ASPEN GROUP, INC.
Form 10-Q
December 01, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended **October 31, 2014**

OR

o **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**<br>*(State or other jurisdiction of incorporation or organization)* | **27-1933597**<br>*(I.R.S. Employer Identification No.)* |

**720 South Colorado Boulevard, Suite 1150N**

| | |
|---|---|
| **Denver, CO**<br>*(Address of principal executive offices)* | **80246**<br>*(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 þ No o

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 þ No o

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

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

| Class | Outstanding as of December 1, 2014 |
|---|---|
| Common Stock, $0.001 par value per share | 112,501,897 shares |

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## PART I FINANCIAL INFORMATION


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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### ASPEN GROUP, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

| | October 31, 2014 (Unaudited) | April 30, 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,101,157 | $ 247,380 |
| Restricted cash | 938,225 | 868,298 |
| Accounts receivable, net of allowance of $234,049 and $221,537, respectively | 680,386 | 649,890 |
| Prepaid expenses | 94,136 | 45,884 |
| Net assets from discontinued operations (Note 1) | | 5,250 |
| Total current assets | 3,813,904 | 1,816,702 |
| Property and equipment: | | |
| Call center equipment | 132,109 | 122,653 |
| Computer and office equipment | 69,780 | 66,118 |
| Furniture and fixtures | 36,446 | 36,446 |
| Library (online) | 100,000 | 100,000 |
| Software | 2,061,563 | 1,894,215 |
| | 2,399,898 | 2,219,432 |
| Less accumulated depreciation and amortization | (1,153,943) | (938,703) |
| Total property and equipment, net | 1,245,955 | 1,280,729 |
| Courseware, net | 134,861 | 108,882 |
| Accounts receivable, secured - related party, net of allowance of $625,962, and $625,962, respectively | 146,831 | 146,831 |
| Debt issuance costs, net | | 205,515 |
| Other assets | 25,180 | 25,181 |
| Total assets | $ 5,366,731 | $ 3,583,840 |

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

| | October 31, 2014 (Unaudited) | April 30, 2014 |
|---|---|---|
| Liabilities and Stockholders' Equity (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable | $ 275,330 | $ 454,783 |
| Accrued expenses | 166,271 | 144,466 |
| Deferred revenue | 610,653 | 653,518 |
| Refunds Due Students | 433,474 | 288,121 |
| Deferred rent, current portion | 13,641 | 13,699 |
| Convertible notes payable | 150,000 | 175,000 |
| Debenture payable, net of discounts of $0 and $452,771 | | 1,787,229 |
| Net liabilities from discontinued operations (Note 1) | | |
| Total current liabilities | 1,649,369 | 3,516,816 |
| Line of credit | 244,028 | 244,175 |
| Loan payable officer - related party | 1,000,000 | 1,000,000 |
| Convertible notes payable - related party | 600,000 | 600,000 |
| Deferred rent | 1,451 | 7,751 |
| Total liabilities | 3,494,848 | 5,368,742 |
| Commitments and contingencies - See Note 8 | | |
| Stockholders' equity (deficiency): | | |
| Common stock, $0.001 par value; 120,000,000 shares authorized, 112,561,314 issued and 112,361,314 outstanding at October 31, 2014, and 73,414,478 issued and 73,214,478 outstanding at April 30, 2014 | 112,561 | 73,414 |
| Additional paid-in capital | 21,915,210 | 16,302,118 |
| Treasury stock (200,000 shares) | (70,000) | (70,000) |
| Accumulated deficit | (20,085,888) | (18,090,434) |
| Total stockholders' equity (deficiency) | 1,871,883 | (1,784,902) |
| Total liabilities and stockholders' equity (deficiency) | $ 5,366,731 | $ 3,583,840 |

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

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Revenues | $ 1,214,247 | $ 914,132 | $ 2,384,107 | $ 1,815,331 |
| Operating expenses | | | | |
| Cost of revenues (exclusive of depreciation and amortization shown separately below) | 413,326 | 434,374 | 862,425 | 890,132 |
| General and administrative | 1,259,105 | 1,637,016 | 2,459,153 | 3,113,783 |
| Depreciation and amortization | 130,133 | 119,651 | 255,740 | 229,086 |
| Total operating expenses | 1,802,564 | 2,191,041 | 3,577,318 | 4,233,001 |
| Operating loss from continuing operations | (588,317) | (1,276,909) | (1,193,211) | (2,417,670) |
| Other income (expense): | | | | |
| Other income | 3,209 | 326 | 4,881 | 613 |
| Interest expense | (93,750) | (122,695) | (354,621) | (138,854) |
| Loss on Debt Extinguishment | (452,503) | | (452,503) | |
| Total other expense, net | (543,044) | (122,369) | (802,243) | (138,241) |
| Loss from continuing operations before income taxes | (1,131,361) | (1,399,278) | (1,995,454) | (2,555,911) |
| Income tax expense (benefit) | | | | |
| Loss from continuing operations | (1,131,361) | (1,399,278) | (1,995,454) | (2,555,911) |

| | | | | |
|---|---|---|---|---|
| Discontinued operations (Note 1) | | | | |
| Income from discontinued operations, net of income taxes | | 32,650 | | 54,913 |
| Net loss | $ (1,131,361) | $ (1,366,628) | $ (1,995,454) | $ (2,500,998) |
| Loss per share from continuing operations - basic and diluted | $ (0.01) | $ (0.02) | $ (0.02) | $ (0.04) |
| Income per share from discontinued operations - basic and diluted | $ | $ 0.00 | $ | $ 0.00 |
| Net loss per share allocable to common stockholders - basic and diluted | $ (0.01) | $ (0.02) | $ (0.02) | $ (0.04) |
| Weighted average number of common shares outstanding: basic and diluted | 103,243,439 | 58,990,365 | 88,447,898 | 58,760,342 |

