

ASPEN GROUP, INC.  
Form 10-Q  
December 02, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**□ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended **October 31, 2015**

OR

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number: 000-55107**

**Aspen Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*

**27-1933597**  
*(I.R.S. Employer Identification No.)*

**1660 S Albion Street, Suite 525**

**Denver, CO**  
*(Address of principal executive offices)*

**80222**  
*(Zip Code)*

**Registrants telephone number: (303) 333-4224**

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

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

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

|                         |   |                           |                                     |
|-------------------------|---|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>  | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input checked="" type="checkbox"/> |

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

Class  
Common Stock, \$0.001 par value per share

Outstanding as of December 2, 2015  
128,553,938 shares



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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

|  | <b>October 31,<br/>2015<br/>(Unaudited)</b> | <b>April 30,<br/>2015</b> |
|--|---|---------------------------|
| Assets   |   |                           |
| Current assets:  |   |                           |
| Cash and cash equivalents  | \$ 1,008,417                                | \$ 2,159,463              |
| Restricted cash  | 1,122,485                                   | 1,122,485                 |
| Accounts receivable, net of allowance of \$332,558 and \$279,453, respectively                           | 1,553,945                                   | 1,058,339                 |
| Prepaid expenses   | 119,785                                     | 121,594                   |
| Total current assets   | 3,804,632                                   | 4,461,881                 |
| Property and equipment:  |   |                           |
| Call center equipment  | 132,798                                     | 132,798                   |
| Computer and office equipment  | 64,878                                      | 78,626                    |
| Furniture and fixtures   | 67,531                                      | 42,698                    |
| Library (online)   |   | 100,000                   |
| Software   | 2,421,204                                   | 2,244,802                 |
|  | 2,686,411                                   | 2,598,924                 |
| Less accumulated depreciation and amortization   | (1,516,268)                                 | (1,387,876)               |
| Total property and equipment, net  | 1,170,143                                   | 1,211,048                 |
| Courseware, net  | 200,153                                     | 173,311                   |
| Accounts receivable, secured - related party, net of allowance of \$625,963, and \$625,963, respectively | 45,329                                      | 45,329                    |
| Other assets   | 33,946                                      | 26,679                    |
| Total assets   | \$ 5,254,203                                | \$ 5,918,248              |

(Continued)

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

|  | <b>October 31,<br/>2015<br/>(Unaudited)</b> | <b>April 30,<br/>2015</b> |
|--|---|---------------------------|
| Liabilities and Stockholders Equity (Deficiency)   |   |                           |
| Current liabilities:   |   |                           |
| Accounts payable   | \$ 491,113                                  | \$ 179,109                |
| Accrued expenses   | 232,595                                     | 173,663                   |
| Deferred revenue   | 851,923                                     | 784,818                   |
| Refunds Due Students   | 460,377                                     | 280,739                   |
| Deferred rent, current portion   | 1,451                                       | 7,751                     |
| Convertible notes payable, current portion   | 50,000                                      | 50,000                    |
| Total current liabilities  | 2,087,459                                   | 1,476,080                 |
| Line of credit   | 249,783                                     | 243,989                   |
| Loan payable officer - related party   | 1,000,000                                   | 1,000,000                 |
| Convertible notes payable - related party  | 600,000                                     | 600,000                   |
| Total liabilities  | 3,937,242                                   | 3,320,069                 |
| Commitments and contingencies - See Note 8   |   |                           |
| Stockholders equity (deficiency):  |   |                           |
| Common stock, \$0.001 par value; 250,000,000 shares authorized, 128,536,938 issued and 128,336,938 outstanding at October 31, 2015, 128,253,605 issued and 128,053,605 outstanding at April 30, 2015 | 128,537                                     | 128,254                   |
| Additional paid-in capital   | 25,080,272                                  | 24,898,647                |
| Treasury stock (200,000 shares)  | (70,000)                                    | (70,000)                  |
| Accumulated deficit  | (23,821,848)                                | (22,358,722)              |
| Total stockholders equity (deficiency)   | 1,316,961                                   | 2,598,179                 |
| Total liabilities and stockholders equity (deficiency)   | \$ 5,254,203                                | \$ 5,918,248              |

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.





**ASPEN GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

|  | <b>For the<br/>Three Months Ended<br/>October 31,</b> |              | <b>For the<br/>Six Months Ended<br/>October 31,</b> |              |
|--|---|--------------|---|--------------|
|  | <b>2015</b>   | <b>2014</b>  | <b>2015</b>   | <b>2014</b>  |
| Revenues   | \$ 1,913,161  | \$ 1,214,247 | \$ 3,619,022  | \$ 2,384,107 |
| Operating expenses   |   |              |   |              |
| Cost of revenues (exclusive of depreciation and amortization shown separately below) | 867,801   | 442,697      | 1,641,910   | 891,796      |
| General and administrative   | 1,610,202   | 1,259,105    | 3,087,819   | 2,459,153    |
| Depreciation and amortization  | 148,258   | 130,133      | 291,717   | 255,740      |
| Total operating expenses   | 2,626,261   | 1,831,935    | 5,021,446   | 3,606,689    |
| Operating loss from operations   | (713,100)   | (617,688)    | (1,402,424)   | (1,222,582)  |
| Other income (expense):  |   |              |   |              |
| Other income   | 2,930   | 3,209        | 6,663   | 4,881        |
| Interest expense   | (34,250)  | (93,750)     | (67,365)  | (354,621)    |
| Loss on Debt Extinguishment  |   | (452,503)    |   | (452,503)    |
| Total other expense, net   | (31,320)  | (543,044)    | (60,702)  | (802,243)    |
| Loss from operations   | (744,420)   | (1,160,732)  | (1,463,126)   | (2,024,825)  |

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before income  
taxes

Income tax  
expense  
(benefit)

|          |    |           |    |             |    |             |    |             |
|----------|----|-----------|----|-------------|----|-------------|----|-------------|
| Net loss | \$ | (744,420) | \$ | (1,160,732) | \$ | (1,463,126) | \$ | (2,024,825) |
|----------|----|-----------|----|-------------|----|-------------|----|-------------|

Net loss per  
share allocable  
to common  
stockholders -  
basic and  
diluted

|  |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|
|  | \$ | (0.01) | \$ | (0.01) | \$ | (0.01) | \$ | (0.02) |
|--|----|--------|----|--------|----|--------|----|--------|

Weighted  
average number  
of common  
shares  
outstanding:  
basic and  
diluted

|  |             |             |             |            |
|--|-------------|-------------|-------------|------------|
|  | 128,303,606 | 103,243,439 | 128,239,022 | 88,447,898 |
|--|-------------|-------------|-------------|------------|

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)**

**FOR THE SIX MONTHS ENDED OCTOBER 31, 2015**

**(Unaudited)**

|  | <b>Common Stock</b> |                   | <b>Additional<br/>Paid-In<br/>Capital</b> |  | <b>Treasury<br/>Stock</b> |                        | <b>Accumulated<br/>Deficit</b> |                     | <b>Total<br/>Stockholders'<br/>Equity<br/>(Deficiency)</b> |  |
|--|---------------------|-------------------|---|--|---------------------------|------------------------|--------------------------------|---------------------|--|--|
|  | <b>Shares</b>       | <b>Amount</b>     |   |  |                           |                        |                                |                     |  |  |
| Balance at<br>April 30, 2015                                     | 128,253,605         | \$ 128,254        | \$ 24,898,647                             |  | \$ (70,000)               | \$ (22,358,722)        |                                | \$ 2,598,179        |  |  |
| Stock-based<br>compensation                                      |                     |                   | 128,987                                   |  |                           |                        |                                |                     | 128,987  |  |
| Warrant<br>Conversion<br>Expense                                 |                     |                   | 6,000                                     |  |                           |                        |                                |                     | 6,000  |  |
| Shares issued<br>for services<br>rendered                        | 283,333             | 283               | 47,317                                    |  |                           |                        |                                |                     | 47,600   |  |
| Attorney fees<br>associated<br>with<br>Registration<br>Statement |                     |                   | (679)                                     |  |                           |                        |                                |                     | (679)  |  |
| Net loss, six<br>months ended<br>October 31,<br>2015             |                     |                   |   |  |                           | (1,463,126)            |                                | (1,463,126)         |  |  |
| Balance at<br>October 31,<br>2015                                | <b>128,536,938</b>  | <b>\$ 128,537</b> | <b>\$ 25,080,272</b>                      |  | <b>\$ (70,000)</b>        | <b>\$ (23,821,848)</b> |                                | <b>\$ 1,316,961</b> |  |  |

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.



