance learning.

There are more than 2.1 million active and reserve military professionals in the United States Armed Forces. Each year, approximately 300,000 new service members are enlisted or commissioned to replace retiring and separating members. We believe that the unpredictable and demanding work schedules of military personnel and their geographic distribution make online learning and asynchronous teaching particularly attractive to them. Military leaders and policies promote voluntary education programs as a means for service members to gain the knowledge and skills that will improve their military performance as well as prepare them for a career following their military service. Academic achievement can also result in increased rank and pay for service members. The United States Armed Forces recognize academic achievement through awarding promotion points for academic credits, specifying education level eligibility requirements for assignments, promotions, and service schools, and entering remarks on performance appraisals.

Active duty and reserve component military personnel are eligible for tuition assistance through the Uniform Tuition Assistance Program of the Department of Defense, or DoD. DoD policy allows for payment of 100% of a military student's tuition costs, up to \$250 per semester credit hour and a maximum benefit of \$4,500 per fiscal year. Our undergraduate tuition per course is designed so that the tuition assistance paid by the service branches covers the cost of our courses for service members up to the annual maximum benefit. Military students who are eligible for the Department of Veterans Affairs' GI Bill Entitlement Program may apply those funds to pay for tuition costs above the DoD limits through the GI Bill's Top-Up feature. Most military veterans are also eligible to use their Montgomery GI Bill entitlement in continuing their education after retirement or separation.

We believe that national security, homeland security, and public safety professionals also represent a large and growing market for online education. As with their military counterparts, these individuals have unique program requirements as well as unpredictable and demanding work schedules that often prevent them from attending

traditional universities.

Competitive Strengths

We believe that we have the following competitive strengths:

Exclusively Online Education We have designed our courses and programs specifically for online delivery, and we recruit and train faculty exclusively for online instruction. Because our students are located around the globe, we focus our instruction on asynchronous, interactive instruction that provides students the

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flexibility to study and interact during the hours of the day or days of the week that suit their terms and schedules.

Emphasis on Military and Public Services Communities Since our founding, our culture has reflected our devotion to our mission of *Educating Those Who Serve*. We have designed our academic programs, policies, marketing strategies and tuition specifically to meet the needs of the military and public service communities. These communities tend to be tightly knit, which greatly facilitates personal testimonials from active to prospective students.

Affordable Tuition Our tuition is generally consistent with less expensive in-state tuition at state universities and is designed so that DoD tuition assistance programs fully cover the cost of undergraduate courses and over 90% of the cost of graduate courses. We have not increased our undergraduate tuition of \$250 per credit hour since 2000 and have no current intention to do so.

Commitment to Academic Excellence Our academic programs are overseen by our Board of Trustees, which counts as members two former college presidents, four active accreditation peer evaluators, a former Commandant of the Marine Corps, and a former Department of the Army Inspector General. We are committed to continuously improving our academic programs and services, as evidenced by the level of attention and resources we apply to Instruction and Educational support.

Proprietary Information Systems and Processes Through the PAD system, students may access our services online 24/7, such as admission, orientation, course registrations, tuition payments, book requests, grades, transcripts and degree progress, and various other inquiries. We also have created management tools based on the data from the PAD system that help us to improve continuously our academic quality, student support services and marketing efficiency. A key benefit to our proprietary systems and processes is that they allow us to manage the complexities involved in starting over 1,100 classes in over 700 unique courses monthly. We believe our proprietary systems and processes will support a much larger student body and provide us important competitive and cost advantages.

Highly Scalable and Profitable Business Model We believe our exclusively online education model, our proprietary management information systems, our relatively low student acquisition costs, and our variable faculty cost model have enabled us to expand our operating margins. Our operating margins grew to 23.1% for the first nine months of 2008 from 20.0% for the corresponding period in 2007, on revenue that increased to \$75.6 million from \$47.9 million over the same period.

Experienced and Accomplished Management Team Our management team represents a diverse blend of higher education, military, public service and business professionals. Our CEO, Wallace E. Boston, Jr., was previously a senior executive officer of several publicly-traded companies. Our Provost, Dr. Frank B. McCluskey, led successful distance learning programs at Mercy College in New York and has more than 18 years of higher education distance learning experience. Our CFO, Harry T. Wilkins, served previously as the chief financial officer for Strayer Education, Inc. from 1992 until 2001, leading Strayer through its IPO in 1996. Two members of our senior management are retired military officers who served in the U.S. Army for a combined period of over 50 years.

Growth Strategies

We believe our growth in student enrollment and revenue has consistently been driven by high student satisfaction and referral rates and increasing acceptance of distance learning within our targeted markets. Between 2002 and 2005, we grew our revenue at a CAGR of 38% from \$10.7 million to \$28.2 million. We believe achieving regional accreditation in May 2006 and gaining access to Title IV programs beginning with classes that started in November 2006 have been additional factors driving our recent acceleration in growth. Our revenues increased by 73% to \$69.1 million for the year ended December 31, 2007 from \$40.0 million for the year ended December 31, 2006. We plan to grow our business by employing the following primary strategies:

Expand in Our Core Military Market We have focused on the needs of the military community since our founding and this community has been responsible for the vast majority of our growth to date. The combination of our online model, focused curriculum and outreach to the military has enabled us to gain share from more established schools that have served this market for longer periods, many of which are traditional brick and mortar schools.

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Capitalize on Title IV Availability to Penetrate the Public Service and Civilian Markets We believe our curriculum is directly relevant to federal, state and local law enforcement and other first responders, but historically this market was limited to us because, outside the federal government, only a few agencies or departments have the tuition reimbursement plans critical to fund continuing adult education. Now that our students can obtain grants or low cost student loans through Title IV programs, we have begun to increase our focus on these markets.

Focus on Improving Student Retention Through December 31, 2007, over 80% of the students who have completed three classes with us remain as active students or have graduated from our university system. However, because our academics are rigorous, and because we are an open enrollment university system, accepting into our undergraduate programs all applicants with a high school diploma or equivalent, many of our new students have difficulty continuing with our program and drop after only one or two courses.

Add New Degree Programs We plan to continue to expand our degree offerings to meet our students' needs. For example, we recently received approval from The Higher Learning Commission and DETC to offer seven new degree programs in Education and Information Technology, as well as expanded the number of our Associate Degree offerings.

Recent Developments

We gained full acceptance into the Navy College Program Distance Learning Partnership in March 2008. The program allows us to join a select number of schools offering degree programs in support of the Servicemembers Opportunity Colleges Degree Network System for the Marine Corps (SOCMAR), the Coast Guard (SOCCOAST) and the Navy (SOCNAV). Participation in this program offers us greater access to Navy bases and increased visibility on some Navy education websites.

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

In the third quarter of 2008, net course registrations from new students were 10,400 and total net course registrations were 38,900, compared to 6,700 net course registrations from new students and 25,300 total net course registrations in the third quarter of 2007. Total revenue for the third quarter of 2008 was \$27.4 million, compared to total revenue of \$17.6 million in the third quarter of 2007. Our net income for the third quarter of 2008, including stock-based compensation expense, was \$3.8 million compared to \$2.2 million in the third quarter of 2007. The weighted average number of diluted shares outstanding in the third quarter of 2008 was 18.9 million, resulting in diluted earnings per share of \$0.20, compared to \$0.18 per diluted share in the third quarter of 2007.

We anticipate that for the year ending December 31, 2008, net course registrations from new students will be approximately 36,300 and total net course registrations will be 145,700 or more. We anticipate that our total revenue for the year ending December 31, 2008 will be between \$105.2 million and \$106.6 million, and that our net income, including stock-based compensation expense, for the same period will be between \$15.2 million and \$15.4 million, or between \$0.81 and \$0.82 per diluted share. The weighted average number of diluted shares outstanding is expected to be approximately 18.8 million shares for the year ending December 31, 2008. Our revenue, net income and net course registration anticipated results are based upon our preliminary analysis of estimated and anticipated results and actual results may be significantly different. See Special Note Regarding Forward-Looking Statements below for a discussion cautioning against reliance on forward-looking information.

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The Offering

| | |
|--|---|
| Common stock offered by us | 15,000 Shares |
| Common stock offered by the selling stockholders | 3,791,657 Shares |
| Common stock outstanding after the offering | 17,955,439 Shares |
| NASDAQ Global Market symbol | APEI |
| Use of proceeds | <p>We estimate that our proceeds from this offering will be approximately \$603,000 after deducting the estimated underwriting discount. We will use proceeds primarily to pay the estimated offering expenses payable by us. Any remaining proceeds will be used for working capital and other general corporate purposes.</p> <p>We will not receive any proceeds from the shares sold by the selling stockholders.</p> |
| Risk factors | <p>See Risk Factors and other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding whether to invest in shares of our common stock</p> |

The share information above is based on 17,940,439 shares of common stock outstanding as of September 30, 2008 and excludes:

1,380,700 shares of our common stock issuable upon exercise of options outstanding as of September 30, 2008 at a weighted average exercise price of \$6.57;

751,692 shares of common stock reserved under our 2007 Omnibus Incentive Plan; and

100,000 shares of common stock reserved under our Employee Stock Purchase Plan;

but includes 70,803 shares of restricted stock that are subject to forfeiture as of September 30, 2008.

Unless we indicate otherwise, the information in this prospectus supplement assumes that the underwriters will not exercise their over-allotment option to purchase up to 421,295 additional shares of common stock from the selling stockholders.