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

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIENCY)**

**FOR THE SIX MONTHS ENDED OCTOBER 31, 2014**

**(Unaudited)**

| | Common Stock | | Additional Paid-In | Treasury | Accumulated | Stockholders' Equity |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Capital** | **Stock** | **Deficit** | **(Deficiency)** |
| Balance at April 30, 2014 | 73,414,478 | $ 73,414 | $ 16,302,118 | $ (70,000) | $ (18,090,434) | $ (1,784,902) |
| Issuance of common shares for cash | 35,614,154 | 35,615 | 5,512,211 | | | 5,547,826 |
| Offering cost for professional services from private placement | | | (107,225) | | | (107,225) |
| Stock-based compensation | | | 211,638 | | | 211,638 |
| Shares issued for price protection | 3,532,682 | 3,532 | (3,532) | | | |
| Net loss, six months ended October 31, 2014 | | | | | (1,995,454) | (1,995,454) |
| Balance at October 31, 2014 | **112,561,314** | **$ 112,561** | **$ 21,915,210** | **$ (70,000)** | **$ (20,085,888)** | **$ 1,871,883** |

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

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | For the Six Months Ended October 31, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,995,454) | $ (2,500,998) |
| Less income from discontinued operations | | 54,913 |
| Loss from continuing operations | (1,995,454) | (2,555,911) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Bad debt expense | 105,511 | 28,837 |
| Amortization of debt issuance costs | 75,458 | 20,193 |
| Amortization of debt discount | 166,241 | 50,008 |
| Loss on extinguishment of debt non cash portion | 416,587 | |
| Depreciation and amortization | 255,740 | 229,086 |
| Stock-based compensation | 211,638 | 297,330 |
| Amortization of prepaid shares for services | | 120,737 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (136,007) | (281,049) |
| Prepaid expenses | (48,251) | 25,103 |
| Accounts payable | (179,453) | 65,996 |
| Accrued expenses | 21,805 | (13,033) |
| Deferred rent | (6,358) | (4,716) |
| Refunds due students | 145,353 | 3,495 |
| Deferred revenue | (42,865) | (137,607) |
| Net cash used in operating activities | (1,010,055) | (2,151,531) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (180,466) | (209,187) |
| Purchases of courseware | (66,479) | (1,500) |
| Increase in restricted cash | (69,927) | (271) |
| Net cash used in investing activities | (316,872) | (210,958) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from (repayments on) line of credit, net | (147) | (5,518) |
| Proceeds from issuance of common shares and warrants, net | 5,547,826 | |
| Proceeds from loan from related party | | 1,000,000 |
| Proceeds from (retirement of) convertible notes and warrants, net of costs | (2,240,000) | 1,639,298 |

| | | |
|---|---|---|
| Retirement of convertible notes payable | (25,000) | |
| Offering costs associated with private placement | (107,225) | (48,240) |
| Net cash provided by financing activities | 3,175,454 | 2,585,540 |
| | | |
| Cash flows from discontinued operations: | | |
| Cash flows from discontinued activities | 5,250 | 148,657 |
| Net cash provided by discontinued operations | 5,250 | 148,657 |
| | | |
| Net decrease in cash and cash equivalents | 1,853,777 | 371,708 |
| | | |
| Cash and cash equivalents at beginning of period | 247,380 | 724,982 |
| | | |
| Cash and cash equivalents at end of period | $ 2,101,157 | $ 1,096,690 |

(Continued)

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

**(Unaudited)**

| | For the Six Months Ended October 31, | |
|---|---|---|
| | **2014** | **2013** |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 183,545 | $ 39,570 |
| Cash paid for income taxes | $ | $ |
| | | |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Common stock issued for prepaid services | $ | $ 216,000 |
| Warrant value recorded as debt issue cost | $ | $ 94,316 |
| Warrant value recorded as debt discount | $ | $ 389,565 |

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

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**October 31, 2014**

**(Unaudited)**

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

**Overview**

Aspen Group, Inc. (together with its subsidiary, the Company or Aspen ) was founded in Colorado in 1987 as the International School of Information Management. On September 30, 2004, it was acquired by Higher Education Management Group, Inc. ( HEMG ) and changed its name to Aspen University, Inc. 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, Inc.

On April 5, 2013, the Company gave 120-day notice to CLS 123, LLC of its intent to terminate the agreement between the Company and CLS 123, LLC dated November 9, 2011. Moreover, at the end of the 120-day period, the Company is no longer offering the Certificate in Information Technology with a specialization in Smart Home Integration program. Accordingly, the activities related to CLS (or the Smart Home Integration Certificate program) are treated as discontinued operations. As this component of the business was not sold, there was no gain or loss on the disposition of this component (see below Discontinued Operations ).

On April 25, 2013, our Board of Directors approved a change in our fiscal year-end from December 31 to April 30, with the change to the calendar year reporting cycle beginning May 1, 2013. Consequently, we filed a Transition Report on Form 10-KT for the four-month transition period ended April 30, 2013.

Aspen University 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. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 85% of our full-time degree-seeking students (as of October 31, 2014) were enrolled in graduate degree programs (Master or Doctorate degree program). 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. This newly accredited undergraduate degree program is expected to grow rapidly given Aspen s debtless education approach, which allows nurses to pay the $9,750 tuition for the 10-course RN to BSN completion program at $250 per month for 39 months.

Since 1993, we have been nationally accredited by the Distance Education and Training Council ( DETC ), a national accrediting agency recognized by the U.S. Department of Education (the DOE ).

**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 months ended October 31, 2014 and 2013, the six months ended October 31, 2014 and 2013, our cash flows for the six months ended October 31, 2014 and 2013, and our financial position as of October 31, 2014 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, 2014 as filed with the SEC on July 29, 2014. The April 30, 2014 balance sheet is derived from those statements.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**B. Discontinued Operations**

As of March 31, 2013, the Company decided to discontinue business activities related to its Certificate in Information Technology with a specialization in Smart Home Integration program so that it may focus on growing its full-time, degree-seeking student programs, which have higher gross margins. On April 5, 2013, the Company gave 120-day notice to CLS 123, LLC of its intent to terminate the agreement between the Company and CLS 123, LLC dated November 9, 2011. Thus, as of August 3, 2013, the Company is no longer offering the Certificate in Information Technology with a specialization in Smart Home Integration program. The termination of the Smart Home Integration Certificate program qualifies as a discontinued operation and accordingly the Company has excluded results for this component from its continuing operations in the consolidated statements of operations for all periods presented. The following table shows the results of the Smart Home Integration Certificate program component included in the income (loss) from discontinued operations:

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ | $ 326,500 | $ | $ 549,125 |
| Costs and expenses: | | | | |
| Instructional costs and services | | 293,850 | | 494,212 |
| General and administrative | | | | |
| Total costs and expenses | | 293,850 | | 494,212 |
| Income (loss) from discontinued operations, net of income taxes | $ | $ 32,650 | $ | $ 54,913 |

The major classes of assets and liabilities of discontinued operations on the balance sheet are as follows:

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ | $ |
| Accounts receivable, net of allowance of $481,531, and $481,531, respectively | | 5,250 |
| Other current assets | | |
| Net assets from discontinued operations | $ | $ 5,250 |
| | | |
| Liabilities | | |
| Accounts payable | $ | $ |
| Accrued expenses | | |
| Deferred revenue | | |
| Net liabilities from discontinued operations | $ | $ |

**C. Liquidity**

At October 31, 2014, the Company had a cash balance of approximately $3.0 million which includes $938,225 of restricted cash. In September 2014, the Company completed the second closing of its equity financing of $3,766,325. With the additional cash raised in the financing, 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.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**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, the valuation of net assets and liabilities from discontinued operations and the valuation allowance on deferred tax assets.

