ASPEN GROUP, INC.
Form 10-Q
September 14, 2016

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 **July 31, 2016**

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 *(State or other jurisdiction of incorporation or organization)*	**27-1933597** *(I.R.S. Employer Identification No.)*
1660 S Albion Street, Suite 525	
Denver, CO *(Address of principal executive offices)*	**80222** *(Zip Code)*

Registrants telephone number: (303) 333-4224

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes 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 September 14, 2016
Common Stock, $0.001 par value per share	137,958,145 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	July 31, 2016 (Unaudited)	April 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 480,317	$ 783,796
Accounts receivable, net of allowance of $449,946 and $449,946, respectively	2,760,765	2,179,852
Prepaid expenses	214,230	123,055
Total current assets	3,455,312	3,086,703
Property and equipment:		
Call center equipment	33,731	79,199
Computer and office equipment	73,674	67,773
Furniture and fixtures	155,453	114,964
Software	2,321,367	2,567,383
	2,584,225	2,829,319
Less accumulated depreciation and amortization	(1,391,623)	(1,680,687)
Total property and equipment, net	1,192,602	1,148,632
Courseware, net	183,480	194,932
Accounts receivable, secured - related party, net of allowance of $625,963, and $625,963, respectively	45,329	45,329
Other assets	54,176	31,175
Total assets	$ 4,930,899	$ 4,506,771

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

	July 31, 2016 (Unaudited)	April 30, 2016
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 418,699	$ 9,201
Accrued expenses	250,267	176,974
Deferred revenue	1,203,234	1,013,434
Refunds Due Students	121,938	110,883
Deferred rent, current portion	8,156	2,345
Convertible notes payable, current portion	50,000	50,000
Total current liabilities	2,052,294	1,362,837
Line of credit	248,783	1,783
Loan payable officer - related party	1,000,000	1,000,000
Convertible notes payable - related party	300,000	300,000
Deferred rent	47,066	29,169
Total liabilities	3,648,143	2,693,789
Commitments and contingencies - See Note 8		
Stockholders equity:		
Common stock, $0.001 par value; 250,000,000 shares authorized, 135,158,145 issued and 134,958,145 outstanding at April 30, 2016, 138,158,145 issued and 137,958,145 outstanding at July 31, 2016	137,959	134,958
Additional paid-in capital	26,325,671	26,353,451
Treasury stock (200,000 shares)	(70,000)	(70,000)
Accumulated deficit	(25,110,874)	(24,605,427)
Total stockholders equity	1,282,756	1,812,982
Total liabilities and stockholders equity	$ 4,930,899	$ 4,506,771

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended July 31,	
	2016	**2015**
Revenues	$ 2,756,815	$ 1,705,861
Operating expenses		
Cost of revenues (exclusive of depreciation and amortization shown separately below)	896,059	774,109
General and administrative	2,182,078	1,477,617
Depreciation and amortization	151,049	143,459
Total operating expenses	3,229,186	2,395,185
Operating loss	(472,371)	(689,324)
Other income (expense):		
Other income	57	3,733
Interest expense	(33,133)	(33,115)
Total other expense, net	(33,076)	(29,382)
Loss before income taxes	(505,447)	(718,706)
Income tax expense (benefit)		
Net loss	$ (505,447)	$ (718,706)
Net loss per share allocable to common stockholders - basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding: basic and diluted	135,845,102	128,188,025

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED July 31, 2016

(Unaudited)

	Common Stock		Additional Paid-In	Treasury	Accumulated	Total Stockholders'
	Shares	**Amount**	**Capital**	**Stock**	**Deficit**	**Equity**
Balance at April 30, 2016	134,958,145	$ 134,958	$ 26,353,451	$ (70,000)	$ (24,605,427)	$ 1,812,982
Attorney fees associated with Registration Statement			(1,388)			(1,388)
Stock-based compensation			95,607			95,607
Warrant buyback	2,500,000	2,500	(196,500)			(194,000)
Shares issued for services	500,000	501	74,501			75,002
Net loss, three months ended July 31, 2016					(505,447)	(505,447)
Balance at July 31, 2016	**137,958,145**	**$ 137,959**	**$ 26,325,671**	**$ (70,000)**	**$ (25,110,874)**	**$ 1,282,756**

The accompanying condensed 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 Three Months Ended July 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (505,447)	$ (718,706)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense		31,889
Depreciation and amortization	151,049	143,459
Stock-based compensation	95,607	72,941
Warrant modification expense		6,000
Amortization of prepaid shares for services	7,015	
Warrant buyback expense	206,000	
Changes in operating assets and liabilities:		
Accounts receivable	(580,913)	(259,509)
Prepaid expenses	(23,188)	18,221
Other assets	(23,001)	2
Accounts payable	409,498	275,321
Accrued expenses	73,293	44,581
Deferred rent	23,708	(4,000)
Refunds due students	11,055	69,418
Deferred revenue	189,800	(25,537)
Net cash provided by (used in) operating activities	34,476	(345,920)
Cash flows from investing activities:		
Purchases of property and equipment	(179,117)	(105,503)
Purchases of courseware	(4,450)	(41,104)
Net cash used in investing activities	(183,567)	(146,607)
Cash flows from financing activities:		
Warrant buyback	(400,000)	
Payments for line of credit	247,000	5,794
Disbursements for equity offering costs	(1,388)	
Net cash (used in) provided by financing activities	(154,388)	5,794
Net decrease in cash and cash equivalents	(303,479)	(486,733)
Cash and cash equivalents at beginning of period	783,796	2,159,463