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The following table shows our summary consolidated statement of operations data and other financial and operating data for each of the years ended December 31, 2005, 2006 and 2007 and for the nine months ended September 30, 2007 and 2008 and our summary balance sheet data as of September 30, 2008. The summary consolidated statement of operations data and the other financial data for the years ended December 31, 2005, 2006 and 2007 are derived from our audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States, which are incorporated herein by reference. The summary statement of operations data for the nine months ended September 30, 2007 and 2008 and the summary consolidated balance sheet data as of September 30, 2008 have been derived from our unaudited financial statements, which are incorporated herein by reference and include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such data. Our historical results are not necessarily indicative of our results for any future period.

This information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, and our quarterly Report on Form 10-Q for the quarter ended September 30, 2008, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, and our financial statements and related notes appearing in each of those reports.

| | Year Ended December 31, | | | Nine Months Ended | |
|--|--------------------------------|-------------|-------------|--------------------------|-------------|
| | 2005 | 2006 | 2007 | September 30, | 2008 |
| | (Unaudited) | | | | |
| | (In thousands) | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues | \$ 28,178 | \$ 40,045 | \$ 69,095 | \$ 47,873 | \$ 75,644 |
| Costs and expenses: | | | | | |
| Instructional costs and services | 13,247 | 17,959 | 29,479 | 20,697 | 31,334 |
| Selling and promotional | 4,043 | 4,895 | 6,765 | 4,834 | 8,390 |
| General and administrative | 7,364 | 9,150 | 15,335 | 10,769 | 15,461 |
| Write-off of software development project(1) | | 3,148 | | | |
| Depreciation and amortization | 1,300 | 1,953 | 2,825 | 2,007 | 3,043 |
| Total costs and expenses | 25,954 | 37,105 | 54,404 | 38,307 | 58,228 |
| Income from continuing operations before interest income and income taxes | 2,224 | 2,940 | 14,691 | 9,566 | 17,416 |
| Interest income, net | 225 | 289 | 888 | 595 | 619 |
| Income from continuing operations before income taxes | 2,449 | 3,229 | 15,579 | 10,161 | 18,035 |
| Income tax expense | 1,061 | 771 | 6,829 | 4,368 | 6,889 |
| Income from continuing operations | 1,388 | 2,458 | 8,750 | 5,793 | 11,146 |
| Preferred stock accretion, including a \$12,300 charge in 2005 attributable to the exchange of | (12,985) | | | | |

preferred stock

| | | | | | |
|--|-------------|----------|----------|----------|-----------|
| Income (loss) from continuing operations attributable to common stockholders | (11,597) | 2,458 | 8,750 | 5,793 | 11,146 |
| Loss from discontinued operations, net of income tax benefit | (303) | (660) | | | |
| Net income (loss) attributable to common stockholders | \$ (11,900) | \$ 1,798 | \$ 8,750 | \$ 5,793 | \$ 11,146 |

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| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|-------------------------|------------|------------|------------------------------------|------------|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | (Unaudited) | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Income (loss) from continuing operations per common share: | | | | | |
| Basic | \$ (1.44) | \$ 0.21 | \$ 0.69 | \$ 0.48 | \$ 0.63 |
| Diluted | \$ (1.44) | \$ 0.20 | \$ 0.64 | \$ 0.46 | \$ 0.59 |
| Net income (loss) attributable to common stockholders per common share: | | | | | |
| Basic | \$ (1.48) | \$ 0.15 | \$ 0.69 | \$ 0.48 | \$ 0.63 |
| Diluted | \$ (1.48) | \$ 0.15 | \$ 0.64 | \$ 0.46 | \$ 0.59 |
| Weighted average number of shares outstanding: | | | | | |
| Basic | 8,055,300 | 11,741,191 | 12,758,833 | 11,990,375 | 17,796,305 |
| Diluted | 8,055,300 | 12,177,693 | 13,600,607 | 12,530,269 | 18,805,922 |

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|------------------------|-------------------------|------|------|------------------------------------|------|
| | 2005 | 2006 | 2007 | 2007 | 2008 |
| | (Unaudited) | | | | |
| (Dollars in thousands) | | | | | |

OTHER DATA:

| | | | | | |
|--|----------|----------|-----------|-----------|-----------|
| Net cash provided by operating activities from continuing operations | \$ 3,971 | \$ 9,011 | \$ 17,517 | \$ 14,483 | \$ 19,784 |
| Capital expenditures | \$ 4,613 | \$ 4,475 | \$ 6,827 | \$ 3,489 | \$ 6,547 |
| Stock-based compensation expense(2) | \$ 1,198 | \$ 284 | \$ 1,033 | \$ 754 | \$ 1,242 |
| Net course registrations (unaudited)(3) | 37,506 | 54,828 | 94,846 | 67,012 | 105,279 |

As of September 30, 2008
Actual As Adjusted⁽⁵⁾
(In thousands)

CONSOLIDATED BALANCE SHEET DATA (unaudited):

| | | |
|---------------------------|-----------|-----------|
| Cash and cash equivalents | \$ 41,350 | \$ 41,413 |
| Working capital(4) | \$ 32,655 | \$ 32,718 |
| Total assets | \$ 71,036 | \$ 71,099 |
| Stockholders' equity | \$ 47,535 | \$ 47,598 |

(1)

During 2006, \$3.1 million of capitalized software development costs were written off when management determined that the asset related to these costs was impaired because we were no longer pursuing the related project.

- (2) Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R)-Share-Based Payment, or SFAS 123R, which requires companies to expense share-based compensation based on fair value. Prior to January 1, 2006, we accounted for share-based payment in accordance with Accounting Principles Board Opinion No. 25-Accounting for Stock Issued to Employees, and provided the disclosure required in SFAS 123-Accounting for Stock-Based Compensation, as amended by SFAS No. 148-Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of FASB Statement No. 123. Stock-based compensation expense for the year ended December 31, 2005 resulted from the repurchase of shares of common stock acquired upon exercise of employee stock options.
- (3) Net course registrations represent the total number of course registrations for students that have attended a portion of a course.
- (4) Working capital is calculated by subtracting total current liabilities from total current assets.
- (5) As adjusted to give effect to our sale of common stock in this offering at an assumed offering price of \$42.20, which is the last reported stock price of our common stock on The NASDAQ Global Market on December 5, 2008, after deducting the estimated underwriting discount and other estimated offering expenses.

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RISK FACTORS

Investing in our common stock has a high degree of risk. Before making an investment in our common stock, you should carefully consider the risks set forth under heading Risk Factors on page 3 of the accompanying prospectus, as well as the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Please see Special Note Regarding Forward-Looking Statements below and Incorporation by Reference in the accompanying prospectus.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, including the information incorporated by reference, contains forward-looking statements. We may, in some cases, use words such as project, believe, anticipate, plan, expect, estimate, in should, would, could, potentially, will, or may, or other words that convey uncertainty of future events or outcomes. We identify these forward-looking statements. Forward-looking statements in this prospectus supplement, including the forward-looking statements that are incorporated by reference, include statements about:

our ability to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting agency requirements;

our expectations regarding provisional certification;

the pace of growth of our enrollment;

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 the development of new programs in a cost-effective manner or on a timely basis;

our maintenance and expansion of our relationships with the United States Armed Forces and various organizations and the development of new relationships;

the competitive environment in which we operate;

our cash needs and expectations regarding cash flow from operations;

our ability to manage and grow our business and execution of our business and growth strategies;

our anticipated results for the year ending December 31, 2008; 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 prospectus. These important factors include those that we discuss in the accompanying prospectus under the caption Risk Factors and elsewhere. You should read these factors and the other

cautionary statements made in this prospectus supplement as being applicable to all related forward-looking statements wherever they appear in this prospectus supplement. 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 prospectus supplement, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We estimate that our proceeds from our sale of shares of common stock in this offering will be approximately \$603,000, at an assumed offering price of \$42.20 per share (the last reported sale price of our common stock on The NASDAQ Global Market on December 5, 2008) and after deducting the estimated underwriting discount. We will use the proceeds primarily to pay offering expenses payable by us. Any remaining proceeds will be used for working capital and other general corporate purposes.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

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Our common stock has traded on The NASDAQ Global Market under the symbol APEI since it began trading on November 9, 2007. Our initial public offering was priced at \$20.00 per share on November 8, 2007. The following table sets forth, for the time periods indicated, the high and low sales prices of our common stock as reported on The NASDAQ Global Market.

| | Low | High |
|--|------------|-------------|
| Year Ended December 31, 2007 | | |
| Fourth Quarter 2007 (beginning November 9, 2007) | \$ 29.23 | \$ 46.98 |
| Year Ending December 31, 2008 | | |
| First Quarter 2008 | \$ 27.56 | \$ 44.94 |
| Second Quarter 2008 | \$ 29.51 | \$ 41.36 |
| Third Quarter 2008 | \$ 34.53 | \$ 53.24 |
| Fourth Quarter 2008 (through December 5, 2008) | \$ 33.00 | \$ 49.96 |

On December 5, 2008 the last reported sale price of our common stock on The NASDAQ Global Market was \$42.20. As of October 31, 2008, there were approximately 377 holders of record of our common stock.

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The following table shows our capitalization as of September 30, 2008:

on an actual basis; and

on an as adjusted basis to reflect the sale of 15,000 shares of common stock in this offering by us at an assumed offering price of \$42.20 per share (the last reported sales price of our common stock on The NASDAQ Global Market on December 5, 2008), after deducting the estimated underwriting discount and other estimated offering expenses.