**ASPEN GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|   | <b>For the</b>          |                |
|---|-------------------------|----------------|
|   | <b>Six Months Ended</b> |                |
|   | <b>October 31,</b>      |                |
|   | <b>2015</b>             | <b>2014</b>    |
| Cash flows from operating activities:                                       |                         |                |
| Net loss  | \$ (1,463,126)          | \$ (2,024,825) |
| Less income (loss) from discontinued operations                             |                         |                |
| Loss from continuing operations   | (1,463,126)             | (2,024,825)    |
| Adjustments to reconcile net loss to net cash used in operating activities: |                         |                |
| Bad debt expense  | 99,188                  | 105,511        |
| Amortization of debt issuance costs   |                         | 75,458         |
| Amortization of debt discount   |                         | 166,241        |
| Extinguishment of debentures  |                         | 416,587        |
| Depreciation and amortization   | 291,717                 | 255,740        |
| Stock-based compensation  | 128,987                 | 211,638        |
| Warrant modification expense  | 6,000                   |                |
| Amortization of prepaid shares for services                                 | 47,600                  |                |
| Changes in operating assets and liabilities:                                |                         |                |
| Accounts receivable   | (594,794)               | (136,007)      |
| Prepaid expenses  | 1,809                   | (48,251)       |
| Other assets  | (7,267)                 |                |
| Accounts payable  | 312,004                 | (179,453)      |
| Accrued expenses  | 58,931                  | 51,176         |
| Deferred rent   | (6,300)                 | (6,358)        |
| Refunds due students  | 179,638                 | 145,353        |
| Deferred revenue  | 67,105                  | (42,865)       |
| Net cash used in operating activities                                       | (878,508)               | (1,010,055)    |
| Cash flows from investing activities:                                       |                         |                |
| Purchases of property and equipment   | (214,019)               | (180,466)      |
| Purchases of courseware   | (63,634)                | (66,479)       |
| Increase in restricted cash   |                         | (69,927)       |
| Net cash used in investing activities                                       | (277,653)               | (316,872)      |
| Cash flows from financing activities:                                       |                         |                |
| Proceeds from (repayments on) line of credit, net                           | 5,794                   | (147)          |
| Proceeds from issuance of common shares and warrants, net                   |                         | 5,547,826      |
| Proceeds from (retirement of) convertible notes and warrants, net of costs  |                         | (2,240,000)    |

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|  |              |              |
|--|--------------|--------------|
| Retirement of convertible notes payable              |              | (25,000)     |
| Offering costs associated with private placement     | (679)        | (107,225)    |
| Net cash provided by financing activities            | 5,115        | 3,175,454    |
| Cash flows from discontinued operations:             |              |              |
| Cash flows from discontinued operating activities    |              | 5,250        |
| Net cash provided by discontinued operations         |              | 5,250        |
| Net increase (decrease) in cash and cash equivalents | (1,151,046)  | 1,853,777    |
| Cash and cash equivalents at beginning of period     | 2,159,463    | 247,380      |
| Cash and cash equivalents at end of period           | \$ 1,008,417 | \$ 2,101,157 |
|  |              | (Continued)  |

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**(Unaudited)**

|   | <b>For the<br/>Six Months Ended</b> |             |
|---|-------------------------------------|-------------|
|   | <b>October 31,</b>                  |             |
|   | <b>2015</b>                         | <b>2014</b> |
| <b>Supplemental disclosure of cash flow information:</b>                      |                                     |             |
| Cash paid for interest  | \$ 58,147                           | \$ 183,545  |
| Cash paid for income taxes  | \$                                  | \$          |
| <b>Supplemental disclosure of non-cash investing and financing activities</b> |                                     |             |
| Common stock issued for services  | \$ 47,600                           | \$          |

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**October 31, 2015**

**(Unaudited)**

**Note 1. Nature of Operations and Liquidity**

**Overview**

Aspen Group, Inc. (together with its subsidiary, the Company or Aspen ) is a holding company. Its subsidiary Aspen University Inc. was founded in Colorado in 1987 as the International School of Information Management. On September 30, 2004, it changed its name to Aspen University Inc. ( Aspen University ). On March 13, 2012, the Company was recapitalized in a reverse merger. All references to the Company or Aspen before March 13, 2012 are to Aspen University.

Aspen's mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 60% of our adjunct professors hold doctorate degrees.

Because we believe higher education should be a catalyst to our students' long-term economic success, we exert financial prudence by offering affordable tuition that is one of the greatest values in online higher education. In March 2014, Aspen University unveiled a monthly payment plan aimed at reversing the college-debt sentence plaguing working-class Americans. The monthly payment plan offers bachelor students (except RN to BSN) the opportunity to pay \$250/month for 72 months (\$18,000), nursing bachelor students (RN to BSN) \$250/month for 39 months (\$9,750), master students \$325/month for 36 months (\$11,700) and doctoral students \$375 per month for 72 months (\$27,000), interest free, thereby giving students the ability to earn a degree debt free.

On November 10, 2014, Aspen University announced the Commission on Collegiate Nursing Education ( CCNE ) has granted accreditation to its Bachelor of Science in Nursing program (RN to BSN) until December 31, 2019.



Since 1993, we have been nationally accredited by the Distance Education and Accrediting Council ( DEAC ), a national accrediting agency recognized by the U.S. Department of Education (the DOE ). On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years to January, 2019.

## **Basis of Presentation**

### **A. Interim Financial Statements**

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). In the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three and six months ended October 31, 2015 and 2014, our cash flows for the six months ended October 31, 2015 and 2014, and our financial position as of October 31, 2015 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Report on Form 10-K for the period ended April 30, 2015 as filed with the SEC on July 29, 2015. The April 30, 2015 balance sheet is derived from those statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

**B. Liquidity**

At October 31, 2015, the Company had a cash balance of approximately \$2.1 million which includes \$1.1 million of restricted cash. In April 2015, the Company offered a warrant conversion, through which the Company issued 14,747,116 shares, raising \$2,268,670. In fiscal 2015, the Company completed an equity financing of \$5,547,826. With the additional cash raised in the financings, the growth in revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan.

**Note 2. Significant Accounting Policies**

**Principles of Consolidation**

The unaudited consolidated financial statements include the accounts of Aspen Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts in the unaudited consolidated financial statements. Actual results could differ from those estimates. Significant estimates in the accompanying unaudited consolidated financial statements include the allowance for doubtful accounts and other receivables, the valuation of collateral on certain receivables, amortization periods and valuation of courseware and software development costs, valuation of beneficial conversion features in convertible debt, valuation of stock-based compensation and the valuation allowance on deferred tax assets.

## **Cash and Cash Equivalents**

For the purposes of the unaudited consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at October 31, 2015 and April 30, 2015. The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits of \$250,000 per financial institution. The Company has not experienced any losses in such accounts from inception through October 31, 2015. As of October 31, 2015, there were deposits of \$657,522, and \$941,812 in two institutions greater than the federally insured limits.

## **Restricted Cash**

Restricted cash represents amounts pledged as security for letters of credit for transactions involving Title IV programs. The company considers \$1,122,485 as restricted cash and that balance is shown as a current asset as of October 31, 2015 and April 30, 2015.

## **Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company classifies assets and liabilities recorded at fair value under the fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

Level 1 Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

Level 2 Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

### **Refunds Due Students**

The Company receives Title IV funds from the Department of Education to cover tuition and living expenses. Until forwarded to the student, this amount is recorded in a current liability account called Refunds Due Students. Typically, the funds are paid to the students within two weeks.

### **Revenue Recognition and Deferred Revenue**

Revenues consist primarily of tuition and fees derived from courses taught by the Company online as well as from related educational resources that the Company provides to its students, such as access to our online materials and learning management system. Tuition revenue is recognized pro-rata over the applicable period of instruction. The Company allows a student to make three monthly tuition payments during each 10-week class. The Company maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the Company's policy to the extent in conflict. If a student withdraws at a time when a portion or none of the tuition is refundable, then in accordance with its revenue recognition policy, the Company recognizes as revenue the tuition that was not refunded. Since the Company recognizes revenue pro-rata over the term of the

course and because, under its institutional refund policy, the amount subject to refund is never greater than the amount of the revenue that has been deferred, under the Company's accounting policies revenue is not recognized with respect to amounts that could potentially be refunded. The Company's educational programs have starting and ending dates that differ from its fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of revenue from these programs is not yet earned and is therefore deferred. The Company also charges students annual fees for library, technology and other services, which are recognized over the related service period. Deferred revenue represents the amount of tuition, fees, and other student payments received in excess of the portion recognized as revenue and it is included in current liabilities in the accompanying consolidated balance sheets. Other revenues may be recognized as sales occur or services are performed.