**Restricted Cash**

Restricted cash represents amounts pledged as security for letters of credit for transactions involving Title IV programs, as well as funds held in escrow. The company considers $938,225 and $868,298 as restricted cash (shown as a current asset as of October 31, 2014 and April 30, 2014 respectively).

**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;

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 captured in a current liability account called Refunds Due Students. Typically, the funds are paid to the students within two weeks.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**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 13,476,412 and 9,433,902 common shares, warrants to purchase 44,007,963 and 18,249,528 common shares, and $750,000 and $3,040,000 of convertible debt (convertible into 1,307,142 and 8,093,985 common shares, respectively) were outstanding during the six months ended October 31, 2014 and 2013, 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.

**Reclassifications**

The Company discovered that its system did not properly update all student withdrawals on the reports that were used to defer revenue. The effect of this was that revenue for the quarter ended October 31, 2013 was understated by $28,794 and deferred revenue overstated by the same amount. This system problem was corrected during the second quarter of the fiscal year ended April 30, 2014 and was not an issue at July 31, 2014. 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, 2013. As a result, the following reclassification was made for the quarter ended October 31, 2013:

| Revenue as Originally Reported | Adjustment | Revenue as Adjusted |
|---|---|---|
| $885,338 | $28,794 | $914,132 |

Additionally, the statement of cash flows for the six months ended October 31, 2013 was adjusted to conform to the income statement presentation by increasing the net loss and deferred revenue.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

The Company reclassified $59,930 and $112,841, from Cost of Revenues to General and Administrative, both within Operating Expenses for the three months ending October 31, 2013 and the six months ending October 31, 2013, to conform to the current period presentation.

| | | For the Three Months ended October 31, 2013 Reclassifications | | |
|---|---|---|---|---|
| | As Previously Reported | Dues, Fees, & Licenses | Internet Related Expense | As Reclassified |
| Operating Expenses: | | | | |
| Instructional | $ 233,794 | (18,914) | (41,016) | $ 173,864 |
| Marketing | 260,510 | | | 260,510 |
| Cost of Revenues | $ 494,304 | (18,914) | (41,016) | $ 434,374 |
| General and administrative | 1,577,086 | 18,914 | 41,016 | 1,637,016 |
| Depreciation and amortization | 119,651 | | | 119,651 |
| Total Operating Expenses | $ 2,191,041 | | | $ 2,191,041 |

| | | For the Six Months ended October 31, 2013 Reclassifications | | |
|---|---|---|---|---|
| | As Previously Reported | Dues, Fees, & Licenses | Internet Related Expense | As Reclassified |
| Operating Expenses: | | | | |
| Instructional | $ 449,375 | (40,249) | (72,592) | $ 336,534 |
| Marketing | 553,598 | | | 553,598 |
| Cost of Revenues | $ 1,002,973 | (40,249) | (72,592) | $ 890,132 |
| General and administrative | 3,000,942 | 40,249 | 72,592 | 3,113,783 |
| Depreciation and amortization | 229,086 | | | 229,086 |

| | | |
|---|---|---|
| Total Operating Expenses | $ 4,233,001 | $ 4,233,001 |

**Recent Accounting Pronouncements**

Financial Accounting Standards Board, Accounting Standard Updates which are not effective until after September 30, 2014 are not expected to have a significant effect on the Company s unaudited consolidated financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (Topic 205-40) , which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the implementation of this standard to have a material effect on it disclosures.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**Note 3. Secured Note and Accounts Receivable Related Parties**

On March 30, 2008 and December 1, 2008, the Company sold courseware pursuant to marketing agreements to HEMG, a related party and principal stockholder of the Company whose president is Mr. Patrick Spada, the former Chairman of the Company, in the amount of $455,000 and $600,000, respectively; UCC filings were filed accordingly. Under the marketing agreements, the receivables are 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. On March 8, 2012, due to the impending reduction in the value of the collateral as the result of the Series C conversion ratio and the Company s inability to engage Mr. Spada in good faith negotiations to increase HEMG s pledge, Michael Mathews, the Company s CEO, pledged 117,943 common shares of the Company, owned personally by him, valued at $1.00 per share based on recent sales of capital stock as additional collateral to the accounts receivable, secured related party. On March 13, 2012, the Company deemed the receivables stemming from the sale of courseware curricula to be in default. On April 4, 2012, the Company entered into an agreement with: (i) an individual, (ii) HEMG, a related party and principal stockholder of the Company whose president is Mr. Patrick Spada, the former Chairman of the Company and (iii) Mr. Patrick Spada. Under the agreement, (a) the individual purchased and HEMG sold to the individual 400,000 common shares of the Company at $0.50 per share; (b) the Company guaranteed it would purchase at least 600,000 common shares of the Company at $0.50 per share within 90 days of the agreement and the Company would use its best efforts to purchase from HEMG and resell to investors an additional 1,400,000 common shares of the Company at $0.50 per share within 180 days of the agreement; (c) provided HEMG and Mr. Patrick Spada fulfilled their obligations under (a) and (b) above, the Company shall consent to additional private transfers by HEMG and/or Mr. Patrick Spada of up to 500,000 common shares of the Company on or before March 13, 2013; (d) HEMG agreed to not sell, pledge or otherwise transfer 142,500 common shares of the Company pending resolution of a dispute regarding the Company s claim that HEMG sold 131,500 common shares of the Company without having enough authorized shares and a stockholder did not receive 11,000 common shares of the Company owed to him as a result of a stock dividend; and (e) the Company waived any default of the accounts receivable, secured - related party and extend the due date to September 30, 2014. However, the Company has elected to show as long term due to the expectation that no collection will occur within 1 year. As of September 30, 2012, third party investors purchased 336,000 shares for $168,000 and the Company purchased 264,000 shares for $132,000 per section (b) above. Based on proceeds received on September 28, 2012 under a private placement at $0.35 per unit (consisting of one share of common stock and one-half of a warrant exercisable at $0.50 per share), the value of the aforementioned collateral decreased. Accordingly, as of December 31, 2012, the Company recognized an allowance of $502,315 for this account receivable. Based on the reduction in value of the collateral to $0.19, the Company recognized an expense of $123,647 during the year ended April 30, 2014 as an additional allowance. As of both April 30, and October 31, 2014, the balance of the account receivable, net of allowance, was $146,831.