You should read this table in conjunction with the section of this prospectus supplement entitled "Use of Proceeds" and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007 and our quarterly Report on Form 10-Q for the quarter ended September 30, 2008, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our financial statements and related notes appearing in each of those reports.

| | September 30, 2008 | |
|---|----------------------------------|------------------------|
| | Actual | As Adjusted |
| | (Unaudited, in thousands) | |
| Cash and cash equivalents | \$ 41,350 | \$ 41,413 |
| Total debt, including current portion | \$ | \$ |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value per share: 10,000,000 shares of preferred stock authorized actual and as adjusted, and no shares issued and outstanding, actual and as adjusted | | |
| Common stock \$0.01 par value per share: 100,000,000 shares authorized actual and as adjusted, 17,869,636 shares issued and outstanding actual, and 17,884,636 issued and outstanding as adjusted | 179 | 179 |
| Additional paid-in capital | 130,885 | 130,948 |
| Accumulated deficit | 83,529 | 83,529 |
| Total stockholders' equity | 47,535 | 47,598 |
| Total capitalization | \$ 47,535 | \$ 47,598 |

The outstanding share information as of September 30, 2008 shown in the table above excludes 1,380,700 shares of common stock issuable upon the exercise of stock options outstanding as of that date at a weighted average exercise price of \$6.57, 751,692 shares of common stock reserved under our 2007 Omnibus Incentive Plan, 100,000 shares of common stock reserved under our Employee Stock Purchase Plan and 70,803 shares of restricted stock that were subject to forfeiture as of that date.

Table of Contents**SELLING STOCKHOLDERS**

The following information supplements the information set forth under the caption *Selling Stockholders* in the accompanying prospectus to reflect the shares actually being offered by selling stockholders in this offering and the grant by the selling stockholders to the underwriters of an option for a period of 30 days from the date of this prospectus supplement to purchase up to 421,295 additional shares of common stock to cover over-allotments, if any. The information is based on information provided by the selling stockholders to us and is as of the date of this prospectus supplement.

| Name of Selling Stockholder | Number of Shares Owned | | | Percentage of Shares Outstanding | | | | |
|--|------------------------|----------------------|---------------------------|--|--|-----------------|-----------------------|--|
| | Before Offering | Shares Being Offered | Offered in Over-Allotment | After Offering Assuming No Exercise of Over-Allotment Option | After Offering Assuming Full Exercise of Over-Allotment Option | Before Offering | Over-Allotment Option | After Offering Assuming Full Exercise of Over-Allotment Option |
| Entities affiliated with ABS Capital Partners(1) | 4,212,952 | 3,791,657 | 421,295 | 421,295 | 0 | 23.4% | 2.3% | 0% |

(1) Includes:

- (i) 3,728,057 shares of common stock held of record by ABS Capital Partners IV, L.P.;
- (ii) 124,825 shares of common stock held of record by ABS Capital Partners IV-A, L.P.;
- (iii) 214,103 shares of common stock held of record by ABS Capital Partners IV Offshore, L.P.; and
- (iv) 145,967 shares of common stock held of record by ABS Capital Partners IV Special Offshore, L.P. (together with ABS Capital Partners IV, L.P., ABS Capital Partners IV-A, L.P. and ABS Capital Partners IV Offshore, L.P., the *ABS Entities*).

ABS Partners IV, L.L.C. is the general partner of the ABS Entities and has voting and dispositive power over these shares, which is shared by Phillip A. Clough and Timothy Weglicki (the *Managers*) as two of the managing members of ABS Partners IV, L.L.C. Each of the Managers, who both serve on our board of directors, disclaims beneficial ownership of these shares except to the extent of his respective pecuniary interests. The address for these entities is 400 East Pratt Street, Suite 910, Baltimore, Maryland 21202.

Table of Contents**UNDERWRITING**

The underwriters named below have severally agreed, subject to the terms and conditions set forth in the underwriting agreement by and among the underwriters, the selling stockholders and us, to purchase from us and the selling stockholders the respective number of shares of common stock set forth opposite each underwriter's name in the table below. William Blair & Company, L.L.C. is acting as Sole Book-Running Manager, Piper Jaffray & Co. is acting as Co-Lead Manager and Stifel, Nicolaus & Company, Incorporated, BMO Capital Markets Corp., Signal Hill Capital Group LLC, ThinkPanmure, LLC, Barrington Research Associates, Inc. and First Analysis Securities Corporation are acting as Co-Managers for this offering.

| Underwriter | Number of Shares |
|--|-------------------------|
| William Blair & Company, L.L.C. | |
| Piper Jaffray & Co. | |
| Stifel, Nicolaus & Company, Incorporated | |
| BMO Capital Markets Corp. | |
| Signal Hill Capital Group LLC | |
| ThinkPanmure, LLC | |
| Barrington Research Associates, Inc. | |
| First Analysis Securities Corporation | |
| Total | 3,806,657 |

This offering will be underwritten on a firm commitment basis. In the underwriting agreement, the underwriters have agreed, subject to the terms and conditions set forth therein, to purchase the shares of common stock being sold pursuant to this prospectus supplement at a price per share equal to the public offering price less the underwriting discount specified on the cover page of this prospectus supplement. According to the terms of the underwriting agreement, the underwriters either will purchase all of the shares or none of them. In the event of default by any underwriter, in certain circumstances, the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The representative of the underwriters has advised us that the underwriters propose to offer the common stock to the public initially at the public offering price set forth on the cover page of this prospectus supplement and to selected dealers at such price less a concession of not more than \$ per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of \$ per share to certain other dealers. The underwriters will offer the shares subject to prior sale and subject to receipt and acceptance of the shares by the underwriters. The underwriters may reject any order to purchase shares in whole or in part. The underwriters expect that we and the selling stockholders will deliver the shares to the underwriters through the facilities of The Depository Trust Company in New York, New York on or about , 2008. At that time, the underwriters will pay us and the selling stockholders for the shares in immediately available funds. After commencement of the public offering, the representative may change the public offering price and other selling terms.

The selling stockholders have granted the underwriters an option, exercisable within 30 days after the date of this prospectus supplement, to purchase up to an aggregate of 421,295 additional shares of common stock at the same price per share to be paid by the underwriters for the other shares offered hereby solely for the purpose of covering over-allotments, if any. If the underwriters purchase any such additional shares pursuant to this option, each of the underwriters will be committed to purchase such additional shares in approximately the same proportion as set forth in

the table above. The underwriters may exercise the option only for the purpose of covering excess sales, if any, made in connection with the distribution of the shares of common stock offered hereby. The underwriters will offer any additional shares that they purchase on the terms described in the preceding paragraph.

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The following table summarizes the compensation to be paid by us and the selling stockholders to the underwriters. This information assumes either no exercise or full exercise by the underwriters of their over-allotment option:

| | Per Share | Without Over-Allotment | With Over-Allotment |
|--|----------------------|-----------------------------------|--------------------------------|
| Public offering price | \$ | \$ | \$ |
| Underwriting discount paid by us | \$ | \$ | \$ |
| Underwriting discount paid by selling stockholders | \$ | \$ | \$ |
| Proceeds, before expenses, to us | \$ | \$ | \$ |
| Proceeds, before expenses, to selling stockholders | \$ | \$ | \$ |

We will pay the offering expenses of the selling stockholders, except for the underwriting discount. We estimate that the total expenses for this offering, excluding the underwriting discount, will be approximately \$541,000.

We have agreed, subject to limited exceptions described below, for a period of 90 days after the date of this prospectus supplement, not to, without the prior written consent of William Blair & Company, L.L.C.:

directly or indirectly, offer, sell (including short selling), assign, transfer, encumber, pledge, contract to sell, grant an option to purchase, establish an open put equivalent position within the meaning of Rule 16a-1(h) under the Securities Exchange Act of 1934, or otherwise dispose of any shares of common stock or securities convertible or exchangeable into, or exercisable for, common stock held of record or beneficially owned (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934); or

enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any common stock.

Our agreement does not apply to any securities issued by us: (i) under our existing stock incentive plan, (ii) under our existing employee stock purchase plan, (iii) upon conversion of currently outstanding convertible securities, or (iv) in connection with mergers, acquisitions or similar transactions, provided that issuances in such transactions are conditional upon an agreement of the recipients to be bound by a similar restriction. The 90-day lock-up period will be extended if (1) we release earnings results or material news or a material event relating to our company occurs during the last 17 days of the lock-up period, or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period. In either case, the lock-up period will be extended for 18 days after the date of the release of the earnings results or the occurrence of the material news or material event. This extension will not apply if the publication of research reports by the underwriters during the period around the expiration of this lock-up period is no longer restricted by applicable law or regulation.

We and the selling stockholders have agreed to indemnify the underwriters and their controlling persons against certain liabilities for misstatements in the registration statement of which this prospectus supplement forms a part, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect thereof.

The representative has informed us that the underwriters will not confirm, without client authorization, sales to their client accounts as to which they have discretionary authority. The representative has also informed us that the underwriters intend to deliver all copies of this prospectus supplement via electronic means, via hand delivery or

through mail or courier services.