Cash and cash equivalents at end of period	$	480,317	$	1,672,730

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	For the Three Months Ended July 31,	
	2016	**2015**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 28,327	$ 28,876
Cash paid for income taxes	$	$
Supplemental disclosure of non-cash investing and financing activities		
Common stock issued for services	$ 75,002	$
Common stock issued from conversion of notes	$	$

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Note 1. Nature of Operations and Liquidity

Overview

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

Aspen s mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 61% of our adjunct professors hold doctorate degrees.

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

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

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

Basis of Presentation

A. Interim Financial Statements

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three months ended July 31, 2016 and 2015, our cash flows for the three months ended July 31, 2016 and 2015, and our financial position as of July 31, 2016 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, 2016 as filed with the SEC on July 27, 2016. The April 30, 2016 balance sheet is derived from those statements.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

B. Liquidity

On August 31, 2016, the Company announced that it recently closed on a $3 million credit line with its largest shareholder. The credit line, whose terms include a 12% per annum interest rate on drawn funds and a 2% per annum interest rate on undrawn funds, will extend through August 2019. The Company initially drew down $750,000 under the line, of which approximately $248,000 was used to repay a secured line of credit with a bank. (See Note 11)

At July 31, 2016, the Company had a cash balance of $480,317. The Company had cash provided from operating activities of $34,476.

On April 22, 2016, the Company issued 4,855,487 shares of common stock to two of its warrant holders in exchange for their early exercise of warrants at a reduced exercise price of $0.155 per share. The Company received gross proceeds of $752,500 from these exercises. As a condition of the warrant holders exercising their warrants, Mr. Michael Mathews, the Company s Chairman of the Board and Chief Executive Officer, converted a $300,000 note and in connection with this conversion, Mr. Mathews was issued 1,591,053 shares of common stock. See Note 7. In November of 2015, our letter of credit with Department of Education was released freeing up approximately $1.1 million of cash. With the additional cash raised in the financings, the growth in revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan.

Note 2. Significant Accounting Policies

Principles of Consolidation

The 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 loss contingencies, valuation of stock-based compensation and the valuation allowance on deferred tax assets.

Cash and Cash Equivalents

For the purposes of the unaudited consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at July 31, 2016 and April 30, 2016. The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits of $250,000 per financial institution. The Company has not experienced any losses in such accounts from inception through July 31, 2016. As of July 31, 2016 and April 30, 2016, there were deposits totaling $292,764 and $1,224,863 respectively, held in two separate institutions greater than the federally insured limits.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

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. After deducting tuition and fees, the Company sends checks for the remaining balances to the students.

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 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.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

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 22,421,102 and 15,897,313 common shares, warrants to purchase 10,464,657 and 28,871,757 common shares, and $350,000 and $650,000 of convertible debt (convertible into 907,143 and 1,207,143 common shares, respectively) were outstanding during three months ending July 31, 2016 and 2015, 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.

Recent Accounting Pronouncements

There have been no new relevant pronouncements since those disclosed in the April 30, 2016 Consolidated Financial Statements.

Note 3. Secured Note and Accounts Receivable Related Parties

On March 30, 2008 and December 1, 2008, Aspen University sold courseware pursuant to marketing agreements to Higher Education Management Group, Inc. (HEMG ,) which was then a related party and principal stockholder of the Company. HEMG s president is Mr. Patrick Spada, the former Chairman of the Company, the sold courseware amounts were $455,000 and $600,000, respectively; UCC filings were filed accordingly. Under the marketing agreements, the receivables were due net 60 months. On September 16, 2011, HEMG pledged 772,793 Series C preferred shares (automatically converted to 654,850 common shares on March 13, 2012) of the Company as collateral for this account receivable which at that time had a remaining balance of $772,793. Based on the reduction in value of the collateral to $0.19 based on the then current price of the Company s common stock, the Company recognized an expense of $123,647 during the year ended April 30, 2014 as an additional allowance. As of July 31, 2016 and April 30, 2016, the balance of the account receivable, net of allowance, was $45,329.

