

ASPEN GROUP, INC.  
Form 10-K  
July 28, 2015

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

**FORM 10-K**

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

For the fiscal year ended: **April 30, 2015**

Or

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

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

**ASPEN GROUP, INC.**

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

**Delaware**  
*(State or Other Jurisdiction  
of Incorporation or  
Organization)*

**000-55107**  
*(Commission  
File Number)*

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

**720 South Colorado Boulevard, Suite 1150N, Denver, CO 80246**

*(Address of Principal Executive Office) (Zip Code)*

**(303) 333-4224**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$19.9 million (\$0.245 price).

The number of shares outstanding of the registrant's classes of common stock, as of July 28, 2015 was 128,253,605 shares.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended April 30, 2015.

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## PART I

### ITEM 1. BUSINESS.

Aspen Group, Inc., or Aspen Group, owns 100% of Aspen University Inc., a Delaware corporation, or Aspen. All references to we, our and us refer to Aspen Group, unless the context otherwise indicates. In referring to academic matters, these words refer solely to Aspen University Inc. On March 13, 2012, Aspen Group acquired Aspen in a transaction we refer to as the Reverse Merger.

#### Description of Business

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

Because we believe higher education should be a catalyst to our students' long-term economic success, we exert financial prudence by offering affordable tuition that is one of the greatest values in online higher education. Last year, Aspen University unveiled a monthly payment plan aimed at reversing the college-debt sentence plaguing working-class Americans. The monthly payment plan offers bachelor students (except nursing) 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.

In the 16 months since the announcement, 45% of courses are now paid through monthly payment methods (based on courses started in June, 2015). Aspen offers two monthly payment methods, a monthly payment plan described above 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 only while active in a 10-week course. As of July 10, 2015, Aspen has over 1,000 students paying tuition through monthly payment methods, which today equates to approximately \$200,000 of monthly recurring tuition revenue.

Aspen offers certificate programs and associate, bachelor, master and doctoral degree programs in a broad range of areas, including nursing, business, education, technology, and professional studies. In terms of enrollment growth

during fiscal year 2015, Aspen's full time, degree-seeking student body grew by 824 students, from 2,485 to 3,309 students. Aspen's School of Nursing grew by 546 students, from 828 to 1,374 students, which represented 66% of Aspen's fiscal year 2015 full-time degree-seeking student body growth.

One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 42% of our full-time degree-seeking students (as of April 30, 2015) were enrolled in Aspen's School of Nursing.

On November 10, 2014, Aspen University announced that the Commission on Collegiate Nursing Education (CCNE) had awarded accreditation to its Bachelor of Science in Nursing program (RN to BSN) through December 31, 2019. CCNE is officially recognized by the U.S. Department of Education (DOE) and is a nongovernmental accrediting agency, which provides specialized accreditation for nursing programs by ensuring the quality and integrity of nursing education in preparing effective nurses. This newly CCNE-accredited undergraduate RN to BSN 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. In fact, Aspen projects the BSN program to be the largest growth driver in the next 12 months, which we estimate will result in over 50% or the majority of Aspen's degree-seeking student body to be enrolled in the School of Nursing by early 2016.

Since 2008, Aspen's Master of Science in Nursing Program has held CCNE accreditation. The Master of Science in Nursing program most recently underwent accreditation review by CCNE in March 2011. At that time, the program's accreditation was reaffirmed, with a new accreditation term to expire December 30, 2021. We currently offer a variety of nursing degrees including: Master of Science in Nursing, Master of Science in Nursing - Nursing Education, Master of Science in Nursing - Nursing Administration and Management and Bachelor of Science in Nursing.

In addition to the specialized CCNE nursing program accreditation, since 1993 Aspen University has been accredited by the Distance Education Accrediting Commission ( DEAC ), a national institutional accrediting agency recognized by the DOE.<sup>1</sup> On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years through January 2019. Aspen University's accreditation is further discussed in the Accreditation Section of this Form 10-K.

Aspen University also maintains approvals from professional associations, such as its approval as a Global Charter Education Provider from the Project Management Institute ( PMI ), and as a Registered Education Provider (R.E.P.) of the PMI. The PMI recognizes select Aspen Project Management Courses as Professional Development Units. These courses help prepare individuals to sit for the Project Management Professional ( PMP ), certification examination. PMP certification is the project management profession's most recognized and respected certification credential. Project management professionals may take the PMI approved Aspen courses to fulfill continuing education requirements for maintaining their PMP certification.

Similarly, in connection with our Bachelor and Master degrees in Psychology of Addiction and Counseling, the National Association of Alcoholism and Drug Abuse Counselors, ( NAADAC ), has approved Aspen as an academic education provider. NAADAC-approved education providers offer training and education for those who are seeking to become certified, and those who want to maintain their certification, as alcohol and drug counselors. In connection with the approval process, NAADAC reviews all educational training programs for content applicability to state and national certification standards.

Aspen also is a participant in the U.S. DOE federal student aid programs. Beginning in 2009, and following Aspen's change of control in 2012, Aspen was provisionally certified to participate in the federal student aid programs authorized under Title IV Higher Education Act, or HEA. In order for Aspen to continue to participate in these programs, on February 9, 2015, based on DOE financial responsibility requirements, the DOE provided Aspen the option of posting a letter of credit equal to 50% of all Title IV funds received by Aspen in the last program year, \$2,244,971, to remain permanently certified, or remain provisionally certified by increasing Aspen's existing 25% letter of credit to \$1,122,485. Aspen informed the DOE on March 3, 2015 of its decision to remain provisionally certified and posted the \$1,122,485 letter of credit for the DOE on April 29, 2015. The DOE permits institutions that are provisionally certified pursuant to DOE financial responsibility requirements to participate in federal financial aid programs under provisional certification for up to three years. This is further discussed in the Regulation of Federal Student Financial Aid Programs Section of this Form 10-K.

**Competitive Strengths** - We believe that we have the following competitive strengths:

**Exclusively Online Education** - We have designed our courses and programs specifically for online delivery, and we recruit and train faculty exclusively for online instruction. We provide students the flexibility to study and interact at



times that suits their schedules. We design our online sessions and materials to be interactive, dynamic and user friendly.

**Debt Minimization** - We are committed to offering among the lowest tuition rates in the sector, which to date has alleviated the need for a significant majority of our students to borrow money to fund Aspen's tuition requirements. Aspen's course-by-course tuition rates are \$150/credit hour for degree-seeking undergraduate programs, \$325/credit hour for all master programs and the Bachelor of Science in Nursing (BSN) program and \$450/credit hour for all doctoral degree programs. These tuition rates are designed to allow students to pay their tuition through monthly payment plans, thereby having the opportunity to earn their degree debt free.

**Commitment to Academic Excellence** - We are committed to continuously improving our academic programs and services, as evidenced by the level of attention and resources we apply to instruction and educational support. We are committed to achieving high course completion and graduation rates compared to competitive distance learning, for-profit schools. 60% of our adjunct faculty members hold a doctorate degree. One-on-one contact with our highly experienced faculty brings knowledge and great perspective to the learning experience. Faculty members are available by telephone and email to answer questions, discuss assignments and provide help and encouragement to our students.

<sup>1</sup> DEAC was formerly known as the Distance Education and Training Council or DETC.

**Highly Scalable and Profitable Business Model** - We believe our online education model, our relatively low student acquisition costs, and our variable faculty cost model will enable us to expand our operating margins. If we increase student enrollments we will be able to scale on a variable basis the number of adjunct faculty members after we reach certain enrollment metrics (not before). A single adjunct faculty member can work with as little as two students or as many as 30 at any given time.

**One Student at a Time personal care** - We are committed to providing our students with highly responsive and personal individualized support. Every student is assigned an Academic Advisor who becomes an advocate for the student's success. Our one-on-one approach assures contact with faculty members when a student needs it and monitoring to keep them on course. Our administrative staff is readily available to answer any questions and works with a student from initial interest through the application process and enrollment, and most importantly while the student is pursuing a degree or studies.

## **Admissions**

In considering candidates for acceptance into any of our certificate or degree programs, we look for those who are serious about pursuing or advancing in a professional career, and who want to be both prepared and academically challenged in the process. We strive to maintain the highest standards of academic excellence, while maintaining a friendly learning environment designed for educational, personal and professional success. A desire to meet those standards is a prerequisite. Because our programs are designed for self-directed learners who know how to manage their time, successful students have a basic understanding of management principles and practices, as well as good writing and research skills. Admission to Aspen is based on thorough assessment of each applicant's potential to complete successfully the program. Additionally, we require students to complete an essay as part of their admission process as we are looking for students not only with the potential to succeed but also with the motivation to succeed.

## **Industry Overview**

The U.S. market for postsecondary education is a large, growing market. According to a 2012 publication by the National Center for Education Statistics, ( NCES ), the number of postsecondary learners enrolled as of Fall 2010 in U.S. institutions that participate in Title IV programs was approximately 21 million (including both undergraduate and graduate students), up from 18.2 million in the Fall of 2007. We believe the growth in postsecondary enrollment is a result of a number of factors, including the significant and measurable personal income premium that is attributable to postsecondary education, and an increase in demand by employers for professional and skilled workers.

According to the Integrated Postsecondary Education Data System ( IPEDS ) data managed by the DOE, the number of students that took at least one online course in fall 2012 was about 5.5 million -- roughly one-quarter of the total enrollment. Among those 5.5 million students, about 2.6 million were enrolled in fully online programs -- the rest took some traditional courses, some online. Additionally, the share of graduate students enrolled in fully online programs was twice as high as the share of undergraduates -- 22 to 11 percent.

## Competition

There are more than 4,200 U.S. colleges and universities serving traditional college age students and adult students. Any reference to universities herein also includes colleges. Competition is highly fragmented and varies by geography, program offerings, delivery method, ownership, quality level, and selectivity of admissions. No one institution has a significant share of the total postsecondary market. While we compete in a sense with traditional brick and mortar universities, our primary competitors are with online universities. Our online university competitors that are publicly traded include: Apollo Group, Inc. (Nasdaq: APOL), American Public Education, Inc. (Nasdaq: APEI), DeVry Inc. (NYSE: DV), Grand Canyon Education, Inc. (Nasdaq: LOPE), ITT Educational Services, Inc. (NYSE: ESI), Capella Education Company (Nasdaq: CPLA), Career Education Corporation (Nasdaq: CECO) and Bridgepoint Education, Inc. (NYSE: BPI). American Public Education, Inc. and Capella Education Company are wholly online while the others are not. Based upon public information, Apollo Group, which includes University of Phoenix, is the market leader with University of Phoenix having degree enrollments exceeding 200,000 students (based upon APOL's Form 10-Q filed on June 29, 2015). As of April 30, 2015, Aspen had 3,309 degree-seeking students enrolled. These competitors have substantially more financial and other resources.

The primary mission of most accredited four-year universities is to serve generally full-time students and conduct research. Aspen acknowledges the differences in the educational needs between working and full-time students at brick and mortar schools and provides programs and services that allow our students to earn their degrees without major disruption to their personal and professional lives.

We also compete with public and private degree-granting regionally and nationally accredited universities. An increasing number of universities enroll working students in addition to the traditional 18 to 24 year-old students, and we expect that these universities will continue to modify their existing programs to serve working learners more effectively, including by offering more distance learning programs. We believe that the primary factors on which we compete are the following:

active and relevant curriculum development that considers the needs of employers;

the ability to provide flexible and convenient access to programs and classes;

high-quality courses and services;

comprehensive student support services;

breadth of programs offered;

the time necessary to earn a degree;

qualified and experienced faculty;

reputation of the institution and its programs;

the variety of geographic locations of campuses;

regulatory approvals;

cost of the program;

name recognition; and

convenience.

### **Curricula**

#### **Certificates**

Certificate in Project Management

#### **Associates Degrees**

Associate of Applied Science Early Childhood Education

#### **Bachelor's Degrees**

Bachelor of Arts in Psychology and Addiction Counseling

Bachelor of Science in Business Administration

Bachelor of Science in Business Administration, (Completion Program)

Bachelor of Science in Criminal Justice

Bachelor of Science in Criminal Justice, (Completion Program)

Bachelor of Science in Criminal Justice with specializations in Criminal Justice Administration and  
Major Crime Investigation Procedure

Bachelor of Science in Early Childhood Education

Bachelor of Science in Early Childhood Education, (Completion Program)

Bachelor of Science in Medical Management

Bachelor of Science in Nursing

**Master s Degrees**

Master of Arts Psychology and Addiction Counseling

Master of Science in Criminal Justice

Master of Science in Criminal Justice with specializations in Forensic Sciences, Law Enforcement Management, and Terrorism and Homeland Security

Master of Science in Information Management

Master of Science in Information Systems with a specializations in Enterprise Application Development and Web Development

Master of Science in Information Technology

Master of Science in Nursing with a specialization in Administration and Management and Administration and Management (RN to MSN Bridge Program)

Master of Science in Nursing with a specialization in Nursing Education and Nursing Education (RN to MSN Bridge Program)

Master of Science in Technology and Innovation Master in Business Administration

Master in Business Administration with specializations in:

Entrepreneurship,

Finance,

Information Management,

Pharmaceutical Marketing and Management, and

Project Management

Master in Education with specializations in:

Curriculum Development and Outcomes Assessment,

Education Technology, and

Transformational Leadership

### **Doctorate Degrees**

Doctorate of Science in Computer Science

Doctorate in Education Leadership and Learning

Independent online classes start on alternating Tuesday s every month.

### **Sales and Marketing**

Following Mr. Michael Mathews becoming Aspen s Chief Executive Officer in May 2011, Mr. Mathews and his team has made significant changes to Aspen s sales and marketing program, specifically spending a significant amount of time, money and resources on our proprietary Internet marketing program. What is unique about Aspen s internet marketing program is that we have no plans in the near future to utilize third-party online lead generation companies to attract prospective students. To our knowledge, most if not all for-profit online universities utilize multiple third-party online lead generation companies to obtain a meaningful percentage of their prospective student leads. Aspen s executive officers have many years of expertise in the online lead generation and internet advertising industry, which for the foreseeable future will allow Aspen to cost-effectively drive all prospective student leads internally. This is a competitive advantage for Aspen because third-party leads are typically unbranded and non-exclusive (lead generation firms typically sell prospective student leads to multiple universities), therefore the conversion rate for those leads tends to be appreciably lower than internally generated, Aspen branded, proprietary leads.

### **New Student Enrollment**

Aspen has updated its definition of a new student enrollment to only report those new students that complete their first seven day assignment of their first course in their degree program. Based on that definition, below is a quarterly analysis of new student enrollments for the past five quarters, including the recent quarter ending April 30, 2015.

Note that in the recent quarter ending April 30, 2015, new student enrollments were up 89% year-over-year, from 235 to 444.

### **New Student Enrollments**

Fiscal Quarter End April 30, 2014	235
Fiscal Quarter End July 31, 2014	226
Fiscal Quarter End October 31, 2014	265
Fiscal Quarter End January 31, 2015	315
Fiscal Quarter End April 30, 2015	444

### **Employees**

As of July 28, 2015, we had 53 full-time employees, and 71 adjunct professors. None of our employees are parties to any collective bargaining arrangement. We believe our relationships with our employees are good.

### **Corporate History**

Aspen Group was incorporated on February 23, 2010 in Florida as a home improvement company intending to develop products and sell them on a wholesale basis to home improvement retailers. In June 2011, Aspen Group changed its name to Elite Nutritional Brands, Inc. and terminated all operations. In February 2012, Aspen Group reincorporated in Delaware under the name Aspen Group, Inc.



Aspen was incorporated on September 30, 2004 in Delaware. Its predecessor was a Delaware limited liability company organized in Delaware in 1999. In May 2011, Aspen merged with Education Growth Corporation, or EGC. Aspen survived the EGC merger. EGC was a start-up company controlled by Mr. Michael Mathews. Mr. Mathews became Aspen's Chief Executive Officer upon closing the EGC merger. On March 13, 2012, Aspen Group acquired Aspen in the Reverse Merger.

## **Regulation**

Students attending Aspen finance their education through a combination of individual resources, corporate reimbursement programs and federal financial aid programs. The discussion which follows outlines the extensive regulations that affect our business. Complying with these regulations entails significant effort from our executives and other employees. Our Chief Academic Officer has two unique roles: overseeing our accreditation and regulatory compliance and seeking to improve our academic performance. Accreditation and regulatory compliance is also expensive. Beyond the internal costs, we began using education regulatory counsel in the summer of 2011, as our current Chief Executive Officer focused his attention on compliance. Aspen participates in the federal student financial aid programs authorized under Title IV. For the fiscal year ended April 30, 2015, approximately 33% of our cash-basis revenues for eligible tuition and fees were derived from Title IV programs. In connection with a student's receipt of Title IV aid, we are subject to extensive regulation by the DOE, state education agencies and the DEAC. In particular, the Title IV programs, and the regulations issued thereunder by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that we must satisfy. To participate in Title IV programs, a school must, among other things, be:

authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located (in our case, Colorado);

accredited by an accrediting agency recognized by the Secretary of the DOE; and

certified as an eligible institution by the DOE.

The DOE enacted regulations relating to the Title IV programs which became effective July 1, 2011. Under these new regulations, an institution, like ours, that offers postsecondary education through distance education to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by that state, must meet any state requirements to offer legally postsecondary education to students in that

state. The institution must be able to document state approval for distance education if requested by the DOE.

This regulation has been recognized as a significant departure from the state authorization procedures followed by most, if not all, institutions before its enactment. Although these new rules became effective July 1, 2011, the DOE indicated in an April 20, 2011 guidance letter that it would not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities undertaken before July 1, 2014, provided the institution was making a good faith effort to identify and obtain necessary state authorization before that date. However, on July 12, 2011, a federal judge for the U.S. District Court for the District of Columbia vacated the portion of the DOE's state authorization regulation that requires online education providers to obtain any required authorization from all states in which their students reside, finding that the DOE had failed to provide sufficient notice and opportunity to comment on the requirement. An appellate court affirmed that ruling on June 5, 2012 and therefore this new regulation is currently invalid. On April 16, 2013, the DOE announced its intention to revisit the state authorization requirements for postsecondary distance education in a new negotiated rulemaking process which began in the fall of 2013.

However, the rulemaking process failed to reach consensus on the rule in May 2014. Subsequently, in June 2014, the DOE announced it will pause on issuing a new state authorization for distance education regulation. As a result, there currently is no federal regulation or federal deadline for state authorization, but a new proposal is expected during 2015. If the DOE reinstates the federal regulation, educational institutions without state authorization may be asked to reimburse federal financial aid funds.

In addition, a state may impose penalties on an institution for failure to comply with state requirements related to an institution's activities in a state, including the delivery of distance education to persons in that state.

Because we are subject to extensive regulations by the states in which we become authorized or licensed to operate, we must abide by state laws that typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees. Some states may also prescribe financial regulations that are different from those of the DOE. If we fail to comply with state licensing requirements, we may lose our state licensure or authorizations. Failure to comply with state requirements could result in Aspen losing its authorization from the Colorado Commission on Higher Education, a department of the Colorado Department of Higher Education, ( CDHE ), its eligibility to participate in Title IV programs, or its ability to offer certain programs, any of which may force us to cease operations.