In connection with this offering, the underwriters and other persons participating in this offering may engage in transactions which affect the market price of the common stock. These may include stabilizing and over-allotment transactions and purchases to cover syndicate short positions. Stabilizing transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock. An over-allotment involves selling more shares of common stock in this offering than are specified on the cover page of this prospectus supplement, which results in a syndicate short position. The underwriters may cover this short position by purchasing common stock in the open market or by exercising all or part of their over-allotment option. In addition, the representative may impose a penalty bid. This allows the representative to reclaim the selling concession allowed to an underwriter or selling group member if shares of common stock sold by such underwriter or selling group member in this offering are repurchased by the representative in

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stabilizing or syndicate short covering transactions. These transactions, which may be effected on The NASDAQ Global Market or otherwise, may stabilize, maintain or otherwise affect the market price of the common stock and could cause the price to be higher than it would be without these transactions. The underwriters and other participants in this offering are not required to engage in any of these activities and may discontinue any of these activities at any time without notice. We and the underwriters make no representation or prediction as to whether the underwriters will engage in such transactions or choose to discontinue any transactions engaged in or as to the direction or magnitude of any effect that these transactions may have on the price of the common stock.

One or more of the underwriters currently act as a market maker for our common stock and may engage in passive market making in such securities on The NASDAQ Global Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act. Rule 103 permits, upon the satisfaction of certain conditions, underwriters participating in a distribution that are also NASDAQ market makers in the security being distributed to engage in limited market making transactions during the period when Regulation M would otherwise prohibit such activity. Rule 103 prohibits underwriters engaged in passive market making generally from entering a bid or effecting a purchase price that exceeds the highest bid for those securities displayed on The NASDAQ Global Market by a market maker that is not participating in the distribution. Under Rule 103, each underwriter engaged in passive market making is subject to a daily net purchase limitation equal to the greater of (i) 30% of such entity's average daily trading volume during the two full calendar months immediately preceding, or any 60 consecutive calendar days ending within the ten calendar days preceding, the date of the filing of the registration statement under the Securities Act pertaining to the security to be distributed or (ii) 200 shares of common stock.

Our common stock is listed on The NASDAQ Global Market under the symbol APEI.

In the ordinary course of business, some of the underwriters and their affiliates have provided, and may in the future provide, investment banking, commercial banking and other services to us for which they may receive customary fees or other compensation.

LEGAL MATTERS

The legal validity of the shares of common stock offered by this prospectus supplement will be passed upon for us by Hogan & Hartson LLP, Baltimore, Maryland. Hogan & Hartson LLP in the past provided, and may continue to provide, legal services to ABS Capital Partners and its respective affiliates. Hogan & Hartson LLP owns a limited partnership interest of less than 1% in ABS Capital Partners IV, L.P.

Legal matters in connection with the offering will be passed upon for the underwriters by Sidley Austin LLP, Chicago, Illinois.

EXPERTS

The consolidated financial statements of American Public Education, Inc. and subsidiaries as of December 31, 2006 and 2007, and for each of the three years in the period ended December 31, 2007, incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2007, have been included herein and in the registration statement in reliance upon the report of McGladrey & Pullen, LLP, independent registered public accounting firm, also incorporated by reference from our annual report on Form 10-K, and upon the authority of said firm as experts in accounting and auditing.

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PROSPECTUS

4,227,952 Shares

Common Stock

We are offering 15,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 4,212,952 shares of our common stock. The selling stockholders intend to sell the shares of our common stock held by them in a single transaction, or a set of simultaneous transactions, at a time that is determined based on their assessment of market conditions. Any sales of shares of common stock by us would only be done at the same time as sales by the selling stockholders.

We will not receive any of the proceeds from the sale of shares by the selling stockholders. Subject to any agreement that we may in the future reach in connection with the offer and sale of shares pursuant to this prospectus, we will bear all expenses of this offering, except that the selling stockholders will pay all transfer taxes and any underwriting discounts or commissions or equivalent expenses applicable to the sale of their shares.

We are registering the offer and sale of shares by the selling stockholders pursuant to a registration rights agreement with the selling stockholders. The shares offered under this prospectus by the selling stockholders are being registered to permit the selling stockholders to sell the shares in the public market at a time that they determine based on their assessment of market conditions. We and the selling stockholders may sell the shares offered under this prospectus through an underwritten offering or through any other means described in the section titled Plan of Distribution.

The common stock is listed on The NASDAQ Global Market under the symbol APEI. The last reported sale price of the common stock on December 1, 2008 was \$36.96 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 2, 2008

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You should rely only on the information contained in this prospectus, or any prospectus supplement to which we have referred you. We and the selling stockholders have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this prospectus.

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PROSPECTUS SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus. Before deciding to invest in shares of our common stock, you should read the entire prospectus carefully, including the documents incorporated by reference in this prospectus, especially the matters discussed under Risk Factors beginning on page 3 and the financial statements and related notes included in this prospectus by reference. Unless the context otherwise requires, the terms we, us and our refer to American Public Education, Inc. and its wholly owned subsidiary, American Public University System, Inc.

We are a provider of exclusively online postsecondary education directed at the needs of the military and public service communities. We operate through two universities, American Military University, or AMU, and American Public University, or APU, which together constitute the American Public University System. Our universities share a common faculty and curriculum that includes 73 degree programs and 49 certificate programs in disciplines related to national security, military studies, intelligence, homeland security, criminal justice, technology, business administration, liberal arts and education. We currently serve over 41,000 students living in all 50 states and more than 130 foreign countries. Our university system is regionally and nationally accredited.

Corporate Information

We were organized as a Virginia corporation in 1991, and we reorganized in Delaware in 2002 into our current holding company structure. As part of our 2002 reorganization, our corporate name was changed from American Military University, Inc. to American Public Education, Inc. We completed our initial public offering in November 2007. Our principal executive offices are located at 111 W. Congress Street, Charles Town, West Virginia 25414, and our main telephone number at that address is (304) 724-3700. The website of the American Public University System is www.apus.edu. Our corporate website address is www.AmericanPublicEducation.com. The contents of these websites are not a part of this prospectus.

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The Offering

| | |
|--|--|
| Common stock offered by us | 15,000 Shares |
| Common stock offered by the selling stockholders | 4,212,952 Shares |
| Common stock outstanding after the offering | 17,955,439 Shares |
| NASDAQ Global Market symbol | APEI |
| Use of proceeds | We will use proceeds primarily to pay offering expenses payable by us. Any remaining proceeds will be used for working capital and other general corporate purposes. We will not receive any proceeds from the shares sold by the selling stockholders. |
| Plan of Distribution | The selling stockholders plan to sell up to all of the shares being offered by them in this offering in a single transaction or a set of simultaneous transactions at a time determined by our and their assessment of market conditions. Any sales of shares of common stock by us would only occur at the same time as sales by the selling stockholders. See Plan of Distribution for additional information. |
| Risk factors | See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding whether to invest in shares of our common stock |

The share information above is based on 17,940,439 shares of common stock outstanding as of September 30, 2008 and excludes:

1,380,700 shares of our common stock issuable upon exercise of options outstanding as of September 30, 2008 at a weighted average exercise price of \$6.57;

751,692 shares of common stock reserved under our 2007 Omnibus Incentive Plan; and

100,000 shares of common stock reserved under our Employee Stock Purchase Plan;

but includes 70,803 shares of restricted stock that are subject to forfeiture as of September 30, 2008.

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RISK FACTORS

*Investing in our common stock has a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained or incorporated by reference in this prospectus, as well as any modification or addition to the risks described below contained in one or more supplements to this prospectus. The risks described below are those that we believe are the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you could lose all or part of your investment. Please see *Special Note Regarding Forward-Looking Statements* and *Incorporation by Reference*.*

Risks Related to Our Business

If we are unable to continue our recent revenue and earnings growth, our stock price may decline and we may not have adequate financial resources to execute our business plan.

Our revenue increased 73% from \$23.1 million in 2004 to \$40.0 million in 2006, and it increased 73% from \$40.0 million in 2006 to \$69.1 million in 2007, primarily due to strong referrals from current students, new student marketing, and the receipt of regional accreditation in May 2006. These same factors also contributed to our net income attributable to common stockholders improving to \$8.8 million in 2007 from \$1.8 million in 2006. We may not be able to achieve similar growth rates in future periods. You should not rely on the results of any prior periods as an indication of our future operating performance. If we are unable to maintain adequate revenue and earnings growth, our stock price may decline, and we may not have adequate financial resources to execute our business plan.

Our growth may place a strain on our resources that could adversely affect our systems, controls and operating efficiency.

The growth that we have experienced in the past, as well as any future growth that we experience, may place a significant strain on our resources and increase demands on our management information and reporting systems and financial management controls. We do not have experience scheduling courses and administering programs for more students than our current enrollment, and if growth negatively impacts our ability to do so, the learning experience for our students could be adversely affected, resulting in a higher rate of student attrition and fewer student referrals. We also have limited experience adding to our courses, programs and operations through acquisitions. Future growth will also require continued improvement of our internal controls and systems, particularly those related to complying with federal regulations under the Higher Education Act of 1965, or the Higher Education Act, as administered by the U.S. Department of Education, including as a result of our participation in federal student financial aid programs under Title IV of the Higher Education Act, which we refer to in this prospectus as Title IV programs. We have described some of the most significant regulatory risks that apply to us, including those related to Title IV programs, under the heading *Risks Related to the Regulation of our Industry* below. If we are unable to manage our growth or successfully carry out and integrate acquisitions, we may also experience operating inefficiencies that could increase our costs and adversely affect our profitability and results of operations.

Tuition assistance programs offered to United States Armed Forces personnel constituted 66% of our revenues for 2007, and our revenues and number of students would decrease if we are no longer able to receive funds under these tuition assistance programs or tuition assistance is reduced or eliminated.