### **Net Loss Per Share**

Net loss per common share is based on the weighted average number of common shares outstanding during each period. Options to purchase 16,857,313 and 13,476,412 common shares, warrants to purchase 28,871,757 and 44,007,963 common shares, and \$650,000 and \$750,000 of convertible debt (convertible into 1,207,143 and 1,307,142 common shares, respectively) were outstanding during the six months ended October 31, 2015 and 2014, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

October 31, 2015

(Unaudited)

## Reclassifications

The Company discovered that an internet advertising publishing invoice was entered into the incorrect month. The effect of this was that marketing expense for the three and six months ended October 31, 2014, were understated by \$29,371 and the marketing expense for the three months ended January 31, 2015, was overstated by the same amount. This error carries through to Cost of Revenues on our Consolidated Statement of Operations. The issue has been corrected and does not affect the results reported for the fiscal year ended April 30, 2015. The company evaluated SEC Staff Accounting Bulletin #108, and applied a dual method to evaluate if the adjustment was material. Under the dual method, both a rollover method and an iron curtain method were applied. In both methods, the adjustment was not material to the comparative three month period ended October 31, 2014 and therefore, no restatement of the October 31, 2014 or January 31, 2015 consolidated financial statements was deemed necessary. As a result, the following reclassification between periods was made for the quarter ended October 31, 2014:

|  | For the<br>Three Months Ended<br>October 31, 2014 |            |                | For the<br>Six Months Ended<br>October 31, 2014 |            |                |
|--|---|------------|----------------|---|------------|----------------|
|  | Originally<br>Reported                            | Adjustment | As<br>Adjusted | Originally<br>Reported                          | Adjustment | As<br>Adjusted |
| Marketing<br>Expense                                 | 164,627   | 29,371     | 193,998        | 343,893   | 29,371     | 373,264        |
| Cost of<br>revenues                                  | 413,326   | 29,371     | 442,697        | 862,425   | 29,371     | 891,796        |
| Total<br>operating<br>expenses                       | 1,802,564   | 29,371     | 1,831,935      | 3,577,318                                       | 29,371     | 3,606,689      |
| Operating<br>loss from<br>operations                 | (588,317)   | (29,371)   | (617,688)      | (1,193,211)                                     | (29,371)   | (1,222,582)    |
| Loss from<br>operations<br>before<br>income<br>taxes | (1,131,361)                                       | (29,371)   | (1,160,732)    | (1,995,454)                                     | (29,371)   | (2,024,825)    |
| Net loss   | (1,131,361)                                       | (29,371)   | (1,160,732)    | (1,995,454)                                     | (29,371)   | (2,024,825)    |

## Recent Accounting Pronouncements

Financial Accounting Standards Board, Accounting Standard Updates which are not effective until after October 31, 2015 are not expected to have a significant effect on the Company's unaudited consolidated financial position or results of operations.

## Note 3. Secured Note and Accounts Receivable - Related Parties

On March 30, 2008 and December 1, 2008, the Aspen University sold courseware pursuant to marketing agreements to Higher Education Management Group, Inc. (HEMG), which was then a related party and principal stockholder of the Company. HEMG's president is Mr. Patrick Spada, the former Chairman of the Company, the sold courseware amounts were \$455,000 and \$600,000, respectively; UCC filings were filed accordingly. HEMG's president is Mr. Patrick Spada, the former Chairman of the Company. Under the marketing agreements, the receivables were due net 60 months. On September 16, 2011, HEMG pledged 772,793 Series C preferred shares (automatically converted to 654,850 common shares on March 13, 2012) of the Company as collateral for this account receivable which at that time had a remaining balance of \$772,793. Based on the reduction in value of the collateral to \$0.19 based on the then current price of the Company's common stock, the Company recognized an expense of \$123,647 during the year ended April 30, 2014 as an additional allowance. As of October 31, 2015 and April 30, 2015, the balance of the account receivable, net of allowance, was \$45,329.

HEMG has failed to pay to Aspen University any portion of the \$772,793 amount due as of September 30, 2014, despite due demand for same. Consequently, on November 18, 2014 Aspen University filed a complaint vs. HEMG in the United States District Court for the District of New Jersey, to collect the full amount due to the Company. HEMG defaulted and Aspen University obtained a default judgment. In addition, Aspen University gave notice to HEMG that it intended to privately sell the 654,850 shares after March 10, 2015. On April 29, 2015, the Company sold those shares to a private investor for \$0.155 per share or \$101,502, which proceeds reduced the receivable balance to \$671,291 with a remaining allowance of \$625,963, resulting in a net receivable of \$45,329. (See Notes 8 and 10)

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

October 31, 2015

(Unaudited)

**Note 4. Property and Equipment**

Property and equipment consisted of the following at October 31, 2015 and April 30, 2015:

|   | <b>October 31,<br/>2015</b> | <b>April 30,<br/>2015</b> |
|---|-----------------------------|---------------------------|
| Call center hardware                      | \$ 132,798                  | \$ 132,798                |
| Computer and office equipment             | 64,878                      | 78,626                    |
| Furniture and fixtures                    | 67,531                      | 42,698                    |
| Library (online)                          |                             | 100,000                   |
| Software                                  | 2,421,204                   | 2,244,802                 |
|   | 2,686,411                   | 2,598,924                 |
| Accumulated depreciation and amortization | (1,516,268)                 | (1,387,876)               |
| Property and equipment, net               | \$ 1,170,143                | \$ 1,211,048              |

Software consisted of the following at October 31, 2015 and April 30, 2015:

|                          | <b>October 31,<br/>2015</b> | <b>April 30,<br/>2015</b> |
|--------------------------|-----------------------------|---------------------------|
| Software                 | \$ 2,421,204                | \$ 2,244,802              |
| Accumulated amortization | (1,362,522)                 | (1,130,453)               |
| Software, net            | \$ 1,058,682                | \$ 1,114,349              |

Amortization expense for all Property and Equipment as well as the portion for just software is presented below for the three and six months ended October 31, 2015 and 2014:

**For the  
Three Months Ended**

**For the  
Six Months Ended**



|                                       | <b>October 31,</b> |             | <b>October 31,</b> |             |
|---------------------------------------|--------------------|-------------|--------------------|-------------|
|                                       | <b>2015</b>        | <b>2014</b> | <b>2015</b>        | <b>2014</b> |
| Depreciation and Amortization Expense | \$ 130,154         | \$ 109,845  | \$ 254,925         | \$ 215,240  |
| Software Amortization Expense         | \$ 118,237         | \$ 100,224  | \$ 232,069         | \$ 196,201  |

The following is a schedule of estimated future amortization expense of software at October 31, 2015:

| <b>Fiscal Year Ending April 30,</b> |              |
|-------------------------------------|--------------|
| 2016                                | \$ 241,275   |
| 2017                                | 360,663      |
| 2018                                | 227,628      |
| 2019                                | 144,455      |
| 2020                                | 84,661       |
| Total                               | \$ 1,058,682 |

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

October 31, 2015

(Unaudited)

## Note 5. Courseware

Courseware costs capitalized were \$63,634 and \$66,479 for the six months ended October 31, 2015 and 2014 respectively.

Courseware consisted of the following at October 31, 2015 and April 30, 2015:

|                          | <b>October 31,<br/>2015</b> | <b>April 30,<br/>2015</b> |
|--------------------------|-----------------------------|---------------------------|
| Courseware               | \$ 340,754                  | \$ 2,247,790              |
| Accumulated amortization | (140,601)                   | (2,074,479)               |
| Courseware, net          | \$ 200,153                  | \$ 173,311                |

Amortization expense of courseware for the three and six months ended October 31, 2015 and 2014:

|                      | <b>For the<br/>Three Months Ended</b> |             | <b>For the<br/>Six Months Ended</b> |             |
|----------------------|---------------------------------------|-------------|-------------------------------------|-------------|
|                      | <b>October 31,</b>                    |             | <b>October 31,</b>                  |             |
|                      | <b>2015</b>                           | <b>2014</b> | <b>2015</b>                         | <b>2014</b> |
| Amortization Expense | \$ 18,104                             | \$ 20,288   | \$ 36,792                           | \$ 40,500   |

The following is a schedule of estimated future amortization expense of courseware at October 31, 2015:

|                                     |           |
|-------------------------------------|-----------|
| <b>Fiscal Year Ending April 30,</b> |           |
| 2016                                | \$ 30,894 |

|       |    |         |
|-------|----|---------|
| 2017  |    | 51,873  |
| 2018  |    | 43,784  |
| 2019  |    | 42,311  |
| 2020  |    | 31,291  |
| Total | \$ | 200,153 |

**Note 6. Loan Payable Officer Related Party**

On June 28, 2013, the Company received \$1,000,000 as a loan from the Company's Chief Executive Officer. This loan was for a term of 6 months with an annual interest rate of 10%, payable monthly. Through various note extensions, the debt was extended to February 28, 2017. There was no accounting effect for these extensions.