HEMG has failed to pay to the Company any portion of the $772,793 amount due as of September 30, 2014, despite due demand for same. Consequently, on November 18, 2014 the Company 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.

**Note 4. Property and Equipment**

Property and equipment consisted of the following at October 31, 2014 and April 30, 2014:

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| Call center equipment | 132,109 | $ 122,653 |
| Computer and office equipment | 69,780 | 66,118 |
| Furniture and fixtures | 36,446 | 36,446 |
| Library (online) | 100,000 | 100,000 |
| Software | 2,061,563 | 1,894,215 |
| | 2,399,898 | 2,219,432 |
| Accumulated depreciation and amortization | (1,153,943) | (938,703) |
| Property and equipment, net | $ 1,245,955 | $ 1,280,729 |

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

Software consisted of the following at October 31, 2014 and April 30, 2014:

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| Software | $ 2,061,563 | $ 1,894,215 |
| Accumulated amortization | (917,024) | (720,823) |
| Software, net | $ 1,144,539 | $ 1,173,392 |

Amortization expense for all Property and Equipment as well as the portion for just software is presented for the three and six months ended October 31, 2014 and 2013:

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Depreciation and Amortization Expense | $ 109,845 | $ 92,190 | $ 215,240 | $ 170,884 |
| Software Amortization Expense | 100,224 | 82,729 | 196,201 | 154,648 |

The following is a schedule of estimated future amortization expense of software at October 31, 2014:

| Year Ending April 30, | |
|---|---|
| 2015 | $ 206,156 |
| 2016 | 411,467 |
| 2017 | 288,735 |
| 2018 | 155,700 |
| 2019 | 82,481 |
| Total | $ 1,144,539 |

**Note 5. Courseware**

Courseware costs capitalized were $66,479 for the six months ended October 31, 2014.

Courseware consisted of the following at October 31, 2014 and April 30, 2014:

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| Courseware | $ 2,170,517 | $ 2,104,038 |
| Accumulated amortization | (2,035,656) | (1,995,156) |
| Courseware, net | $ 134,861 | $ 108,882 |

Amortization expense of courseware for the three months and six months ended October 31, 2014 and 2013:

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Amortization Expense | $ 20,288 | $ 27,731 | $ 40,500 | $ 58,202 |

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

The following is a schedule of estimated future amortization expense of courseware at October 31, 2014:

| Year Ending April 30, | | |
|---|---|---|
| 2015 | $ | 35,029 |
| 2016 | | 42,326 |
| 2017 | | 23,692 |
| 2018 | | 15,603 |
| 2019 | | 18,211 |
| Total | $ | 134,861 |

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

On June 28, 2013, the Company received $1,000,000 as a loan from the Chief Executive Officer. This loan was for a term of 6 months with an annual interest rate of 10%, payable monthly. On September 25, 2013, as a term of the convertible debenture issued as discussed in Note 7, the maturity of the debt to the CEO has been extended to April 2, 2015. On July 16, 2014, the maturity of the debt to the CEO was extended to January 1, 2016.

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

On February 25, 2012, February 27, 2012 and February 29, 2012, loans payable of $100,000, $50,000 and $50,000, respectively, were converted into two-year convertible promissory notes, bearing interest of 0.19% per annum. Beginning March 31, 2012, the notes were convertible into common shares of the Company at the rate of $1.00 per share. 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 common shares on the note issue dates. These loans (now convertible promissory notes) were originally due in February 2014, and have been included in current liabilities as of October 31, 2014 and April 30, 2014. Two of the above mentioned notes were modified in February 2014, see below, and the third became 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 February 18, 2014 the Company renegotiated the terms of one of the $50,000 convertible notes, specifically the one dated February 27, 2012. The maturity date was extended to December 1, 2014 and the conversion price has been reduced to $0.19 per share. The interest rate has been amended to 3.25% from February 27, 2012. This was treated as a note extinguishment in accordance with ASC 470-50. No gain or loss on extinguishment was recorded and no beneficial conversion feature existed on the modification date.

On February 28, 2014 the Company renegotiated the terms of the $100,000 convertible note dated February 25, 2012. A payment was made in the amount of $25,000 on February 28, 2014, reducing the principal to $75,000. Another principal payment of $25,000 was made on August 1, 2014 and $50,000 will be made on December 1, 2014. The interest rate was raised to 3.25% from February 25, 2012. The conversion price was reduced to $0.19 per share. This was treated as a note extinguishment in accordance with ASC 470-50. No gain or loss on extinguishment was recorded and no beneficial conversion feature existed on the modification date.

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. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012, the maturity date was extended to August 31, 2014. On September 25, 2013, as a term of the convertible Debenture issued as discussed further in this Note, the maturity of the debt to the CEO, has been extended to April 5, 2015. On July 16, 2014, the maturity of the debt to the CEO has been extended to January 1, 2016. There was no accounting effect for these modifications.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(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. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012 the maturity date was extended to August 31, 2013. On September 25, 2013, as a term of the convertible Debenture issued as discussed further in this Note, the maturity of the debt to the CEO has been extended to April 5, 2015. On July 16, 2014, the maturity of the debt to the CEO has been extended to January 1, 2016. There was no accounting effect for these modifications.