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

## **Accreditation**

Aspen is accredited by the DEAC, an accrediting agency recognized by the DOE. Accreditation is a non-governmental system for recognizing educational institutions and their programs for student performance, governance, integrity, educational quality, faculty, physical resources, administrative capability and resources, and financial stability. In the U.S., this recognition comes primarily through private voluntary associations that accredit institutions and programs. To be recognized by the DOE, accrediting agencies must adopt specific standards for their review of educational institutions. Accrediting agencies establish criteria for accreditation, conduct peer-review evaluations of institutions and programs for accreditation, and publicly designate those institutions or programs that meet their criteria. Accredited institutions are subject to periodic review by accrediting agencies to determine whether such institutions maintain the performance, integrity and quality required for accreditation.

Accreditation by the DEAC is important. Accreditation is a reliable indicator of an institution's quality and is an expression of peer institution confidence. Universities depend, in part, on accreditation in evaluating transfers of credit and applications to graduate schools. Accreditation also provides external recognition and status. Employers rely on the accredited status of institutions when evaluating an employment candidate's credentials. Corporate and government sponsors under tuition reimbursement programs look to accreditation for assurance that an institution maintains quality educational standards. Moreover, institutional accreditation awarded from an accrediting agency recognized by the DOE is necessary for eligibility to participate in Title IV programs. From time to time, DEAC adopts or makes changes to its policies, procedures and standards. If we fail to comply with any of DEAC's requirements, our accreditation status and, therefore, our eligibility to participate in Title IV programs could be at risk. In 2012, the National Advisory Committee on Institutional Quality and Integrity (the panel charged with advising DOE on whether to recognize accrediting agencies for federal purposes, including Title IV program purposes) recommended that DEAC receive recognition through 2017. On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years to January, 2019.

## **Nature of Federal, State and Private Financial Support for Postsecondary Education**

An institution that applies to participate in Title IV programs for the first time, if approved, will be provisionally certified for no more than one complete award year. Furthermore, an institution that undergoes a change in ownership resulting in a change of control must apply to the DOE in order to reestablish its eligibility to participate in Title IV

programs. If the DOE determines to approve the application, it issues a provisional certification, which extends for a period expiring not later than the end of the third complete award year following the date of the provisional certification. A provisionally certified institution, such as Aspen, must apply for and receive DOE approval of substantial changes and must comply with any additional conditions included in its program participation agreement. If the DOE determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, the DOE may seek to revoke the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified.

The federal government provides a substantial part of its support for postsecondary education through the Title IV programs, in the form of grants and loans to students. Students can use those funds at any institution that has been certified by the DOE to participate in the Title IV programs. Aid under Title IV programs is primarily awarded on the basis of financial need, generally defined as the difference between the cost of attending the institution and the amount a student can reasonably contribute to that cost. All recipients of Title IV program funds must maintain satisfactory academic progress and must progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students.

Aspen's mission is to offer students the opportunity to fund their education without relying on student loans. Last year, Aspen launched a \$325 monthly payment plan for master students, a \$250 monthly payment plan for bachelor students, and subsequently a \$375 monthly payment plan for doctoral students. In the month of June 2015, 45% of class starts were paid through monthly payment methods.

When our students borrow from the federal government, they receive loans and grants to fund their education under the following Title IV programs: (1) the Federal Direct Loan program, or Direct Loan and (2) the Federal Pell Grant program, or Pell. For the fiscal year ended April 30, 2015, approximately 33% of our cash-basis revenues for eligible tuition and fees were derived from Title IV programs. Therefore, the majority of Aspen students self-finance all or a portion of their education. Additionally, students may receive full or partial tuition reimbursement from their employers. Eligible students can also access private loans through a number of different lenders for funding at current market interest rates.

Under the Direct Loan program, the DOE makes loans directly to students. The Direct Loan Program includes the Direct Subsidized Loan, the Direct Unsubsidized Loan, the Direct PLUS Loan (including loans to graduate and professional students), and the Direct Consolidation Loan. The Budget Control Act of 2011 signed into law in August 2011, eliminated Direct Subsidized Loans for graduate and professional students, as of July 1, 2012. The terms and conditions of subsidized loans originated prior to July 1, 2012 are unaffected by the law.

For Pell grants, the DOE makes grants to undergraduate students who demonstrate financial need. To date, few Aspen students have received Pell Grants. Accordingly, the Pell Grant program currently is not material to Aspen's cash revenues.

### **Regulation of Federal Student Financial Aid Programs**

The substantial amount of federal funds disbursed through Title IV programs, the large number of students and institutions participating in these programs, and allegations of fraud and abuse by certain for-profit institutions have prompted the DOE to exercise considerable regulatory oversight over for-profit institutions of higher learning. Accrediting agencies and state education agencies also have responsibilities for overseeing compliance of institutions in connection with Title IV program requirements. As a result, our institution is subject to extensive oversight and review. Because the DOE periodically revises its regulations and changes its interpretations of existing laws and regulations, we cannot predict with certainty how the Title IV program requirements will be applied in all circumstances. See the **Risk Factors** contained herein which disclose comprehensive regulatory risks.

In addition to the state authorization requirements and other regulatory requirements described herein, other significant factors relating to Title IV programs that could adversely affect us include the following legislative action and regulatory changes:

Congress reauthorizes the Higher Education Act approximately every five to eight years. Congress most recently reauthorized the Higher Education Act in August 2008. We cannot predict with certainty whether or when Congress

might act to amend further the Higher Education Act. The elimination of additional Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different programs could increase our costs of compliance and could reduce the ability of certain students to finance their education at our institution.

On December 23, 2011, President Obama signed into law the Consolidated Appropriations Act of 2012, or the Act. The law includes a number of provisions that significantly affect the Title IV programs. For example, it reduces the income threshold at which students are assigned an automatic zero expected family contribution for purposes of awarding financial aid for the 2012-2013 award year. Under the Act, students who do not have a high school diploma or a recognized equivalent (e.g., GED) or do not meet an applicable home school requirement and who first enroll in a program of study on or after July 1, 2012 are not eligible to receive Title IV aid. The Act also made certain changes to the Pell Grant Program and temporarily eliminates the interest subsidy that is provided for Direct Subsidized Loans during the six-month grace period immediately following termination of enrollment.

Over the last several years, Congressional committees have held hearings related to for-profit postsecondary education institutions. Additionally, the chairmen of the House and Senate education committees, along with other members of Congress, asked the GAO, to review various aspects of the for-profit education sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the degree to which for-profit schools' revenue is comprised of Title IV and other federal funding sources. In 2010, the GAO released a report based on a three-month undercover investigation of recruiting practices at for-profit schools. The report concluded that employees at a non-random sample of 15 for-profit schools (which did not include Aspen) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, or financial aid. On October 31, 2011, the GAO released a second report following an additional undercover investigation related to enrollment, cost, financial aid, course structure, substandard student performance, withdrawal, and exit counseling. The report concluded that while some of the 15 unidentified for-profit schools investigated appeared to follow existing policies, others did not. Although the report identified a number of deficiencies in specific instances, it made no recommendations. On December 7, 2011, the GAO released a report that attempted to compare the quality of education provided by for-profit, nonprofit, and public institutions based upon multiple outcome measures including graduation rates, pass rates on licensing exams, employment outcomes, and student loan default rates. The report found that students at for-profit institutions had higher graduation rates for certificate programs, similar graduation rates for associate's degree programs, and lower graduation rates for bachelor's degree programs than students at nonprofit and public institutions. It also found that a higher proportion of bachelor's degree recipients from for-profit institutions took out loans than did degree recipients from other institutions and that some evidence exists that students at for-profit institutions default on their student loans at higher rates. On nine of the ten licensing exams reviewed, graduates of for-profit institutions had lower pass rates than students from nonprofit and public institutions.

The DOE currently is in the process of developing proposed regulations to amend regulations pertinent to the Title IV loan programs and teacher education. We are unable to predict the timing or the proposed or final form of any regulations that the DOE ultimately may adopt and the impact of such regulations on our business.

Administrative Capability. DOE regulations specify extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. Failure to satisfy any of the standards may lead the DOE to find the institution ineligible to participate in Title IV programs or to place the institution on provisional certification as a condition of its participation. To meet the administrative capability standards, an institution must, among other things:

comply with all applicable Title IV program regulations;

have capable and sufficient personnel to administer the federal student financial aid programs;

have acceptable methods of defining and measuring the satisfactory academic progress of its students;

have cohort default rates above specified levels;

have various procedures in place for safeguarding federal funds;

not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;

provide financial aid counseling to its students;

refer to the DOE's Office of Inspector General any credible information indicating that any applicant, student, employee, or agent of the institution, has been engaged in any fraud or other illegal conduct involving Title IV programs;

report annually to the Secretary of Education on any reasonable reimbursements paid or provided by a private education lender or group of lenders to any employee who is employed in the institution's financial aid office or who otherwise has responsibilities with respect to education loans;

develop and apply an adequate system to identify and resolve conflicting information with respect to a student's application for Title IV aid;

submit in a timely manner all reports and financial statements required by the regulations; and

not otherwise appear to lack administrative capability.

Among other things, DOE regulations require that an institution must evaluate satisfactory academic progress (1) at the end of each payment period if the length of the educational program is one academic year or less or (2) for all other educational programs, at the end of each payment period or at least annually to correspond to the end of a



payment period. Second, the DOE regulations add an administrative capability standard related to the existing requirement that students must have a high school diploma or its recognized equivalent in order to be eligible for Title IV aid. Under the administrative capability standard, institutions must develop and follow procedures for evaluating the validity of a student's high school diploma if the institution or the Secretary of Education has reason to believe that the student's diploma is not valid.

If an institution fails to satisfy any of these criteria or any other DOE regulation, the DOE may:

require the repayment of Title IV funds;

transfer the institution from the “advance” system of payment of Title IV funds to cash monitoring status or to the “reimbursement” system of payment;

place the institution on provisional certification status; or

commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs.

If we are found not to have satisfied the DOE’s “administrative capability” requirements, we could lose, or be limited in our access to, Title IV program funding.

Distance Education. We offer all of our existing degree and certificate programs via Internet-based telecommunications from our headquarters in Colorado. Under the Higher Education Opportunity Act, or HEOA, an accreditor that evaluates institutions offering distance education must require such institutions to have processes through which the institution establishes that a student who registers for a distance education program is the same student who participates in and receives credit for the program. Under DOE regulations, if an institution offers postsecondary education through distance education to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state, the institution must meet any state requirements for it to offer legally postsecondary distance education in that state. The institution must be able to document state approval for distance education if requested by the DOE. In addition, states must have a process to review and take appropriate action on complaints concerning postsecondary institutions. As previously discussed herein, these regulations have been vacated by a federal court. However, if the DOE reinstates these regulations or creates similar regulations, educational institutions without state authorization may be asked to reimburse federal financial aid funds.

Financial Responsibility. The Higher Education Act and DOE regulations establish extensive standards of financial responsibility that institutions such as Aspen must satisfy to participate in Title IV programs. These standards

generally require that an institution provide the resources necessary to comply with Title IV program requirements and meet all of its financial obligations, including required refunds and any repayments to the DOE for liabilities incurred in programs administered by the DOE.

The DOE evaluates institutions on an annual basis for compliance with specified financial responsibility standards that include a complex formula that uses line items from the institution's audited financial statements. In addition, the financial responsibility standards require an institution to receive an unqualified opinion from its accountants on its audited financial statements, maintain sufficient cash reserves to satisfy refund requirements, meet all of its financial obligations, and remain current on its debt payments. The formula focuses on three financial ratios: (1) equity ratio (which measures the institution's capital resources, financial viability, and ability to borrow); (2) primary reserve ratio (which measures the institution's viability and liquidity); and (3) net income ratio (which measures the institution's profitability or ability to operate within its means). An institution's financial ratios must yield a composite score of at least 1.5 for the institution to be deemed financially responsible without the need for further federal oversight. The DOE may also apply such measures of financial responsibility to the operating company and ownership entities of an eligible institution.

For fiscal year 2014 (ending April 30, 2014), Aspen did not meet the financial responsibility standards due to a failure to meet the minimum composite score of 1.5. Consequently, in order for Aspen to continue to participate in the Title IV, HEA programs, we were required to choose one of two alternatives. The first alternative was to qualify as a financially responsible institution by submitting an irrevocable letter of credit in the amount of \$2,244,971, which represented 50% of the HEA Title IV program funds received by the institution during the recently completed fiscal year (April 30, 2014). The second alternative was to post a letter of credit in the amount of \$1,122,485 and be provisionally certified for a period of up to three complete award years. This amount represented 25% of the HEA Title IV program funds received by the institution during the most recently completed fiscal year (April 30, 2014). Aspen University selected the second alternative and posted the required letter of credit in the amount of \$1,122,485 on April 29, 2015. In addition to posting a 25% letter of credit on April 29, 2015, Aspen is currently subject to Heightened Cash Monitoring 1 (HCM1) status, which requires the institution to first make disbursements to eligible students and parents before it requests for or receives funds for the amount of those disbursements from the DOE.

In late-July, 2015, Aspen reported its financial results to the DOE with an estimated composite score based on those financial results of 1.6 for the fiscal year ended April 30, 2015. Following the DOE's formal review later this calendar year, and assuming the DOE concurs with Aspen's calculations, Aspen would qualify as a financially responsible institution relative to the financial responsibility standard.

Note that the DOE's qualification standards of a financially responsible institution are significantly broader than the Financial Ratio standard, including the acid test ratio, going concern audit opinion and standards related to administrative capability, among others. Although Aspen has reported to the DOE that it has passed the minimum composite score necessary to meet the Financial Ratio standard, the DOE may determine that Aspen's calculation is incorrect, and/or it may determine that Aspen continues to not meet other financial responsibility standards. If the DOE were to continue to determine that we do not meet its financial responsibility standards, we may be able to continue to establish financial responsibility on an alternative basis. Alternative bases include, for example:

posting a letter of credit in an amount equal to at least 50% of the total Title IV program funds received by us during our most recently completed fiscal year;

posting a letter of credit in an amount equal to at least 10% of such prior year's Title IV program funds received by us, accepting provisional certification, complying with additional DOE monitoring requirements and agreeing to receive Title IV program funds under an arrangement other than the DOE's standard advance payment arrangement such as the "reimbursement" system of payment or cash monitoring; or

complying with additional DOE monitoring requirements and agreeing to receive Title IV program funds under an arrangement other than the DOE's standard advance payment arrangement such as the reimbursement system of payment or cash monitoring.

Failure to meet the DOE's financial responsibility requirements, either because we do not meet the DOE's financial responsibility standards or are unable to establish financial responsibility on an alternative basis, would cause us to lose access to Title IV program funding.

Consistent with the Higher Education Act, Aspen's certification to participate in Title IV programs terminated after closing of the Reverse Merger. The DOE received Aspen's application and initially extended the provisional certification through April 15, 2015. When Aspen University posted its most recent letter of credit on April 29, 2015, the DOE extended Aspen's provisional certification for a period of up to three complete award years. In the future, the DOE may impose additional or different terms and conditions in any final or provisional program participation agreement that it may issue.

Third-Party Servicers. DOE regulations permit an institution to enter into a written contract with a third-party servicer for the administration of any aspect of the institution's participation in Title IV programs. The third-party servicer

must, among other obligations, comply with Title IV requirements and be jointly and severally liable with the institution to the Secretary of Education for any violation by the servicer of any Title IV provision. An institution must report to the DOE new contracts with or any significant modifications to contracts with third-party servicers as well as other matters related to third-party servicers. We contract with a third-party servicer which performs certain activities related to our participation in Title IV programs. If our third-party servicer does not comply with applicable statutes and regulations including the Higher Education Act, we may be liable for its actions, and we could lose our eligibility to participate in Title IV programs.

Title IV Return of Funds. Under the DOE's return of funds regulations, when a student withdraws, an institution must return unearned funds to the DOE in a timely manner. An institution must first determine the amount of Title IV program funds that a student earned. If the student withdraws during the first 60% of any period of enrollment or payment period, the amount of Title IV program funds that the student earned is equal to a pro rata portion of the funds for which the student would otherwise be eligible. If the student withdraws after the 60% threshold, then the student has earned 100% of the Title IV program funds. The institution must return to the appropriate Title IV programs, in a specified order, the lesser of (i) the unearned Title IV program funds and (ii) the institutional charges incurred by the student for the period multiplied by the percentage of unearned Title IV program funds. An institution must return the funds no later than 45 days after the date of the institution's determination that a student withdrew. If such payments are not timely made, an institution may be subject to adverse action, including being required to submit a letter of credit equal to 25% of the refunds the institution should have made in its most recently completed year. Under DOE regulations, late returns of Title IV program funds for 5% or more of students sampled in the institution's annual compliance audit constitutes material non-compliance. Aspen's academic calendar structure is a non-standard term with rolling start dates with defined length of term (10 week term).

The 90/10 Rule. A requirement of the Higher Education Act commonly referred to as the 90/10 Rule, applies only to proprietary institutions of higher education, which includes Aspen. An institution is subject to loss of eligibility to participate in the Title IV programs if it derives more than 90% of its revenues (calculated on a cash basis and in accordance with a DOE formula) from Title IV programs for two consecutive fiscal years. An institution whose rate exceeds 90% for any single fiscal year will be placed on provisional certification for at least two fiscal years and may be subject to other conditions specified by the Secretary of the DOE. For Aspen's most recent fiscal year ending April 30, 2015, only 33% of our revenue was derived from Title IV programs.

**Student Loan Defaults.** Under the Higher Education Act, an education institution may lose its eligibility to participate in some or all of the Title IV programs if defaults on the repayment of Direct Loan Program loans by its students exceed certain levels. For each federal fiscal year, a rate of student defaults (known as a cohort default rate) is calculated for each institution with 30 or more borrowers entering repayment in a given federal fiscal year by determining the rate at which borrowers who become subject to their repayment obligation in that federal fiscal year default by the end of the following federal fiscal year. For such institutions, the DOE calculates a single cohort default rate for each federal fiscal year that includes in the cohort all current or former student borrowers at the institution who entered repayment on any Direct Loan Program loans during that year.

If the DOE notifies an institution that its cohort default rates for each of the three most recent federal fiscal years are 25% or greater, the institution's participation in the Direct Loan Program and the Federal Pell Grant Program ends 30 days after the notification, unless the institution appeals in a timely manner that determination on specified grounds and according to specified procedures. In addition, an institution's participation in Title IV ends 30 days after notification that its most recent fiscal year cohort default rate is greater than 40%, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution whose participation ends under these provisions may not participate in the relevant programs for the remainder of the fiscal year in which the institution receives the notification, as well as for the next two fiscal years.

If an institution's cohort default rate equals or exceeds 25% in any single year, the institution may be placed on provisional certification status. Provisional certification does not limit an institution's access to Title IV program funds; however, an institution with provisional status is subject to closer review by the DOE and may be subject to summary adverse action if it violates Title IV program requirements. If an institution's default rate exceeds 40%, the institution may lose eligibility to participate in some or all Title IV programs. Since Aspen has only recently begun to participate in Title IV programs and our certification limits the number of Aspen students who may receive Title IV aid, we have limited reporting data on our cohort default rates for the three most recent federal fiscal years for which cohort default rates have been officially calculated, namely 2009, 2010 and 2011. As a result of Aspen's recent participation in Title IV programs, the DOE only has calculated Aspen University's official cohort default for fiscal year 2011. This rate is 3%.

HEOA extended by one year the period for measuring the cohort default rate, effective with cohort default rates for federal fiscal year 2009. Currently, institutions that have two-year cohort default rates of 25% or more for each of their three most recent years, or of 40% in any one year, will lose eligibility for Title IV student aid programs; beginning in 2014, institutions that have three-year cohort default rates of 30% or higher for three consecutive years, or of more than 40% in any given year, will lose eligibility for those programs. For the reasons stated above, the DOE has not calculated a three-year cohort default rate for Aspen.