**Note 7. Convertible Notes, Convertible Notes Related Party and Debenture Payable**

On February 29, 2012, a loan payable of \$50,000 was converted into a two-year convertible promissory note, bearing interest of 0.19% per annum. Beginning March 31, 2012, the note was convertible into common shares of the Company at the rate of \$1.00 per share. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. The loan (now convertible promissory note) was originally due in February 2014. The amount due under this note has been reserved for payment upon the note being tendered to the Company by the note holder.

On March 13, 2012, the Company's CEO loaned the Company \$300,000 and received a convertible promissory note due March 31, 2013, bearing interest at 0.19% per annum. The note is convertible into common shares of the Company at the rate of \$1.00 per share upon five days written notice to the Company. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. Through various note extensions, the debt was extended to February 28, 2017. There was no accounting effect for these modifications.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

On August 14, 2012, the Company's CEO loaned the Company \$300,000 and received a convertible promissory note, payable on demand, bearing interest at 5% per annum. The note is convertible into shares of common stock of the Company at a rate of \$0.35 per share (based on proceeds received on September 28, 2012 under a private placement at \$0.35 per unit). The Company evaluated the convertible notes and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the shares of common stock on the note issue date. Through various note extensions, the debt was extended to February 28, 2017. There was no accounting effect for these modifications.

**Note 8. Commitments and Contingencies**

**Line of Credit**

The Company maintains a line of credit with a bank, up to a maximum credit line of \$250,000. The line of credit bears interest equal to the prime rate plus 0.50% (overall interest rate of 3.75% at October 31, 2015). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time monthly payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of October 31, 2015 was \$249,783. Since the earliest the line of credit is due and payable is over a five year period and the Company believes that it could obtain a comparable replacement line of credit elsewhere, the entire line of credit is included in long-term liabilities. The unused amount under the line of credit available to the Company at October 31, 2015 was \$217.

**Employment Agreements**

From time to time, the Company enters into employment agreements with certain of its employees. These agreements typically include bonuses, some of which are performance-based in nature. As of October 31, 2015, no performance bonuses have been earned.

## Legal Matters

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of October 31, 2015, except as discussed below, there were no other pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations and there are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

On February 11, 2013, HEMG and Mr. Spada sued the Company, certain senior management members and our directors in state court in New York seeking damages arising principally from (i) allegedly false and misleading statements in the filings with the SEC and the DOE where the Company disclosed that HEMG and Mr. Spada borrowed \$2.2 million without board authority, (ii) the alleged breach of an April 2012 agreement whereby the Company had agreed, subject to numerous conditions and time limitations, to purchase certain shares of the Company from HEMG, and (iii) alleged diminution to the value of HEMG's shares of the Company due to Mr. Spada's disagreement with certain business transactions the Company engaged in, all with Board approval. On November 8, 2013, the state court in New York granted the Company's motion to dismiss all of the derivative claims and all of the fiduciary duty claims. The state court in New York also granted the Company's motion to dismiss the duplicative breach of good faith and fair dealing claim, as well as the defamation claim. The state court in New York denied the Company's motion to dismiss as to the defamation per se claim. On December 10, 2013, the Company filed a series of counterclaims against HEMG and Mr. Spada in state court of New York. By decision and order dated August 4, 2014, the New York court denied HEMG and Spada's motion to dismiss the fraud counterclaim the Company asserted against them. The New York court dismissed the Company's related money had and received, money lent and unjust enrichment counterclaims as being duplicative of the fraud counterclaim; however by decision dated April 30, 2015, the Court reinstated the Company's money had and received, money lent and unjust enrichment counterclaims, and denied HEMG's and Spada's second request for dismissal of the Company's fraud counterclaim.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

As previously reported, HEMG and Mr. Spada filed a derivative suit on behalf of the Company against certain former senior management member and our directors in state court in Delaware. The Company was a nominal defendant. The complaint was substantially similar to the complaint filed in state court of New York. On November 3, 2014, the Chancery Court of the State of Delaware dismissed the shareholders' derivative lawsuit of Mr. Patrick Spada and Higher Education Management Group, Inc. against Aspen Group, Inc., certain members of the Company's Board of Directors and former Chief Financial Officer (collectively, the Defendants). The Court granted the Defendant's Motion to Dismiss in its entirety with prejudice. The Plaintiff's have not taken an appeal and the time to do so has expired.

While the Company has been advised by its counsel that HEMG's and Spada's claims in the New York lawsuit is baseless, the Company cannot provide any assurance as to the ultimate outcome of the case. Defending the lawsuit will be expensive and will require the expenditure of time which could otherwise be spent on the Company's business. While unlikely, if Mr. Spada's and HEMG's claims in the New York litigation were to be successful, the damages the Company could pay could potentially be material.

On October 15, 2015, HEMG filed bankruptcy pursuant to Chapter 7. As a result, the remaining claims and Aspen's counterclaims in the New York lawsuit are currently stayed.

On August 13, 2015, a former employee filed a complaint against the Company in the United States District Court, District of Arizona, for breach of contract claiming that Plaintiff was terminated for Cause when no cause existed. Plaintiff is seeking the remaining amounts under her employment agreement, severance pay, bonuses, value of lost benefits, and the loss of the value of her stock options. The Company filed an answer to the complaint by the September 8, 2015 deadline.

### **Regulatory Matters**

The Company's subsidiary, Aspen University, is subject to extensive regulation by Federal and State governmental agencies and accrediting bodies. In particular, the Higher Education Act (the HEA) and the regulations promulgated thereunder by the DOE subject Aspen University to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy to participate in the various types of federal student financial assistance programs authorized

under Title IV of the HEA. Aspen University has had provisional certification to participate in the Title IV programs. That provisional certification imposes certain regulatory restrictions including, but not limited to, a limit of 1,200 student recipients for Title IV funding for the duration of the provisional certification. The provisional certification restrictions continue with regard to Aspen University's participation in Title IV programs.

To participate in the Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agencies of the State in which it is located. An institution must also be authorized to offer its programs in the States where the institution offers postsecondary education through distance education. In addition, an institution must be accredited by an accrediting agency recognized by the DOE and certified as eligible by the DOE. The DOE will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the HEA and the DOE's extensive academic, administrative, and financial regulations regarding institutional eligibility and certification. An institution must also demonstrate its compliance with these requirements to the DOE on an ongoing basis. Aspen University performs periodic reviews of its compliance with the various applicable regulatory requirements. As Title IV funds received in fiscal 2015 represented approximately 33% of the Company's cash basis revenues (including revenues from discontinued operations), as calculated in accordance with Department of Education guidelines, the loss of Title IV funding would have a material effect on the Company's future financial performance.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

On March 27, 2012 and on August 31, 2012, Aspen University provided the DOE with letters of credit for which the due date was extended to December 31, 2013. On January 30, 2014, the DOE provided Aspen University with an option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling \$1,696,445, or to remain provisionally certified by increasing the 25% letter of credit to \$848,225. Aspen informed the DOE of its desire to remain provisionally certified and posted the \$848,225 letter of credit for the DOE on April 14, 2014. On February 26, 2015, Aspen University was informed by the DOE that it again has the option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling \$2,244,971, or to remain provisionally certified by increasing the existing 25% letter of credit to \$1,122,485. Aspen informed the DOE on March 3, 2015 of its desire to remain provisionally certified and post the \$1,122,485 letter of credit for the DOE by April 30, 2015. The DOE may impose additional or different terms and conditions in any final provisional program participation agreement that it may issue (See Note 2 Restricted Cash ).

The HEA requires accrediting agencies to review many aspects of an institution's operations in order to ensure that the education offered is of sufficiently high quality to achieve satisfactory outcomes and that the institution is complying with accrediting standards. Failure to demonstrate compliance with accrediting standards may result in the imposition of probation, the requirements to provide periodic reports, the loss of accreditation or other penalties if deficiencies are not remediated.

Because Aspen University operates in a highly regulated industry, it may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions or common law causes of action.

On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years to January, 2019.