On September 26, 2013, the Company and an institutional investor (the "Institutional Investor") signed a Securities Purchase Agreement (the Agreement ) with respect to a loan of $2,240,000 evidenced by an 18 month original issue discount secured convertible debenture (the "Debenture") with gross proceeds of $2,000,000 prior to fees. Payments on the Debenture are due 25% on November 1, 2014, 25% on January 1, 2015 and the remaining 50% on April 1, 2015 as a final payment. The Company has the option to pay the interest or principal in stock subject to certain Equity Conditions such as giving notice of its intent 20 trading days beforehand. The Agreement provides that the Debenture may be converted at the holder s option at $0.3325 per share at any time after the closing and subject to adjustments. The Company evaluated that for the embedded conversion option, there was no beneficial conversion value to record as the conversion price was greater than the fair market value of the common shares on the note issue date. Warrants with a relative fair value of $389,565 were issued for 100% of the number of shares of common stock that could be purchased at the conversion price at closing or 6,736,842. The warrants have a five-year term and are exercisable for cash if an outstanding registration statement is in effect within 90 days of closing. The $389,565 is recorded as a debt discount to be amortized over the debt term. The Debenture bears 8% per annum interest and are amortizable in installments over their term. The financing closed on September 26, 2013 and the Company received proceeds of approximately $1.7 million, net of certain offering costs and before payment of various debt issue costs. Offering costs to the lender included an original issue discount of $240,000 and cash loan fees of $117,846. At July 31, 2014, the balance of the Debenture payable was $1,911,572, which was the loan of $2,240,000 less $328,428 of unamortized original issue discount. On September 4, 2014, Aspen used part of the equity offering proceeds to fully prepay principal and interest owed under its outstanding debenture held by Institutional Investor. Aspen paid them $2,310,000, after entering into an agreement whereby the Institutional Investor agreed to the prepayment and agreed to limit the future sale of shares of common stock upon exercise of its warrants or otherwise. Of the $2,310,000 payment, $70,000 was for interest. Upon repayment of the debenture, the $70,000 interest payment, along with the balance of the debt discount and the debt issuance costs totaling $452,503, was expensed in the Loss from debt extinguishment line on the Statement of Operations.

In September 2013 Company had entered into an engagement agreement with Laidlaw & Co. ("Laidlaw") to act as placement agent for the offering and receive customary compensation. Laidlaw introduced the Institutional Investor. As a placement agent fee, the Company paid Laidlaw $207,500 and issued 1,347,368 five year warrants with an exercise price of $0.3325, valued at $94,316. The warrants and fees paid plus legal fees of $35,356 were recorded as a debt issue cost asset and were being amortized over the debt term. The discount was expensed to interest expense upon repayment of the debenture.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**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, 2014). 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 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, 2014 was $244,028. 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, 2014 was $5,972.

**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, 2014, no performance bonuses have been earned. (See Note 11)

**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, 2014, 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. Discovery is currently being pursued by the parties. 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 claims as being duplicative of the fraud claim. HEMG and Spada have filed a notice of appeal of the New York court s decision.

On November 21, 2013, 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 is a nominal defendant. The complaint is substantially similar to the complaint filed in state court of New York, except that if successful, the Company will receive the benefits. On February 28, 2014, the Company filed a motion to dismiss the complaint. 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.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

While the Company has been advised by its counsel that 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.

Finally. HEMG has failed to pay to the Company any portion of the $772,793 amount overdue as of September 30, 2014, despite due demand for same. Consequently, on November 18, 2014 the Company 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.

**Regulatory Matters**

The Company s subsidiary, Aspen University, Inc. ( 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, and since July 2011, potentially in the States where an 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 2013 represented approximately 26% of the Company's cash 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.

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 by the DOE on April 14, 2014. 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.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**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. On July 3, 2012, Aspen University received notice from the Delaware DOE that it is granted provisional approval status effective until June 30, 2015. 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 ).

**Note 9. Stockholders Equity (Deficiency)**

**Common Stock**

On June 4, 2014, a member of the Board of Directors invested $50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at $0.19 per share. On June 24, 2014, a member of the Board of Directors and the Company s CEO each invested $50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at $0.19 per share.

On July 29, 2014, as part of a private placement offering, seven accredited investors, including the Company s CFO, 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 incurred $75,000 of expenses relating 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 a private placement offering to 15 accredited investors. In connection with the offering, Aspen agreed to register the shares of common stock and the shares of common stock underlying the warrants. The net proceeds to Aspen were approximately $3.7 million. As a result of the private placement, Aspen issued 59,423 shares of common stock to a prior investor who had price protection on his investment.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

**Warrants**

A summary of the Company s warrant activity during the six months ended October 31, 2014 is presented below:

| Warrants | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance Outstanding, April 30, 2014 | 23,144,005 | $ 0.31 | 4.6 | $ |
| Granted | 20,863,958 | 0.19 | 5.0 | $ 1,499,514 |
| Exercised | | | | |
| Forfeited | | | | |
| Expired | | | | |
| Balance Outstanding, October 31, 2014 | 44,007,963 | $ 0.25 | 4.3 | $ 1,499,514 |
| Exercisable, October 31, 2014 | 44,007,963 | $ 0.25 | 4.3 | $ 1,499,514 |

On June 4, 2014, a member of the Board of Directors invested $50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at $0.19 per share. On June 24, 2014, a member of the Board of Directors and the Company s CEO each invested $50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at $0.19 per share.

On July 29, 2014, as part of a private placement offering seven accredited investors, including the Company s CFO, paid a total of $1,631,500 from the sale of 10,525,809 shares of common stock and 5,262,907 five-year warrants exercisable at $0.19 per share. 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, as part of a private placement offering fifteen accredited investors paid a total of $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. As a result of this private placement, on July 31, 2014, Aspen issued 59,423 shares of common stock to a prior investor who had price protection on his investment.

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, 2014 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 and 16,300,000 effective September 2014, 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, 2014, there were 2,823,588 shares remaining under the Plan for future issuance.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

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.

A summary of the Company s stock option activity for employees and directors during the six months ended October 31, 2014 is presented below:

| Options | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance Outstanding, April 30, 2014 | 10,476,412 | $ 0.23 | 3.5 | $ |
| Granted | 2,800,000 | $ 0.16 | 4.9 | $ 257,000 |
| Exercised | | | | |
| Forfeited | (20,000) | $ 0.19 | 4.1 | $ 1,200 |
| Expired | | | | |
| Balance Outstanding, October 31, 2014 | 13,256,412 | $ 0.21 | 3.6 | $ 738,406 |
| Exercisable, October 31, 2014 | 5,710,470 | $ 0.26 | 3.1 | $ 191,650 |

On September 4, 2014, 2,600,000 options were granted to the CEO and the Board of Directors. The fair value of these options on the date of grant were $130,000 and the exercise price is $0.155 per option. On September 16, 2014, 200,000 options were granted to two members of the Board of Directors. The fair value of these options on the date of grant were $12,000 and the exercise price is $0.20 per option. The Company recorded compensation expense of $114,435 and $211,638 for the three and six months ended October 31, 2014 in connection with employee stock options. $297,330 was recorded during the same period in 2013.