**Incentive Compensation Rules.** As a part of an institution's program participation agreement with the DOE and in accordance with the Higher Education Act, an institution may not provide any commission, bonus or other incentive payment to any person or entity engaged in any student recruitment, admissions or financial aid awarding activity

based directly or indirectly on success in securing enrollments or financial aid. Failure to comply with the incentive payment rule could result in termination of participation in Title IV programs, limitation on participation in Title IV programs, or financial penalties. Aspen believes it is in compliance with the incentive payment rule.

In recent years, other postsecondary educational institutions have been named as defendants to whistleblower lawsuits, known as *qui tam* cases, brought by current or former employees pursuant to the Federal False Claims Act, alleging that their institution's compensation practices did not comply with the incentive compensation rule. A *qui tam* case is a civil lawsuit brought by one or more individuals, referred to as a relator, on behalf of the federal government for an alleged submission to the government of a false claim for payment. The relator, often a current or former employee, is entitled to a share of the government's recovery in the case, including the possibility of treble damages. A *qui tam* action is always filed under seal and remains under seal until the government decides whether to intervene in the case. If the government intervenes, it takes over primary control of the litigation. If the government declines to intervene in the case, the relator may nonetheless elect to continue to pursue the litigation at his or her own expense on behalf of the government. Any such litigation could be costly and could divert management's time and attention away from the business, regardless of whether a claim has merit.

The GAO released a report finding that the DOE has inadequately enforced the current ban on incentive payments. In response, the DOE has undertaken to increase its enforcement efforts by, among other approaches, strengthening procedures provided to auditors reviewing institutions for compliance with the incentive payments ban and updating its internal compliance guidance in light of the GAO findings and the recently amended DOE incentive payment rule.

Code of Conduct Related to Student Loans. As part of an institution's program participation agreement with the DOE, HEOA requires that institutions that participate in Title IV programs adopt a code of conduct pertinent to student loans. For financial aid office or other employees who have responsibility related to education loans, the code must forbid, with limited exceptions, gifts, consulting arrangements with lenders, and advisory board compensation other than reasonable expense reimbursement. The code also must ban revenue-sharing arrangements, opportunity pools that lenders offer in exchange for certain promises, and staffing assistance from lenders. The institution must post the code prominently on its website and ensure that its officers, employees, and agents who have financial aid responsibilities are informed annually of the code's provisions. Aspen has adopted a code of conduct under the HEOA which is posted on its website. In addition to the code of conduct requirements that apply to institutions, HEOA contains provisions that apply to private lenders, prohibiting such lenders from engaging in certain activities as they interact with institutions. Failure to comply with the code of conduct provision could result in termination of our participation in Title IV programs, limitations on participation in Title IV programs, or financial penalties.

Misrepresentation. The Higher Education Act and current regulations authorize the DOE to take action against an institution that participates in Title IV programs for any substantial misrepresentation made by that institution regarding the nature of its educational program, its financial charges, or the employability of its graduates. Effective July 1, 2011, DOE regulations expanded the definition of substantial misrepresentation to cover additional representatives of the institution and additional substantive areas and expands the parties to whom a substantial misrepresentation cannot be made. The regulations also augment the actions the DOE may take if it determines that an institution has engaged in substantial misrepresentation. Under the final regulations, the DOE may revoke an institution's program participation agreement, impose limitations on an institution's participation in Title IV programs, or initiate proceedings to impose a fine or to limit, suspend, or terminate the institution's participation in Title IV programs.

Credit Hours. The Higher Education Act and current regulations use the term credit hour to define an eligible program and an academic year and to determine enrollment status and the amount of Title IV aid an institution may disburse during a payment period. Recently, both Congress and the DOE have increased their focus on institutions' policies for awarding credit hours. Recent DOE regulations define the previously undefined term credit hour in terms of a certain amount of time in class and outside class, or an equivalent amount of work. The regulations also require accrediting agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the DOE determines that an institution is out of compliance with the credit hour definition, the DOE could require the institution to repay the incorrectly awarded amounts of Title IV aid. In addition, if the DOE determines that an institution has significantly overstated the amount of credit hours assigned to a program, the DOE may fine the institution, or limit, suspend, or terminate its participation in the Title IV programs.

Compliance Reviews. We are subject to announced and unannounced compliance reviews and audits by various external agencies, including the DOE, its Office of Inspector General, state licensing agencies, and accrediting agencies. As part of the DOE's ongoing monitoring of institutions' administration of Title IV programs, the Higher Education Act and DOE regulations require institutions to submit annually a compliance audit conducted by an independent certified public accountant in accordance with Government Auditing Standards and applicable audit



standards of the DOE. These auditing standards differ from those followed in the audit of our financial statements contained herein. In addition, to enable the DOE to make a determination of financial responsibility, institutions must annually submit audited financial statements prepared in accordance with DOE regulations. Furthermore, the DOE regularly conducts program reviews of education institutions that are participating in the Title IV programs, and the Office of Inspector General of the DOE regularly conducts audits and investigations of such institutions. In August 2010, the Secretary of Education announced in a letter to several members of Congress that, in part in response to recent allegations against proprietary institutions of deceptive trade practices and noncompliance with DOE regulations, the DOE planned to strengthen its oversight of Title IV programs through, among other approaches, increasing the number of program reviews by 50%, from 200 conducted in 2010 to up to 300 reviews in 2011. Pending legislation including the Students First Act introduced in the United States Senate on February 28, 2013, would if passed increase the number of program reviews for various institutions deemed at-risk of violating DOE requirements.

Potential Effect of Regulatory Violations. If we fail to comply with the regulatory standards governing Title IV programs, the DOE could impose one or more sanctions, including transferring Aspen to the reimbursement or cash monitoring system of payment, seeking to require repayment of certain Title IV program funds, requiring Aspen to post a letter of credit in favor of the DOE as a condition for continued Title IV certification, taking emergency action against us, referring the matter for criminal prosecution or initiating proceedings to impose a fine or to limit, condition, suspend or terminate our participation in Title IV programs.

We also may be subject, from time to time, to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties, such as present or former students or employees and other members of the public.

Restrictions on Adding Educational Programs. State requirements and accrediting agency standards may, in certain instances, limit our ability to establish additional programs. Many states require approval before institutions can add new programs under specified conditions. The Colorado Commission on Higher Education, and other state educational regulatory agencies that license or authorize us and our programs, may require institutions to notify them in advance of implementing new programs, and upon notification may undertake a review of the institution's licensure or authorization.

In addition, we were advised by the DOE that because we were provisionally certified due to being a new Title IV program participant, we could not add new degree or non-degree programs for Title IV program purposes, except under limited circumstances and only if the DOE approved such new program, until the DOE reviewed a compliance audit that covered one complete fiscal year of Title IV program participation. That fiscal year ended on December 31, 2010, and we timely submitted our compliance audit and financial statements to the DOE. In addition, in June 2011, Aspen timely applied for recertification to participate in Title IV programs. The DOE extended Aspen's provisional certification until September 30, 2013. Aspen re-applied as of June 30, 2013 to continue its participation in the Title IV HEA programs. On February 9, 2015, the DOE notified Aspen that it had the choice of posting a letter of credit for 25% of all Title IV funds and remain provisionally certified or post a 50% letter of credit and become permanently certified. We elected to post a 25% letter of credit and remain provisionally certified increasing our letter of credit to \$1,122,485. In the future, the DOE may impose additional or different terms and conditions in any final program participation agreement that it may issue, including growth restrictions or limitation on the number of students who may receive Title IV aid.

Recent DOE regulations establish a new process under which an institution must apply for approval to offer a program that, under the Higher Education Act, must prepare students for gainful employment in a recognized occupation in order to be eligible for Title IV funds. An institution must notify the DOE at least 90 days before the first day of classes when it intends to add a program that prepares students for gainful employment. The DOE may, as a condition of certification to participate in Title IV programs, require prior approval of programs or otherwise restrict the number of programs an institution may add.

DEAC requires pre-approval of new courses, programs, and degrees that are characterized as a substantive change. An institution must obtain written notice approving such change before it may be included in the institution's grant of accreditation. An institution is further prohibited from advertising or posting on its website information about the course or program before it has received approval. The process for obtaining approval generally requires submission of a report and course materials and may require a follow-up on-site visit by an examining committee.

Gainful Employment. Under the Higher Education Act, proprietary schools are eligible to participate in Title IV programs only in respect of education programs that lead to gainful employment in a recognized occupation. Under the DOE rules, with respect to each gainful employment program, a proprietary institution of higher education must disclose to prospective students with the identities of the occupations that the program prepares students to enter, total program cost, on-time completion rate, job placement rate (if applicable), and median loan debt of students who complete the program. Under the new program requirements, institutions are required to notify the DOE at least 90 days before the commencement of new gainful employment programs which must include information on the demand for the program, a wage analysis, an institutional program review and approval process, and a demonstration of accreditation. While the DOE had issued various additional reporting regulations, requiring institutions to annually submit information to the DOE regarding each enrolled student, including the amount of debt incurred, those reporting regulations were vacated in the June 2011 court decision discussed earlier herein, which was affirmed on appeal; new reporting regulations are expected to issue at some point. Institutions need not disclose or report gainful employment information on programs that are not eligible to participate in Title IV programs.

As part of the negotiated rulemaking process under the Higher Education Act, gainful employment rulemaking negotiations began in the fall of 2013 and continued into 2014. However, the negotiators failed to reach consensus on gainful employment rules. As a result, the DOE proposed a new gainful employment rule which it released in March 2014 for public comment, and on October 31, 2014, the DOE published the final regulation which went into effect on July 1, 2015. Under the regulation, gainful employment programs with high debt-to-earnings ratios would lose Title IV eligibility for a period of time. Specifically, the new requirements include two measures. These metrics are as follows:

Debt-to-earnings metric which requires that students who complete a program would need to spend on average no more than 8 percent of their annual income on their student loan payments; or

Discretionary income metric which requires that students who complete a program would have a discretionary income rate that does not exceed 20 percent.

Additionally, a program that does not pass either of the above metrics and that has an annual income rate between 8% and 12% or a discretionary income rate between 20% and 30% would be considered in the warning zone. A program would fail if the program's graduates have an annual income rate of 12% or greater and a discretionary income rate of 30% or greater. If a program fails both metrics for two out of three consecutive years, or fails to pass at least one metric for consecutive years, it becomes Title IV ineligible for three years.

If the DOE notifies an institution that a program could become ineligible based on final rates, for the next award year:

the institution must provide a warning with respect to the program to students and prospective students indicating that students may not be able to use Title IV funds to attend or continue in the program; and

the institution must not enroll, register or enter into a financial commitment with a prospective student until a specified time after providing the warning to the prospective student.

Further, institutions are required to report student and program level data to the DOE and comply with additional disclosure requirements beginning in January 2017.

By December 31, 2015, institutions must certify that eligible gainful employment programs are programmatically accredited if required by a federal governmental entity or a state governmental entity of a state in which it is located or is otherwise required to obtain state approval, and that each eligible program satisfies the applicable educational prerequisites for professional licensure or certification requirements in each state in which it is located or is otherwise required to obtain state approval, so that a student who completes the program and seeks employment in that state qualifies to take any licensure or certification exam that is needed for the student to practice or find employment in an occupation that the program prepares students to enter.

The new gainful employment requirements will likely substantially increase our administrative burdens, particularly during the implementation phase. These reporting and the other procedural changes in the new rules could affect student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting education institutions, it could adversely affect demand for our programs.

Although the rules regarding gainful employment metrics provide opportunities to address program deficiencies before the loss of Title IV eligibility, the continuing eligibility of our educational programs for Title IV funding is at risk, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income and other factors. In addition, even though deficiencies in the metrics may be correctible on a timely basis, the disclosure requirements to students following a failure to meet the standards may adversely impact enrollment in that program and may adversely impact the reputation of our education institution. The exposure to these external factors may reduce our ability to offer or continue confidently certain types of programs for which there is market demand, thus affecting our ability to maintain or grow our business.

Eligibility and Certification Procedures. Each institution must periodically apply to the DOE for continued certification to participate in Title IV programs. Such recertification is required every six years, but may be required earlier, including when an institution undergoes a change of control. An institution may come under the DOE's review when it expands its activities in certain ways, such as opening an additional location, adding a new program, or, in certain cases, when it modifies academic credentials that it offers.

The DOE may place an institution on provisional certification status if it finds that the institution does not fully satisfy all of the eligibility and certification standards and in certain other circumstances, such as when it undergoes a change in ownership and control. The DOE may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change.

In addition, during the period of provisional certification, the institution must comply with any additional conditions included in its program participation agreement. If the DOE determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified. Students attending provisionally certified institutions, like Aspen, remain eligible to receive Title IV program funds.

Change in Ownership Resulting in a Change of Control. In addition to school acquisitions, other types of transactions can also cause a change of control. The DOE, most state education agencies, and DEAC all have standards pertaining to the change of control of schools, but those standards are not uniform. DOE regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution's parent corporation. DOE regulations provide that a change of control of a publicly-traded corporation occurs in one of two ways: (i) if there is an event that would obligate the corporation to file a Current Report on Form 8-K with the Securities and Exchange Commission, or the SEC, disclosing a change of control or (ii) if the corporation has a shareholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest shareholder of the corporation, and that shareholder ceases to own at least 25% of such stock or ceases to be the largest shareholder. A significant purchase or disposition of our voting stock could be determined by the DOE to be a change of control under this standard. Many states include the sale of a controlling interest of common stock in the definition of a change of control requiring approval. A change of control under the definition of one of these agencies would require us to seek approval of the change in ownership and control to maintain our accreditation, state authorization or licensure. The requirements to obtain such approval from the states and DETC vary widely. In some cases, approval of the change of ownership and control cannot be obtained until after the transaction has occurred. In December 2011, we provided details regarding the Reverse Merger to the CDHE. The CDHE indicated that under current regulations, as long as we maintain accreditation by DEAC following the Reverse Merger, Aspen will remain in good standing with the CDHE. As described below, DEAC approved the change of ownership, with several customary conditions.

DEAC recently revised its policy pertinent to changes in legal status, control, ownership, or management. The policy revisions add definitions of the situations under which DEAC considers a change in legal status, control, ownership, or management to occur, describe the procedures that an institution must follow to obtain approval, and clarify the options available to DEAC. Among other revisions, DEAC defines a change of ownership and control as a change in the ability to direct or cause the direction of the actions of an institution, including, for example, the sale of a controlling interest in an institution's corporate parent. Failure to obtain prior approval of a change of ownership and control will result in withdrawal of accreditation under the new ownership. The policy also requires institutions to undergo a post-change examination within six months of a change of ownership. The revisions clarify that after such examination, DEAC will make a final decision whether to continue the institution's accreditation. In addition, if an institution is acquired by an entity that owns or operates other distance education institutions, the amendments clarify that any such institutions must obtain DEAC approval within two years of the change of ownership or accreditation may be withdrawn. The policy revisions define a change of management as the replacement of the senior level executive of the institution, for example the President or Chief Executive Officer. In addition, the revisions clarify that before undertaking such a change, an institution must seek DEAC's prior approval by explaining when the change will occur, the rationale for the change, the executive's job description, the new executive's qualifications, and how the change will affect the institution's ability to comply with all DEAC accreditation standards. DEAC may take any action it deems appropriate in response to a change of management request. The Reverse Merger was considered a change of control event under DEAC's policy. In February 2012, DEAC informed Aspen that it had approved the change of ownership, with several conditions that are consistent with DEAC's change of ownership procedures and requirements. These conditions included: (1) that Aspen agree to undergo an examination visit by a committee; (2) that an updated Self-Evaluation Report be submitted four to six weeks prior to the on-site visit; (3) that Aspen submit a new Teach-Out Resolution form as soon as the Reverse Merger had closed; and (4) that Aspen provide written confirmation to DEAC by February 20, 2012 that it agreed to and would comply with the stated conditions. We provided the requested information to DEAC. The examination visit occurred in August 2012.

On September 28, 2012, the DOE approved Aspen's change of control and extended its provisional certification until September 30, 2013. On February 9, 2015, the DOE notified Aspen that it had the choice of posting a letter of credit for 25% of all Title IV funds and remain provisionally certified or post a 50% letter of credit and become permanently certified. We elected to post a 25% letter of credit and remain provisionally certified increasing our letter of credit to \$1,122,485.

When a change of ownership resulting in a change of control occurs at a for-profit institution, the DOE applies a different set of financial tests to determine the financial responsibility of the institution in conjunction with its review and approval of the change of ownership. The institution generally is required to submit a same-day audited balance sheet reflecting the financial condition of the institution immediately following the change in ownership. The institution's same-day balance sheet must demonstrate an acid test ratio of at least 1:1, which is calculated by adding cash and cash equivalents to current accounts receivable and dividing the sum by total current liabilities (and excluding all unsecured or uncollateralized related party receivables). The same-day balance sheet must demonstrate positive tangible net worth. If the institution does not satisfy these requirements, the DOE may condition its approval of the change of ownership on the institution's agreeing to post a letter of credit, provisional certification, and/or additional monitoring requirements, as described in the above section on Financial Responsibility. The time required for the DOE to act on a post-change in ownership and control application may vary substantially. As a result of the change of ownership, Aspen delivered a \$264,665 letter of credit to the DOE in accordance with the standards identified above. Thereafter, as described above, this letter of credit was increased to \$1,122,485.

A change of control also could occur as a result of future transactions in which Aspen is involved. Some corporate reorganizations and some changes in the Board are examples of such transactions. Moreover, the potential adverse effects of a change of control could influence future decisions by us and our shareholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the regulatory burdens and risks associated with a change of control also could discourage bids for your shares of common stock and could have an adverse effect on the market price of your shares.

Possible Acquisitions. In addition to the planned expansion through Aspen's new marketing program, we may expand through acquisition of related or synergistic businesses. Our internal growth is subject to monitoring and ultimately approval by the DEAC. If the DEAC finds that the growth may adversely affect our academic quality, the DEAC can request us to slow the growth and potentially withdraw accreditation and require us to re-apply for accreditation. The DOE may also impose growth restrictions on an institution, including in connection with a change in ownership and control. While acquisitions of online universities would be subject to approval by the DEAC, approval of businesses which supply services to online universities or which provide educational services and/or products may not be subject to regulatory approval or extensive regulation.

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

Investing in our common stock involves a high degree of risk. You should carefully consider the following Risk Factors before deciding whether to invest in Aspen. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations or our financial condition. If any of the events discussed in the Risk Factors below occur, our business, consolidated financial condition, results of operations or prospects could be materially and adversely affected. In such case, the value and marketability of the common stock could decline.



## Risks Relating to Our Business

**If we are unable to generate positive cash flows from our operations or we are unable to raise capital, our ability to grow our business will be limited.**

We incurred net losses of approximately \$4.27 million and \$5.35 million for the years ended April 30, 2015 and 2014, respectively. In April 2015, we raised approximately \$2.3 million from current warrant holders who agreed to exercise their warrants at a reduced exercise price of \$0.155 per share. We believe that our current unrestricted cash balance will provide us with sufficient working capital to implement our long term business plan. In the event that we are not successful at generating positive cash flows, we will be required to raise capital or we will be required to reduce our operating expenses which will limit our ability to grow our business. Moreover, we operate in a regulated environment and are required to meet fiscal responsibility requirements set by the DOE and DEAC. If we fail to meet these requirements, we may be unable to offer federal loans to students and may be precluded from continuing in business.