Service members of the United States Armed Forces are eligible to receive tuition assistance from their branch of the armed forces that they may use to pursue postsecondary degrees. Service members of the United States Armed Forces can use tuition assistance at postsecondary schools that are accredited by accrediting agencies recognized by the U.S. Secretary of Education. Our tuition is currently structured so that tuition assistance payments for service members fully cover the service member's per course tuition cost of our undergraduate courses and cover more than 90% of the per course tuition cost of our graduate courses. If we are no longer able to receive tuition assistance payments or federal funds for the tuition assistance program are reduced or eliminated, our enrollments and revenues would be significantly reduced resulting in a material adverse effect on our results of operations and financial condition.

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Strong competition in the postsecondary education market, especially in the online education market, could decrease our market share and increase our cost of acquiring students.

Postsecondary education is highly fragmented and competitive. We compete with traditional public and private two-year and four-year colleges as well as other for-profit schools, particularly those that offer online learning programs. Public and private colleges and universities, as well as other for-profit schools, offer programs similar to those we offer. Public institutions receive substantial government subsidies, and public and private institutions have access to government and foundation grants, tax-deductible contributions and other financial resources generally not available to for-profit schools. Accordingly, public and private institutions may have instructional and support resources that are superior to those in the for-profit sector. Recent legislation, effective August 1, 2009, provides education assistance benefits for veterans in an amount up to the highest rate of tuition and fees charged undergraduate students at a public institution in the state in which the veteran is enrolled and a monthly housing stipend during the veteran's program of education where such program of education is not offered through distance learning. Such legislation may hinder our ability to compete against present or future competitors in other states or who offer programs through formats other than or in addition to distance learning. In addition, some of our competitors, including both traditional colleges and universities and other for-profit schools, have substantially greater name recognition and financial and other resources than we have, which may enable them to compete more effectively for potential students, particularly in the non-military sector of the market. We also expect to face increased competition as a result of new entrants to the online education market, including established colleges and universities that have not previously offered online education programs.

We may not be able to compete successfully against current or future competitors and may face competitive pressures that could adversely affect our business or results of operations. We may also face increased competition if our competitors pursue relationships with the military and governmental educational programs with which we already have relationships. These competitive factors could cause our enrollments, revenues and profitability to decrease significantly.

If we are unable to update and expand the content of existing programs and develop new programs and specializations on a timely basis and in a cost-effective manner, our future growth may be impaired.

The updates and expansions of our existing programs and the development of new programs and specializations may not be accepted by existing or prospective students or employers. If we cannot respond to changes in market requirements, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require or as quickly as our competitors introduce competing programs. To offer a new academic program, we may be required to obtain appropriate federal, state and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, because we are provisionally certified after the recent change in ownership and control, the Department of Education may more closely monitor or may limit our ability to add new academic programs. If we are unable to respond adequately to changes in market requirements due to financial constraints, regulatory limitations or other factors, our ability to attract and retain students could be impaired and our financial results could suffer.

Establishing new academic programs or modifying existing programs requires us to make investments in management, incur marketing expenses and reallocate other resources. We may have limited experience with the courses in new areas and may need to modify our systems and strategy or enter into arrangements with other institutions to provide new programs effectively and profitably. If we are unable to increase the number of students, or offer new programs in a cost-effective manner, or are otherwise unable to manage effectively the operations of newly established academic programs, our results of operations and financial condition could be adversely affected.

If we do not have adequate continued personal referrals and marketing and advertising programs that are effective in developing awareness among, attracting and retaining new students, our financial performance in the future would suffer.

Building awareness of AMU and APU and the programs we offer among potential students is critical to our ability to attract new students. In order to maintain and increase our revenues and profits, we must continue to attract new students in a cost-effective manner and these students must remain active in our programs. During 2007, we increased the amounts spent on marketing and advertising, and we anticipate this

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trend to continue, particularly as a result of our attempts to attract and retain students from non-military market sectors. We use marketing tools such as the Internet, exhibits at conferences, and print media advertising to promote our schools and programs. Additionally, we rely on the general reputation of AMU and APU and referrals from current students, alumni and educational service officers in the United States Armed Forces as a source of new students. Some of the factors that could prevent us from successfully advertising and marketing our programs and from successfully enrolling and retaining students in our programs include:

the emergence of more successful competitors;

factors related to our marketing, including the costs of Internet advertising and broad-based branding campaigns;

performance problems with our online systems;

failure to maintain accreditation;

student dissatisfaction with our services and programs;

failure to develop a message or image that resonates well within non-military sectors of the market;

failure to maintain eligibility and certification to participate in Title IV programs, or limitations on participation in Title IV programs;

adverse publicity regarding us, our competitors or online or for-profit education generally;

adverse developments in our relationship with military educational service officers;

a decline in the acceptance of online education; and

a decrease in the perceived or actual economic benefits that students derive from our programs.

If we are unable to continue to develop awareness of AMU and APU and the programs we offer, and to enroll and retain students in both military and non-military market sectors, our enrollments would suffer and our ability to increase revenues and maintain profitability would be significantly impaired.

System disruptions and security breaches to our online computer networks could negatively impact our ability to generate revenue and damage our reputation, limiting our ability to attract and retain students.

The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the unavailability of our online classroom, damaging our ability to generate revenue. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

Our systems, particularly those related to our Partnership-At-a-Distance, or PAD, system have been predominantly developed in-house, with limited support from outside vendors. We are continuously working on upgrades to the PAD system, and our employees continue to devote substantial time to its development. To the extent that we face problems with the PAD system, we may not have the capacity to address the problems with our internal capability, and we may not be able to identify outside contractors with expertise relevant to our custom system.

Any failure of our online classroom system could also prevent students from accessing their courses. Any interruption to our technology infrastructure could have a material adverse effect on our ability to attract and retain students and could require us to incur additional expenses to correct or mitigate the interruption.

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information, personal information about our students or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. We engage multiple security assessment providers on a periodic basis to review and assess our security. We utilize this information to audit ourselves to ensure that we are continually monitoring the security of our technology infrastructure. However, we cannot assure you that these security assessments and audits will protect our computer networks against the threat of security breaches.

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We use third party software for our online classroom, and if the provider of that software were to cease to do business or was acquired by a competitor, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes, which could adversely affect our performance.

Our online classroom employs the Educator™ learning management system pursuant to a license from Ucompass.com, Inc. The Educator system is a web-based portal that stores and delivers course content, provides interactive communication between students and faculty, and supplies online evaluation tools. We rely on Ucompass for ongoing support and customization and integration of the Educator system with the rest of our technology infrastructure. If Ucompass ceased to operate or was unable or unwilling to continue to provide us with service, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes. Any failure to maintain our online classroom would have an adverse impact on our operations, damage our reputation and limit our ability to attract and retain students.

Future growth or increased technology demands will require continued investment of capital, time and resources to develop and update our technology and if we are unable to increase the capacity of our resources appropriately, our ability to handle growth, our ability to attract or retain students and our financial condition and results of operations could be adversely affected.

We believe that continued growth will require us to increase the capacity and capabilities of our technology infrastructure, including our PAD system. Increasing the capacity and capabilities of our technology infrastructure will require us to invest capital, time and resources, and there is no assurance that even with sufficient investment our systems will be scalable to accommodate future growth. We may also need to invest capital, time and resources to update our technology in response to competitive pressures in the marketplace. If we are unable to increase the capacity of our resources or update our resources appropriately, our ability to handle growth, our ability to attract or retain students, and our financial condition and results of operations could be adversely affected.

The loss of any key member of our management team may impair our ability to operate effectively and may harm our business.

Our success depends largely upon the continued services of our executive officers and other key management and technical personnel. The loss of one or more members of our management team could harm our business. Except for the employment agreements we have with Mr. Boston, Dr. McCluskey and Mr. Wilkins, we do not have employment agreements with any of our other executive officers or key personnel. We do not maintain key person life insurance policies on any of our employees.

If we are unable to attract and retain faculty, administrators, management and skilled personnel, our business and growth prospects could be severely harmed.

To execute our growth strategy, we must attract and retain highly qualified faculty, administrators, management and skilled personnel. Competition for hiring these individuals is intense, especially with regard to faculty in specialized areas. If we fail to attract new skilled personnel or faculty or fail to retain and motivate our existing faculty, administrators, management and skilled personnel, our business and growth prospects could be severely harmed.

The protection of our operations through exclusive proprietary rights and intellectual property is limited, and we encounter disputes from time to time relating to our use of intellectual property of third parties, any of which could harm our operations and prospects.

In the ordinary course of our business, we develop intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, patent, trade secret or other protections. This intellectual property includes but is

not limited to courseware materials and business know-how and internal processes and procedures developed to respond to the requirements of operating and various education regulatory agencies. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names, agreements and registrations to protect our intellectual property. We rely on service mark and trademark protection in the United States and select foreign jurisdictions to protect our rights to the marks AMERICAN MILITARY UNIVERSITY, AMERICAN PUBLIC UNIVERSITY, AMERICAN PUBLIC UNIVERSITY SYSTEM and EDUCATING THOSE WHO SERVE, as well as distinctive logos and other marks associated with our services. We rely on agreements under which we obtain rights to use course content developed by faculty

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members and other third party content experts. We cannot assure you that the measures that we take will be adequate or that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the United States or select foreign jurisdictions, or that third parties will not infringe upon or violate our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our curricula, online resource material and other content, and offer competing programs to ours.