**Return of Title IV Funds**



An institution 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, no later than 45 days of the date the school determines that the student has withdrawn. Under Department regulations, failure to make timely returns of Title IV program funds for 5% or more of students sampled on the institution's annual compliance audit in either of its two most recently completed fiscal years can result in the institution having to post a letter of credit in an amount equal to 25% of its required Title IV returns during its most recently completed fiscal year. If unearned funds are not properly calculated and returned in a timely manner, an institution is also subject to monetary liabilities or an action to impose a fine or to limit, suspend or terminate its participation in Title IV programs.

Subsequent to a program review by the Department of Education, the Company recognized that it had not fully complied with all requirements for calculating and making timely returns of Title IV funds (R2T4). In November 2013, the Company returned a total of \$102,810 of Title IV funds to the Department of Education.

### **Delaware Approval to Confer Degrees**

Aspen University is a Delaware corporation. Delaware law requires an institution to obtain approval from the Delaware Department of Education ( Delaware DOE ) before it may incorporate with the power to confer degrees. In July 2012, Aspen received notice from the Delaware DOE that it is granted provisional approval status effective until June 30, 2015 and is currently in the process of applying for either an extension of its provisional approval status or obtain permanent approval status. Aspen University is authorized by the Colorado Commission on Education to operate in Colorado as a degree granting institution.

### **Letter of Credit**

The Company maintains a letter of credit under a DOE requirement (See Note 2 Restricted Cash ).

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

October 31, 2015

(Unaudited)

## Note 9. Stockholders' Equity (Deficiency)

## Common Stock

On June 8, 2015, in exchange for the termination of a consulting agreement with a Director, the Company issued 300,000 restricted stock units (with the value of \$50,400 based on the market value on the grant date). Two-thirds are fully vested and the remaining balance vests in six equal monthly installments commencing on June 30, 2015. At October 31, 2015, the Company has recorded consulting expense of \$47,600.

## Warrants

A summary of the Company's warrant activity during the six months ended October 31, 2015 is presented below:

|                                       | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---------------------------------------|---------------------|--|---|---------------------------------|
| <b>Warrants</b>                       |                     |  |   |                                 |
| Balance Outstanding, April 30, 2015   | 28,871,757          | \$ 0.26                                  |   |                                 |
| Granted                               |                     |  |   |                                 |
| Exercised                             |                     |  |   |                                 |
| Forfeited                             |                     |  |   |                                 |
| Expired                               |                     |  |   |                                 |
| Balance Outstanding, October 31, 2015 | 28,871,757          | \$ 0.26                                  | 3.2   | \$                              |
| Exercisable, October 31, 2015         | 28,871,757          | \$ 0.26                                  | 3.2   | \$                              |

Certain of the Company's warrants contain price protection. The Company evaluated whether the price protection provision of the warrant would cause derivative treatment. In its assessment, the Company determined that since its shares are not readily convertible to cash due to an inactive trading market, through October 31, 2015 the warrants are excluded from derivative treatment.

### **Stock Incentive Plan and Stock Option Grants to Employees and Directors**

Immediately following the closing of the Reverse Merger, on March 13, 2012, the Company adopted the 2012 Equity Incentive Plan (the Plan) that provides for the grant of 9,300,000 shares, 14,300,000 effective July 2014, 16,300,000 effective September 2014 and 20,300,000 effective November 2015, in the form of incentive stock options, non-qualified stock options, restricted shares, stock appreciation rights and restricted stock units to employees, consultants, officers and directors. As of October 31, 2015, there were 3,442,687 shares remaining under the Plan for future issuance.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award.

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

October 31, 2015

(Unaudited)

A summary of the Company's stock option activity for employees and directors during the three months ended October 31, 2015 is presented below:

| <b>Options</b>                        | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------------|-----------------------------|--|--|--|
| Balance Outstanding, April 30, 2015   | 14,206,412                  | \$ 0.21  | 3.5  | \$ 103,000                               |
| Granted                               | 2,965,000                   | \$ 0.17  | 4.9  |  |
| Exercised                             |                             |  |  |  |
| Forfeited                             | (509,099)                   | \$ 0.35  | 2.2  |  |
| Expired                               |                             |  |  |  |
| Balance Outstanding, October 31, 2015 | 16,662,313                  | \$ 0.20  | 3.1  | \$ 8,835                                 |
| Exercisable, October 31, 2015         | 7,234,131                   | \$ 0.22  | 2.41   | \$                                       |

On June 8, 2015, the Chief Academic Officer received a grant of 1,000,000 options which has a fair value of \$60,000, the Chief Operating Officer received a grant of 700,000 options which has a fair value of \$42,000 and the Chief Financial Officer received a grant of 300,000 options which has a fair value of \$18,000. All of these options have an exercise price of \$0.168 per share.

On August 5, 2015, 500,000 options were granted to the Senior Vice President of Compliance. The exercise price was \$0.18 and the fair value was \$30,000. The options vest over 3 years.

On September 23, 2015, 465,000 options were granted to a total of 39 employees. The exercise prices were \$0.131 and the fair value of the total grant was \$48,600. The options vest over 3 years.

As of October 31, 2015, there was approximately \$480,000 of unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.2

years.

The Company recorded compensation expense of \$128,987 for the six months ended October 31, 2015 in connection with employee stock options. The Company recorded compensation expense of \$211,638 for the six months ended October 31, 2014 in connection with employee stock options.

### Stock Option Grants to Non-Employees

There were no stock options granted to non-employees during the six months ended October 31, 2015. The Company recorded no compensation expense for the six months ended October 31, 2015 in connection with non-employee stock options. There was no unrecognized compensation cost at October 31, 2015.

A summary of the Company's stock option activity for non-employees during the six months ended October 31, 2015 is presented below:

| <b>Options</b>                        | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------------|-----------------------------|--|---|--|
| Balance Outstanding, April 30, 2015   | 220,000                     | \$ 0.30  | 2.1   | \$                                       |
| Granted                               |                             |  |   |  |
| Exercised                             |                             |  |   |  |
| Forfeited                             | (25,000)                    | \$ 0.19  | 3.0   | \$                                       |
| Expired                               |                             |  |   |  |
| Balance Outstanding, October 31, 2015 | 195,000                     | \$ 0.31  | 1.4   | \$                                       |
| Exercisable, October 31, 2015         | 195,000                     | \$ 0.31  | 1.4   | \$                                       |

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**October 31, 2015**

**(Unaudited)**

**Note 10. Related Party Transactions**

See Note 3 for discussion of secured note and account receivable to related parties and see Notes 6 and 7 for discussion of loans payable and convertible notes payable to related parties.

**Note 11. Subsequent Event**

On November 20, 2015, the Company amended its Equity Incentive Plan by 4,000,000 shares increasing the total number of authorized plan shares to 20,300,000. Effective that date, the Board granted 250,000 options to each of three directors for service on a special committee. The exercise price is \$0.165 and the fair value of each 250,000 grant is \$12,500. The options vest over 3 years.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion in conjunction with our unaudited consolidated financial statements, which are included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in the Risk Factors contained in the Annual Report on Form 10-K filed on July 28, 2015 with the Securities and Exchange Commission, or the SEC.

All references to we, our and us refer to Aspen Group, Inc. and its subsidiaries (including Aspen), unless the context otherwise indicates. In referring to academic matters, these words refer solely to Aspen University.

### **Company Overview**

Founded in 1987, Aspen's mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 60% of our adjunct professors hold doctorate degrees.

Because we believe higher education should be a catalyst to our students' long-term economic success, we exert financial prudence by offering affordable tuition that is one of the greatest values in online higher education. Last year, Aspen University unveiled a monthly payment plan aimed at reversing the college-debt sentence plaguing working-class Americans. The monthly payment plan offers bachelor students (except RN to BSN) the opportunity to pay \$250/month for 72 months (\$18,000), nursing bachelor students (RN to BSN) \$250/month for 39 months (\$9,750), master students \$325/month for 36 months (\$11,700) and doctoral students \$375 per month for 72 months (\$27,000), interest free, thereby giving students the ability to earn a degree debt free.

Since launching the debtless education solution last year, Aspen University has become one of the fastest growing universities in the United States with record new student enrollments and record revenue acceleration in calendar year 2015. Below is a chart reflecting the year-over-year percentage of new student enrollment growth and revenue growth during Aspen's calendar year 2015 fiscal quarters:

**Aspen University's Record Growth in 2015****New Student**

|                                     | <b>Enrollment Growth<br/>(y/o/y growth %)</b> | <b>Revenue Growth<br/>(y/o/y growth %)</b> |
|-------------------------------------|---|--|
| Fiscal Quarter End April 30, 2015   | 89%   | 34%  |
| Fiscal Quarter End July 31, 2015    | 81%   | 46%  |
| Fiscal Quarter End October 31, 2015 | 110%  | 58%  |

**Student Population**

Aspen's full-time degree-seeking student body increased year-over-year by 43% during the quarter ended October 31, 2015, from 2,811 to 4,015 students.