As of October 31, 2014, there was $644,450 of total unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 4 years.

**Stock Option Grants to Non-Employees**

There were no stock options granted to non-employees during the six months ended October 31, 2014. The Company recorded no compensation expense for the three months ended October 31, 2014 and $748 for the six months ended October 31, 2014 in connection with non-employee stock options. $748 was recorded for the three months ended October 31, and $1,496 for the six months ended October 31, 2013. There was no unrecognized compensation cost at October 31, 2014.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**October 31, 2014**

**(Unaudited)**

A summary of the Company's stock option activity for non-employees during the six months ended October 31, 2014 is presented below:

| Options | Number of Shares | | Weighted Average Exercise Price | Average Remaining Contractual Term | | Aggregate Intrinsic Value |
|---|---|---|---|---|---|---|
| Balance Outstanding, April 30, 2014 | 270,000 | $ | 0.28 | 2.8 | $ | |
| Granted | | | | | | |
| Exercised | | | | | | |
| Forfeited | (50,000) | $ | 0.19 | 3.7 | $ | |
| Expired | | | | | | |
| Balance Outstanding, October 31, 2014 | 220,000 | $ | 0.30 | 2.6 | $ | 4,500 |
| Exercisable, October 31, 2014 | 73,333 | $ | 0.30 | 2.6 | $ | 1,500 |

**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 Events**

HEMG has failed to pay to the Company any portion of the $772,793 amount as of September 30, 2014, despite due demand for same (See Note 3). Consequently, on November 18, 2014 the Company 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.

On November 24, 2014, the Company entered into a three-year Employment Agreements with its Executive Vice President and Interim Chief Financial Officer and its Chief Operating Officer. Each of the officers will: (i) receive a base salary of $200,000 and (ii) be eligible for a cash and equity bonus (the Target Bonus ) if certain milestones are met. In addition, the Executive Vice President Finance and Interim Chief Financial Officer received a grant of 300,000 options at $0.234 per share which has a fair value of $21,000.

Also on November 24, 2014, the Company amended the Employment Agreements of its Chief Executive Officer and Chief Academic Officer, to provide them with the right to receive the Target Bonus.

**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 July 29, 2014, filed 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. 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. On March 20, 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 the opportunity to pay $250/month for 60 months ($15,000) and master/doctoral students the opportunity to pay $325/month for 36 months ($11,700), thereby giving students the ability to earn a degree debt free. In the eight months since the announcement, already 29% of courses are now paid through monthly payment methods.

One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities has been our historical emphasis on post-graduate degree programs (master or doctorate). As of October 31, 2014, 2,811 students were enrolled as full-time degree-seeking students with 2,391 of those students or 85% in a master or doctoral graduate degree program. On November 10, 2014, Aspen University announced that the Commission on Collegiate Nursing Education ( CCNE ) granted accreditation to its Bachelor of Science in Nursing program (RN to BSN) until December 31, 2019. This newly accredited undergraduate degree program is expected to grow rapidly given Aspen s debtless education approach allows nurses to pay the $9,750 tuition for the 10-course RN to BSN completion program at $250 per month for 39 months.

**Student Population**

Aspen s full-time degree-seeking student body increased by 29% during the quarter ended October 31, 2014, from 2,171 to 2,811 students. In addition, 1,122 students are engaged in part-time programs, such as continuing education courses and certificate level programs.

Our most popular school is our School of Nursing. Aspen s School of Nursing has grown from 5% of our full-time, degree-seeking student body at calendar year-end 2011, to 37% of our full-time, degree-seeking student body at October 31, 2014. Aspen s School of Nursing grew from 600 to 1,026 student s year-over-year, which represented 67% of Aspen s full-time degree-seeking student body growth.

**Results of Operations**

For the Three Months Ended October 31, 2014 Compared with the Three Months Ended October 31, 2013

**Revenue**

Revenue from continuing operations for the quarter ended October 31, 2014 ( 2014 Quarter ) increased to $1,214,247 from $914,132 for the three months ended October 31, 2013 ( 2013 Quarter ), an increase of 33%. 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 Nursing degree program increased to $483,050 during the 2014 Quarter from $381,742 during the 2013 Quarter, an increase of 27%.

**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 2014 Quarter rose to $248,699 from $173,865 for the 2013 Quarter, an increase of $74,834 or 43%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking 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 significantly lag that of overall revenue growth.

**Marketing and Promotional**

Marketing and promotional costs for the 2014 Quarter were $164,627 compared to $260,510 for the 2013 Quarter, a decrease of $95,882 or 37%. This decrease reflects significant marketing efficiencies gained, specifically the fact that new student enrollment costs have dropped 33% to $544 from $808 year-over-year. Although the Company decreased marketing spending by 37% year-over-year in the comparable quarter, new student enrollments increased by 14% to 332 from 292 in the comparable period, primarily a result of the Company s conversion rate on leads increasing to 10.6% from 7.7% in the comparable period.

With the cash from our recently completed offering, we expect that beginning in November 2014, internet advertising expenses will increase by at least $50,000 per month and sales expenses will increase by at least $60,000 per month.

GAAP Gross Profit rose to 56% of revenues or $680,409 for the 2014 Quarter from 40% of revenues or $369,298 for the 2013 Quarter. Gross Profit (exclusive of amortization), a non-GAAP financial measure, rose to 66% of revenues or $800,921 for the 2014 Quarter from 52% of revenues or $479,758 for the 2013 Quarter, a year-over-year increase of 67%. This 67% increase year-over-year primarily reflects the significant marketing efficiency improvements described above.