**If we cannot manage our growth, our results of operations may suffer and could adversely affect our ability to comply with federal regulations.**

The growth that we have experienced after our new management began in May 2011, as well as any future growth that we experience, may place a significant strain on our resources and increase demands on our management information and reporting systems and financial management controls. We have recently experienced growth at Aspen University. Assuming we continue to grow as planned, it may impact our ability to manage our business. If growth negatively impacts our ability to manage our business, the learning experience for our students could be adversely affected, resulting in a higher rate of student attrition and fewer student referrals. Future growth will also require continued improvement of our internal controls and systems, particularly those related to complying with federal regulations under the Higher Education Act, as administered by the DOE, including as a result of our participation in federal student financial aid programs under Title IV. If we are unable to manage our growth, we may also experience operating inefficiencies that could increase our costs and adversely affect our profitability and results of operations.

**Because there is strong competition in the postsecondary education market, especially in the online education market, our cost of acquiring students may increase and our results of operations may be harmed.**

Postsecondary education is highly fragmented and competitive. We compete with traditional public and private two-year and four-year brick and mortar colleges as well as other for-profit schools, particularly those that offer online learning programs. Public and private colleges and universities, as well as other for-profit schools, offer programs similar to those we offer. Public institutions receive substantial government subsidies, and public and private institutions have access to government and foundation grants, tax-deductible contributions that create large endowments and other financial resources generally not available to for-profit schools. Accordingly, public and private institutions may have instructional and support resources that are superior to those in the for-profit sector. In addition, some of our competitors, including both traditional colleges and universities and online for-profit schools, have substantially greater name recognition and financial and other resources than we have, which may enable them to compete more effectively for potential students. We also expect to face increased competition as a result of new entrants to the online education market, including established colleges and universities that have not previously offered online education programs. Major brick and mortar universities continue to develop and advertise their online course offerings.

We may not be able to compete successfully against current or future competitors and may face competitive pressures including price pressures that could adversely affect our business or results of operations and reduce our operating margins. These competitive factors could cause our enrollments, revenues and profitability to decrease significantly.

**In the event that we are unable to update and expand the content of existing programs and develop new programs and specializations on a timely basis and in a cost-effective manner, our results of operations may be**

**harmed.**

The updates and expansions of our existing programs and the development of new programs and specializations may not be accepted by existing or prospective students or employers. If we cannot respond to changes in market requirements, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require or as quickly as our competitors introduce competing programs. To offer a new academic program, we may be required to obtain appropriate federal, state and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, a new academic program that must prepare students for gainful employment must be approved by the DOE for Title IV purposes if the institution is provisionally certified. If we are unable to respond adequately to changes in market requirements due to financial constraints, regulatory limitations or other factors, our ability to attract and retain students could be impaired and our financial results could suffer.

Establishing new academic programs or modifying existing programs may require us to make investments in management and faculty, incur marketing expenses and reallocate other resources. If we are unable to increase the number of students, or offer new programs in a cost-effective manner, or are otherwise unable to manage effectively the operations of newly established academic programs, our results of operations and financial condition could be adversely affected.

**Because our future growth and profitability will depend in large part upon the effectiveness of our marketing and advertising efforts, if those efforts are unsuccessful we may not be profitable in the future.**

Our future growth and profitability will depend in large part upon our media performance, including our ability to:

Grow our nursing programs;

Create greater awareness of our school and our programs;

Identify the most effective and efficient level of spending in each market and specific media vehicle;

Determine the appropriate creative message and media mix for advertising, marketing and promotional expenditures;  
and

Effectively manage marketing costs (including creative and media).

Our marketing expenditures may not result in increased revenue or generate sufficient levels of brand name and program awareness. If our media performance is not effective, our future results of operations and financial condition will be adversely affected.

**Although our management has spearheaded an in-house marketing and advertising program, it may not be successful long-term.**

Mr. Michael Mathews, our Chief Executive Officer, has developed a debtless education business model designed to substantially increase our student enrollment and reducing and/or eliminating student debt among Aspen's student body. While results to date have been as anticipated, there are no assurances that this marketing campaign will continue to be successful. Among the risks are the following:

Our ability to compete with existing online colleges which have substantially greater financial resources, deeper management and academic resources, and enhanced public reputations;

the emergence of more successful competitors;

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

limits on our ability to attract and retain effective employees because of the new incentive payment rule;

performance problems with our online systems;

our failure to maintain accreditation;

student dissatisfaction with our services and programs;

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

a decline in the acceptance of online education;

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

potential students may not be able to afford the monthly payments; and

potential students may not react favorably to our marketing and advertising campaigns, including our monthly payment plan.

If our debtless education business model does not continue to be favorably received, our revenues may not increase.

**If the demand for the nursing workforce decreases or the educational requirements for nurses were relaxed, our business will be adversely affected.**

Aspen's recent focus has been the continued growth of enrollment in its School of Nursing. As of April 30, 2015, approximately 42% of our full-time degree-seeking were enrolled in Aspen's School of Nursing. If the demand for nurses does not continue to grow (or declines) or there are changes within the healthcare industry that make the nursing occupation less attractive to learners or reduce the benefits of an advanced degree, our enrollment and results of operations will be adversely affected.

**If we incur system disruptions to our online computer networks, it could impact our ability to generate revenue and damage our reputation, limiting our ability to attract and retain students.**

Since early 2011, we have spent approximately \$2.24 million to update our computer network primarily to permit accelerated student enrollment and enhance our students' learning experience. We expect to spend \$500,000 in capital expenditures over the next 12 months. The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the unavailability of our online classroom, damaging our reputation and could cause a loss in enrollment. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

**If we are unable to develop awareness among, and attract and retain, high quality learners to Aspen University, our ability to generate significant revenue or achieve profitability will be significantly impaired.**

Building awareness of Aspen University and the programs we offer among working adult professionals is critical to our ability to attract prospective learners. If we are unable to successfully market and advertise our educational programs, Aspen University's ability to attract and enroll prospective learners in such programs could be adversely affected, and consequently, our ability to increase revenue or achieve profitability could be impaired. It is also critical to our success that we convert these prospective learners to enrolled learners in a cost-effective manner and that these enrolled learners remain active in our programs. Some of the factors that could prevent us from successfully enrolling and retaining learners in our programs include:

the emergence of more successful competitors;

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

performance problems with our online systems;

failure to maintain accreditation;

learner dissatisfaction with our services and programs, including with our customer service and responsiveness;

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

price reductions by competitors that we are unwilling or unable to match;

a decline in the acceptance of online education or our degree offerings by learners or current and prospective employers;

increased regulation of online education, including in states in which we do not have a physical presence;

a decrease in the perceived or actual economic benefits that learners derive from our programs;

litigation or regulatory investigations that may damage our reputation; and

difficulties in executing on our strategy as a preferred provider to employers for the vertical markets we serve.

If we are unable to continue to develop awareness of Aspen University and the programs we offer, and to enroll and retain learners, our enrollments would suffer and our ability to increase revenues and achieve profitability would be significantly impaired.

**If we experience any interruption to our technology infrastructure, it could prevent students from accessing their courses, could have a material adverse effect on our ability to attract and retain students and could require us to incur additional expenses to correct or mitigate the interruption.**

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information, personal information about our students or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.



**Because we rely on third parties to provide services in running our operations, if any of these parties fail to provide the agreed services at an acceptable level, it could limit our ability to provide services and/or cause student dissatisfaction, either of which could adversely affect our business.**

We rely on third parties to provide us with services in order for us to efficiently and securely operate our business including our computer network and the courses we offer to students. Any interruption in our ability to obtain the services of these or other third parties or deterioration in their performance could impair the quality of our educational product and overall business. Generally, there are multiple sources for the services we purchase. Our business could be disrupted if we were required to replace any of these third parties, especially if the replacement became necessary on short notice, which could adversely affect our business and results of operations.

**If we or our service providers are unable to update the technology that we rely upon to offer online education, our future growth may be impaired.**

We believe that continued growth will require our service providers to increase the capacity and capabilities of their technology infrastructure. Increasing the capacity and capabilities of the technology infrastructure will require these third parties to invest capital, time and resources, and there is no assurance that even with sufficient investment their systems will be scalable to accommodate future growth. Our service providers may also need to invest capital, time and resources to update their technology in response to competitive pressures in the marketplace. If they are unwilling or unable to increase the capacity of their resources or update their resources appropriately and we cannot change over to other service providers efficiently, our ability to handle growth, our ability to attract or retain students, and our financial condition and results of operations could be adversely affected.

**Because we rely on third party administration and hosting of learning management system software for our online classroom, if that third party were to cease to do business or alter its business practices and services, it could have an adverse impact on our ability to operate.**

Beginning in June 2014, our online classroom began employing the Desire2Learn learning management system named Brightspace. The system is a web-based portal that stores and delivers course content, provides interactive communication between students and faculty, and supplies online evaluation tools. We rely on third parties to host and help with the administration of it. We further rely on third parties, the D2L agreement and our internal staff for ongoing support and customization and integration of the system with the rest of our technology infrastructure. If D2L were unable or unwilling to continue to provide us with service, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes. Any failure to maintain our online classroom would have an adverse impact on our operations, damage our reputation and limit our ability to attract and retain students.

**Because the personal information that we or our vendors collect may be vulnerable to breach, theft or loss, any of these factors could adversely affect our reputation and operations.**

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. Aspen uses a third party to collect and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, personal and family financial data and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and managed by certain of our vendors. Errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches, restrict our use of personal information, and cause us to lose our certification to

participate in the Title IV programs. We cannot guarantee that there will not be a breach, loss or theft of personal information that we store or our third parties store. A breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under state and federal privacy statutes and legal or administrative actions by state attorneys general, private litigants, and federal regulators any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**Because the CAN-SPAM Act imposes certain obligations on the senders of commercial emails, it could adversely impact our ability to market Aspen's educational services, and otherwise increase the costs of our business.**

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, establishes requirements for commercial email and specifies penalties for commercial email that violates the CAN-SPAM Act. In addition, the CAN-SPAM Act gives consumers the right to require third parties to stop sending them commercial email.

The CAN-SPAM Act covers email sent for the primary purpose of advertising or promoting a commercial product, service, or Internet website. The Federal Trade Commission, a federal consumer protection agency, is primarily responsible for enforcing the CAN-SPAM Act, and the Department of Justice, other federal agencies, State Attorneys General, and Internet service providers also have authority to enforce certain of its provisions.

The CAN-SPAM Act's main provisions include:

Prohibiting false or misleading email header information;

Prohibiting the use of deceptive subject lines;

Ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender;

Requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively permitted the message; and

Requiring that the sender include a valid postal address in the email message.

The CAN-SPAM Act also prohibits unlawful acquisition of email addresses, such as through directory harvesting and transmission of commercial emails by unauthorized means, such as through relaying messages with the intent to deceive recipients as to the origin of such messages.

Violations of the CAN-SPAM Act's provisions can result in criminal and civil penalties, including statutory penalties that can be based in part upon the number of emails sent, with enhanced penalties for commercial email companies who harvest email addresses, use dictionary attack patterns to generate email addresses, and/or relay emails through a network without permission.

The CAN-SPAM Act acknowledges that the Internet offers unique opportunities for the development and growth of frictionless commerce, and the CAN-SPAM Act was passed, in part, to enhance the likelihood that wanted commercial email messages would be received.

The CAN-SPAM Act preempts, or blocks, most state restrictions specific to email, except for rules against falsity or deception in commercial email, fraud and computer crime. The scope of these exceptions, however, is not settled, and some states have adopted email regulations that, if upheld, could impose liabilities and compliance burdens in addition to those imposed by the CAN-SPAM Act.

Moreover, some foreign countries, including the countries of the European Union, have regulated the distribution of commercial email and the online collection and disclosure of personal information. Foreign governments may attempt to apply their laws extraterritorially or through treaties or other arrangements with U.S. governmental entities.

Because we use email marketing, our requirement to comply with the CAN-SPAM Act could adversely affect Aspen's marketing activities and increase its costs.

**If we lose the services of key personnel, it could adversely affect our business.**

Our future success depends, in part, on our ability to attract and retain key personnel. Our future also depends on the continued services of Mr. Michael Mathews, our Chief Executive Officer, who is critical to the management of our business and operations and the development of our strategic direction and would also be difficult to replace. We have a \$3 million key man life insurance policy on Mr. Mathews. The loss of the services of Mr. Mathews and other key individuals and the process to replace these individuals would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

**If we are unable to attract and retain our faculty, administrators, management and skilled personnel, we may not be able to support our growth strategy.**

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

**If we are unable to protect our intellectual property, our business could be harmed.**

In the ordinary course of our business, we develop intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, trade secret or other protections. This intellectual property includes but is not limited to courseware materials, business know-how and internal processes and procedures developed to respond to the requirements of operating and various education regulatory agencies. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names, agreements and registrations to protect our intellectual property. We rely on service mark and trademark protection in the U.S. to protect our rights to the mark "ASPEN UNIVERSITY" as well as distinctive logos and other marks associated with our services. We rely on agreements under which we obtain rights to use course content developed by faculty members and other third party content experts. We cannot assure you that the measures that we take will be adequate or that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the U.S. or select foreign jurisdictions, or that third parties will not infringe upon or violate our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our curricula, online resource material and other content, and offer competing programs to ours.

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

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party.

**If we are subject to intellectual property infringement claims, it could cause us to incur significant expenses and pay substantial damages.**

Third parties may claim that we are infringing or violating their intellectual property rights. Any such claims could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and prevent us from using our intellectual property that may be fundamental to our business. Even if we were to prevail, any litigation regarding the intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

**If we incur liability for the unauthorized duplication or distribution of class materials posted online during our class discussions, it may affect our future operating results and financial condition.**

In some instances, our faculty members or our students may post various articles or other third party content on class discussion boards. We may incur liability for the unauthorized duplication or distribution of this material posted online for class discussions. Third parties may raise claims against us for the unauthorized duplication of this material. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. As a result we may be required to alter the content of our courses or pay monetary damages.

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

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

**As Internet commerce develops, federal and state governments may draft and propose new laws to regulate Internet commerce, which may negatively affect our business.**

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

**If there is new tax treatment of companies engaged in Internet commerce, this may adversely affect the commercial use of our marketing services and our financial results.**

Due to the growing budgetary problems facing state and local governments, it is possible that governments might attempt to tax our activities. New or revised tax regulations may subject us to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose taxes on commerce over the Internet. New or revised taxes and, in particular, sales or use taxes, would likely increase the cost of doing business online which could have an adverse effect on our business and results of operations.

**Risks Related to the Regulation of Our Industry**

**If we fail to comply with the extensive regulatory requirements for our business, we could face penalties and significant restrictions on our operations, including loss of access to Title IV loans.**

We are subject to extensive regulation by (1) the federal government through the DOE and under the Higher Education Act, (2) state regulatory bodies and (3) accrediting agencies recognized by the DOE, including the DEAC, a national accrediting agency recognized by the DOE. The U.S. Department of Defense and the U.S. Department of Veterans Affairs regulate our participation in the military's tuition assistance program and the VA's veterans' education benefits program, respectively. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition. These regulatory requirements can also affect our ability to add new or expand existing educational programs and to change our corporate structure and ownership.



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

Our operations are also subject to regulation due to our participation in Title IV programs. Title IV programs, which are administered by the DOE, include loans made directly to students by the DOE. Title IV programs also include several grant programs for students with economic need as determined in accordance with the Higher Education Act and DOE regulations. To participate in Title IV programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting agency recognized by the U.S. Secretary of Education, and be certified as an eligible institution by the DOE. Our growth strategy is partly dependent on being able to offer financial assistance through Title IV programs as it may increase the number of potential students who may choose to enroll in our programs.

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

**If we do not maintain authorization in Colorado, our operations would be curtailed, and we may not grant degrees.**

Aspen is headquartered in Colorado and is authorized by the Colorado Commission on Higher Education to grant degrees, diplomas or certificates. If we were to lose our authorization from the Colorado Commission on Higher Education, we would be unable to provide educational services in Colorado and we would lose our eligibility to participate in the Title IV programs.

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

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

State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations, and other operational matters. To the extent that we have obtained, or obtain in the future, additional authorizations or licensure, changes in state laws and regulations and the interpretation of those laws and regulations by the applicable regulators may limit our ability to offer education programs and award degrees. Some states may also prescribe financial regulations that are different from those of the DOE. If we fail to comply with state licensing or authorization requirements, we may be subject to the loss of state licensure or authorization. If we fail to comply with state requirements to obtain licensure or authorization, we may be the subject of injunctive actions or penalties. Loss of licensure or authorization or the failure to obtain required licensures or authorizations

could prohibit us from recruiting or enrolling students in particular states, reduce significantly our enrollments and revenues and have a material adverse effect on our results of operations.

Under prior DOE regulations, if an institution offers postsecondary education through distance education to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by that state, the institution must have met any state requirements for it to be legally offering postsecondary distance education in that state. Should this prior regulation be reinstated or otherwise enforced, and if we fail to obtain required state authorization to provide postsecondary distance education in a specific state, we could lose our ability to award Title IV aid to students within that state or be required to refund Title IV funds related to jurisdictions in which we failed to have state authorization.

Moreover, in the event we are found not to be in compliance with a state's new or existing requirements for offering distance education within that state, the state could seek to restrict one or more of our business activities within its boundaries, we may not be able to recruit students from that state, and we may have to cease providing service to students in that state. In addition, as stated above if and when the DOE regulation is enforced or re-promulgated, we could lose eligibility to offer Title IV aid to students located in that state. Furthermore, the institution must be able to document state approval for distance education if requested by the DOE.

This prior DOE regulation was recognized as a significant departure from the state authorization procedures followed by most, if not all, institutions before its enactment. Although these new rules became effective July 1, 2011, the DOE indicated in an April 20, 2011 guidance letter that it would not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities undertaken before July 1, 2014, provided the institution was making a good faith effort to identify and obtain necessary state authorization before that date. However, on July 12, 2011, a federal judge for the U.S. District Court for the District of Columbia vacated the portion of the DOE's state authorization regulation that requires online education providers to obtain any required authorization from all states in which their students reside, finding that the DOE had failed to provide sufficient notice and opportunity to comment on the requirement. An appellate court affirmed that ruling on June 5, 2012 and therefore this new regulation is currently invalid. On April 16, 2013, the DOE announced its intention to revisit the state authorization requirements for postsecondary distance education in a new negotiated rulemaking process which began in the fall of 2013.

However, the rulemaking process failed to reach consensus on the rule. However, the rulemaking process failed to reach consensus on the rule in May 2014. Subsequently, in June 2014, the DOE announced it will pause on issuing a new state authorization for distance education regulation. As a result, there currently is no federal regulation or federal deadline for state authorization, but a new proposal is expected during 2015. If the DOE reinstates the federal regulation, educational institutions without state authorization may be asked to reimburse federal financial aid funds.

In addition, a state may impose penalties on an institution for failure to comply with state requirements related to an institution's activities in a state, including the delivery of distance education to persons in that state.

Should the requirements be enforced at a later date, and if we fail to obtain required state authorization to provide postsecondary distance education in a specific state, we could lose our ability to award Title IV aid to students within that state. In addition, a state may impose penalties on an institution for failure to comply with state requirements related to an institution's activities in a state, including the delivery of distance education to persons in that state.