Our most popular school is our School of Nursing. Aspen's School of Nursing has grown from 36% of our full-time, degree-seeking student body at October 31, 2014, to 48% of our full-time, degree-seeking student body at October 31, 2015. Aspen's School of Nursing grew from 1,026 to 1,935 students year-over-year, which represented 75% of Aspen's full-time degree-seeking student body growth. At October 31, 2015, Aspen's School of Nursing included 678 students in the RN to BSN program and 1,257 students in the RN to MSN Bridge program or MSN program.

**New Student Enrollment and Total Degree-Seeking Student Body Overview**

Since the launch of the BSN marketing campaign in mid-November, 2014, Aspen's growth rate of new student enrollments has accelerated significantly.



Aspen has updated its definition of a new student enrollment to only report those new students that complete their first seven day assignment of their first course in their degree program. Based on that definition, below is a quarterly analysis of new student enrollments for the past five quarters, including the recent quarter ending October 31, 2015. Note that in the recent quarter ending October 31, 2015, new student enrollments were up 110% year-over-year, from 265 to 557.

|                                     | <b>New Student Enrollments</b> | <b>Degree Seeking Student<br/>Body</b> |
|-------------------------------------|--------------------------------|--|
| Fiscal Quarter End October 31, 2014 | 265                            | 2,811                                  |
| Fiscal Quarter End January 31, 2015 | 315                            | 3,011                                  |
| Fiscal Quarter End April 30, 2015   | 444                            | 3,309                                  |
| Fiscal Quarter End July 31, 2015    | 410                            | 3,609                                  |
| Fiscal Quarter End October 31, 2015 | 557                            | 4,015                                  |

Aspen's School of Nursing is responsible for the lion's share of the new student enrollment and overall student body growth. Specifically, Aspen's School of Nursing is now on pace to grow on an annualized basis by 1,500 Nursing students net (or 125/month). Aspen's BSN program accounts for 72% of that growth, as that program is on pace to increase on an annualized basis by 1,080 students net (or 90/month).

Aspen University expects its total degree-seeking student body to continue its rapid growth and reach approximately 5,000 students by the end of the fiscal year, April 30, 2016, a sharp increase from 4,015 as of October 31, 2015. Therefore, the university is now on pace to increase its student body by 2,000 students on an annualized basis versus the previous pace of 1,200 students earlier this fiscal year.

## **Results of Operations**

### **For the Three Months Ended October 31, 2015 Compared with the Three Months Ended October 31, 2014**

#### **Revenue**

Revenue from operations for the three months ended October 31, 2015 ( 2015 Quarter ) increased to \$1,913,161 from \$1,214,247 for the three months ended October 31, 2014 ( 2014 Quarter ), an increase of 58%. The increase is primarily attributable to the growth in Aspen's School of Nursing student enrollments and Nursing student class starts. Specifically, revenues from Aspen's School of Nursing increased to \$1,139,468 during the 2015 Quarter from

\$483,050 during the 2014 Quarter, an increase of 136%. Aspen's School of Nursing now represents the majority of Aspen's revenues at 60%.

### **Cost of Revenues (exclusive of amortization)**

The Company's cost of revenues consist of instructional costs and services and marketing and promotional costs.

### **Instructional Costs and Services**

Instructional costs and services for the 2015 Quarter rose to \$384,854 from \$248,699 for the 2014 Quarter, an increase of \$136,155 or 55%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its degree-seeking Nursing student enrollments and related class starts, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to lag that of overall revenue growth.

### **Marketing and Promotional**

Marketing and promotional costs for the 2015 Quarter were \$482,947 compared to \$193,998 for the 2014 Quarter, an increase of \$288,949 or 149%. This increase reflects an increased monthly internet advertising budget to \$150,000, starting in August, 2015.

As a result of the planned marketing spending increase in the 2015 quarter, Gross Profit was 48% of revenues or \$909,019 for the 2015 Quarter compared to 54% of revenues or \$651,038 for the 2014 Quarter. The increase of Gross Profit from \$651,038 to \$909,019 is an increase of \$257,981 or 40% year-over-year. Gross Profit (exclusive of amortization), a non-GAAP financial measure, was 55% of revenues or \$1,045,360 for the 2015 Quarter from 64% of revenues or \$771,550 for the 2014 Quarter. The increase of Gross Profit (exclusive of amortization) from \$771,550 to \$1,045,360 is an increase of \$273,810 or 35% year-over-year.

## **Costs and Expenses**

### **General and Administrative**

General and administrative costs for the 2015 Quarter were \$1,610,202 compared to \$1,259,105 during the 2014 Quarter, an increase of \$351,097 or 28%. The increase is attributable primarily to higher payroll costs, primarily due to the staffing increase in the enrollment call center.

### **Depreciation and Amortization**

Depreciation and amortization costs for the 2015 Quarter rose to \$148,258 from \$130,133 for the 2014 Quarter, an increase of \$18,125 or 14%. The increase is primarily attributable to higher levels of capitalized technology costs.

### **Other Income (Expense)**

Other income for the 2015 Quarter decreased to \$2,930 from \$3,209 in the 2014 Quarter, a decrease of \$279 or 9%. Interest expense decreased from \$93,750 to \$34,250, a decrease of \$59,500 or 64%. The decrease is due to the elimination of the monthly interest to the Institutional Investor along with the amortization of the debt discount and the debt issuance costs.

### **Loss from Debt Extinguishment**

In the 2014 Quarter, there is a \$452,503 loss from the extinguishment of the debenture. Included in this loss is the final interest payment of \$70,000, offset by an interest accrual of \$34,084, along with the writeoff of \$130,057 of remaining debt issuance costs and \$286,530 of remaining original issue discount.

### **Income Taxes**

Income taxes expense (benefit) for the 2015 Quarter and 2014 Quarter was \$0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.

### **Net Loss**

Net loss for the 2015 Quarter was (\$744,420) as compared to (\$1,160,732) for the 2014 Quarter, a decrease in the loss of \$416,312 or approximately 36%. Contributing to this lower loss was the increase in revenues and gross profits in the 2015 Quarter, as well as lower interest expense and no debt extinguishment charges in the 2015 Quarter.

### For the Six Months Ended October 31, 2015 Compared with the Six Months Ended October 31, 2014

### **Revenue**

Revenue from operations for the six months ended October 31, 2015 ( 2015 Period ) increased to \$3,619,022 from \$2,384,107 for the six months ended October 31, 2014 ( 2014 Period ), an increase of 52%. The increase is primarily attributable to the growth in Aspen's School of Nursing student enrollments and Nursing student class starts. Specifically, revenues from Aspen's School of Nursing increased to \$2,021,251 during the 2015 Period from \$878,125 during the 2014 Period, an increase of 130%. Aspen's School of Nursing represented the majority of Aspen's revenues for the six month period at 56%.

### **Cost of Revenues (exclusive of amortization)**

The Company's cost of revenues consist of instructional costs and services and marketing and promotional costs.

#### **Instructional Costs and Services**

Instructional costs and services for the 2015 Period rose to \$770,921 from \$518,532 for the 2014 Period, an increase of \$252,389 or 49%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its degree-seeking Nursing student enrollments and related class starts, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to lag that of overall revenue growth.

#### **Marketing and Promotional**

Marketing and promotional costs for the 2015 Period were \$870,989 compared to \$373,264 for the 2014 Period, an increase of \$497,725 or 133%. This increase reflects an increased monthly internet advertising budget to \$150,000, starting in August, 2015.

As a result of the planned marketing spending increase in the 2015 quarter, Gross Profit was 47% of revenues or \$1,708,251 for the 2015 Period compared to 53% of revenues or \$1,255,610 for the 2014 Period. The increase of Gross Profit from \$1,255,610 to \$1,708,251 is an increase of \$452,641 or 36% year-over-year. Gross Profit (exclusive of amortization), a non-GAAP financial measure, was 55% of revenues or \$1,977,112 for the 2015 Period from 63% of revenues or \$1,492,311 for the 2014 Period. The increase of Gross Profit (exclusive of amortization) from \$1,492,311 to \$1,977,112 is an increase of \$484,801 or 32% year-over-year.

#### **Costs and Expenses**

##### **General and Administrative**

General and administrative costs for the 2015 Period were \$3,087,819 compared to \$2,459,153 during the 2014 Period, an increase of \$628,666 or 26%. The increase is attributable primarily to higher payroll costs, primarily due to the staffing increase in the enrollment call center.

