ASPEN GROUP, INC.
Form 10-Q
March 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **January 31, 2016**

OR

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

For the transition period from ________ to ________

Commission file number: 000-55107

Aspen Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrants telephone number: (303) 333-4224

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

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

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

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

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

Class	Outstanding as of March 9, 2016
Common Stock, $0.001 par value per share	128,511,605 shares

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PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		January 31, 2016 (Unaudited)		April 30, 2015
Assets				
Current assets:				
Cash and cash equivalents	$	1,522,722	$	2,159,463
Restricted cash				1,122,485
Accounts receivable, net of allowance of $305,297 and $279,453, respectively		2,056,211		1,058,339
Prepaid expenses		120,822		121,594
Total current assets		3,699,755		4,461,881
Property and equipment:				
Call center equipment		133,965		132,798
Computer and office equipment		69,772		78,626
Furniture and fixtures		70,021		42,698
Library (online)				100,000
Software		2,515,703		2,244,802
		2,789,461		2,598,924
Less accumulated depreciation and amortization		(1,651,352)		(1,387,876)
Total property and equipment, net		1,138,109		1,211,048
Courseware, net		201,640		173,311
Accounts receivable, secured - related party, net of allowance of $625,963, and $625,963, respectively		45,329		45,329
Other assets		45,086		26,679
Total assets	$	5,129,919	$	5,918,248

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

Liabilities and Stockholders Equity	January 31, 2016 (Unaudited)	April 30, 2015
Current liabilities:		
Accounts payable	$ 585,224	$ 179,109
Accrued expenses	281,539	173,663
Deferred revenue	1,130,003	784,818
Refunds Due Students	499,742	280,739
Deferred rent, current portion		7,751
Convertible notes payable, current portion	50,000	50,000
Total current liabilities	2,546,508	1,476,080
Line of credit	249,783	243,989
Loan payable officer - related party	1,000,000	1,000,000
Convertible notes payable - related party	600,000	600,000
Total liabilities	4,396,291	3,320,069
Commitments and contingencies - See Note 8		
Stockholders equity:		
Common stock, $0.001 par value; 250,000,000 shares authorized, 128,511,605 issued and 128,311,605 outstanding at January 31, 2016, 128,253,605 issued and 128,053,605 outstanding at April 30, 2015	128,512	128,254
Additional paid-in capital	25,171,929	24,898,647
Treasury stock (200,000 shares)	(70,000)	(70,000)
Accumulated deficit	(24,496,813)	(22,358,722)
Total stockholders equity	733,628	2,598,179
Total liabilities and stockholders equity	$ 5,129,919	$ 5,918,248

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended January 31, 2016	For the Three Months Ended January 31, 2015	For the Nine Months Ended January 31, 2016	For the Nine Months Ended January 31, 2015
Revenues	$ 2,164,031	$ 1,286,138	$ 5,783,053	$ 3,670,245
Operating expenses				
Cost of revenues (exclusive of depreciation and amortization shown separately below)	995,526	632,997	2,637,436	1,524,793
General and administrative	1,659,133	1,701,871	4,746,953	4,160,978
Depreciation and amortization	151,597	133,966	443,314	389,706
Total operating expenses	2,806,256	2,468,834	7,827,703	6,075,477
Operating loss from operations	(642,225)	(1,182,696)	(2,044,650)	(2,405,232)
Other income (expense):				
Other income	1,414	2,277	8,077	7,157
Interest expense	(34,153)	(34,532)	(101,518)	(389,153)
Loss on Debt Extinguishment				(452,503)
Total other expense, net	(32,739)	(32,255)	(93,441)	(834,499)
Loss from operations before income taxes	(674,964)	(1,214,951)	(2,138,091)	(3,239,731)
Income tax expense (benefit)				
Net loss	$ (674,964)	$ (1,214,951)	$ (2,138,091)	$ (3,239,731)

Net loss per share allocable to common stockholders - basic and diluted	$	(0.01)	$	(0.01)	$	(0.02)	$	(0.03)
Weighted average number of common shares outstanding: basic and diluted		128,336,758		112,753,454		128,271,601		96,548,329