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

Aspen is accredited by the DEAC, which is a national accrediting agency recognized by the U.S. Secretary of Education for Title IV purposes. Accreditation by an accrediting agency that is recognized by the Secretary of Education is required for an institution to become and remain eligible to participate in Title IV programs as well as in the tuition assistance programs of the United States Armed Forces. DEAC may impose restrictions on our accreditation or may terminate our accreditation. To remain accredited we must continuously meet certain criteria and standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Failure to meet any of these criteria or standards could result in the loss of accreditation at the discretion of the accrediting agency. The loss of accreditation would, among other things, render our students and us ineligible to participate in the tuition assistance programs of the U.S. Armed Forces or Title IV programs and have a material adverse effect on our enrollments, revenues and results of operations.

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

We have only recently begun to participate in Title IV programs. Compliance with the requirements of the Higher Education Act and Title IV programs is highly complex and imposes significant additional regulatory requirements on our operations, which require additional staff, contractual arrangements, systems and regulatory costs. We have a limited demonstrated history of compliance with these additional regulatory requirements. If we fail to comply with any of these additional regulatory requirements, the DOE could, among other things, impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

**Because we are only provisionally certified by the DOE, we must reestablish our eligibility and certification to participate in the Title IV programs, and there are no assurances that DOE will recertify us to participate in the Title IV programs.**

An institution generally must seek recertification from the DOE at least every six years and possibly more frequently depending on various factors. In certain circumstances, the DOE provisionally certifies an institution to participate in Title IV programs, such as when it is an initial participant in Title IV programs or has undergone a change in ownership and control. Beginning in 2009, and following our change of control in 2012, we have been provisionally certified. On February 9, 2015, the DOE notified Aspen that it had the choice of posting a letter of credit for 25% of all Title IV funds and remain provisionally certified or post a 50% letter of credit and become permanently certified.

We elected to post a 25% letter of credit and remain provisionally certified increasing our letter of credit to \$1,122,485. In the future, the DOE may impose additional or different terms and conditions in any final program participation agreement that it may issue, including growth restrictions or limitation on the number of students who may receive Title IV aid. The DOE could also decline to permanently certify Aspen, otherwise limit its participation in the Title IV programs, or continue provisional certification.

If the DOE does not ultimately approve our permanent certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our enrollments, revenues and results of operations. In addition, regulatory restraints related to the addition of new programs could impair our ability to attract and retain students and could negatively affect our financial results.

**Because the DOE may conduct compliance reviews of us, we may be subject to adverse review and future litigation which could affect our ability to offer Title IV student loans.**

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

**If the percentage of our revenues derived from Title IV programs is too high, we could lose our ability to participate in Title IV programs.**

Under the Higher Education Act, an institution is subject to loss of eligibility to participate in the Title IV programs if, on a cash accounting basis, it derives more than 90% of its fiscal year revenue, for two consecutive fiscal years, from Title IV program funds. An institution whose rate exceeds 90% for any single fiscal year is placed on provisional certification for at least two fiscal years and may be subject to other conditions specified by the U.S. Secretary of Education. This rule is known as the 90/10 rule. We have only recently begun to participate in Title IV programs, but must remain aware of the 90/10 calculation. Failure to comply with the 90/10 rule may result in restrictions on the amounts of Title IV funds that may be distributed to students; restrictions on expansion; requirements related to letters of credits or any other restrictions imposed by the DOE. Additionally, if we are determined to be ineligible to participate in Title IV programs due to the 90/10 rule, any disbursements of Title IV funds while ineligible must be repaid to the DOE.

Further, due to scrutiny of the sector, legislative proposals have been introduced in Congress that would heighten the requirements of the 90/10 rule, including proposals that would reduce the 90% maximum under the rule to 85% and/or prohibit tuition derived from military benefit programs to be included in the 85% portion.

**If our competitors are subject to further regulatory claims and adverse publicity, it may affect our industry and reduce our future enrollment.**

We are one of a number of for-profit institutions serving the postsecondary education market. In recent years, regulatory investigations and civil litigation have been commenced against several companies that own for-profit educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with DOE regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against specific companies, broader allegations against the overall for-profit school sector may negatively affect public perceptions of other for-profit educational institutions, including Aspen. In addition, in recent years, reports on student lending practices of various lending institutions and schools, including for-profit schools, and investigations by a number of state attorneys general, Congress and governmental agencies have led to adverse media coverage of postsecondary education. A large competitor, Corinthian Colleges, recently announced it was selling or shutting down its schools due to substantial regulatory investigations and recent DOE actions. Adverse media coverage regarding other companies in the for-profit school sector or regarding us directly could damage our reputation, could result in lower enrollments, revenues and operating profit, and could have a negative impact on our stock price. Such allegations could also result in increased scrutiny and regulation by the DOE, Congress, accrediting bodies, state legislatures or other governmental authorities with respect to all for-profit institutions, including us.

**Due to new regulations or congressional action or reduction in funding for Title IV programs, our future enrollment may be reduced and costs of compliance increased.**

The Higher Education Act comes up for reauthorization by Congress approximately every five to six years. When Congress does not act on complete reauthorization, there are typically amendments and extensions of authorization. Additionally, Congress reviews and determines appropriations for Title IV programs on an annual basis through the budget and appropriations process. There is no assurance that Congress will not in the future enact changes that decrease Title IV program funds available to students, including students who attend our institution. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs would require us to arrange for other sources of financial aid and would materially decrease our enrollment. Such a decrease in enrollment would have a material adverse effect on our revenues and results of operations. Congressional action may also require us to modify our practices in ways that could result in increased administrative and regulatory costs and decreased profit margin.

There has been growing regulatory action and investigations of for-profit companies that offer online education. A larger competitor has accepted a deal with the DOE to sell or shut down most of its campuses.



We are not in position to predict with certainty whether any legislation will be passed by Congress or signed into law in the future. The reallocation of funding among Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different Title IV programs could reduce the ability of students to finance their education at our institution and adversely affect our revenues and results of operations.

If our efforts to comply with DOE regulations are inconsistent with how the DOE interprets those provisions, either due to insufficient time to implement the necessary changes, uncertainty about the meaning of the rules, or otherwise, we may be found to be in noncompliance with such provisions and the DOE could impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds. We cannot predict with certainty the effect the new and impending regulatory provisions will have on our business.

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

In the past few years, the student lending practices of postsecondary educational institutions, financial aid officers and student loan providers were subject to several investigations being conducted by state attorneys general, Congress and governmental agencies. These investigations concern, among other things, possible deceptive practices in the marketing of private student loans and loans provided by lenders pursuant to Title IV programs. Higher Education Opportunity Act, or HEOA, contains new requirements pertinent to relationships between lenders and institutions. In particular, HEOA requires institutions to have a code of conduct, with certain specified provisions, pertinent to interactions with lenders of student loans, prohibits certain activities by lenders and guaranty agencies with respect to institutions, and establishes substantive and disclosure requirements for lists of recommended or suggested lenders of private student loans. In addition, HEOA imposes substantive and disclosure obligations on institutions that make available a list of recommended lenders for potential borrowers. State legislators have also passed or may be considering legislation related to relationships between lenders and institutions. Because of the evolving nature of these legislative efforts and various inquiries and developments, we can neither know nor predict with certainty their outcome, or the potential remedial actions that might result from these or other potential inquiries. Governmental action may impose increased administrative and regulatory costs and decrease profit margins.

**Because we are subject to sanctions if we fail to calculate correctly and return timely Title IV program funds for students who stop participating before completing their educational program, our future operating results may be adversely affected.**

A school participating in Title IV programs must correctly calculate the amount of unearned Title IV program funds that have been disbursed to students who withdraw from their educational programs before completion and must return those unearned funds in a timely manner, generally within 45 days after the date the school determines that the student has withdrawn. Under recently effective DOE regulations, institutions that use the last day of attendance at an academically-related activity must determine the relevant date based on accurate institutional records (not a student's certificate of attendance). For online classes, academic attendance means engaging in an academically-related activity, such as participating in class through an online discussion or initiating contact with a faculty member to ask a question; simply logging into an online class does not constitute academic attendance for purposes of the return of funds requirements. Because we only recently began to participate in Title IV programs, we have limited experience complying with these Title IV regulations. Under DOE regulations, late return of Title IV program funds for 5% or more of students sampled in connection with the institution's annual compliance audit constitutes material non-compliance. If unearned funds are not properly calculated and timely returned, we may have to repay Title IV funds, post a letter of credit in favor of the DOE or otherwise be sanctioned by the DOE, which could increase our cost of regulatory compliance and adversely affect our results of operations. This may have an impact on our systems, our future operations and cash flows.

**If we fail to demonstrate financial responsibility, Aspen may lose its eligibility to participate in Title IV programs or be required to post a letter of credit in order to maintain eligibility to participate in Title IV programs.**

To participate in Title IV programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the DOE, or post a letter of credit in favor of the DOE and possibly accept other conditions, such as additional reporting requirements or regulatory oversight, on its participation in Title IV programs. The DOE may also apply its measures of financial responsibility to the operating company and ownership entities of an eligible institution and, if such measures are not satisfied by the operating company or ownership entities, require the institution to meet the alternative standards described under Regulation on page 6 herein. Any of these alternative standards would increase our costs of regulatory compliance. If we were unable to meet these alternative standards, we would lose our eligibility to participate in Title IV programs. If we fail to demonstrate financial responsibility and thus lose our eligibility to participate in Title IV programs, our students would lose access to Title IV program funds for use in our institution, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

**If we fail to demonstrate administrative capability, we may lose eligibility to participate in Title IV programs.**

DOE regulations specify extensive criteria an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV programs. If an institution fails to satisfy any of these criteria or comply with any other DOE regulations, the DOE may require the repayment of Title IV funds, transfer the institution from the "advance" system of payment of Title IV funds to cash monitoring status or to the "reimbursement" system of payment, place the institution on provisional certification status, or commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs. If we are found not to have satisfied the DOE's "administrative capability" requirements we could be limited in our access to, or lose, Title IV program funding, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

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

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

**If we pay impermissible commissions, bonuses or other incentive payments to individuals involved in recruiting, admissions or financial aid activities, we will be subject to sanctions.**

A school participating in Title IV programs may not provide any commission, bonus or other incentive payment based, directly or indirectly, on success in enrolling students or securing financial aid to any person involved in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. If we pay a bonus, commission, or other incentive payment in violation of applicable DOE rules, we could be subject to sanctions, which could have a material adverse effect on our business. Effective July 1, 2011, the DOE abolished 12 safe harbors that described permissible arrangements under the incentive payment regulation. Abolition of the safe harbors and other aspects of the new regulation may create uncertainty about what constitutes impermissible incentive payments. The modified incentive payment rule and related uncertainty as to how it will be interpreted also may influence our approach, or limit our alternatives, with respect to employment policies and practices and consequently may affect negatively our ability to recruit and retain employees, and as a result our business could be materially and

adversely affected.

In addition, the General Accounting Office, or the GAO, has issued a report critical of the DOE's enforcement of the incentive payment rule, and the DOE has undertaken to increase its enforcement efforts. If the DOE determines that an institution violated the incentive payment rule, it may require the institution to modify its payment arrangements to the DOE's satisfaction. The DOE may also fine the institution or initiate action to limit, suspend, or terminate the institution's participation in the Title IV programs. The DOE may also seek to recover Title IV funds disbursed in connection with the prohibited incentive payments. In addition, third parties may file qui tam or whistleblower suits on behalf of the DOE alleging violation of the incentive payment provision. Such suits may prompt DOE investigations. Particularly in light of the uncertainty surrounding the new incentive payment rule, the existence of, the costs of responding to, and the outcome of, qui tam or whistleblower suits or DOE investigations could have a material adverse effect on our reputation causing our enrollments to decline and could cause us to incur costs that are material to our business, among other things. As a result, our business could be materially and adversely affected.

**If our student loan default rates are too high, we may lose eligibility to participate in Title IV programs.**

DOE regulations provide that an institution's participation in Title IV programs ends when historical default rates reach a certain level in a single year or for a number of years. Because of our limited experience enrolling students who are participating in these programs, we have no historical default rates. Relatively few students are expected to enter the repayment phase in the near term, which could result in defaults by a few students having a relatively large impact on our default rate. If Aspen loses its eligibility to participate in Title IV programs because of high student loan default rates, our students would no longer be eligible to use Title IV program funds in our institution, which would significantly reduce our enrollments and revenues and have a material adverse effect on our results of operations.

**If our institutional accrediting agency loses recognition by the U.S. Secretary of Education or we fail to maintain our institutional accreditation, we may lose our ability to participate in Title IV programs.**

Increased regulatory scrutiny of accrediting agencies and their accreditation of universities is likely to continue. While Aspen is accredited by the DEAC, a DOE-recognized accrediting body, if the DOE were to limit, suspend, or terminate the DEAC's recognition, we could lose our ability to participate in the Title IV programs. While the DOE has provisionally certified Aspen, there are no assurances that we will remain certified. If we were unable to rely on DEAC accreditation in such circumstances, among other things, our students and our institution would be ineligible to participate in the Title IV programs, and such consequence would have a material adverse effect on enrollments, revenues and results of operations. In addition, increased scrutiny of accrediting agencies by the Secretary of Education in connection with the DOE's recognition process may result in increased scrutiny of institutions by accrediting agencies.

Furthermore, because the for-profit education sector is growing at such a rapid pace, it is possible that accrediting bodies will respond to that growth by adopting additional criteria, standards and policies that are intended to monitor, regulate or limit the growth of for-profit institutions like us. Actions by, or relating to, an accredited institution, including any change in the legal status, form of control, or ownership/management of the institution, any significant changes in the institution's financial position, or any significant growth or decline in enrollment and/or programs, could open up an accredited institution to additional reviews by the DEAC.

**If Aspen fails to meet standards regarding gainful employment, it may result in the loss of eligibility to participate in Title IV programs.**

In 2014, the DOE issued a new gainful employment rule which went into effect on July 1, 2015. Under the gainful employment rule, programs with high debt-to-earnings ratios would lose Title IV eligibility for three years based on a variety of specific scenarios outlined by the DOE. We anticipate that under this new regulation, the continuing eligibility of our educational programs for Title IV funding may be at risk due to factors beyond our control, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income, changes in the percentage of our former students who are current in repayment of their student loans, and other factors. In addition, even though deficiencies in the metrics may be correctible on a timely basis, the disclosure requirements to students following a failure to meet the standards may adversely impact enrollment in that program and may adversely impact the reputation of our educational institutions.

**If we fail to obtain required DOE approval for new programs that prepare students for gainful employment in a recognized occupation, it could materially and adversely affect our business.**

Under the new gainful employment regulation that went into effect on July 1, 2015, an institution may establish a new program's Title IV eligibility by updating the list of the institution's programs maintained by the DOE. Significantly, an institution is prohibited from updating its list of eligible programs to include a gainful employment program, or a gainful employment program that is substantially similar to a failing or zone program that the institution voluntarily discontinued or became ineligible, that was subject to the three-year loss of eligibility until that three-year period expires. Depending on our program offerings, compliance with the new gainful employment rule could cause delay or an inability to offer certain new programs and put our business at a competitive disadvantage. Compliance could also adversely affect our ability to timely offer programs of interest to our students and potential students and adversely affect our ability to increase our revenues. As a result, our business could be materially and adversely affected.

**If we fail to comply with the DOE's substantial misrepresentation rules, it could result in sanctions against us.**

The DOE may take action against an institution in the event of substantial misrepresentation by the institution concerning the nature of its educational programs, its financial charges or the employability of its graduates. Under new regulations, the DOE has expanded the activities that constitute a substantial misrepresentation. Under the DOE regulations, an institution engages in substantial misrepresentation when the institution itself, one of its representatives, or an organization or person with which the institution has an agreement to provide educational programs, marketing, advertising, or admissions services, makes a substantial misrepresentation directly or indirectly to a student, prospective student or any member of the public, or to an accrediting agency, a state agency, or to the Secretary of Education. The final regulations define misrepresentation as any false, erroneous or misleading statement, and they define a misleading statement as any statement that has the likelihood or tendency to deceive or confuse. The final regulations define substantial misrepresentation as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to the person's detriment. If the DOE determines that an institution has engaged in substantial misrepresentation, the DOE may revoke an institution's program participation agreement, impose limitations on an institution's participation in the Title IV programs, deny participation applications made on behalf of the institution, or initiate a proceeding against the institution to fine the institution or to limit, suspend or termination the institution's participation in the Title IV programs. We expect that there could be an increase in our industry of administrative actions and litigation claiming substantial misrepresentation, which at a minimum would increase legal costs associated with defending such actions, and as a result our business could be materially and adversely affected.

**If we fail to comply with the DOE's credit hour requirements, it could result in sanctions against us.**

The DOE has defined credit hour for Title IV purposes. The credit hour is used for Title IV purposes to define an eligible program and an academic year and to determine enrollment status and the amount of Title IV aid that an institution may disburse in a payment period. The final regulations define credit hour as an institutionally established equivalency that reasonably approximates certain specified time in class and out of class and an equivalent amount of work for other academic activities. The final regulations also require institutional accreditors to review an institution's policies, procedures, and administration of policies and procedures for assignment of credit hours. An accreditor must take appropriate actions to address an institution's credit hour deficiencies and to notify the DOE if it finds systemic noncompliance or significant noncompliance in one or more programs. The DOE has indicated that if it finds an institution to be out of compliance with the credit hour definition for Title IV purposes, it may require the institution to repay the amount of Title IV awarded under the incorrect assignment of credit hours and, if it finds significant overstatement of credit hours, it may fine the institution or limit, suspend, or terminate its participation in Title IV programs, as a result of which our business could be materially and adversely affected.

**The U.S. Congress continues to examine the for-profit postsecondary education sector which could result in legislation or additional DOE rulemaking that may limit or condition Title IV program participation of proprietary schools in a manner that may materially and adversely affect our business.**



In recent years, the U.S. Congress has increased its focus on for-profit education institutions, including with respect to their participation in the Title IV programs, and has held hearings regarding such matters. In addition, the GAO released a series of reports following undercover investigations critical of for-profit institutions. We cannot predict the extent to which, or whether, these hearings and reports will result in legislation, further rulemaking affecting our participation in Title IV programs, or more vigorous enforcement of Title IV requirements. Additionally, the DOE recently created a special unit for the purpose of monitoring publicly traded for-profit educational institutions. Moreover, political consideration could result in a reduction of Title IV funding. To the extent that any laws or regulations are adopted that limit or condition Title IV program participation of proprietary schools or the amount of federal student financial aid for which proprietary school students are eligible, our business could be materially and adversely affected.

**Unfavorable laws and regulations may impede our growth.**

Existing and future laws and regulations may create increased regulatory risk, which could impede our growth. These regulations and laws may cover consumer protection, mobile communications, privacy, data protection, electronic communications, pricing and taxation.

## Other Risks

**Because our common stock is subject to the penny stock rules, brokers cannot generally solicit the purchase of our common stock which adversely affects its liquidity and market price.**

The Securities and Exchange Commission, (the SEC), has adopted regulations which generally define penny stock to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is substantially less than \$5.00 per share and therefore we are considered a penny stock according to SEC rules. This designation requires any broker-dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules limit the ability of broker-dealers to solicit purchases of our common stock and therefore reduce the liquidity of the public market for our shares.