In particular, third parties may attempt to develop competing programs or duplicate or copy aspects of our curriculum, online resource material, quality management and other proprietary content. Any such attempt, if successful, could adversely affect our business. Protecting these types of intellectual property rights can be difficult, particularly as it relates to the development by our competitors of competing courses and programs.

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party. In July 2006, we settled a dispute with another institution regarding the use of certain marks that allowed us to continue to use the marks at issue, but we may not be able to favorably resolve future disputes. Some third party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit. Our general liability and cyber liability insurance may not cover potential claims of this type adequately or at all, and we may be required to alter the content of our classes or pay monetary damages, which may be significant.

We may incur liability for the unauthorized duplication or distribution of class materials posted online for class discussions.

In some instances, our faculty members or our students may post various articles or other third party content on class discussion boards. We may incur liability for the unauthorized duplication or distribution of this material posted online for class discussions. Third parties may raise claims against us for the unauthorized duplication of this material. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. Our faculty members or students could also post classified material on class discussion boards, which could expose us to civil and criminal liability and harm our reputation and relationships with members of the military and government. Our general liability insurance may not cover potential claims of this type adequately or at all, and we may be required to alter the content of our courses or pay monetary damages.

Because we are an exclusively online provider of education, we are entirely dependent on continued growth and acceptance of exclusively online education and, if the recognition by students and employers of the value of online education does not continue to grow, our ability to grow our business could be adversely impacted.

We believe that continued growth in online education will be largely dependent on additional students and employers recognizing the value of degrees from online institutions. If students and employers are not convinced that online schools are an acceptable alternative to traditional schools or that an online education provides value, or if growth in the market penetration of exclusively online education slows, growth in the industry and our business could be adversely affected. Because our business model is based on online education, if the acceptance of online education does not grow, our ability to continue to grow our business and our financial condition and results of operations could be materially adversely affected.

If we do not maintain continued strong relationships with various military bases and educational service officers, and if we are unable to expand our use of articulation agreements, our future growth may be impaired.

We have non-exclusive articulation agreements or memoranda of understanding with various educational institutions of the United States Armed Forces and other governmental education programs. Articulation agreements and memoranda of understanding are agreements pursuant to which we agree to award academic credits toward our degrees for learning in educational programs offered by others. Additionally, we rely on relationships with educational service officers on military bases and base education counselors to distribute our information to interested service members. If our relationships with educational service offices or base

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education counselors deteriorate or end, our efforts to recruit students from that base will be impaired. If our articulation agreements and memoranda of understanding are eliminated, or if our relationships with educational service officers or base education counselors deteriorate, this could materially and adversely affect our revenues and results of operations.

The United States Armed Forces has in the past and may in the future approve programs and initiatives to provide additional educational opportunities to service members, and these programs and initiatives may not include participation by us. We cannot predict the impact of these announcements, programs or initiatives on us, but given our dependence on students from the armed forces, our net course registrations and results of operations could be materially adversely affected by such announcements, programs and initiatives.

Government regulations relating to the Internet could increase our cost of doing business, affect our ability to grow or otherwise have a material adverse effect on our business.

The increasing popularity and use of the Internet and other online services have led and may lead to the adoption of new laws and regulatory practices in the United States or foreign countries and to new interpretations of existing laws and regulations. These new laws and interpretations may relate to issues such as online privacy, copyrights, trademarks and service marks, sales taxes, fair business practices and the requirement that online education institutions qualify to do business as foreign corporations or be licensed in one or more jurisdictions where they have no physical location or other presence. New laws, regulations or interpretations related to doing business over the Internet could increase our costs and materially and adversely affect our enrollments, revenues and results of operations.

Risks Related to the Regulation of Our Industry

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

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

During a period of provisional certification, we must comply with any additional conditions included in our program participation agreement, which include, among other things, limitations on our operations. Our program participation agreement provides that as a provisionally certified institution, we must apply for and receive approval by the Secretary for any substantial change. Under our program participation agreement, substantial changes include but are not limited to establishment of additional locations, an increase in the level of academic offering, and addition of any non-degree or short-term training program. The Department of Education may also more closely review us while we are provisionally certified. The conditions to provisional certification or closer review by the Department of Education could impact, among other things, our ability to add educational programs, acquire other schools or make other

significant changes. In addition, while we are provisionally certified if the Department of Education determines that we are unable to meet our responsibilities, it may seek to revoke our certification to participate in Title IV programs with fewer due process protections than if we were fully certified. Limitations on our operations could, and the loss of our certification to participate in Title IV programs would, adversely affect our ability to grow our presence outside the military sector in addition to having adverse effects on our enrollment, revenues and results of operations.

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

We are subject to extensive regulation by (1) the federal government through the U.S. Department of Education and under the Higher Education Act, (2) state regulatory bodies and (3) accrediting agencies recognized by the U.S. Secretary of Education. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition. These regulatory requirements can also affect our ability to add new or expand existing educational programs and to change our corporate structure and ownership.

Institutions of higher education that grant degrees, diplomas or certificates must be authorized by an appropriate state education agency or agencies. In addition, in certain states as a condition of continued authorization to grant degrees and in order to participate in various federal programs, including tuition assistance programs of the United States Armed Forces, a school must be accredited by an accrediting agency recognized by the Secretary of Education. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution. The Higher Education Act requires accrediting agencies recognized by the Department of Education to review and monitor many aspects of an institution's operations and to take appropriate action when the institution fails to comply with the accrediting agency's standards.

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

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

If we fail to maintain our institutional accreditation, we would lose our ability to participate in the tuition assistance programs of the United States Armed Forces and also to participate in Title IV programs.

American Public University System is accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, one of six regional accrediting agencies recognized by the Secretary of Education, and by the Accrediting Commission of the Distance Education and Training Council, or DETC, which is a national accrediting agency recognized by the Secretary of Education. Accreditation by an accrediting agency that is recognized by the Secretary of Education is required for participation in the tuition assistance programs of the United

States Armed Forces. In 2007, we derived approximately 66% of our revenues from these tuition assistance programs. Accreditation by an accrediting agency that is recognized by the Secretary of Education for Title IV purposes is also required for an institution to become and remain eligible to participate in Title IV programs. American Public University System achieved regional accreditation from The Higher Learning Commission in 2006 and has had national accreditation from the Distance Education and Training Council since 1995. We have identified The Higher Learning Commission as our primary accreditor for Title IV purposes. Either The Higher Learning Commission or DETC may impose restrictions on our accreditation or may terminate our

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accreditation. To remain accredited American Public University System must continuously meet certain criteria and standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Failure to meet any of these criteria or standards could result in the loss of accreditation at the discretion of the accrediting agencies. Furthermore, many prospective students may view accreditation by a regional accrediting agency to be more prestigious than accreditation by a national accrediting agency, and we believe that loss of regional accreditation may reduce the marketability of American Public University System even if national accreditation were maintained. The complete loss of accreditation would, among other things, render our students and us ineligible to participate in the tuition assistance programs of the United States Armed Forces or Title IV programs and have a material adverse effect on our enrollments, revenues and results of operations.

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

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

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

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

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

Various states impose regulatory requirements on educational institutions operating within their boundaries. Several states have sought to assert jurisdiction over online educational institutions that have no physical location or other presence in the state but offer educational services to students who reside in the state, or that advertise to or recruit prospective students in the state. State regulatory requirements for online education are inconsistent among states and not well developed in many jurisdictions. As such, these requirements change frequently and, in some instances, are not clear or are left to the discretion of state

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regulators. Our changing business and the constantly changing regulatory environment require us to evaluate continually our state regulatory compliance activities. In the event we are found not to be in compliance, and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit students from that state and may have to cease providing service to students in that state.

American Public University System has a physical presence in the Commonwealth of Virginia based on administrative offices in that state, and it is authorized by the State Council of Higher Education for Virginia. We are currently reviewing the licensure requirements of other states to determine whether our activities in these states constitute a presence or otherwise require licensure or authorization by the respective state educational agencies, and we have received, and are in the process of seeking, licensure or authorization in additional states. State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters. To the extent that we have obtained, or obtain in the future, additional authorizations or licensure, state laws and regulations may limit our ability to offer educational programs and award degrees. Some states may also prescribe financial regulations that are different from those of the Department of Education, the West Virginia Higher Education Policy Commission, The Higher Learning Commission or DETC. If we fail to comply with state licensing or authorization requirements, we may be subject to the loss of state licensure or authorization. If we fail to comply with state requirements to obtain licensure or authorization, we may be the subject of injunctive actions or penalties. Although we believe that the only state licensure or authorization that is necessary for American Public University System to participate in the tuition assistance programs for the United States Armed Forces and in Title IV programs is our authorization from the West Virginia Higher Education Policy Commission, loss of licensure or authorization in other states or the failure to obtain required licensures or authorizations could prohibit us from recruiting or enrolling students in those states, reduce significantly our enrollments and revenues and have a material adverse effect on our results of operations.