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

Note 4. Property and Equipment

Property and equipment consisted of the following at July 31, 2016 and April 30, 2016:

	July 31, 2016	April 30, 2016
Call center hardware	$ 33,731	$ 79,199
Computer and office equipment	73,674	67,773
Furniture and fixtures	155,453	114,964
Software	2,321,367	2,567,383
	2,584,225	2,829,319
Accumulated depreciation and amortization	(1,391,623)	(1,680,687)
Property and equipment, net	$ 1,192,602	$ 1,148,632

Software consisted of the following at July 31, 2016 and April 30, 2016:

	July 31, 2016	April 30, 2016
Software	$ 2,321,367	$ 2,567,383
Accumulated amortization	(1,316,780)	(1,560,932)
Software, net	$ 1,004,587	$ 1,006,451

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Depreciation and Amortization expense for all Property and Equipment as well as the portion for just software is presented below for three months ended July 31, 2016 and 2015:

	For the Three Months Ended July 31,	
	2016	**2015**
Depreciation and Amortization Expense	135,147	124,770
Software Amortization Expense	124,180	113,832

The following is a schedule of estimated future amortization expense of software at July 31, 2016:

Year Ending April 30,		
2017	$	296,166
2018		291,477
2019		208,304
2020		138,462
2021		70,178
Total	$	1,004,587

Note 5. Courseware

Courseware costs capitalized were $4,450 and $41,104 for the three months ended July 31, 2016 and 2015 respectively. During September 2015, $1,970,670 of fully amortized courseware was written off against the accumulated amortization. There was no expense impact to this write-off.

Courseware consisted of the following at July 31, 2016 and April 30, 2016:

	July 31, 2016	April 30, 2016
Courseware	$ 316,197	$ 319,267
Accumulated amortization	(132,717)	(124,335)
Courseware, net	$ 183,480	$ 194,932

Amortization expense of courseware for the three months ended July 31, 2016 and 2015:

	For the Three Months Ended July 31,	
	2016	2015
Amortization Expense	$ 15,902	$ 18,688

The following is a schedule of estimated future amortization expense of courseware at July 31, 2016:

Year Ending April 30,	
2017	$ 42,100
2018	50,072
2019	48,599
2020	34,757
2021	7,952
Total	$ 183,480

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Note 6. Loan Payable Officer Related Party

On June 28, 2013, the Company received $1,000,000 as a loan from the Company s Chief Executive Officer. This loan was for a term of 6 months with an annual interest rate of 10%, payable monthly. Through various note extensions, the debt was extended to May 5, 2018. There was no accounting effect for these extensions.

Note 7. Convertible Notes, Convertible Notes Related Party

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

On March 13, 2012, the Company s CEO loaned the Company $300,000 and received a convertible promissory note due March 31, 2013, bearing interest at 0.19% per annum. The note is convertible into common shares of the Company at the rate of $1.00 per share upon five days written notice to the Company. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. Through various note extensions, the debt was extended to May 5, 2018. There was no accounting effect for these modifications. On April 22, 2016, the CEO converted the loan and accrued interest into common stock. The loan was converted at $0.19 per share and the Company issued 1,591,053 shares of common stock. The note modification was treated as a debt extinguishment under ASC 470-50. There was no gain or loss on this debt extinguishment. 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 exceeded the fair market value of the common shares on the note issue dates.

On August 14, 2012, the Company s CEO loaned the Company $300,000 and received a convertible promissory note, payable on demand, bearing interest at 5% per annum. The note is convertible into shares of common stock of the Company at a rate of $0.35 per share (based on proceeds received on September 28, 2012 under a private placement at $0.35 per unit). The Company evaluated the convertible notes and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the shares of common stock on the note issue date. Through various note extensions, the debt was extended to May 5, 2018. There was no accounting effect for these modifications.

Note 8. Commitments and Contingencies

Line of Credit

The Company maintains a line of credit with a bank, up to a maximum credit line of $250,000. The line of credit bears interest equal to the prime rate plus 0.50% (overall interest rate of 4.00% at July 31, 2016). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time monthly payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of July 31, 2016 was $248,783. Since the earliest the line of credit is due and payable is over a five year period and the Company believes that it could obtain a comparable replacement line of credit elsewhere, the entire line of credit is included in long-term liabilities. The unused amount under the line of credit available to the Company at July 31, 2016 was $1,217. In September 2016, the line of credit with the bank was paid and terminated. (See Note 11)

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 July 31, 2016, no performance bonuses have been earned.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Legal Matters

On August 13, 2015, a former employee filed a complaint against the Company in the United States District Court, District of Arizona, for breach of contract claiming that Plaintiff was terminated for Cause when no cause existed. Plaintiff is seeking the remaining amounts under her employment agreement, severance pay, bonuses, value of lost benefits, and the loss of the value of her stock options. The Company filed an answer to the complaint by the September 8, 2015 deadline. That matter has been fully and finally settled as of June 2016 and has been dismissed. The Company accrued $87,500 in accordance with ASC 450-20-55-11 and is included in accrued expenses at April 30, 2016. The amount owed was paid in the three months ended July 31, 2016.

Regulatory Matters

The Company s subsidiary, Aspen University, is subject to extensive regulation by Federal and State governmental agencies and accrediting bodies. In particular, the Higher Education Act (the HEA) and the regulations promulgated thereunder by the DOE subject Aspen University to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy to participate in the various types of federal student financial assistance programs authorized under Title IV of the HEA. Aspen University has had provisional certification to participate in the Title IV Programs. That provisional certification imposes certain regulatory restrictions including, but not limited to, a limit of 1,200 student recipients for Title IV funding for the duration of the provisional certification. The provisional certification restrictions continue with regard to Aspen University s participation in Title IV Programs.