**Costs and Expenses**

**General and Administrative**

General and administrative costs for the 2014 Quarter were $1,259,105 compared to $1,637,016 during the 2013 Quarter, a decrease of $377,911 or 23%. The decrease is attributable to the elimination of expenses year-over-year including $25,000 of expenses related to the biennial graduation ceremony, $40,000 due to the audit related to the change in our fiscal year to April 30, and consulting expense reduction of $125,000 compared to the 2013 Quarter. Additionally, stock compensation was $86,000 higher in the 2013 Quarter relating to the issuance of executive stock options.

**Depreciation and Amortization**

Depreciation and amortization costs for the 2014 Quarter rose to $130,133 from $119,651 for the 2013 Quarter, an increase of $10,482 or 9%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen launched a new academic learning system, Desire2Learn.

**Other Income (Expense)**

Other income for the 2014 Quarter increased to $3,209 from $326 in the 2013 Quarter, an increase of $2,883 or 884%. The increase is primarily due to the sale of excess textbooks. Interest expense decreased from $122,695 to $93,750, a decrease of $28,945 or 24%. 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 2014 Quarter and 2013 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 2014 Quarter was ($1,131,361) as compared to ($1,366,628) for the 2013 Quarter, a decrease in the loss of $235,267 or approximately 17%. Contributing to this lower loss was the increase in revenues in the 2014 Quarter, lower marketing costs, lower payroll and lower consulting expenses. Included in these numbers are the Discontinued Operations results.

For the Six Months Ended October 31, 2014 Compared with the Six Months Ended October 31, 2013

**Revenue**

Revenue from continuing operations for the six months ended October 31, 2014 ( 2014 Period ) increased to $2,384,107 from $1,815,331 for the six months ended October 31, 2013 ( 2013 Period ), an increase of 31%. Of particular note, revenues from Aspen s Nursing degree program increased to $878,125 during the 2014 Period from $613,722 during the 2013 Period, an increase of 43%.

**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 2014 Period rose to $518,532 from $336,534 for the 2013 Period, an increase of $181,998 or 54%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking 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 significantly lag that of overall revenues growth.

**Marketing and Promotional**

Marketing and promotional costs for the 2014 Period were $343,893 compared to $553,598 for the 2013 Period, a decrease of $209,705 or 38%. This decrease reflects significant marketing efficiencies gained, specifically the fact that enrollment costs have dropped to $544 from $808 year-over-year. With the cash from our recently completed offering, we expect that beginning in November 2014, Internet advertising expenses will increase by at least $50,000 per month and sales expenses will increase by at least $60,000 per month.

Although the Company decreased marketing spending by 38% year-over-year for the six months ended October 31, 2014, new student enrollments increased in the comparable period by 10% to 611 from 557, primarily a result of the Company s conversion rate on leads increasing in the comparable period to 10.7% from 6.8%.

With the cash from our recently completed offering, we expect that beginning in November 2014, internet advertising expenses will increase by at least $50,000 per month and sales expenses will increase by at least $60,000 per month.

GAAP Gross Profit rose to 54% of revenues or $1,284,980 for the 2014 Period from 39% of revenues or $712,349 for the 2013 Period. Gross Profit (exclusive of amortization), a non-GAAP financial measure, rose to 64% of revenues or $1,521,682 for the 2014 Period from 51% of revenues or $925,199 for the 2013 Period, a year-over-year increase of $596,483 or 64%. This 64% increase year-over-year primarily reflects the significant marketing efficiency improvements described above.

**Costs and Expenses**

**General and Administrative**

General and administrative costs for the 2014 Period were $2,459,153 compared to $3,113,783 during the 2013 Period, a decrease of $654,630 or 21%. The decrease is attributable to the elimination of expenses year-over-year including $25,000 of expenses related to the biennial graduation ceremony, $40,000 due to the audit related to the change in our fiscal year to April 30, and consulting expense reduction of $125,000 compared to the comparable period of 2013. Additionally, stock compensation was $86,000 higher relating to the issuance of executive options.

**Depreciation and Amortization**

Depreciation and amortization costs for the 2014 Period rose to $255,740 from $229,086 for the 2013 Period, an increase of $26,654 or 12%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen launched a new academic learning system, Desire2Learn, in the 2014 Period.

**Other Income (Expense)**

Other income for the 2014 Period increased to $4,881 from $613 in the 2013 Period, an increase of $4,268 or 696%. A significant portion of this increase is due to the sale of excess textbooks. Interest expense increased from $138,854 to $354,621, an increase of $215,767 or 155%. The increase is due to the monthly interest expense of $13,333, the amortization of the original issue discount and the amortization of debt issuance costs, all associated with the issuance of debentures. In addition, there is the monthly interest expense of $8,333 on the loan from our CEO.

**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 both six month periods 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 2014 Period was ($1,995,454) as compared to ($2,500,998) for the 2013 Period, a decrease in the loss of $505,544 or approximately 20%. Contributing to this lower loss was the increase in revenues in the 2014 period, lower marketing costs, lower payroll and lower consulting expenses. Included in these numbers are the Discontinued Operations results.

**Discontinued Operations**

As of August 4, 2013, Aspen Group discontinued business activities related to its agreement with CLS. See Note 1 of the unaudited consolidated financial statements contained herein. The following table details the results of the discontinued operations for the three and six months ended October 31, 2014 and 2013:

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ | $ 326,500 | $ | $ 549,125 |
| Costs and expenses: | | | | |
| Instructional costs and services | | 293,850 | | 494,212 |
| General and administrative | | | | |
| Total costs and expenses | | 293,850 | | 494,212 |
| Income (loss) from discontinued operations, net of income taxes | $ | $ 32,650 | $ | $ 54,913 |

**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:

| | Three Months Ended | | |
|---|---|---|---|
| | **10/31/2014** | **7/31/2014** | **10/31/2013** |
| Net loss allocable to common shareholders | $ (1,131,361) | $ (864,261) | $ (1,395,422) |
| Interest Expense, net of interest income | 29,625 | 78,417 | 52,168 |
| Loss from debt extinguishment | 452,503 | | |
| Bad Debt Expense | | 105,511 | 15,000 |
| Depreciation & Amortization | 130,133 | 125,608 | 119,651 |
| Amortization of Prepaid Services | | | 95,677 |
| Amortization of Debt Issue Costs | 19,018 | 56,440 | 20,193 |
| Amortization of Debt Discount | 41,898 | 124,343 | 50,008 |
| Stock-based compensation | 114,435 | 97,203 | 147,974 |
| Non-recurring charges | 114,930 | 23,019 | 187,250 |
| Adjusted EBITDA (Loss) | $ (228,819) | $ (253,720) | $ (707,501) |

Note that the Adjusted EBITDA loss declined by 68% in the 2014 quarter as compared to the 2013 quarter.