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

An institution generally must seek recertification from the Department of Education at least every six years and possibly more frequently depending on various factors, such as whether it is provisionally certified. The Department of Education may also review an institution's continued eligibility and certification to participate in Title IV programs, or scope of eligibility and certification, in the event the institution undergoes a change in ownership resulting in a change of control or expands its activities in certain ways, such as the addition of certain types of new programs, or, in certain cases, changes to the academic credentials that it offers. In certain circumstances, the Department of Education must provisionally certify an institution, such as when it is an initial participant in Title IV programs or has undergone a change in ownership and control. In 2006 we applied to participate in Title IV programs for the first time and were provisionally certified for a period through June 30, 2007. We timely submitted our application for recertification, and the Department of Education granted us provisional certification through June 30, 2008. In May 2008, we were fully recertified to participate in Title IV programs. In August 2008, we were deemed to have undergone a change in ownership and control requiring review by the Department of Education in order to reestablish our eligibility and continue participation in Title IV programs. As required under Department of Education regulations, we timely notified the Department of Education of our change in ownership and control. In connection with the Department of Education's review of the change, we submitted to the Department of Education a change in ownership application that included the submission of required documentation, including a letter from The Higher Learning Commission indicating that it had approved the change. On October 2, 2008, we received a letter from the Department of Education approving the change in ownership and control and granting us provisional certification until September 30, 2010. A provisionally certified institution must apply for and receive Department of Education approval of substantial changes and must comply with any additional conditions included in its program participation agreement. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program

participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs with fewer

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due process protections for the institution than if it were fully certified. The Department of Education may withdraw our certification if it determines that we are not fulfilling material requirements for continued participation in Title IV programs. If the Department of Education does not renew or withdraws our certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our enrollments, revenues and results of operations. In addition, regulatory restraints related to the addition of new programs could impair our ability to attract and retain students and could negatively affect our financial results.

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

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

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

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

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

We are one of a number of for-profit institutions serving the postsecondary education market. In recent years, regulatory investigations and civil litigation have been commenced against several companies that own for-profit educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with Department of Education regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall for-profit school sector may negatively affect public perceptions of other for-profit educational institutions, including American Public University System. In addition, recent reports on student lending practices of various lending institutions and schools, including for-profit schools, and investigations by a

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number of state attorneys general, Congress and governmental agencies have led to adverse media coverage of postsecondary education. Adverse media coverage regarding other companies in the for-profit school sector or regarding us directly could damage our reputation, could result in lower enrollments, revenues and operating profit, and could have a negative impact on our stock price. Such allegations could also result in increased scrutiny and regulation by the Department of Education, Congress, accrediting bodies, state legislatures or other governmental authorities with respect to all for-profit institutions, including us.

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

The Higher Education Act comes up for reauthorization by Congress approximately every five to six years. When Congress does not act on complete reauthorization, there are typically amendments and extensions of authorization. On August 14, 2008, President Bush signed into law the Higher Education Opportunity Act, or HEOA, which reauthorizes the Higher Education Act. Additionally, Congress reviews and determines appropriations for Title IV programs on an annual basis through the budget and appropriations process. We cannot predict with certainty the effect HEOA will have on our business. Further, many of the provisions of HEOA are effective upon enactment, even though the Department of Education has not yet promulgated regulations related to such provisions. If our efforts to comply with the provisions of HEOA are inconsistent with how the Department of Education interprets those provisions in final regulations or otherwise, we may be found to be in noncompliance with such provisions and the Department of Education could impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds. In addition, there is no assurance that Congress will not in the future enact changes that decrease Title IV program funds available to students, including students who attend our institution. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs, would require us to arrange for other sources of financial aid and would materially decrease our enrollment. Such a decrease in enrollment would have a material adverse effect on our revenues and results of operations. Congressional action, including HEOA, may also require us to modify our practices in ways that could result in increased administrative and regulatory costs and decreased profit margin. Further, since 2005, President Bush has signed three major laws that amend the Higher Education Act. Among other measures, those laws reauthorize the federal student loan programs, reduce interest rates on certain federal student loans, reduce government subsidies to lenders that participate in federal student loan programs, and seek to facilitate student loan availability in light of current market conditions. We are not in a position to predict with certainty whether any legislation will be passed by Congress or signed into law in the future. The reallocation of funding among Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different Title IV programs could reduce the ability of certain students to finance their education at our institution and adversely affect our revenues and results of operations.

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

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

recommended lenders for potential borrowers. The Department of Education promulgated regulations, generally effective July 1, 2008, that in part address institutions' student loan activity. In particular, the Department of Education's regulations clarify and expand rules pertinent to relationships between institutions and lenders and establish new rules applicable to institutions that make available a list of recommended or suggested lenders for use by potential borrowers. State legislators have also passed or may be considering legislation related to relationships between lenders

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and institutions. Because of the evolving nature of these legislative efforts and various inquiries and developments, we can neither know nor predict with certainty their outcome or effects, or the potential remedial actions that might result from these or other potential inquiries. Governmental action may impose increased administrative and regulatory costs and decreased profit margins.

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

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

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

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

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

Department of Education regulations specify extensive criteria an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV programs. See Regulation of our Business in this prospectus for more information on the Department of Education's regulations on administrative capability.

If an institution fails to satisfy any of these criteria or comply with any other Department of Education regulations, the Department of Education may require the repayment of Title IV funds, transfer the institution from the advance system of payment of Title IV funds to cash monitoring status or to the reimbursement system of payment, place the institution on provisional certification status, or commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs. If we

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are found not to have satisfied the Department of Education's administrative capability requirements we could be limited in our access to, or lose, Title IV program funding, which would limit our potential for growth outside the military sector and adversely affect our enrollment, revenues and results of operations.

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

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

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

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

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

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

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Risks Related to This Offering

A significant portion of our outstanding common stock is not subject to restrictions on resale and may be sold in the public market. Future sales of shares by existing stockholders could cause our stock price to decline.

If following this offering our existing stockholders, particularly our directors, funds affiliated with ABS Capital Partners and funds affiliated with Camden Partners and our executive officers, sell substantial amounts of our common stock in the public market, or are perceived by the public market as intending to sell, the trading price of our common stock could decline significantly. As of October 31, 2008, we had 18,022,402 shares of common stock outstanding, including 70,563 shares of restricted stock that were subject to forfeiture as of that date and not including the 15,000 shares of common stock that we are offering in this offering. These shares are freely tradable in the public market, except for shares of common stock held by directors, executive officers and our other affiliates that will be subject to volume limitations under Rule 144 of the Securities Act and, in certain cases, various vesting arrangements.

As of October 31, 2008, funds affiliated with Camden Partners have contractual demand or piggyback rights to require us to register with the SEC up to 311,706 shares assuming the sale of all of the shares being offered in this offering. If we register these shares of common stock, the stockholders would be able to sell those shares freely in the public market, which sales could cause the trading price of our common stock to decline.

The price of our common stock may be volatile, and as a result returns on an investment in our common stock may be volatile.

We completed our initial public offering in November 2007. Trading in our common stock since that time has also been limited and, at times, volatile. An active trading market for our common stock may not be sustained, and the trading price of our common stock may fluctuate substantially.

The price of the common stock may fluctuate as a result of:

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of comparable companies;

actual or anticipated changes in our earnings, enrollments or net course registrations, or fluctuations in our operating results or in the expectations of securities analysts;

the depth and liquidity of the market for our common stock;

general economic conditions and trends;

catastrophic events;

sales of large blocks of our stock; or

recruitment or departure of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Because of the potential volatility of our stock price, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

We are incurring significant costs as a result of operating as a public company that we have not previously incurred, and our management and key employees are, and will continue to be, required to devote substantial time to compliance initiatives.

We have operated as a public company only since November 8, 2007. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC and The NASDAQ Stock Market have imposed various new requirements on public companies, including with respect to public disclosure, internal control, corporate governance practices and other matters. Our management and other personnel are devoting substantial amounts of time to these new compliance initiatives. Moreover, these rules and regulations have significantly increased our legal and financial compliance costs and have made some

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activities more time-consuming and costly. In addition, we have and will continue to incur additional costs associated with our public company reporting requirements. We will incur significant costs to remediate any material weaknesses we identify through these efforts. These rules and regulations have made it more difficult and more expensive for us to obtain director and officer liability insurance. We currently are evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. If our profitability is adversely affected because of these additional costs, it could have a negative effect on the trading price of our common stock.

Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our common stock.

Our results in any quarter may not indicate the results we may achieve in any subsequent quarter or for the full year. Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in enrollment. Student population varies as a result of new enrollments, graduations and student attrition. While our number of enrolled students has grown in each sequential quarter over the past three years, the number of enrolled students has been proportionally greatest in the fourth quarter of each respective year. A significant portion of our general and administrative expenses do not vary proportionately with fluctuations in revenues. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of new program introductions and increased enrollments of students. These fluctuations may result in volatility in our results of operations and/or have an adverse effect on the market price of our common stock.

If we fail to maintain proper and effective disclosure controls and procedures and internal controls over financial reporting, our ability to produce accurate financial statements could be impaired, which could adversely affect our stock price, our ability to operate our business and investors' views of us.

Ensuring that we have adequate disclosure controls and procedures, including internal controls over financial reporting, in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We are continuing the process of documenting, reviewing and, if appropriate, improving our internal controls and procedures following our becoming a public company and eventually being subject to the requirements of Section 404 of the Sarbanes-Oxley Act, which will require annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. We will be required to comply with the internal controls evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act by no later than the end of our 2008 fiscal year.

If securities analysts do not publish research or reports about our business or if they downgrade their evaluations of our stock, the price of our stock could decline.

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts covering us downgrade their estimates or evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

Provisions in our organizational documents and in the Delaware General Corporation Law may prevent takeover attempts that could be beneficial to our stockholders.