To participate in the Title IV Programs, an institution must be authorized to offer its programs of instruction by the relevant agencies of the State in which it is located. 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 2016 represented approximately 28% of the Company's cash basis revenues (including revenues from discontinued operations), as calculated in accordance with Department of Education guidelines, the loss of Title IV funding would have a material effect on the Company's future financial performance.

On March 27, 2012 and on August 31, 2012, Aspen University provided the DOE with letters of credit for which the due date was extended to December 31, 2013. On January 30, 2014, the DOE provided Aspen University with an option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling $1,696,445, or to remain provisionally certified by increasing the 25% letter of credit to $848,225. Aspen informed the DOE of its desire to remain provisionally certified and posted the $848,225 letter of credit for the DOE on April 14, 2014. On February 26, 2015, Aspen University was informed by the DOE that it again had the option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling $2,244,971, or to remain provisionally certified by increasing the existing 25% letter of credit to $1,122,485. Aspen informed the DOE on March 3, 2015 of its desire to remain provisionally certified and post the $1,122,485 letter of credit for the DOE by April 30, 2015. In November of 2015, the DOE informed Aspen that they no longer need to post a letter of credit. It was subsequently released. The DOE may impose additional or different terms and conditions in any final provisional program participation agreement that it may issue (See Note 2 Restricted Cash).

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

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

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

ASPEN GROUP, INC. AND SUBSIDIARIES

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(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. In July 2012, Aspen received notice from the Delaware DOE that it was granted provisional approval status effective until June 30, 2015. On April 25, 2016 the Delaware DOE informed Aspen University it was granted full approval to operate with degree-granting authority in the State of Delaware until July 1, 2020. Aspen University is authorized by the Colorado Commission on Education to operate in Colorado as a degree granting institution.

Note 9. Stockholders Equity

Common Stock

On June 21, 2016, the Company issued 2,500,000 shares valued at $400,000 and made a cash payment of $400,000 to a warrant holder in exchange for the buyback of 13,451,613 warrants. The Company re-valued the fair value of the warrants on the buyback date which equaled $594,000 and accordingly, the Company recorded an expense associated with the buyback of $206,000.

On July 31, 2016, the Company issued 500,000 shares to two IR firms for services. 200,000 shares were issued for services under a six month contract with a value of $30,000. 300,000 shares were issued for services under a one year contract with a value of $45,000. The Company recorded a prepaid for the value of the services and is amortizing over the respective service periods.

Warrants

A summary of the Company s warrant activity during the three months ended July 31, 2016 is presented below:

Warrants	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2016	23,916,270	$ 0.19		
Granted				
Exercised				
Surrendered	(13,451,613)	0.16		
Expired				
Balance Outstanding, July 31, 2016	10,464,657	$ 0.24	3.0	$
Exercisable, July 31, 2016	10,464,657	$ 0.24	3.0	$

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On June 24, 2016, the Company issued 2,500,000 shares and a cash payment of $400,000 to a warrant holder in exchange for 13,451,613 warrants as discussed above.

Stock Incentive Plan and Stock Option Grants to Employees and Directors

Immediately following the closing of the Reverse Merger, on March 13, 2012, the Company adopted the 2012 Equity Incentive Plan (the Plan) that provides for the grant of 9,300,000 shares, 14,300,000 effective July 2014, 16,300,000 effective September 2014, 20,300,000 effective November 2015 and 25,300,000 effective June 2016, 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 July 31, 2016, there were 2,878,898 shares remaining under the Plan for future issuance. The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company s stock price over the expected term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted to employees during the three months ended July 31, 2016 and 2015.

	July 31,	
	2016	**2015**
Expected life (years)	4 - 6.5	4.0
Expected volatility	40.0% - 43.0%	43.3%
Weighted-average volatility	40.0%	43.3%
Risk-free interest rate	0.38%	0.38%
Dividend yield	0.00%	0.00%
Expected forfeiture rate	n/a	n/a

The Company utilized the simplified method to estimate the expected life for stock options granted to employees. The simplified method was used as the Company does not have sufficient historical data regarding stock option exercises. The expected volatility is based on the average of the expected volatilities from the most recent audited financial statements available for comparative public companies that are deemed to be similar in nature to the Company. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected life of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

A summary of the Company s stock option activity for employees and directors during the three months ended July 31, 2016, is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2016	17,931,102	$ 0.21	3.3	
Granted	4,300,000	$ 0.16	4.8	
Exercised				
Forfeited	(5,000)	$ 0.13	4.1	
Expired				
Balance Outstanding, July 31, 2016	22,226,102	$ 0.19	3.4	$ 8,265
Exercisable, July 31, 2016	9,851,335	$ 0.21	1.8	$

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On May 19, 2016, the Company granted to each of its eight non-employee directors 150,000 five-year stock options. The Company granted an additional 50,000 five-year stock options to the chairman of the Compensation Committee and to the chairman of the Audit Committee. These options are exercisable at $0.16 and vest in three years. For the directors receiving 150,000, the fair value was approximately $7,500 per grant and for the two directors receiving 200,000 options, the fair value on the date of grant was approximately $10,000.