### **Depreciation and Amortization**

Depreciation and amortization costs for the 2015 Period rose to \$291,717 from \$255,740 for the 2014 Period, an increase of \$35,977 or 14%. The increase is primarily attributable to higher levels of capitalized technology costs.

### **Other Income (Expense)**

Other income for the 2015 Period increased to \$6,663 from \$4,881 in the 2014 Period, an increase of \$1,782 or 37%. The increase is primarily due to favorable foreign exchange. Interest expense decreased from \$354,621 to \$67,365, a decrease of \$287,256 or 81%. The decrease is due to the elimination of the monthly interest to the Institutional Investor along with the amortization of the debt discount and the debt issuance costs.

### **Loss from Debt Extinguishment**

In the 2014 Period, there is a \$452,503 loss from the extinguishment of the debenture. Included in this loss is the final interest payment of \$70,000, offset by an interest accrual of \$34,084, along with the writeoff of \$130,057 of remaining debt issuance costs and \$286,530 of remaining original issue discount.

### **Income Taxes**

Income taxes expense (benefit) for the 2015 Period and 2014 Period was \$0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.



## Net Loss

Net loss for the 2015 Period was (\$1,463,126) as compared to (\$2,024,825) for the 2014 Period, a decrease in the loss of \$561,699, or approximately 28%. Contributing to this lower loss was the increase in revenues and gross profits in the 2015 Period, as well as lower interest expense and no loss on debt extinguishment charge in the 2015 Period.

## Non-GAAP Financial Measures

The following discussion and analysis includes both financial measures in accordance with Generally Accepted Accounting Principles, or GAAP, as well as non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternatives to net income, operating income, and cash flow from operating activities, liquidity or any other financial measures. They may not be indicative of the historical operating results of Aspen Group nor are they intended to be predictive of potential future results. Investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP.

Our management uses and relies on Adjusted EBITDA and Gross Profit (exclusive of depreciation and amortization), which are non-GAAP financial measures. We believe that both management and shareholders benefit from referring to the following non-GAAP financial measures in planning, forecasting and analyzing future periods. Our management uses these non-GAAP financial measures in evaluating its financial and operational decision making and as a means to evaluate period-to-period comparison. Our management recognizes that the non-GAAP financial measures have inherent limitations because of the described excluded items.

Aspen Group defines Adjusted EBITDA as earnings (or loss) from continuing operations before the items in the table below. Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing the impact of items of a non-operational nature that affect comparability.

We have included a reconciliation of our non-GAAP financial measures to the most comparable financial measure calculated in accordance with GAAP. We believe that providing the non-GAAP financial measures, together with the reconciliation to GAAP, helps investors make comparisons between Aspen Group and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to



the reconciliation between such measure and the corresponding GAAP measure provided by each company under applicable SEC rules.

The following table presents a reconciliation of Adjusted EBITDA to Net loss allocable to common shareholders, a GAAP financial measure:

|   | <b>Three Months Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>10/31/2015</b>         | <b>10/31/2014</b> |
| Net loss allocable to common shareholders | \$ (744,420)              | \$ (1,160,732)    |
| Interest Expense, net of interest income  | 31,320                    | 29,625            |
| Bad Debt Expense                          | 67,299                    |                   |
| Depreciation & Amortization               | 148,258                   | 130,133           |
| Amortization of Debt Issue Costs          |                           | 19,018            |
| Amortization of Debt Discount             |                           | 41,898            |
| Loss from debt extinguishment             |                           | 452,503           |
| Stock-based compensation                  | 56,046                    | 114,435           |
| Non-recurring charges                     | 162,145                   | 114,930           |
| Adjusted EBITDA (Loss)                    | \$ (279,352)              | \$ (258,190)      |

The following table presents a reconciliation of adjusted Gross Profit (exclusive of amortization), a non-GAAP financial measure, to gross profit calculated in accordance with GAAP:

|   | <b>For the<br/>Three Months Ended</b> |              | <b>For the<br/>Six Months Ended</b> |              |
|---|---------------------------------------|--------------|-------------------------------------|--------------|
|   | <b>October 31,</b>                    |              | <b>October 31,</b>                  |              |
|   | <b>2015</b>                           | <b>2014</b>  | <b>2015</b>                         | <b>2014</b>  |
| Revenues  | \$ 1,913,161                          | \$ 1,214,247 | \$ 3,619,022                        | \$ 2,384,107 |
| Costs of revenues (exclusive of depreciation and amortization shown separately) | 867,801                               | 442,697      | 1,641,910                           | 891,796      |
| Gross profit (exclusive of depreciation and amortization)                       | 1,045,360                             | 771,550      | 1,977,112                           | 1,492,311    |
| Depreciation and amortization expenses excluded from cost of revenues           | 136,341                               | 120,512      | 268,861                             | 236,701      |
| GAAP gross profit   | \$ 909,019                            | \$ 651,038   | \$ 1,708,251                        | \$ 1,255,610 |

### Liquidity and Capital Resources

A summary of our cash flows is as follows:

|  | <b>For the<br/>Six Months Ended<br/>October 31,</b> |              |
|--|---|--------------|
|  | <b>2015</b>   | <b>2014</b>  |
|  | Net cash used in operating activities               | \$ (878,508) |
| Net cash used in investing activities                | (277,653)   | (316,872)    |
| Net cash provided by financing activities            | 5,115   | 3,175,454    |
| Net cash provided by discontinued operations         | 5,250   | 5,250        |
| Net increase (decrease) in cash and cash equivalents | \$ (1,151,046)                                      | \$ 1,853,777 |

### **Net Cash Used in Operating Activities**

Net cash used in operating activities during the 2015 Period totaled (\$878,508) and primarily resulted primarily from a net loss from continuing operations of (\$1,463,126) offset by non-cash items of \$573,492, comprised of \$291,717 in depreciation and amortization, \$128,987 of stock compensation expense, \$99,188 of bad debt expense, \$47,600 for amortization of prepaid services and \$6,000 for warrant conversion expense, as well as a net change in operating assets and liabilities of \$11,126, of which the \$594,794 increase in accounts receivable was the most significant.

Net cash used in operating activities during the 2014 Period totaled (\$1,010,055) and resulted primarily from a net loss from continuing operations of \$(2,024,825) offset by non-cash items of \$1,231,175 and a net change in operating assets and liabilities of \$(216,406).

### **Net Cash Used in Investing Activities**

Net cash used in investing activities during the 2015 Period totaled (\$277,653) and resulted primarily from capitalized technology expenditures included in property and equipment.

Net cash used in investing activities during the 2014 Period totaled (\$316,872), resulting primarily from capitalized technology expenditures included in property and equipment.

### **Net Cash Provided By Financing Activities**

Net cash provided by financing activities during the 2015 Period totaled \$5,115 which resulted primarily from a net increase in the line of credit at our bank.

Net cash provided by financing activities during the 2014 Period totaled \$3,175,454 which resulted primarily from proceeds from the issuance of common shares and warrants of \$5,547,826, offset by the retirement of convertible notes of \$2,240,000.

### **Historical Financings**

Historically, our primary source of liquidity is cash receipts from tuition and the issuances of debt and equity securities. The primary uses of cash are payroll related expenses, professional expenses and instructional and marketing expenses.

On July 1, 2013, Mr. Michael Mathews, our Chief Executive Officer, loaned Aspen Group \$1 million and was issued a \$1 million promissory note. The promissory note bears 10% interest per annum, payable monthly in arrears. Mr. Mathews also holds two \$300,000 convertible notes, one of which is convertible at \$0.35 per share and the other at \$1.00 per share. The due dates of all three notes held by Mr. Mathews were recently extended to February 28, 2017.

In September 2013, the Company sold a \$2,240,000 Original Issue Discount Secured Convertible Debenture (the Debenture ) and 6,736,842 five-year warrants (exercisable at \$0.3325) in a private placement offering to an institutional investor. The Company received net proceeds of approximately \$1.7 million from this offering.

On January 15, 2014, a warrant exercise offering was completed whereby 4,231,840 warrants were exercised at an exercise price of \$0.19 per warrant. The total proceeds received were \$804,049 and since the exercise price was discounted from the stated prices of either \$0.50 or \$0.3325. Related to this, additional 5,178,947 new warrants were issued at \$0.19 per warrant as part of a price protection agreement with two investors.

On March 10, 2014, several members of the Board of Directors invested \$600,000 in exchange for 3,157,895 shares of common stock and 3,157,895 warrants at \$0.19 per share.