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

| | For the Three Months Ended October 31, | | For the Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Revenues | $ 1,214,247 | $ 914,132 | $ 2,384,107 | $ 1,815,331 |
| Costs of revenues (exclusive of depreciation and amortization shown separately) | 413,326 | 434,374 | 862,425 | 890,132 |
| Gross profit (exclusive of depreciation and amortization) | 800,921 | 479,758 | 1,521,682 | 925,199 |
| Depreciation and amortization expenses excluded from cost of revenues | 120,512 | 110,460 | 236,702 | 212,850 |

| | | | | |
|---|---|---|---|---|
| GAAP gross profit | $ 680,409 | $ 369,298 | $ 1,284,980 | $ 712,349 |

GAAP gross profit increased to 56% of revenues or $680,409 for the 2014 Period compared to 40% or $369,298 for the 2013 Period. Gross Profit (exclusive of amortization) for the 2014 Quarter increased to 66% of revenues or $800,921 compared to 52% for the 2013 Quarter or $479,758.

**Liquidity and Capital Resources**

A summary of our cash flows is as follows:

| | For the Six Months Ended October 31, | |
|---|---|---|
| | **2014** | **2013** |
| Net cash used in operating activities | $ (1,010,055) | $ (2,151,531) |
| Net cash used in investing activities | (316,872) | (210,958) |
| Net cash provided by financing activities | 3,175,454 | 2,585,540 |
| Net cash provided by discontinued operations | 5,250 | 148,657 |
| Net increase (decrease) in cash and cash equivalents | $ 1,853,777 | $ 371,708 |

**Net Cash Used in Operating Activities**

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 ($1,995,454) offset by non-cash items of $1,236,046, comprised of $416,587 from the non-cash portion of the loss on extinguishment of debt, $166,241 of amortization of debt discount, $255,740 in depreciation and amortization, $75,458 of amortization of debt discount, $211,638 of stock compensation expense and $105,511 of bad debt expense, and a net change in operating assets and liabilities of $(245,777), of which the $(179,453) decrease in accounts payable was the most significant.

Net cash used in operating activities during the 2013 Period totaled ($2,151,531) and resulted primarily from a net loss from continuing operations of $(2,555,911) offset by non-cash items of $746,191 and a net change in operating assets and liabilities of $(341,811).

**Net Cash Used in Investing Activities**

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

Net cash used in investing activities during the 2013 Period totaled ($210,958), resulting primarily from capitalized technology expenditures and increase in restricted cash.

**Net Cash Provided By Financing Activities**

Net cash provided by financing activities during the 2014 Period totaled $3,175,454 which resulted primarily from proceeds from the private placements of $5,547,826, offset by debt repayments of $2,240,000.

Net cash provided by financing activities during the 2013 Period totaled $2,585,540 which resulted primarily from the receipt of a $1,000,000 loan from the CEO and proceeds of $1,639,298 from issuance of convertible debt.

**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. These Notes held by Mr. Mathews were recently extended to January 1, 2016. Additionally, $200,000 in notes convertible at $0.19 per share are due in December 2014.

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 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.

Related to this, an 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 CFO, 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).

**Liquidity and Capital Resource Considerations**

As of November 28, 2014, the Company had a cash balance of $3.0 million. In September 2014, the Company completed the second closing of its equity financing of $3,766,325. With the additional cash raised in the financing, 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.

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**

At October 31, 2014, we included as a long term asset an account receivable of $146,831 net of an allowance of $625,962 from HEMG, controlled by Aspen s former Chairman. Although it is secured by stock pledges, there is a risk that we may not collect all or any of this amount.

HEMG has failed to pay to the Company any portion of the $772,793 amount overdue as of September 30, 2014, despite due demand for same. Consequently, on November 18, 2014 the Company 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.

See Note 10 to our October 31, 2014 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, 2014 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 the expected growth in our undergraduate Nursing degree program, expected increase or decrease in expenses including an increase in Internet marketing expenses, capital expenditures, 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, i should, plan, could, target, potential, is likely, will, expect and similar expressions, as they relate to us, 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 including our ability to obtain permanent certification from our accreditor, competition, 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 29, 2014. 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. As of October 31, 2014, there were no 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 other than described below or previously reported.

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. Discovery is currently being pursued by the parties. 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 claims as being duplicative of the fraud claim. HEMG and Spada have filed a notice of appeal of the New York court s decision.

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 is 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. The Plaintiff s recently filed a Notice of Appeal.

While the Company has been advised by its counsel that 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 November 18, 2014, the Company filed a complaint against HEMG in the United States District Court for the District of New Jersey for failure to pay (despite demand) to the Company any portion of the $772,793 amount overdue. The Company is seeking to collect the full amount due.

**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.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**Aspen Group, Inc.**

December 1, 2014 By: /s/ Michael Mathews
Michael Mathews
Chief Executive Officer
(Principal Executive Officer)

December 1, 2014 By: /s/ Janet Gill
Janet Gill
Executive Vice President and Chief
Financial Officer (Interim)
(Principal Financial Officer)

**EXHIBIT INDEX**

| Exhibit # | Exhibit Description | Incorporated by Reference Form | Date | Number | Filed or Furnished Herewith |
|---|---|---|---|---|---|
| 10.1 | Form of Securities Purchase Agreement | 8-K | 7/30/14 | 10.1 | |
| 10.2 | Form of Registration Rights Agreement | 8-K | 7/30/14 | 10.2 | |
| 10.3 | Form of Warrant | 8-K | 7/30/14 | 10.3 | |
| 10.4 | Form of Convertible Note Mathews - $1.00 | 8-K | 7/25/14 | 10.2 | |
| 10.5 | Form of Convertible Note Mathews - $0.35 | 8-K | 7/25/14 | 10.1 | |
| 10.6 | Promissory Note dated July 21, 2014 - Mathews | 8-K | 7/25/14 | 10.2 | |
| 31.1 | Certification of Principal Executive Officer (302) | | | | Filed |
| 31.2 | Certification of Principal Financial Officer (302) | | | | Filed |
| 32.1 | 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 |

*

Represents compensatory plan of management.

**

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.