On June 23, 2016, the Company granted 2,000,000 stock options to the Chief Operating Officer, 700,000 stock options to the Chief Academic Officer and 300,000 to the Chief Financial Officer. The five-year options are exercisable at a price of $0.166 and vest over three years. On the date of grant, the grant to the Chief Operating Officer had a fair value of approximately $100,000, the grant to the Chief Academic Officer had a fair value of approximately $35,000 and the grant to the Chief Financial Officer had a fair value of approximately $15,000.

As of July 31, 2016, there was approximately $547,000 of unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.7 years.

The Company recorded compensation expense of $95,607 for the three months ended July 31, 2016 in connection with employee stock options. The Company recorded compensation expense of $72,941 for the three months ended July 31, 2015 in connection with employee stock options.

On September 12, 2016, the Company extended approximately 5 million options that were expiring in 2017. The new expiration dates were extended three years. The cost associated with these extensions is approximately $150,000, which represents the difference between the fair value of the options before the modification and the fair value immediately after the modification. These extended options will vest over the next three years. (See Note 11)

Stock Option Grants to Non-Employees

There were no stock options granted to non-employees during three months ended July 31, 2016 and 2015. The Company recorded no compensation expense for the three months ended July 31, 2016 in connection with non-employee stock options and no compensation expense for the three months ended July 31, 2015. There was no unrecognized compensation cost at July 31, 2016.

A summary of the Company's stock option activity for non-employees during the three months ended July 31, 2016, is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2016	195,000	$ 0.3	0.9	$
Granted				
Exercised				
Forfeited				
Expired				
Balance Outstanding, July 31, 2016	195,000	$ 0.3	0.7	
Exercisable, July 31, 2016	195,000	$ 0.3	0.7	

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.

ASPEN GROUP, INC. AND SUBSIDIARIES

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Note 11. Subsequent Events

On August 31, 2016, the Company announced that it recently closed on a $3 million credit line with its largest shareholder. The credit line, whose terms include a 12% per annum interest rate on drawn funds and a 2% per annum interest rate on undrawn funds, will extend through August 2019. The Company initially drew down $750,000 under the line, of which approximately $248,000 was used to repay a secured line of credit with a bank. Additionally, the Company paid a 2% origination fee and issued 750,000 common-stock warrants at an exercise price of $0.20 per share, which are redeemable by the Company if the closing price of its common stock averages at least $0.25 per share for 10 consecutive trading days.

In September 2016, the Company s Chief Executive Officer extended $1,300,000 of notes payable to May 5, 2018 from February 2017.

On September 13, 2016, the Company extended approximately 5 million options that were expiring in 2017. The new expiration dates were extended three years. The cost associated with these extensions is approximately $150,000, which represents the difference between the fair value of the options before the modification and the fair value immediately after the modification. These extended options will vest over three year periods beginning with the respective extension periods.

Effective September 14, 2016, Mr. Paul Schneier resigned as a director. The Company agreed to vest all of his outstanding options.

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

You should read the following discussion in conjunction with our consolidated financial statements, which are included elsewhere in this Form 10-Q. Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in the Risk Factors contained in the Annual Report on Form 10-K filed on July 26, 2016 with the Securities and Exchange Commission, or the SEC.

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

Company Overview

Founded in 1987, Aspen s mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 61% of our adjunct professors hold doctorate degrees.

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

One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is the fact that the majority of our degree-seeking students (56% as of July 31, 2016) were enrolled in Aspen s School of Nursing.

Student Population Overview

Aspen s degree-seeking student body increased year-over-year by 48% during the fiscal quarter ended July 31, 2016, from 3,609 to 5,332 students.

Our most popular school is our School of Nursing. Aspen s School of Nursing has grown from 44% of our degree-seeking student body at July 31, 2015, to 56% of our degree-seeking student body at July 31, 2016. Aspen s School of Nursing grew from 1,604 to 2,988 student s year-over-year, which represented 80% of Aspen s degree-seeking student body growth. At July 31, 2016, Aspen s School of Nursing included 1,497 students in the RN to BSN program and 1,491 students in the MSN program or the RN to MSN Bridge program.

New Student Enrollment and Degree Seeking Student Body Growth

Since the launch of the BSN marketing campaign in mid-November, 2014, Aspen s growth rate of new student enrollments has accelerated significantly. Below is a quarterly analysis of the growth of Aspen s new student enrollments, as well as the growth of the degree seeking student body over the past eight quarters, including the recent quarter ending July 31, 2016.