Provisions in our charter and bylaws and in the Delaware General Corporation Law may make it difficult and expensive for a third party to pursue a takeover attempt we oppose even if a change in control of our company would

be beneficial to the interests of our stockholders. These provisions include:

the ability of our board of directors to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the powers, preferences and rights of each series without stockholder approval, which may discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of our company;

a requirement that stockholders provide advance notice of their intention to nominate a director or to propose any other business at an annual meeting of stockholders;

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a prohibition against stockholder action by means of written consent unless otherwise approved by our board of directors in advance; and

the application of Section 203 of the Delaware General Corporation Law, which generally prohibits us from engaging in mergers and other business combinations with stockholders that beneficially own 15% or more of our voting stock, or with their affiliates, unless our directors or stockholders approve the business combination in the prescribed manner. However, because funds affiliated with ABS Capital Partners acquired their shares prior to our initial public offering, Section 203 is currently inapplicable to any business combination or transaction with it or its affiliates.

An individual has made claims that he is entitled to shares that we do not treat as being outstanding, and this could result in our outstanding shares being understated and subject us to claims for damages.

In November 2007, an individual presented a stock certificate of our predecessor company that he asserts represents his ownership of 57,965 outstanding shares of our common stock. Our records and other evidence available to us indicate that these shares were repurchased from him before 2003, notwithstanding the fact that the stock certificate he has presented was not marked canceled. If he is successful in asserting that these shares are in fact outstanding, then our outstanding capital stock as presented in this prospectus is understated by 57,965 shares of common stock, which represents less than half of one percent of our outstanding common stock and for which the amount of the special distribution made in connection with our initial public offering would have been \$442,273. In addition, if he successfully asserts ownership to these shares, we may be subject to claims from stockholders who have purchased stock from us prior to our initial public offering in respect of the representations and warranties related to our outstanding capitalization that were made at the time those stockholders invested in our company. We are not able to predict with certainty the amount of any liability we may ultimately have with respect to this matter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and any supplement to this prospectus, including information incorporated by reference in this prospectus or any supplement to this prospectus, contain forward-looking statements. We may, in some cases, use words such as project, believe, anticipate, plan, expect, estimate, intend, should, would, could, may, or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this prospectus, and any supplement to this prospectus, including the forward-looking statements that are incorporated by reference, include statements about:

our ability to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting agency requirements;

our expectations regarding provisional certification;

the pace of growth of our enrollment;

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 the development of new programs in a cost-effective manner or on a timely basis;

our maintenance and expansion of our relationships with the United States Armed Forces and various organizations and the development of new relationships;

the competitive environment in which we operate;

our cash needs and expectations regarding cash flow from operations;

our ability to manage and grow our business and execution of our business and growth strategies; 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 prospectus. These important factors include those that we discuss in this prospectus under the caption **Risk Factors** and elsewhere. You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. 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 prospectus, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We will use the proceeds primarily to pay offering expenses payable by us. Any remaining proceeds will be used for working capital and other general corporate purposes. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

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PLAN OF DISTRIBUTION

The selling stockholders intend to sell, transfer or otherwise dispose of up to all of the shares of common stock being offered by them in this offering in either a single transaction or a set of simultaneous transactions at a time to be determined based on their assessment of market conditions. These dispositions may be at a fixed price, at a prevailing market price at the time of sale, at a price related to the prevailing market price, or at a negotiated price. Any sales of shares of common stock by us would only be done at the same time as sales by the selling stockholders.

We and the selling stockholders may use any one or more of the following methods when selling the shares:

an underwritten offering on a firm commitment or best efforts basis;

block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

privately negotiated transactions;

a combination of any such methods of sale; and

any other manner permitted pursuant to applicable law.

The aggregate proceeds to us and the selling stockholders, as applicable, from the sale of the common stock offered by us and them will be the purchase price of the common stock less discounts or commissions, if any. We and each of the selling stockholders reserve the right to accept and, together with our and their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from the shares sold by the selling stockholders.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market activities with respect to the common stock for the applicable

restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

Members of the Financial Industry Regulatory Authority, Inc., or FINRA, may participate in distributions of the offered securities. In compliance with the guidelines of FINRA, as of the date of this prospectus, the maximum discount or commission to be received by any FINRA member or independent broker-dealer may not exceed 8.0% of the offering proceeds.

Subject to any agreements that we reach in connection with any disposition, we will bear all expenses of the offering of common stock. We have agreed to indemnify in certain circumstances the selling stockholders and any brokers, dealers and agents who may be deemed to be underwriters, if any, of the securities covered by the registration statement, against certain liabilities, including liabilities under the Securities Act of 1933.

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REGULATION OF OUR BUSINESS

The following discussion of the regulation of our business reflects updates to and supercedes the discussion under the heading Regulation of Our Business contained in Item 1 of Part I of our Annual Report on Form 10-K resulting from, among other things, recent changes to our certification status under Title IV programs and recent changes under applicable federal law.

We are subject to extensive regulation by (1) state regulatory bodies, (2) accrediting agencies recognized by the U.S. Secretary of Education and (3) the federal government through the U.S. Department of Education and under the Higher Education Act of 1965, as amended, or the Higher Education Act. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition.

As an institution of higher education that grants degrees, diplomas and certificates, we are required to be authorized by appropriate state education authorities. In addition, in certain states as a condition of continued authorization to grant degrees and in order to participate in various federal programs, including tuition assistance programs of the United States Armed Forces, a school must be accredited by an accrediting agency recognized by the Secretary of Education. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution. The Higher Education Act requires accrediting agencies recognized by the Secretary of Education to review and monitor many aspects of an institution's operations and to take appropriate action when the institution fails to comply with the accrediting agency's standards.

Our operations are also subject to regulation due to our participation in federal student financial aid programs under Title IV of the Higher Education Act, which we refer to in this prospectus as Title IV programs. Title IV programs, which are administered by the Department of Education, include educational loans with below-market interest rates that are guaranteed by the federal government in the event of default. Title IV programs also include several grant programs for students with the greatest economic need as determined in accordance with the Higher Education Act and Department of Education regulations. To participate in Title IV programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting agency recognized by the Secretary of Education, and be certified as an eligible institution by the Department of Education.

State Education Licensure

We are authorized to offer our programs by the West Virginia Higher Education Policy Commission, the regulatory agency governing postsecondary education in the State of West Virginia, where we are headquartered.

We are also authorized to operate as an out-of-state institution by the State Council of Higher Education for Virginia. We are authorized in Virginia because we have administrative offices there, which requires state authorization under Virginia laws. We are currently reviewing the licensure requirements of other states to determine whether our activities in these states constitute a presence or otherwise require licensure or authorization by the respective state educational agencies, and we have received, and are in the process of seeking, licensure or authorization in additional states. Because we enroll students from each of the 50 states, as well as the District of Columbia, and because we may undertake activities in other states that constitute a presence or otherwise subject us to the jurisdiction of the respective state educational agency, from time to time we will need to seek licensure or authorization in additional states.

The increasing popularity and use of the Internet and other online services for the delivery of education has led and may lead to the adoption of new laws and regulatory practices in the United States or foreign countries and to new interpretations of existing laws and regulations. These new laws, regulations and interpretations may relate to issues such as the requirement that online education institutions be licensed in one or more jurisdictions where they have no physical location or other presence. For instance, in some states we are or may be required to seek licensure or authorization because our recruiters meet with prospective students in the state. In other states, the state educational agency requires, or may require, licensure or authorization because, for example, we enroll students or employ faculty who reside in the state. New laws,

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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 revenues and have a material adverse effect on our business.

We are subject to extensive regulations by the states in which we are authorized or licensed to operate. State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees. Some states may also prescribe financial regulations that are different from those of the Department of Education, and may require the posting of surety bonds. If we fail to comply with state licensing requirements, we may lose our state licensure or authorizations. Although we believe that the only state authorization or licensure necessary for us to participate in the tuition assistance programs for the United States Armed Forces and in Title IV programs is our authorization from the West Virginia Higher Education Policy Commission, failure to comply with authorization or licensure requirements in other states could restrict our ability to recruit or enroll students in those states. Failure to comply with the requirements of the West Virginia Higher Education Policy Commission could result in our losing authorization from the West Virginia Higher Education Policy Commission, eligibility to participate in Title IV programs, or ability to offer certain programs, any of which may force us to cease operations.

Accreditation

We received institutional accreditation in 2006 from The Higher Learning Commission of the North Central Association of Colleges and Schools, a regional accrediting agency recognized by the Secretary of Education. Our next comprehensive evaluation will be in 2010 - 2011, as part of a regularly scheduled evaluation process. The Higher Learning Commission plans to conduct a focused evaluation in Spring 2009 due to the August 2008 change in ownership under The Higher Learning Commission's standards. Accreditation is a non-governmental system for recognizing educational institutions and their programs for student performance, governance, integrity, educational quality, faculty, physical resources, administrative capability and resources, and financial stability. In the United States, this recognition comes primarily through private voluntary associations that accredit institutions or programs of higher education. To be recognized by the Secretary of Education, accrediting agencies must adopt specific standards and procedures for their review of educational institutions or programs. Accrediting agencies establish criteria for accreditation, conduct peer-review evaluations of institutions and programs, and publicly designate those institutions that meet their criteria. Accredited schools are subject to periodic review by accrediting agencies to determine whether such schools maintain the performance, integrity, and quality required for accreditation.

The Higher Learning Commission is the same accrediting agency that accredits such universities as The University of Chicago, Northwestern University, West Virginia University, and other degree-granting public and private colleges and universities in its region (including Arkansas, Arizona, Colorado, Iowa, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, Oklahoma, New Mexico, South Dakota, West Virginia, Wisconsin and Wyoming).