Moreover, as a result of apparent regulatory pressure from the SEC and the Financial Industry Regulatory Authority, a growing number of broker-dealers decline to permit investors to purchase and sell or otherwise make it difficult to sell shares of penny stocks like Aspen. This may have a depressive effect upon our common stock price.

**Because of their share ownership, our management may be able to exert control over us to the detriment of minority shareholders.**

As of July 28, 2015, our executive officers and directors owned approximately 11.3% of our outstanding common stock. These shareholders, if they act together, may be able to control our management and affairs and all matters requiring shareholder approval, including significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing our change in control and might affect the market price of our common stock.

**If our common stock becomes subject to a chill imposed by the Depository Trust Company, or DTC, your ability to sell your shares may be limited.**

The DTC acts as a depository or nominee for street name shares that investors deposit with their brokers. Until December of 2012, our stock was not eligible to be electronically transferred among DTC participants (broker-dealers) and required delivery of paper certificates as a result of a chill imposed by DTC. As a result of becoming DTC-Eligible, our common stock is no longer subject to a chill. However, DTC in the last several years has

increasingly imposed a chill or freeze on the deposit, withdrawal and transfer of common stock of issuers whose common stock trades on a market other than an exchange. Depending on the type of restriction, a chill or freeze can prevent shareholders from buying or selling shares and prevent companies from raising money. A chill or freeze may remain imposed on a security for a few days or an extended period of time (in at least one instance a number of years). While we have no reason to believe a chill or freeze will be imposed against our common stock again in the future, if it were your ability to sell your shares would be limited. In such event, your investment will be adversely affected.

**Due to factors beyond our control, our stock price may be volatile.**

Any of the following factors could affect the market price of our common stock:

Our failure to generate increasing material revenues;

Our failure to become profitable or achieve positive adjusted Earnings Before Interest, Taxes, Depreciation and Amortization;

Our failure to raise working capital, if required;

Our public disclosure of the terms of any financing which we consummate in the future;

Disclosure of the results of our monthly payment plan;

Actual or anticipated variations in our quarterly results of operations;

Announcements by us or our competitors of significant contracts, new services, acquisitions, commercial relationships, joint ventures or capital commitments;

The loss of Title IV funding or other regulatory actions;

Our failure to meet financial analysts' performance expectations;

Changes in earnings estimates and recommendations by financial analysts;

The sale of large numbers of shares of common stock which we have registered;

Short selling activities; or

Changes in market valuations of similar companies.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert our management's time and attention, which would otherwise be used to benefit our business.

**Because we may issue preferred stock without the approval of our shareholders and have other anti-takeover defenses, it may be more difficult for a third party to acquire us and could depress our stock price.**

Our Board may issue, without a vote of our shareholders, one or more additional series of preferred stock that have more than one vote per share. This could permit our Board to issue preferred stock to investors who support us and our management and give effective control of our business to our management. Additionally, issuance of preferred stock could block an acquisition resulting in both a drop in our stock price and a decline in interest of our common stock. This could make it more difficult for shareholders to sell their common stock. This could also cause the market price of our common stock shares to drop significantly, even if our business is performing well.

**An investment in Aspen may be diluted in the future as a result of the issuance of additional securities.**

If we need to raise additional capital to meet our working capital needs, we expect to issue additional shares of common stock or securities convertible, exchangeable or exercisable into common stock from time to time, which could result in substantial dilution to investors. Investors should anticipate being substantially diluted based upon the current condition of the capital and credit markets and their impact on small companies.

**Because we may not be able to attract the attention of major brokerage firms, it could have a material impact upon the price of our common stock.**

It is not likely that securities analysts of major brokerage firms will provide research coverage for our common stock since the firm itself cannot recommend the purchase of our common stock under the penny stock rules referenced in an earlier risk factor. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It may also make it more difficult for us to attract new investors at times when we acquire additional capital.

**Since we intend to retain any earnings for development of our business for the foreseeable future, you will likely not receive any dividends for the foreseeable future.**

We have not and do not intend to pay any dividends in the foreseeable future, as we intend to retain any earnings for development and expansion of our business operations. As a result, you will not receive any dividends on your investment for an indefinite period of time.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

Our corporate headquarters are located in a facility in Denver, Colorado, consisting of approximately 3,900 square feet of office space under a lease that expires in September 2015. This facility accommodates our academic operations. Our executive offices are in New York City where we lease approximately 2,000 square feet under a month-to-month sublease. We operate an enrollment center in Scottsdale, Arizona where we lease approximately 2,600 square feet under a three-year term that expires in January 2016. We believe that our existing facilities are suitable and adequate and that we have sufficient capacity to meet our current anticipated needs.

**ITEM 3. 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 April 30, 2015, 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 counterclaims as being duplicative of the fraud counterclaim; however by decision dated April 30, 2015, the Court reinstated the Company's money had and received, money lent and unjust enrichment counterclaims, and denied HEMG's and Spada's second request for dismissal of the Company's fraud counterclaim.

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

While the Company has been advised by its counsel that HEMG's and Spada's claims in the New York lawsuit are 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. HEMG failed to answer the complaint and as a result the Court entered a default against HEMG.

On or about February 20, 2015, Aspen Group, Inc. filed a motion in the United States District Court, District of New Jersey, seeking the entry of a money judgment on default against Defendant, HEMG, in the amount of \$772,793, plus interest, costs, disbursements, and any other relief the Court deems just and proper. Aspen University gave notice to HEMG that it intended to privately sell the 654,850 shares held as collateral 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.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our stock trades on the Bulletin Board, under the symbol ASPU. Since March 31, 2011, Aspen Group's common stock has been quoted on the Bulletin Board. The last reported sale price of Aspen's common stock as reported by the Bulletin Board on July 27, 2015 was \$0.17. As of that date, we had 234 record holders. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

The following table provides the high and low bid price information for our common stock. The prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and does not necessarily represent actual transactions. Our common stock does not trade on a regular basis.

Year	Period Ended	Prices	
		High (\$)	Low (\$)
Fiscal 2015	April 30	0.27	0.17
	January 31	0.29	0.11
	October 31	0.39	0.12
	July 31	0.17	0.096
Fiscal 2014	April 30	0.20	0.101
	January 31	0.23	0.12
	October 31	0.335	0.176
	July 31	0.51	0.25

#### Dividend Policy

We have not paid cash dividends on our common stock and do not plan to pay such dividends in the foreseeable future. Our Board will determine our future dividend policy on the basis of many factors, including results of operations, capital requirements, and general business conditions.

**Recent Sales of Unregistered Securities**

None

**Securities Authorized for Issuance under Equity Compensation Plans**

The information required by this item with respect to our equity compensation plans is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not applicable.

## **ITEM 7. 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-K. 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 herein.

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

### **Company Overview**

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

Because we believe higher education should be a catalyst to our students' long-term economic success, we exert financial prudence by offering affordable tuition that is one of the greatest values in online higher education. Last year, Aspen University unveiled a monthly payment plan aimed at reversing the college-debt sentence plaguing working-class Americans. The monthly payment plan offers bachelor students (except nursing) 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.

### **Student Population**

Aspen's full-time degree-seeking student body increased year-over-year by 33% during the year ended April 30, 2015, from 2,485 to 3,309 students.

Our most popular school is our School of Nursing. Aspen's School of Nursing has grown from 33% of our full-time, degree-seeking student body at April 30, 2014, to 42% of our full-time, degree-seeking student body at April 30, 2015. Aspen's School of Nursing grew from 828 to 1,374 students year-over-year, which represented 66% of Aspen's full-time degree-seeking student body growth. At April 30, 2015, Aspen's School of Nursing included 285 students in the RN to BSN program and 1,089 students in the RN to MSN Bridge program or MSN program.

### **New Student Enrollment Overview**

Since the launch of the BSN marketing campaign in mid-November, 2014, Aspen's growth rate of new student enrollments has accelerated significantly. Typically, it takes 60-90 days for a new student lead to convert into an enrollment. However, Aspen began seeing BSN leads convert to new student enrollments at the beginning of January 2015, only six weeks following the marketing campaign launch.

Aspen has updated its definition of a new student enrollment to only report those new students that complete their first seven day assignment of their first course in their degree program. Based on that definition, below is a quarterly analysis of new student enrollments for the past five quarters, including the recent quarter ending April 30, 2015.

Note that in the recent quarter ending April 30, 2015, new student enrollments were up 89% year-over-year, from 235 to 444.

### **New Student Enrollments**

Fiscal Quarter End April 30, 2014	235
Fiscal Quarter End July 31, 2014	226
Fiscal Quarter End October 31, 2014	265
Fiscal Quarter End January 31, 2015	315
Fiscal Quarter End April 30, 2015	444

Aspen's estimated average revenue per new student enrollment is approximately \$6,000, earned over 3 years. Aspen delivered 1,008 new student enrollments in calendar year 2014, which equates to revenues for those 1,008 new student enrollments of approximately \$6 million, earned over three years. However, should the pace of enrollments continue to rise by 89% year-over-year throughout calendar year 2015, that would equate to 1,905 new student enrollments with a revenue value for those 1,905 new student enrollments of approximately \$11.4 million, earned over three years. Aspen cannot provide any assurance that the pace of enrollment will remain constant (or will not fall) or that students that enroll will remain all three years.

## **Results of Operations**

### **For the Year Ended April 30, 2015 Compared with the Year Ended April 30, 2014**

#### **Revenue**

Revenue from continuing operations for the year ended April 30, 2015 ( 2015 Period ) increased to \$5,225,761 from \$3,981,722 for the year ended April 30, 2014 ( 2014 Period ), an increase of \$1,244,039 or 31%. Of particular note, revenues from Aspen's Nursing degree program increased to \$2,268,871 during the 2015 Period from \$1,433,972 during the 2014 Period, an increase of \$834,899 or 58%.

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

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

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

Instructional costs and services for the 2015 Period rose to \$1,110,518 from \$836,274 for the 2014 Period, an increase of \$274,244 or 33%. 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 lag that of overall revenue growth.

## **Marketing and Promotional**

Marketing and promotional costs for the 2015 Period were \$1,065,812 compared to \$1,023,490 for the 2014 Period, an increase of \$42,322 or 4%. The Company expects marketing and promotional costs to rise in future periods given the planned spend rate increase to an average of \$120,000 per month which began in May 2015.

Gross Profit rose to 49% of revenues or \$2,560,478 for the 2015 Period from 42% of revenues or \$1,682,020 for the 2014 Period. Gross Profit (exclusive of amortization), a non-GAAP financial measure, rose to 58% of revenues or \$3,049,431 for the 2015 Period from 53% of revenues or \$2,121,958 for the 2014 Period, a year-over-year increase of \$927,473 or 44%.

## **Costs and Expenses**

### **General and Administrative**

General and administrative costs for the 2015 Period were \$5,924,263 compared to \$6,300,229 during the 2014 Period, a decrease of \$375,966 or 6%. The decrease reflects \$475,000 decrease in consulting and professional services and a \$150,000 decrease in stock compensation expense, offset by a \$176,000 increase in warrant exercise expense, a \$36,000 increase in travel expenses and a \$35,000 increase in investor relation expenses. The net decrease also reflects a \$30,000 decrease in biennial graduation expenses, as there was no graduation in the 2015 Period, as well as a reduction of regulatory expenses related to Aspen's now completed reaccreditation review.

### **Depreciation and Amortization**

Depreciation and amortization costs for the 2015 Period rose to \$528,496 from \$474,752 for the 2014 Period, an increase of \$53,744 or 11%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen launched a new academic learning system, Desire2Learn, in the 2015 Period.

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

Other income for the 2015 Period increased to \$9,196 from \$1,656 in the 2014 Period, an increase of \$7,540 or 455%. A significant portion of this increase is due to the sale of excess textbooks. Interest expense decreased from \$659,997 to \$421,653, a decrease of \$238,344 or 36%. Interest was higher each month year over year until the extinguishment in September 2014. Before the extinguishment, the monthly increase year over year was 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 long-term loan from our CEO.

### **Loss from Debt Extinguishment**

In the 2015 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 write off of \$130,057 of remaining debt issuance costs and \$286,530 of remaining original issue discount.

### **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 2015 Period was (\$4,268,288) as compared to (\$5,350,348) for the 2014 Period, a decrease in the loss of \$1,082,060 or approximately 20%. Contributing to this lower loss was the increase in revenues in the 2015 period, coupled with lower General and Administration expenses.

### **Discontinued Operations**

As of August 4, 2013, Aspen Group discontinued business activities related to its agreement with CLS. See Note 1 of the consolidated financial statements contained herein. The following table details the results of the discontinued operations for the years ended April 30, 2015 and 2014:

	<b>For the Year Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Revenues	\$	\$ 549,125
Costs and expenses:		
Instructional costs and services		494,213
General and administrative		(29,751)
Total costs and expenses		464,462
Income (loss) from discontinued operations, net of income taxes	\$	\$ 84,663

#### **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 including non-recurring charges of \$573,983. Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing the impact of items of a non-operational nature that affect comparability.

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

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

	<b>For the Years Ended</b>	
	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	\$ (4,268,288)	\$ (5,350,348)
Loss on extinguishment of debt	452,503	
Interest Expense, net of interest income	170,758	230,931
Discontinued Operations, net		84,663
Bad Debt Expense	156,165	154,732
Depreciation & Amortization	528,496	474,752
Receivable collateral valuation reserve		123,647
Amortization of prepaid services		366,647
Amortization of debt issue costs	75,458	133,738
Amortization of debt discount	166,241	294,640
Warrant conversion exercise expense	333,323	156,952
Non-recurring charges	573,983	504,973

Stock-based compensation		456,871		608,428
Adjusted EBITDA (Loss)	\$	(1,354,490)	\$	(2,216,245)

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:

	<b>For the Years Ended</b>			
	<b>April 30,</b>			
		<b>2015</b>		<b>2014</b>
Revenues	\$	5,225,761	\$	3,981,722
Costs of revenues (exclusive of depreciation and amortization shown separately)		2,176,330		1,859,764
Gross profit (exclusive of depreciation and amortization)		3,049,431		2,121,958
Depreciation and amortization expenses excluded from cost of revenues		488,953		439,938
GAAP gross profit	\$	2,560,478	\$	1,682,020

## Liquidity and Capital Resources

A summary of our cash flows is as follows:

	<b>For the Years Ended</b>	
	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Net cash used in operating activities	\$ (2,741,466)	\$ (3,664,964)
Net cash used in investing activities	(777,432)	(995,652)
Net cash provided by financing activities	5,425,731	4,114,283
Net cash provided by discontinued operations	5,250	68,731
Net increase (decrease) in cash and cash equivalents	\$ 1,912,083	\$ (477,602)

### Net Cash Used in Operating Activities

Net cash used in operating activities during the 2015 Period totaled (\$2,741,466) and resulted primarily from a net loss from continuing operations of (\$4,268,288) offset by non-cash items of \$2,133,143, comprised of \$416,587 from the non-cash portion of the loss on extinguishment of debt, \$166,241 of amortization of debt discount, \$528,496 in depreciation and amortization, \$75,458 of amortization of debt discount, \$456,871 of stock compensation expense, \$333,323 of warrant conversion exercise expense and \$156,165 of bad debt expense, and a net change in operating assets and liabilities of \$(606,321), of which the \$(275,674) decrease in accounts payable was the most significant.

Net cash used in operating activities during the 2014 Period totaled (\$3,664,964) and resulted primarily from a net loss from continuing operations of \$(5,350,348) offset by non-cash items of \$2,229,893 and a net change in operating assets and liabilities of \$(459,847).

### Net Cash Used in Investing Activities

Net cash used in investing activities during the 2015 Period totaled (\$777,432) and resulted primarily from capitalized technology expenditures and the increase in restricted cash.

Net cash used in investing activities during the 2014 Period totaled (\$995,652), resulting primarily from an increase in restricted cash as well as capitalized technology expenditures.

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

Net cash provided by financing activities during the 2015 Period totaled \$5,425,731 which resulted primarily from proceeds from the private placements of \$5,547,825 and \$2,268,670 from the exercise of warrants, offset by debt repayments of \$2,240,000.

Net cash provided by financing activities during the 2014 Period totaled \$4,114,283 which resulted primarily from the receipt of a \$1,000,000 long-term loan from the CEO, the proceeds of \$1,639,298 from issuance of convertible debt, \$750,000 from the issuance of common stock and \$804,049 from the exercise of warrants.

### **Historical Financings**

Historically, our primary sources of liquidity are 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 July 31, 2016.

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

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

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

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

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

In April 2015, Aspen raised \$2,268,670 closed on its offering to warrant holders whereby it issued 14,636,584 shares of common stock to the holders in exchange for their early exercise of warrants at the reduced exercise price of \$0.155. The Company received gross proceeds of \$2,268,670, which included warrants exercised by the Company's Chief Financial Officer.

### **Liquidity and Capital Resource Considerations**

At April 30, 2015, the Company had a cash balance of approximately \$3.3 million which includes \$1.1 million of restricted cash. In April 2015, the Company offered a warrant conversion, through which the Company issued 15,236,484 shares, raising \$2,268,670. In September 2014, the Company completed the second closing of its equity financing of \$3,766,325. With the additional cash raised in these financings, 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.

### **Revenue Recognition and Deferred Revenue    Discontinued Operations**

Aspen entered into certain revenue sharing arrangements with consultants whereby the consultants developed course content primarily for technology related courses, recommend, but not select, faculty, lease equipment on behalf of Aspen for instructional purposes for the on-site laboratory portion of distance learning courses and make introductions to corporate and government sponsoring organizations who provide students for the courses. Aspen has evaluated ASC 605-45 "Principal Agent Considerations" and determined that there are more indicators than not that Aspen is the primary obligor in the arrangements since Aspen establishes the tuition, interfaces with the student or sponsoring organization, selects the faculty, is responsible for delivering the course, is responsible for issuing any degrees or certificates, and is responsible for collecting the tuition and fees. The gross tuition and fees are included in revenue while the revenue sharing payments are included in instructional costs and services, an operating expense. As a result of presenting this component as discontinued operations, the revenue is now included in income from discontinued operations for all periods presented.

### **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 14 to the 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 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, forecasted fourth quarter student enrollments, forecasted revenue from the expected forecasted student enrollments, expected increase or decrease in expenses including an increase in Internet marketing expenses, capital expenditures, and liquidity.

The words believe, may, estimate, continue, anticipate, intend, should, plan, could, target, expect and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements are contained in the Risk Factors above. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise. For more information regarding some of the ongoing risks and uncertainties of our business, see the Risk Factors and our other filings with the SEC.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The requirements of this Item can be found beginning on page F-1.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

## ITEM 9A. 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, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act ). Based on their evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of April 30, 2015.

**Management's Annual Report on Internal Control over Financial Reporting.** Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of the end of the period covered by this report. In making this assessment, our management used the criteria set forth by the Committee of Sponsor Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* as issued in 2013. Based on that evaluation, our management concluded that our internal control over financial reporting was effective based on that criteria.

Our internal control over financial reporting is a process designed under the supervision of our Principal Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

**Changes in Internal Control over Financial Reporting.** There were no changes in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

Our Board of Directors has adopted a Code of Ethics applicable to all officers, directors and employees, which is available on our website (<http://ir.aspen.edu/governance-documents>) under "Corporate Governance." We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Ethics and by posting such information on our website at the address and location specified above.

#### **ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by this item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item is incorporated by reference to our Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended April 30, 2015.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) Documents filed as part of the report.