	New Student Enrollments	Degree Seeking Student Body
Fiscal Quarter End October 31, 2014	265	2,811
Fiscal Quarter End January 31, 2015	315	3,011
Fiscal Quarter End April 30, 2015	444	3,309
Fiscal Quarter End July 31, 2015	410	3,609
Fiscal Quarter End October 31, 2015	557	4,015
Fiscal Quarter End January 31, 2016	550	4,412
Fiscal Quarter End April 30, 2016	572	4,818
Fiscal Quarter End July 31, 2016	621	5,332

Aspen s School of Nursing is responsible for the vast majority of the new student enrollment and overall student body growth. Specifically, Aspen s School of Nursing is now on pace to grow on an annualized basis by approximately 1,680 Nursing students net of student graduations and withdrawals (or ~140/month). Aspen s BSN program accounts for 70% of that growth, as that program is on pace to increase on an annualized basis by approximately 1,180 students net (or ~98/month).

Aspen University expects its total degree-seeking student body to continue its rapid growth and reach approximately 6,800 students by the end of the fiscal year, April 30, 2017. Therefore, the university is on pace to increase its student body by ~2,000 students on an annualized basis in fiscal year 2017 versus the previous pace of ~1,500 students a year ago. Note that in the seasonally slowest first quarter of fiscal year 2017, the student body increased by 514 degree-seeking students, meaning that the university is on track to exceed the forecast of ~2,000 students on an annualized basis.

Revenue Growth Recap

Since launching the debtless education solution in March 2014, Aspen University has become one of the fastest growing universities in the United States with record revenue acceleration in fiscal year 2016. Below is a chart reflecting the year-over-year percentage of revenue growth during Aspen s previous six fiscal quarters:

Aspen University s Revenue Acceleration

	Revenue Growth (y/o/y growth %)
Fiscal Quarter Ended April 30, 2015 (Q4 FY 15)	34%
Fiscal Quarter Ended July 31, 2015 (Q1 FY 16)	46%
Fiscal Quarter Ended October 31, 2015 (Q2 FY 16)	58%
Fiscal Quarter Ended January 31, 2016 (Q3 FY 16)	68%
Fiscal Quarter Ended April 30, 2016 (Q4 FY 16)	72%
Fiscal Quarter Ended July 31, 2016 (Q1 FY 17)	62%

Nursing Revenue Summary

Below is a summary of the Nursing degree-seeking student body as a percentage of the total degree-seeking student body over the past five fiscal quarters, as well as the Nursing degree-seeking revenue as a percentage of total revenues. Because Nursing students average more course completions per year and the average tuition price per course is higher (all Nursing courses are $975/course) as compared to non-Nursing students, Nursing students today represent 69% of total revenues (well ahead of today s Nursing student body of 56%).

	Total Degree-Seeking Student Body	Nursing Degree-Seeking Student Body	Nursing Degree-Seeking Student Body (%)	Nursing Degree-Seeking Student Body - Revenue %*
Q1 FY'16	3,609	1,604	44%	53%
Q2 FY'16	4,015	1,935	48%	59%
Q3 FY'16	4,412	2,307	52%	62%
Q4 FY'16	4,818	2,622	54%	67%
Q1 FY'17	5,332	2,988	56%	69%

*Note that in previous quarterly filings, the Nursing revenue amounts and percentage differ from the above corrected disclosure.

Monthly Payment Programs Overview

Since the March 2014 debtless education announcement, 56% of courses are now paid through monthly payment methods (based on courses started over the last 90 days). Aspen offers two monthly payment programs, a monthly payment plan in which students make payments every month over a fixed period (36, 39 or 72 months depending on the degree program), and a monthly installment plan in which students pay three monthly installments (day 1, day 31 and day 61 after the start of each course).

As of July 31, 2016, Aspen had 1,737 students paying through a monthly payment plan, and 420 students paying through a monthly installment plan, for a total of 2,157 students paying tuition through a monthly payment method. Additionally, Aspen is currently on pace to add approximately 100 students/month net to its monthly payment programs through fiscal year 2017. The 1,737 students (as of July 31, 2016) paying tuition through a monthly payment plan represents total contractual value in excess of $15 million. Monthly recurring tuition cash payments for monthly payment programs is approximately $435,000 per month, as compared to approximately $100,000 per month a year ago.

Finally, as a consequence of monthly payment programs becoming the payment method of choice among the majority of Aspen s degree-seeking student body, our HEA, Title IV Program revenue dropped from 33% of total cash receipts in fiscal year 2015 to approximately 28% for fiscal year 2016.

Marketing Efficiency Analysis

Aspen has developed a marketing efficiency ratio to continually monitor the performance of its business model.

Revenue per Enrollment (RPE)

Marketing Efficiency Ratio =

Cost per Enrollment (CPE)

Cost per Enrollment (CPE)

The Cost per Enrollment measures the marketing investment spent in a given quarter, divided by the number of new student enrollments achieved in that given quarter, in order to obtain an average CPE for the quarter measured.

Revenue per Enrollment (RPE)

The Revenue per Enrollment takes each quarterly cohort of new degree-seeking student enrollments, and measures the amount of earned revenue including tuition and fees to determine the average RPE for the cohort measured. For the later periods of a cohort, in particular students four years or older, we have used reasonable projections based off of

historical results to determine the amount of revenue we will earn in later periods of the cohort.

We created the reporting to track the CPE and RPE starting in 2012 and can accurately predict the CPE and RPE for each new student cohort. Our current CPE/RPE Marketing Efficiency Ratio is reflected in the below table.