On July 29, 2014, in the first part of a two part private placement offering, seven accredited investors, including the Company's Chief Financial Officer, paid a total of \$1,631,500 in exchange for 10,525,809 shares of common stock and 5,262,907 five-year warrants exercisable at \$0.19 per share. Aspen reimbursed expenses in total of \$75,000 related to this offering. As a result of this private placement, on July 31, 2014, Aspen issued 3,473,259 shares of common stock to prior investors who had price protection on their investments, issued 2,662,139 warrants to a prior investor who had price protection on their investment and reduced the exercise and conversion price on 14,451,613 outstanding warrants and its outstanding Debenture to \$0.155.

On September 4, 2014, Aspen raised \$3,766,325 from the sale of 24,298,877 shares of common stock and 12,149,439 five-year warrants exercisable at \$0.19 per share in the second part of a two part private placement offering to 15 accredited investors. The net proceeds to Aspen were approximately \$3.7 million. With the proceeds from this offering, we pre-paid the full principal owed and interest due under the Debenture (described above).

In April 2015, Aspen raised \$2,268,670 closed on its offering to warrant holders whereby it issued 14,747,116 shares of common stock to the holders in exchange for their early exercise of warrants at the reduced exercise price of \$0.155. The Company received gross proceeds of \$2,268,670, which included warrants exercised by the Company's Chief Financial Officer.

## **Liquidity and Capital Resource Considerations**

As of December 2, 2015, the Company had a cash balance of approximately \$2.2 million (which includes \$1,122,485 of restricted cash). With the additional cash raised in the early exercise of warrants in April 2015, the growth in the Company revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan and meet its operations for at least the next 12 months.

Our cash balances are kept liquid to support our growing infrastructure needs. The majority of our cash is concentrated in large financial institutions.

## **Critical Accounting Policies and Estimates**

In response to financial reporting release FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, from the SEC, we have selected our more subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate, in addition to the inherent uncertainties pertaining to the estimate and the possible effects on the our financial condition. The accounting estimates are discussed below and involve certain assumptions that, if incorrect, could have a material adverse impact on our results of operations and financial condition.

## **Revenue Recognition and Deferred Revenue**

Revenue consisting primarily of tuition and fees derived from courses taught by Aspen online as well as from related educational resources that Aspen provides to its students, such as access to our online materials and learning management system. Tuition revenue is recognized pro-rata over the applicable period of instruction. Aspen maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override Aspen's policy to the extent in conflict. If a student withdraws at a time when a portion or none of the tuition is refundable, then in accordance with its revenue recognition policy, Aspen recognizes as revenue the tuition that was not refunded. Since Aspen recognizes revenue pro-rata over the term of the course and because, under its institutional refund policy, the amount subject to refund is never greater than the amount of the revenue that has been deferred, under Aspen's accounting policies revenue is not recognized with respect to amounts that could potentially be refunded. Aspen's educational programs have starting and ending dates that differ from its fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of revenue from these programs is not yet earned and is therefore deferred. Aspen also charges students annual fees for library, technology and other services, which are recognized over the related service period. Deferred revenue represents the amount of tuition, fees, and other student

payments received in excess of the portion recognized as revenue and it is included in current liabilities in the accompanying consolidated balance sheets. Other revenue may be recognized as sales occur or services are performed.

### **Accounts Receivable and Allowance for Doubtful Accounts Receivable**

All students are required to select both a primary and secondary payment option with respect to amounts due to Aspen for tuition, fees and other expenses. The most common payment option for Aspen's students is personal funds or payment made on their behalf by an employer. In instances where a student selects financial aid as the primary payment option, he or she often selects personal cash as the secondary option. If a student who has selected financial aid as his or her primary payment option withdraws prior to the end of a course but after the date that Aspen's institutional refund period has expired, the student will have incurred the obligation to pay the full cost of the course. If the withdrawal occurs before the date at which the student has earned 100% of his or her financial aid, Aspen will have to return all or a portion of the Title IV funds to the DOE and the student will owe Aspen all amounts incurred that are in excess of the amount of financial aid that the student earned and that Aspen is entitled to retain. In this case, Aspen must collect the receivable using the student's second payment option.

For accounts receivable from students, Aspen records an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of the student's cost of tuition and related fees. Aspen determines the adequacy of its allowance for doubtful accounts using a general reserve method based on an analysis of its historical bad debt experience, current economic trends, and the aging of the accounts receivable and student status. Aspen applies reserves to its receivables based upon an estimate of the risk presented by the age of the receivables and student status. Aspen writes off accounts receivable balances at the time the balances are deemed uncollectible. Aspen continues to reflect accounts receivable with an offsetting allowance as long as management believes there is a reasonable possibility of collection.

For accounts receivable from primary payors other than students, Aspen estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an extended period beyond contractual terms. In these cases, Aspen uses assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance. Aspen may also record a general allowance as necessary.

Direct write-offs are taken in the period when Aspen has exhausted its efforts to collect overdue and unpaid receivables or otherwise evaluate other circumstances that indicate that Aspen should abandon such efforts.

### **Related Party Transactions**

See Note 10 to our October 31, 2015 unaudited consolidated financial statements included herein for additional description of related party transactions that had a material effect on our consolidated financial statements.

### **Off Balance Sheet Arrangements**

We do not engage in any activities involving variable interest entities or off-balance sheet arrangements.

### **New Accounting Pronouncements**



See Note 2 to our October 31, 2015 unaudited consolidated financial statements included herein for discussion of recent accounting pronouncements.

### **Cautionary Note Regarding Forward Looking Statements**

This report contains forward-looking statements including statements regarding growth and liquidity. All statements other than statements of historical facts contained in this report, including statements regarding our future financial position, liquidity, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, estimate, continue, anticipate, intend, should, plan, potential, is likely, will, expect and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors that could cause actual results to differ from those in the forward-looking statements include the failure to maintain regulatory approvals, competition, and ineffective media and/or marketing, failure to maintain growth in degree seeking students and the failure to generate sufficient revenue. Further information on our risk factors is contained in our filings with the SEC, including the Form 10-K filed on July 28, 2015. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, required by Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act ) of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act. Based on their evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. With the exception of the disclosure below, there were no material changes to our legal proceedings during the period covered by this report.

On August 13, 2015, a former employee filed a complaint against the Company in the United States District Court, District of Arizona, for breach of contract claiming that Plaintiff was terminated for Cause when no cause existed. Plaintiff is seeking the remaining amounts under her employment agreement, severance pay, bonuses, value of lost benefits, and the loss of the value of her stock options. The Company filed an answer to the complaint by the September 8, 2015 deadline.

### **ITEM 1A. RISK FACTORS**

Not applicable to smaller reporting companies.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

See the Exhibit Index at the end of this report.



**EXHIBIT INDEX**

| <b>Exhibit #</b> | <b>Exhibit Description</b>   | <b>Incorporated by Reference</b> |             |               | <b>Filed or<br/>Furnished<br/>Herewith</b> |
|------------------|--|----------------------------------|-------------|---------------|--|
|                  |  | <b>Form</b>                      | <b>Date</b> | <b>Number</b> |  |
| 3.1              | Certificate of Amendment to Certificate of Incorporation, as amended       | S-1                              | 10/18/14    | 3.1           |  |
| 3.2              | Bylaws   | 8-K                              | 3/19/12     | 2.7           |  |
| 3.3              | Amendment No. 1 to Bylaws  | 8-K                              | 3/12/14     | 3.1           |  |
| <u>31.1</u>      | Certification of Principal Executive Officer (302)                         |                                  |             |               | Filed                                      |
| <u>31.2</u>      | Certification of Principal Financial Officer (302)                         |                                  |             |               | Filed                                      |
| <u>32.1</u>      | Certification of Principal Executive and Principal Financial Officer (906) |                                  |             |               | Furnished**                                |
| 101.INS          | XBRL Instance Document   |                                  |             |               | Filed                                      |
| 101.SCH          | XBRL Taxonomy Extension Schema Document                                    |                                  |             |               | Filed                                      |
| 101.CAL          | XBRL Taxonomy Extension Calculation Linkbase Document                      |                                  |             |               | Filed                                      |
| 101.DEF          | XBRL Taxonomy Extension Definition Linkbase Document                       |                                  |             |               | Filed                                      |
| 101.LAB          | XBRL Taxonomy Extension Label Linkbase Document                            |                                  |             |               | Filed                                      |
| 101.PRE          | XBRL Taxonomy Extension Presentation Linkbase Document                     |                                  |             |               | Filed                                      |

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This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

Copies of this report (including the financial statements) and any of the exhibits referred to above will be furnished at no cost to our shareholders who make a written request to Aspen Group, Inc., at the address on the cover page of this report, Attention: Corporate Secretary.