- (1) Financial Statements. See Index to Consolidated Financial Statements, which appears on page F-1 hereof. The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item.
- (2) Financial Statements Schedules. All schedules are omitted because they are not applicable or because the required information is contained in the consolidated financial statements or notes included in this report.
- (3) Exhibits. See the Exhibit Index.



/s/ Paul Schneier  
Paul Schneier

Director

July 28, 2015

/s/ Rick Solomon  
Rick Solomon

Director

July 28, 2015



**Aspen Group, Inc. and Subsidiaries**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of:

Aspen Group, Inc.

We have audited the accompanying consolidated balance sheets of Aspen Group, Inc. and Subsidiaries as of April 30, 2015 and 2014, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for each of the two years in the period ended April 30, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aspen Group, Inc. and Subsidiaries as of April 30, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended April 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.

Boca Raton, Florida

July 28, 2015

2295 NW Corporate Blvd., Suite 240 Boca Raton, FL 33431-7328

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,159,463	\$ 247,380
Restricted cash	1,122,485	868,298
Accounts receivable, net of allowance of \$279,453 and \$221,537, respectively	1,058,339	649,890
Prepaid expenses	121,594	45,884
Net assets from discontinued operations (Note 1)		5,250
Total current assets	4,461,881	1,816,702
Property and equipment:		
Call center equipment	132,798	122,653
Computer and office equipment	78,626	66,118
Furniture and fixtures	42,698	36,446
Library (online)	100,000	100,000
Software	2,244,802	1,894,215
	2,598,924	2,219,432
Less accumulated depreciation and amortization	(1,387,876)	(938,703)
Total property and equipment, net	1,211,048	1,280,729
Courseware, net	173,311	108,882
Accounts receivable, secured - related party, net of allowance of \$625,963, and \$625,963, respectively	45,329	146,831
Debt issuance costs, net		205,515
Other assets	26,679	25,181
Total assets	\$ 5,918,248	\$ 3,583,840

(Continued)

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



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

	<b>2015</b>	<b>April 30,</b>	<b>2014</b>
Liabilities and Stockholders Equity (Deficiency)			
Current liabilities:			
Accounts payable	\$ 179,109	\$	454,783
Accrued expenses	173,663		144,466
Deferred revenue	784,818		653,518
Refunds Due Students	280,739		288,121
Deferred rent, current portion	7,751		13,699
Convertible notes payable, current portion	50,000		175,000
Debenture payable, net of discounts of \$0 and \$452,771			1,787,229
Total current liabilities	1,476,080		3,516,816
Line of credit	243,989		244,175
Loan payable officer - related party	1,000,000		1,000,000
Convertible notes payable - related party	600,000		600,000
Deferred rent			7,751
Total liabilities	3,320,069		5,368,742
Commitments and contingencies - See Note 10			
Stockholders equity (deficiency):			
Common stock, \$0.001 par value; 250,000,000 shares authorized, 128,253,605 issued and 128,053,605 outstanding at April 30, 2015, 73,414,478 issued and 73,214,478 outstanding at April 30, 2014	128,254		73,414
Additional paid-in capital	24,898,647		16,302,118
Treasury stock (200,000 shares)	(70,000)		(70,000)
Accumulated deficit	(22,358,722)		(18,090,434)
Total stockholders equity (deficiency)	2,598,179		(1,784,902)
Total liabilities and stockholders equity (deficiency)	\$ 5,918,248	\$	3,583,840

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

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

	<b>For the Years Ended</b>	
	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Revenues	\$ 5,225,761	\$ 3,981,722
Operating expenses		
Cost of revenues (exclusive of depreciation and amortization shown separately below)	2,176,330	1,859,764
General and administrative	5,924,263	6,300,229
Receivable collateral valuation reserve		123,647
Depreciation and amortization	528,496	474,752
Total operating expenses	8,629,089	8,758,392
Operating loss from continuing operations	(3,403,328)	(4,776,670)
Other income (expense):		
Other income	9,196	1,656
Loss on Debt Extinguishment	(452,503)	
Interest expense	(421,653)	(659,997)
Total other expense, net	(864,960)	(658,341)
Loss from continuing operations before income taxes	(4,268,288)	(5,435,011)
Income tax expense (benefit)		
Loss from continuing operations	(4,268,288)	(5,435,011)
Discontinued operations (Note 1)		
Income from discontinued operations, net of income taxes		84,663
Net loss	\$ (4,268,288)	\$ (5,350,348)
Loss per share from continuing operations basic and diluted	\$ (0.04)	\$ (0.09)
Income per share from discontinued operations basic and diluted	\$	\$ 0.00
Net loss per share basic and diluted	\$ (0.04)	\$ (0.09)
Weighted average number of common shares outstanding		
Basic and diluted	100,884,625	62,031,861



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

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

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

**FOR THE YEARS ENDED APRIL 30, 2014 AND 2015**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>		<b>Treasury Stock</b>		<b>Accumulated Deficit</b>		<b>Total Stockholders' Equity (Deficiency)</b>	
	<b>Shares</b>	<b>Amount</b>								
Balance at April 30, 2013	58,573,222	\$ 58,573	\$	13,345,888	\$	(70,000)	\$	(12,740,086)	\$	594,375
Issuance of common shares for investor relation services	617,143	617		215,383						216,000
Offering cost for professional services from private placement				(48,240)						(48,240)
Stock-based compensation				608,429						608,429
Warrants issued in financing				483,881						483,881
Warrants exercised	7,006,064	7,006		797,043						804,049
Warrant Modification				156,952						156,952
Shares issued for price protection	3,270,678	3,271		(3,271)						
Issuance of common shares for cash	3,947,371	3,947		746,053						750,000
Net loss, Year Ended April 30, 2014								(5,350,348)		(5,350,348)
	73,414,478	\$ 73,414	\$	16,302,118	\$	(70,000)	\$	(18,090,434)	\$	(1,784,902)

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Balance at April 30, 2014							
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			(125,579)				(125,579)
Stock-based compensation			456,871				456,871
Shares issued for price protection	3,532,682	3,532	(3,532)				
Conversion of convertible debt into shares	526,316	526	99,474				100,000
Shares issued for services rendered	418,859	419	69,839				70,258
Warrant Conversion	14,747,116	14,748	2,253,922				2,268,670
Warrant Modification Expense			333,323				333,323
Net loss, year ended April 30, 2015						(4,268,288)	(4,268,288)
Balance at April 30, 2015	128,253,605	\$ 128,254	\$ 24,898,647	\$ (70,000)	\$ (22,358,722)	\$	2,598,179

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



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

	<b>For the Years Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,268,288)	\$ (5,350,348)
Less income from discontinued operations		84,663
Loss from continuing operations	(4,268,288)	(5,435,011)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Bad debt expense	156,165	154,732
Receivable collateral valuation reserve		123,647
Amortization of debt issuance costs	75,458	131,657
Amortization of debt discount	166,241	294,640
Depreciation and amortization	528,496	474,752
Extinguishment of debentures	416,587	
Stock-based compensation	456,871	608,429
Warrant modification expense	333,323	156,952
Common shares and warrants issued for services rendered	70,258	285,084
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(564,614)	(439,834)
Accounts receivable, secured - related party	101,502	
Prepaid expenses	(75,710)	50,456
Other assets	(1,498)	
Accounts payable	(275,674)	141,378
Accrued expenses	29,198	15,405
Deferred rent	(13,699)	(10,418)
Refunds due students	(7,382)	34,238
Deferred revenue	131,300	(251,071)
Net cash used in operating activities	(2,741,466)	(3,664,964)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(379,492)	(386,027)
Purchases of courseware	(143,753)	(6,500)
Increase in restricted cash	(254,187)	(603,125)
Net cash used in investing activities	(777,432)	(995,652)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common shares and warrants, net	5,547,826	750,000
Principal payments on notes payable	(25,000)	(25,000)
Proceeds received from issuance of convertible notes and warrants		1,639,298

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Repayment of note	(2,240,000)	
Proceeds from related party for note		1,000,000
Disbursements for debt issuance costs		(48,240)
Proceeds from warrant exercise	2,268,670	804,049
Payments for line of credit	(186)	(5,824)
Disbursements for equity offering costs	(125,579)	
Net cash provided by financing activities	5,425,731	4,114,283

(Continued)

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

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

	<b>For the Years Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from discontinued operations:		
Cash flows from discontinued operations	5,250	68,731
Net cash provided by discontinued operations	5,250	68,731
Net increase (decrease) in cash and cash equivalents	1,912,083	(477,602)
Cash and cash equivalents at beginning of year	247,380	724,982
Cash and cash equivalents at end of year	\$ 2,159,463	\$ 247,380
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 240,264	\$ 173,989
Cash paid for income taxes	\$	\$
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock from conversion of notes	\$ 100,000	\$
Issuance of common shares for prepaid services	\$	\$ 216,000
Warrant value recorded as debt issue cost	\$	\$ 94,316
Warrant value recorded as debt discount	\$	\$ 389,565

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

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**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.

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 no longer offered 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).

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

Because we believe higher education should be a catalyst to our students' long-term economic success, we exert financial prudence by offering affordable tuition that is one of the greatest values in online higher education. Early in 2014, Aspen University unveiled a monthly payment plan aimed at reversing the college-debt sentence plaguing working-class Americans.



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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.

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## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

**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:

	<b>For the Year Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Revenues	\$	\$ 549,125
Costs and expenses:		
Instructional costs and services		494,213
General and administrative		(29,751)
Total costs and expenses		464,462
Income (loss) from discontinued operations, net of income taxes	\$	\$ 84,663

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

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Assets		
Cash and cash equivalents	\$	\$

Accounts receivable, net of allowance of \$486,781, and \$481,531, respectively			5,250
Other current assets			
Net assets from discontinued operations	\$	\$	5,250
<b>Liabilities</b>			
Accounts payable	\$	\$	
Accrued expenses			
Deferred revenue			
Net liabilities from discontinued operations	\$	\$	

### **Liquidity**

At April 30, 2015, the Company had a cash balance of approximately \$3.3 million which includes \$1.1 million of restricted cash. In April 2015, the Company offered a warrant conversion, through which the Company issued 14,636,582 shares, raising \$2,268,670. In fiscal 2015, the Company completed an equity financing of \$5,547,826. With the additional cash raised in the 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**

**April 30, 2015 and 2014**

**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 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 consolidated financial statements. Actual results could differ from those estimates. Significant estimates in the accompanying 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.

**Cash and Cash Equivalents**

For the purposes of the 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 April 30, 2015 and April 30, 2014 respectively. 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 April 30, 2015. As of April 30, 2015, there was \$2,191,791 and \$938,212 located in two institutions greater than the federally insured limits.

## **Restricted Cash**

Restricted cash represents amounts pledged as security for letters of credit for transactions involving Title IV programs. The company considers \$1,122,485 and \$868,298 as restricted cash (shown as a current asset as of April 30, 2015 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.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**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.

## Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets per the following table.

<b>Category</b>	<b>Depreciation Term</b>
Call center equipment	5 years
Computer and office equipment	5 years
Furniture and fixtures	7 years
Library (online)	3 years
Software	5 years

Costs incurred to develop internal-use software during the preliminary project stage are expensed as incurred. Internal-use software development costs are capitalized during the application development stage, which is after: (i) the preliminary project stage is completed; and (ii) management authorizes and commits to funding the project and it is probable the project will be completed and used to perform the function intended. Capitalization ceases at the point the software project is substantially complete and ready for its intended use, and after all substantial testing is completed. Upgrades and enhancements are capitalized if it is probable that those expenditures will result in additional functionality. Amortization is provided for on a straight-line basis over the expected useful life of five years of the internal-use software development costs and related upgrades and enhancements. When existing software is replaced with new software, the unamortized costs of the old software are expensed when the new software is ready for its intended use.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Upon the retirement or disposition of property and equipment, the related cost and accumulated depreciation and amortization are removed and a gain or loss is recorded in the consolidated statements of operations. Repairs and maintenance costs are expensed in the period incurred.

**Courseware**

The Company records the costs of courseware in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 350 Intangibles - Goodwill and Other .

Generally, costs of courseware are capitalized whereas costs for upgrades and enhancements are expensed as incurred. Courseware is stated at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the expected useful life of five years.

**Long-Lived Assets**

The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period of time, and changes in the Company's business strategy. An impairment loss is recorded when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds fair value and is recorded as a reduction in the carrying value of the related asset and an expense to operating results.



### **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.

### **Leases**

The Company enters into various lease agreements in conducting its business. At the inception of each lease, the Company evaluates the lease agreement to determine whether the lease is an operating or capital lease. Leases may contain initial periods of free rent and/or periodic escalations. When such items are included in a lease agreement, the Company records rent expense on a straight-line basis over the initial term of a lease. The difference between the rent payment and the straight-line rent expense is recorded as a deferred rent liability. The Company expenses any additional payments under its operating leases for taxes, insurance or other operating expenses as incurred.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**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.

**Revenue Recognition and Deferred Revenue - Discontinued Operations**

The Company enters into certain revenue sharing arrangements with consultants whereby the consultants will develop course content primarily for technology-related courses, recommend, but not select, faculty, lease equipment on behalf of the Company for instructional purposes for the on-site laboratory portion of distance learning courses and make introductions to corporate and government sponsoring organizations that provide students for the courses. The Company has evaluated ASC 605-45 "Principal Agent Considerations" and determined that there are more indicators than not that the Company is the primary obligor in the arrangements since the Company establishes the tuition, interfaces with the student or sponsoring organization, selects the faculty, is responsible for delivering the course, is responsible for issuing any degrees or certificates, and is responsible for collecting the tuition and fees. The gross tuition and fees are included in revenues while the revenue sharing payments are included in instructional costs and services, an operating expense. As a result of presenting this component as discontinued operations, the revenues are now included in income from discontinued operations, net of income taxes for all periods presented (See Note 1).

## **Cost of Revenues**

Cost of revenues consists of two categories of cost, instructional costs and services, and marketing and promotional costs.

### **Instructional Costs and Services**

Instructional costs and services consist primarily of costs related to the administration and delivery of the Company's educational programs. This expense category includes compensation costs associated with online faculty, technology license costs and costs associated with other support groups that provide services directly to the students.

### **Marketing and Promotional Costs**

Marketing and promotional costs include costs associated with producing marketing materials and advertising. Such costs are generally affected by the cost of advertising media, the efficiency of the Company's marketing and recruiting efforts, and expenditures on advertising initiatives for new and existing academic programs. Non-direct response advertising activities are expensed as incurred, or the first time the advertising takes place, depending on the type of advertising activity.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**General and Administrative**

General and administrative expenses include compensation of employees engaged in corporate management, finance, human resources, information technology, academic operations, compliance and other corporate functions. General and administrative expenses also include professional services fees, bad debt expense related to accounts receivable, financial aid processing costs, non-capitalizable courseware and software costs, travel and entertainment expenses and facility costs.

**Income Tax**

The Company uses the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. The Company has deferred tax assets and liabilities that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are subject to periodic recoverability assessments. Realization of the deferred tax assets, net of deferred tax liabilities, is principally dependent upon achievement of projected future taxable income.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company accounts for uncertainty in income taxes using a two-step approach for evaluating tax positions. Step one, recognition, occurs when the Company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Step two, measurement, is only addressed if the position is more likely than not to be sustained. Under step two, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

**Stock-Based Compensation**

Stock-based compensation expense is measured at the grant date fair value of the award and is expensed over the requisite service period. For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes option pricing model. Determining the fair value of stock-based awards at the grant date under this model requires judgment, including estimating volatility, employee stock option exercise behaviors and forfeiture rates. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. For non-employee stock-based awards, the Company calculates the fair value of the award on the date of grant in the same manner as employee awards, however, the awards are revalued at the end of each reporting period and the prorata compensation expense is adjusted accordingly until such time the non-employee award is fully vested, at which time the total compensation recognized to date shall equal the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient's performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised.

### **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 14,426,412 and 10,746,412 common shares, warrants to purchase 28,871,757 and 23,144,005 common shares, and \$650,000 and \$775,000 of convertible debt (convertible into 1,207,143 and 1,225,564 common shares, respectively) were outstanding during the years ended April 30, 2015 and 2014, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**Segment Information**

The Company operates in one reportable segment as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of its online students regardless of geography. The Company's chief operating decision makers, its CEO and Chief Academic Officer, manage the Company's operations as a whole, and no revenue, expense or operating income information is evaluated by the chief operating decision makers on any component level.

**Recent Accounting Pronouncements**

Financial Accounting Standards Board, Accounting Standard Updates which are not effective until after April 30, 2015 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 its disclosures.

**Note 3. Accounts Receivable**

Accounts receivable consisted of the following at April 30, 2015 and 2014:

	<b>April 30,</b>	
<b>2015</b>		<b>2014</b>

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Accounts receivable	\$	1,337,792	\$	871,427
Less: Allowance for doubtful accounts		(279,453)		(221,537)
Accounts receivable, net	\$	1,058,339	\$	649,890

Bad debt expense for the years ended April 30, 2015 and 2014, were \$156,165 and \$154,732 respectively.

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**Note 4. Secured Note and Accounts Receivable - Related Parties**

On March 30, 2008 and December 1, 2008, the Company 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, in the amount of \$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. 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, 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; and (c) the Company waived any default of the accounts receivable, secured - related party and extended the due date to September 30, 2014. 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 April 30, 2015 and 2014, the balance of the account receivable, net of allowance, was \$45,329 and \$146,831 respectively.

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. 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.



**Note 5. Property and Equipment**

Property and equipment consisted of the following at April 30, 2015 and 2014:

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Call center hardware	\$ 132,798	\$ 122,653
Computer and office equipment	78,626	66,118
Furniture and fixtures	42,698	36,446
Library (online)	100,000	100,000
Software	2,244,802	1,894,215
	2,598,924	2,219,432
Accumulated depreciation and amortization	(1,387,876)	(938,703)
Property and equipment, net	\$ 1,211,048	\$ 1,280,729

Software consisted of the following at April 30, 2015 and 2014:

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Software	\$ 2,244,802	\$ 1,894,215
Accumulated amortization	(1,130,453)	(720,823)
Software, net	\$ 1,114,349	\$ 1,173,392

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

Depreciation and Amortization expense for all Property and Equipment as well as the portion for just software is presented for years ended April 30, 2015 and 2014:

	<b>For the Years Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Depreciation and Amortization Expense	\$ 449,173	\$ 369,039
Software Amortization Expense	\$ 409,630	\$ 334,224

The following is a schedule of estimated future software amortization expense of software at April 30, 2015:

<b>Year Ending April 30,</b>	
2016	\$ 299,307
2017	388,670
2018	222,506
2019	136,544
2020	67,322
Total	\$ 1,114,349

**Note 6. Courseware**

Courseware costs capitalized were \$143,752 and \$6,500 for the years ended April 30, 2015 and 2014, respectively.

Courseware consisted of the following at April 30, 2015 and 2014:

**April 30,**

	<b>2015</b>		<b>2014</b>
Courseware	\$ 2,247,790	\$	2,104,038
Accumulated amortization	(2,074,479)		(1,995,156)
Courseware, net	\$ 173,311	\$	108,882

Amortization expense of courseware for years ended April 30, 2015 and 2014:

	<b>For the Years Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Amortization Expense	\$ 79,323	\$ 105,713

The following is a schedule of estimated future amortization expense of courseware at April 30, 2015:

<b>Year Ending April 30,</b>		
2016	\$	57,780
2017		39,146
2018		31,057
2019		29,584
2020		15,744
Total	\$	173,311

**ASPEN GROUP, INC. AND SUBSIDIARIES****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****April 30, 2015 and 2014****Note 7. Accrued Expenses**

Accrued expenses consisted of the following at April 30, 2015 and 2014:

		<b>April 30,</b>	
	<b>2015</b>		<b>2014</b>
Accrued compensation	\$ 95,344	\$	
Accrued Interest	57,887		85,412
Other accrued expenses	20,432		59,054
Accrued expenses	\$ 173,663	\$	144,466

**Note 8. 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 July 31, 2016. There was no accounting effect for these extensions.