Quarterly New Student Cohort Actuals Data:

CPE/RPE Analysis	6 Months Out	12 Months Out	2 Years Out	3 Years Out	4+ Years Out*
Courses Completed	2.24	3.52	5.28	6.48	8
Average RPE	$1,974	$3,078	$4,630	$5,684	$7,000
RPE % Earned	28%	44%	66%	81%	100%
Marketing Efficiency Ratio**	2.6x	4.1x	6.1x	7.5x	9.2x

*

Projection

**

Based on current $759 CPE (six month rolling CPE average)

The Average RPE is approximately $7,000. Of the $7,000, $6,400 of the RPE is earned through tuition, with the remaining $600 on average earned through miscellaneous fees (includes annual technology fee, withdrawal fees, graduation fees, proctored exams, course specific fees, etc.)

Aspen is projecting to average a Marketing Efficiency Ratio of 9.2x, in other words a 9.2x return on our marketing investment. Third-party companies in the higher education industry that manage the Enrollment and Marketing functions on behalf of Universities (also referred to as Managed Services companies) reportedly average 3-4x return on their marketing investments, meaning that Aspen s business model is currently performing at more than double the efficiency level of that sector.

Results of Operations

For the Quarter Ended July 31, 2016 Compared with the Quarter Ended July 31, 2015

Revenue

Revenue from operations for the quarter ended July 31, 2016 (2016 Quarter) increased to $2,756,815 from $1,705,861 for the quarter ended July 31, 2015 (2015 Quarter), an increase of $1,050,954 or 62%.

New class starts begun in the 2016 quarter rose to 3,335 from 2,072 for the 2015 quarter, an increase of 61%. The average tuition price of the new class starts rose to $805 for the 2016 quarter from $774 for the 2015 quarter, an increase of 4%.

Cost of Revenues (exclusive of amortization)

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

Instructional Costs and Services

Instructional costs and services for the 2016 Quarter rose to $459,199 from $386,067 for the 2015 Quarter, an increase of $73,132 or 19%.

Note that instructional costs and services for the 2016 Quarter dropped to 17% of revenues, as compared to 23% of revenues for the 2015 Quarter. As student enrollment levels continue to rise, Aspen anticipates the growth rate in instructional costs and services will continue to lag that of overall revenue growth as a result of the Company commencing in early-2016 with a full-time faculty conversion model which saves approximately $50,000 per year for each adjunct faculty member that is converted to full-time status. Depending upon how successful Aspen is in converting faculty to full-time status, we estimate annualized savings of over $500,000.

Marketing and Promotional

Marketing and promotional costs for the 2016 Quarter were $436,860 compared to $388,042 for the 2015 Quarter, an increase of $48,818 or 13%. The Company expects marketing and promotional costs to rise in future periods, given the planned spend rate increase to $180,000 per month in August 2016, with the funds available from the new $3 million line of credit. Over the next 12 months, we expect to increase monthly marketing spend to $360,000.

Gross Profit rose to 62% of revenues or $1,720,674 for the 2016 Quarter from 47% of revenues or $799,232 for the 2015 Quarter.

Costs and Expenses

General and Administrative

General and administrative costs for the 2016 Quarter were $2,182,078 compared to $1,477,617 during the 2015 Quarter, an increase of $704,461 or 48%. A significant portion of this increase is the approximate $450,000 increase in payroll, primarily due to the headcount of our enrollment center increasing by 80% year-over-year. The Company incurred $464,241 one-time, non-recurring expenses for the 2016 Quarter, including a non cash $206,000 expense associated with the surrender of warrants and a $69,000 expense resulting from a former employee litigation settlement.

Depreciation and Amortization

Depreciation and amortization costs for the 2016 Quarter rose to $151,049 from $143,459 for the 2015 Quarter, an increase of $7,590 or 5%.

Other Expense, net

Other expense, net for the 2016 Quarter increased to $33,076 from $29,382 in the 2015 Quarter, an increase of $3,694 or 13%.

Income Taxes

Income taxes expense (benefit) for the comparable years 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 2016 Quarter was ($505,447) as compared to ($718,706) for the 2015 Quarter, a decrease in the loss of $213,259 or approximately 30%. Contributing to this lower loss was the increase in revenues in the 2016 Quarter growing at a higher rate than the increase of costs, offset by the non-recurring, one-time expenses of $464,241. The Company forecasts to achieve positive Net Income before the end of the 2017 fiscal year.

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 EBITDA, 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 including non-recurring charges of $464,241. 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:

	For the Quarters Ended July 31,	
	2016	**2015**
Net loss	$ (505,447)	$ (718,706)
Interest Expense, net of interest income	33,076	33,115
Depreciation & Amortization	151,049	143,459
EBITDA (Loss)	(321,322)	(542,132)
Bad Debt Expense		31,889
Warrant buyback expense	206,000	
Non-recurring charges	258,241	137,677
Stock-based compensation	95,607	72,941
Adjusted EBITDA (Loss)	$ 238,526	$ (299,625)

Liquidity and Capital Resources

A summary of our cash flows is as follows:

	For the Quarter Ended July 31,	
	2016	**2015**
Net cash provided by (used in) operating activities	$ 34,476	$ (345,920)
Net cash used in investing activities	(183,567)	(146,607)
Net cash (used in) provided by financing activities	(154,388)	5,794
Net decrease in cash and cash equivalents	$ (303,479)	$ (486,733)

Net Cash Used in Operating Activities

Net cash provided in operating activities during the 2016 Quarter totaled $34,476 and resulted primarily by non-cash items of $459,671 and a net change in operating assets and liabilities of $80,252, reduced by the net loss of $505,447. The most significant item change operating assets and liabilities was an increase in accounts receivable of $580,913 which is primarily attributed to the growth in revenues from students paying through the monthly payment plan. The most significant non-cash items were depreciation and amortization expense of $151,049 and the warrant buyback expense of $206,000.

Aspen reached a critical milestone this quarter as this was the first quarter in which we generated cash from operations of $34,476. We expect cash generation from operations to continue to grow in future quarters.

Net cash used in operating activities during the 2015 Quarter totaled ($345,920) and resulted primarily from a net loss from continuing operations of ($718,706) offset by non-cash items of $254,288, comprised of $143,459 in depreciation and amortization, $72,941 of stock compensation expense and $31,889 of bad debt expense, and a net change in operating assets and liabilities of $118,498, of which the $275,321 increase in accounts payable was the most significant.

Net Cash Used in Investing Activities

Net cash used in investing activities during the 2016 Quarter totaled ($183,567) mostly attributed to the increase in software.

Net cash used in investing activities during the 2015 Quarter totaled ($146,607) and resulted primarily from capitalized technology expenditures included in property and equipment.

Net Cash Provided By Financing Activities

Net cash used by financing activities during the 2016 Quarter totaled ($154,388) which reflects the increase of the line of credit of $247,000 offset by the buyback of warrants for $400,000.

Net cash provided by financing activities during the 2015 Quarter totaled $5,794 which resulted primarily from a net increase in the line of credit at our bank.

Liquidity and Capital Resource Considerations

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.

As of September 13, 2016, the Company had a cash balance of approximately $1.0 million. With the additional cash from the Company s $3 million line of credit, the growth in the Company revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan and meet its operations for at least the next 12 months. During the next 12 months, we expect to double our monthly marketing spend rate from $180,000 to $360,000, and spend $500,000 to enhance our computer systems to support our planned growth.

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 our financial condition. The accounting estimates are discussed below and involve certain assumptions that, if incorrect, could have a material adverse impact on our results of operations and financial condition.

Revenue Recognition and Deferred Revenue

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

Accounts Receivable and Allowance for Doubtful Accounts Receivable

All students are required to select both a primary and secondary payment option with respect to amounts due to Aspen for tuition, fees and other expenses. The most common payment option for Aspen s students is personal funds or payment made on their behalf by an employer. In instances where a student selects financial aid as the primary payment option, he or she often selects personal cash as the secondary option. If a student who has selected financial aid as his or her primary payment option withdraws prior to the end of a course but after the date that Aspen s institutional refund period has expired, the student will have incurred the obligation to pay the full cost of the course.

If the withdrawal occurs before the date at which the student has earned 100% of his or her financial aid, Aspen will have to return all or a portion of the Title IV funds to the DOE and the student will owe Aspen all amounts incurred that are in excess of the amount of financial aid that the student earned and that Aspen is entitled to retain. In this case, Aspen must collect the receivable using the student s second payment option.

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

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

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

Related Party Transactions

See Note 10 to the 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 unaudited consolidated financial statements included herein for discussion of recent accounting pronouncements.

Cautionary Note Regarding Forward Looking Statements

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

The results anticipated by any or all of these forward-looking statements might not occur. Important factors that could cause actual results to differ from those in the forward-looking statements include the failure to maintain regulatory approvals, competition, and ineffective media and/or marketing, failure to maintain growth in degree seeking students and the failure to generate sufficient revenue. Further information on our risk factors is contained in our filings with the SEC, including the Form 10-K filed on July 26, 2016. 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.

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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. There were no material changes to our legal proceedings as described in the Company s Form 10-K during the period covered by this report.

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

Effective September 14, 2016, Mr. Paul Schneier resigned from the Company s Board of Directors. By agreement with the Company, all of Mr. Schneier s outstanding equity awards became fully vested upon his resignation.

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.

September 14, 2016 By: /s/ Michael Mathews
Michael Mathews
Chief Executive Officer
(Principal Executive Officer)

September 14, 2016 By: /s/ Janet Gill
Janet Gill
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit #	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed or Furnished Herewith
3.1	Certificate of Amendment to Certificate of Incorporation, as amended	S-1	10/18/14	3.1	
3.2	Bylaws	8-K	3/19/12	2.7	
3.3	Amendment No. 1 to Bylaws	8-K	3/12/14	3.1	
10.1	2012 Equity Incentive Plan, as amended	10-K	7/27/16	10.5	
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

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

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