**Note 9. 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. 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. This note was converted to common shares on December 1, 2014. (See Note 11)

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 reducing the principal to \$50,000. 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. The remaining \$50,000 balance of this note was converted to common shares on December 1, 2014. (See Note 11)

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 July 16, 2014, the maturity of the debt to the CEO has been extended to January 1, 2016 and on March 4, 2015, the debt was extended to July 31, 2016. There was no accounting effect for these modifications.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

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 and on March 4, 2015, the debt was extended to July 31, 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 were 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 had 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 provided that the Debenture may have been 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 was recorded as a debt discount to be amortized over the debt term. The Debenture bore 8% per annum interest and was amortizable in installments over its 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.

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## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

Notes payable consisted of the following at April 30, 2015 and 2014:

	April 30,	
	2015	2014
Note payable - related party originating August 14, 2012; no monthly payments required; bearing interest at 5% [A] [D]	\$ 300,000	\$ 300,000
Note payable - related party originating March 13, 2012; no monthly payments required; bearing interest at 0.19% [A] [D]	300,000	300,000
Note payable - originating February 25, 2012; no monthly payments required [B]		75,000
Note payable - originating February 27, 2012; no monthly payments required [C]		50,000
Note payable - originating February 29, 2012; no monthly payments required; bearing interest at 0.19%; maturing at February 29, 2014	50,000	50,000
Loan Payable - related party originating February 25, 2012; no monthly payments required; bearing interest at 10% [D]	1,000,000	1,000,000
Debentures payable, net of OID		1,787,229
Total	1,650,000	3,562,229
Less: Current maturities (notes payable)	(50,000)	(175,000)
Less: Current maturities (Debentures Payable)		(1,787,229)
Subtotal	1,600,000	1,600,000
Less: amount due after one year for notes payable	(1,000,000)	(1,000,000)
Amount due after one year for convertible notes payable	\$ 600,000	\$ 600,000

[A] - Effective September 4, 2012, note amended to provide a maturity date of August 31, 2013. Effective December 17, 2012, note further amended to provide a maturity date of August 31, 2014. On September 25, 2013, maturity date had been extended to April 5, 2015. On July 16, 2014, the maturity date had been extended to January 1, 2016.

[B] - Effective February 28, 2014 a payment was made in the amount of \$25,000, reducing the principal to \$75,000, the interest rate was raised to 3.25% from February 25, 2012, and the conversion price was reduced to \$0.19 per share. Another principal payment of \$25,000 was made on August 1, 2014. On December 1, 2014 the final \$50,000 was converted to Common Stock.

[C] - Effective February 18, 2014 the maturity date was extended to December 1, 2014 and the conversion price reduced to \$0.19 per share, and the interest rate has been amended to 3.25% from February 27, 2012. This note was converted to common shares on December 1, 2014.



[D] - Effective March 4, 2015, the note was amended to provide a maturity date of July 31, 2016.

Future maturities of notes payable as of April 30, 2015 are as follows:

<b>Year Ending April 30,</b>			
2016	\$		50,000
2017			1,600,000
	\$		1,650,000

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**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**Note 10. 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 April 30, 2015). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time monthly payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of April 30, 2015 was \$243,989. 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 April 30, 2015 was \$6,011.

**Operating Leases**

The Company leases office space for its corporate headquarters in New York, New York on a month-to-month basis with monthly rent payments of \$4,320 per month.

The Company leases office space for its developers in Dieppe, NB, Canada under a one year agreement commencing January 1, 2015. The monthly rent payment is \$2,049 Canadian which is approximately \$1,700 US.

The Company leases office space for its Denver, Colorado location under a seven-year lease agreement commencing September 15, 2008. The operating lease granted four initial months of free rent and had a base monthly rent of \$6,526 commencing January 15, 2009. Thereafter, the monthly rent escalates 2.5% annually over the base year.

On October 4, 2012, the Company entered into a three-year lease agreement for its call center in Scottsdale, Arizona. The Company occupied temporary space at this location until moving into the leased space on February 1, 2013, the commencement date of the lease. The lease requires rent payments of \$4,491 per month during months 4 through 12, \$4,601 per month during the second year, and \$4,710 per month during the third year.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of April 30, 2015:

<b>Year Ending April 30,</b>	
2016	\$ 87,393
2017	
2018	
Total minimum payments required	\$ 87,393

Rent expense for the years ended April 30, 2015 and 2014, were \$213,225 and \$210,977, respectively.

### **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 April 30, 2015, no performance bonuses have been earned.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**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 April 30, 2015, except as discussed below, there were no other pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations and there are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

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

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 with prejudice. The Plaintiff's have not taken an appeal and the time to do so has expired.

While the Company has been advised by its counsel that HEMG's and Spada's claims 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. HEMG failed to answer the complaint and as a result the Court entered a default against HEMG.

On or about February 20, 2015, Aspen Group, Inc. filed a motion in the United States District Court, District of New Jersey, seeking the entry of a money judgment on default against Defendant, HEMG, in the amount of \$772,793, plus interest, costs, disbursements, and any other relief the Court deems just and proper. Aspen University gave notice to HEMG that it intended to privately sell the 654,850 shares held as collateral 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. (See Note 4)

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**Regulatory Matters**

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

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

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

Restricted Cash ).

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

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

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

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

**Return of Title IV Funds**

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

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

**Delaware Approval to Confer Degrees**

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

**Letter of Credit**

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



**Note 11. Stockholders Equity (Deficiency)**

**Common Stock**

As part of two contracts entered into during the year ended April 30, 2014, the Company issued restricted stock to two firms as part of their fees for services. The fair value of the stock issued was set up as a prepaid expense and was amortized over the service period of the contract. Since the contract was terminated, the full amount was recognized during the three months ended January 31, 2014. On June 27, 2013, the Company issued one firm 317,143 shares of its common stock valued at \$0.35 per share (based on recent sales of shares by the Company) to an investor relations firm pursuant to a service agreement with two service components, one for three months and one for 12 months. The \$111,000 of expense was being recognized in two pieces, \$90,000 over 12 months and \$21,000 over three months. On July 24, 2013, the Company issued the second firm 300,000 shares of its common stock valued at \$0.35 per share (based on recent sales of shares by the Company) to a business development consultant pursuant to a six month consulting agreement. The \$105,000 of expense was being amortized over the life of the contract. Since the contract was terminated, the unamortized balance was recognized as an expense in the year ended April 30, 2014.

In January 2014, the Company issued 7,006,064 shares of common stock and received \$804,050 in connection with warrant exercises more fully described below. As a result of the warrant modifications and exercises described below, the Company issued 3,270,678 shares of common stock as price protection on prior cash investments.

On March 10, 2014, several members of the Board of Directors paid \$600,000 in exchange for 3,157,895 shares of common stock and 3,157,895 warrants at \$0.19 per share. On April 24, 2014, an investor paid \$50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at \$0.19 per share. On April 30, 2014, a Director paid \$100,000 in exchange for 526,318 shares of common stock and 526,318 warrants at \$0.19 per share.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

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 issuing each of them 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 \$3,766,326 from the sale of 24,298,871 shares of common stock and 12,149,438 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.

On September 30, 2014, Aspen Group filed a Certificate of Amendment to its Certificate of Incorporation increasing its authorized shares from 120,000,000 shares to 250,000,000 shares.

On December 1, 2014, \$100,000 of convertible debt was converted into common stock at the conversion rate of \$0.19 per share, equally for two investors. Each investor received 263,158 shares of common stock.

On January 14, 2015, 210,526 shares of stock were issued for services provided to Aspen. The shares were valued at the fair market value of the common stock or \$0.155 and accordingly, the Company recorded an expense of \$32,632.

On April 23 and 29, 2015, the Company closed on its offering to warrant holders whereby it issued 14,636,590 shares of common stock to the holders in exchange for their early exercise of warrants at the reduced exercise price of \$0.155. One of the participating warrant holders is an executive officer of the Company. The Company received gross proceeds of \$2,268,670. The offering closed in two tranches of 7,556,884 shares and 7,079,700 shares on April 23rd and April 29th, respectively. Additionally, on April 29th, two warrant holders cashlessly exercised a total of 600,000 warrants and were issued 110,526 shares of common stock in connection with a reduced exercise price of \$0.155. The Company recorded an expense of \$333,323 for the warrant modifications as described below.

On April 29, 2015, 208,333 shares of stock were issued for services provided to Aspen. The shares were valued at the fair market value of the common stock on January 1, 2015, and accordingly, the Company recorded an expense of \$37,626.

## Warrants

A summary of the Company's warrant activity during the year ended April 30, 2015, is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
<b>Warrants</b>				
Balance Outstanding, April 30, 2014	23,144,005	\$ 0.31		
Granted	20,863,958	\$ 0.19		
Exercised	(15,236,582)	\$ 0.15		
Forfeited	100,376			
Expired				
Balance Outstanding, April 30, 2015	28,871,757	\$ 0.26	4.2	\$ 179,791
Exercisable, April 30, 2015	28,871,757	\$ 0.26	4.2	\$ 179,791

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

On January 15, 2014, a warrant exercise offering was completed whereby 4,231,840 warrants were offered at an exercise price of \$0.19 per warrant. The total proceeds received were \$804,050 and since the exercise price was discounted from the stated prices of either \$0.50 or \$0.3325, a warrant modification expense of \$156,952 was recorded in accordance with ASC 718-20-35. This expense was calculated by comparing the value of the warrants before and after the reduced price. As a result of the \$0.19 exercise, an additional 5,178,947 new warrants were issued at \$0.19 per warrant as part of a price protection agreement with two investors. There was no accounting effect for this warrant issuance.

On March 10, 2014, several members of the Board of Directors paid \$600,000 in exchange for 3,157,895 shares of common stock and 3,157,895 warrants at \$0.19 per share. On April 24, 2014, an investor paid \$50,000 in exchange for 263,158 shares of common stock and 263,158 warrants at \$0.19 per share. On April 30, 2014, a Director paid \$100,000 in exchange for 526,318 shares of common stock and 526,318 warrants at \$0.19 per share.

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 issuing each of them 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 \$3,766,326 from the sale of 24,298,871 shares of common stock and 12,149,438 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.

Warrants issued to an investor were modified on January 31, 2015 to reduce the exercise price to \$0.19 per share. As a result of the modification, the modification expense was not material.

On April 23 and 29, 2015, the Company closed on its offering to warrant holders whereby it issued 14,636,590 shares of common stock to the holders in exchange for their early exercise of warrants at the reduced exercise price of \$0.155. One of the participating warrant holders is an executive officer of the Company. The Company received gross proceeds of \$2,268,670. The offering closed in two tranches of 7,556,884 shares and 7,079,700 shares on April 23rd and April 29th, respectively. Additionally, on April 29th, two warrant holders exercised cashless a total of 600,000 warrants and were issued 110,526 shares of common stock in connection with a reduced exercise price of \$0.155. Since the exercise price was discounted from the stated prices of \$0.50, \$0.3325 or \$0.19, a warrant modification expense of \$333,323 was recorded in accordance with ASC 718-20-35. This expense was calculated by comparing the value of the warrants before and after the reduced price.

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 April 30, 2015 the warrants are excluded from derivative treatment.

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

Immediately following the closing of the Reverse Merger, on March 13, 2012, the Company adopted the 2012 Equity Incentive Plan (the Plan) that provides for the grant of 9,300,000 shares, 14,300,000 effective July 2014 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 April 30, 2015, there were 1,873,588 shares remaining under the Plan for future issuance.

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

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 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 years ended April 30, 2015 and 2014:

	April 30,	
	2015	2014
Expected life (years)	3.5	3.3
Expected volatility	43.4%	45.0%
Weighted-average volatility	43.4%	45.0%
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 year ended April 30, 2015 is presented below:

<b>Options</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Balance Outstanding, April 30, 2014	10,476,412	\$ 0.32		
Granted	3,900,000	\$ 0.17		
Exercised				
Forfeited	(170,000)	\$ 0.34		
Expired				
Balance Outstanding, April 30, 2015	14,206,412	\$ 0.21	3.45	\$ 103,000
Exercisable, April 30, 2015	5,660,470	\$ 0.26	2.85	\$ 4,000

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

During the year ended April 30, 2014, the Company granted to employees 3,778,711 stock options, all of which were under the Plan, having an exercise price ranging from \$0.35 per share to \$0.17 per share. The options vest pro rata over three years on each anniversary date; all options expire five years from the grant date. The total fair value of stock options granted to employees during the year ended April 30, 2014 was \$332,545, which is being recognized over the respective vesting periods.

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 is \$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 is \$12,000 and the exercise price is \$0.20 per option.

On November 24, 2014, the CFO was granted 300,000 stock options. The fair value of these options is \$21,000 and the exercise price was \$0.234. On December 11, 2014, each of the 8 non-employee members of the Board of Directors was granted 100,000 stock options. The fair value of the options was \$7,000 each and the exercise price was \$0.2026.

As of April 30, 2015, there was approximately \$485,000 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.

The Company recorded compensation expense of \$456,871 for the year ended April 30, 2015 in connection with employee stock options. The Company recorded compensation expense of \$334,723 for the year ended April 30, 2014 in connection with employee stock options.

**Stock Option Grants to Non-Employees**

There were no stock options granted to non-employees during the year ended April 30, 2015. The Company recorded compensation expense of \$748 for the year ended April 30, 2015 in connection with non-employee stock options. \$2,968 was recorded for the year ended April 30, 2014. There was no unrecognized compensation cost at April 30, 2015.



A summary of the Company's stock option activity for non-employees during the year ended April 30, 2015 is presented below:

<b>Options</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Balance Outstanding, April 30, 2014	270,000	\$ 0.28		
Granted				
Exercised				
Forfeited	(50,000)	\$ 0.19		
Expired				
Balance Outstanding, April 30, 2015	220,000	\$ 0.30	2.1	\$
Exercisable, April 30, 2015	73,333	0.30	2.3	

## ASPEN GROUP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2015 and 2014

**Note 12. Income Taxes**

The components of income tax expense (benefit) are as follows:

	<b>For the Years Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Current:		
Federal	\$	\$
State		
Deferred:		
Federal		
State		
Total Income tax expense (benefit)	\$	\$

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Deferred tax assets:		
Net operating loss	\$ 7,487,076	\$ 6,021,134
Allowance for doubtful accounts	21,416	55,679
Intangible assets	304,062	294,284
Deferred rent	2,872	7,948
Stock-based compensation	580,672	411,374
Contributions carryforward	93	93
Total deferred tax assets	8,396,191	6,790,512
Deferred tax liabilities:		
Property and equipment	(155,991)	(126,297)
Total deferred tax liabilities	(155,991)	(126,297)

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Deferred tax assets, net	8,240,200	6,664,215
Valuation allowance:		
Beginning of year	(6,664,215)	(4,684,841)
(Increase) during period	(1,575,985)	(1,979,374)
Ending balance	(8,240,200)	(6,664,215)
Net deferred tax asset	\$	\$

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. The Company recorded a valuation allowance at April 30, 2015 and 2014 due to the uncertainty of realization. Management believes that based upon its projection of future taxable operating income for the foreseeable future, it is more likely than not that the Company will not be able to realize the tax benefit associated with deferred tax assets. The net change in the valuation allowance during the year ended April 30, 2015 was an increase of \$1,575,985.

At April 30, 2015, the Company had \$20,204,869 of net operating loss carryforwards which will expire from 2030 to 2035. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax benefits. As of April 30, 2015, tax years 2011 through 2014 remain open for IRS audit. The Company has received no notice of audit from the Internal Revenue Service for any of the open tax years.

**ASPEN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2015 and 2014**

A reconciliation of income tax computed at the U.S. statutory rate to the effective income tax rate is as follows:

	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
Statutory U.S. federal income tax rate	34.0%	34.0%
State income taxes, net of federal tax benefit	3.0	3.1
Other	(0.1)	(0.1)
Change in valuation allowance	(36.9)	(37.0)
Effective income tax rate	0.0%	0.0%

**Note 13. Concentrations**

**Concentration of Credit Risk**

As of April 30, 2015, the Company's bank balances exceed FDIC insurance by approximately \$3,130,003.

**Note 14. Related Party Transactions**

See Note 4 for discussion of secured note and account receivable to related parties and see Notes 8 and 9 for discussion of loans payable and convertible notes payable to related parties. See also Note 11 for equity related grants to various related parties.

**Note 15. Subsequent Events**

On June 8, 2015, the Chief Academic Officer received a grant of 1,000,000 options which has a fair value of \$60,000, the Chief Operating Officer received a grant of 700,000 options which has a fair value of \$42,000 and the Chief

Financial Officer received a grant of 300,000 options which has a fair value of \$18,000. All of these options have an exercise price of \$0.168 per share.

Also, on June 8, 2015, in exchange for the termination of a consulting agreement with a Director, the Company issued 300,000 restricted stock units (with the value of \$50,400 based on market value), 2/3 fully vested and the remaining balance vesting in six equal monthly installments commencing on June 30, 2015.

## EXHIBIT INDEX

Exhibit #	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date	Number	
3.1	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	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	10-Q	3/11/15	10.4	
10.5	Form of Convertible Note Mathews - \$0.35	10-Q	3/11/15	10.5	
10.6	Promissory Note dated March 4, 2015 - Mathews	10-Q	3/11/15	10.6	
10.7	2012 Equity Incentive Plan, as amended*	10-Q	9/5/14	10.1	
10.8	Form of Directors Indemnification Agreement	8-K/A	5/7/14	10.21	
10.9	Form of Employee Stock Option Agreement*	10-K	7/29/14	10.17	
10.10	Form of Director Stock Option Agreement	10-Q	3/11/15	10.7	
10.11	Consulting Agreement AEK Consulting	10-K	7/29/14	10.24	
<u>10.12</u>	Termination of Consulting Agreement AEK Consulting				Filed
10.13	Form of Securities Purchase Agreement July/September 2014 Private Placement	8-K	7/30/14	10.1	
10.14	Form of Registration Rights Agreement July/September 2014 Private Placement	8-K	7/30/14	10.2	
10.15	Form of Warrant July/September 2014 Private Placement	8-K	7/30/14	10.3	
10.16	Employment Agreement dated as of May 16, 2013 Mathews*	S-1	7/3/13	10.6	
<u>10.17</u>	Amendment to Employment Agreement dated November 24, 2014 Mathews*				Filed

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<u>10.18</u>	Employment Agreement dated November 24, 2014 Gill*				Filed
<u>10.19</u>	Employment Agreement dated November 24, 2014* Wendolowski**				Filed
<u>10.20</u>	Letter Agreement with Warrant Holders for Reduced Exercise Price and Early Exercise				Filed
21.1	Subsidiaries	S-1	2/11/13	21.1	
<u>31.1</u>	Certification of Principal Executive Officer (302)				Filed
<u>31.2</u>	Certification of Principal Financial Officer (302)				Filed
<u>32.1</u>	Certification of Principal Executive and Principal Financial Officer (906)				Furnished**
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

\*

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.