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED January 31, 2016

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
Balance at April 30, 2015	128,253,605	$ 128,254	$ 24,898,647	$ (70,000)	$ (22,358,722)	$ 2,598,179
Stock-based compensation			223,657			223,657
Warrant modification expense			6,000			6,000
Repurchase of shares under settlement agreement	(42,000)	(42)	(5,796)			(5,838)
Shares issued for services rendered	300,000	300	50,100			50,400
Attorney fees associated with Registration Statement			(679)			(679)
Net loss, nine months ended January 31, 2016					(2,138,091)	(2,138,091)
Balance at January 31, 2016	**128,511,605**	**$ 128,512**	**$ 25,171,929**	**$ (70,000)**	**$ (24,496,813)**	**$ 733,628**

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended January 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (2,138,091)	$ (3,239,731)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	170,677	117,739
Amortization of debt issuance costs		75,458
Amortization of debt discount		166,241
Extinguishment of debentures		416,587
Depreciation and amortization	443,314	389,706
Stock-based compensation	223,657	334,723
Warrant modification expense	6,000	
Amortization of prepaid shares for services	50,400	
Changes in operating assets and liabilities:		
Accounts receivable	(1,168,549)	(356,348)
Prepaid expenses	771	(20,135)
Other assets	(18,407)	(1,497)
Accounts payable	406,116	4,214
Accrued expenses	107,874	111,238
Deferred rent	(7,751)	(9,700)
Refunds due students	219,003	85,040
Deferred revenue	345,185	63,124
Net cash used in operating activities	(1,359,801)	(1,863,341)
Cash flows from investing activities:		
Purchases of property and equipment	(317,068)	(277,133)
Purchases of courseware	(81,634)	(109,305)
(Increase) decrease in restricted cash	1,122,485	(19,927)
Net cash (used in) provided by investing activities	723,783	(406,365)
Cash flows from financing activities:		
Proceeds from (repayments on) line of credit, net	5,794	(186)
Proceeds from issuance of common shares and warrants, net		5,547,826
Proceeds from (retirement of) convertible notes and warrants, net of costs		(2,240,000)
Retirement of convertible notes payable		(25,000)

Repurchase of shares under settlement agreement	(5,838)	
Offering costs associated with private placement	(679)	(107,225)
Net cash (used in) provided by financing activities	(723)	3,175,415
Cash flows from discontinued operations:		
Cash flows from operating activities		5,250
Net cash provided by discontinued operations		5,250
Net increase (decrease) in cash and cash equivalents	(636,741)	910,959
Cash and cash equivalents at beginning of period	2,159,463	247,380
Cash and cash equivalents at end of period	$ 1,522,722	$ 1,158,339

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

		For the Nine Months Ended January 31,		
		2016		**2015**
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	87,787	$	212,955
Cash paid for income taxes	$		$	
Supplemental disclosure of non-cash investing and financing activities				
Common stock issued for services	$	50,400	$	32,632
Common stock issued from conversion of notes	$		$	100,000

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016

(Unaudited)

Note 1. Nature of Operations and Liquidity

Overview

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

Aspen s mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 56% of our adjunct professors hold doctorate degrees.

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

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

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

Basis of Presentation

A. Interim Financial Statements

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three and nine months ended January 31, 2016 and 2015, our cash flows for the nine months ended January 31, 2016 and 2015, and our financial position as of January 31, 2016 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

B. Liquidity

At January 31, 2016, the Company had a cash balance of approximately $1.5 million. In April 2015, the Company offered a warrant conversion, through which the Company issued 14,747,116 shares, raising $2,268,670. In fiscal 2015, the Company completed an equity financing of $5,547,826. In November of 2015, our letter of credit with Department Of Education was released freeing up approximately $1.1 million of cash. With the additional cash raised in the financings, the growth in revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan.

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

For the purposes of the unaudited consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at January 31, 2016 and April 30, 2015. The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits of $250,000 per financial institution. The Company has not experienced any losses in such accounts from inception through January 31, 2016. As of January 31, 2016, there were deposits of $943,975 in one institution 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 considered $1,122,485, as restricted cash at April 30, 2015. No cash was considered restricted at January 31, 2016. (See Note 8)

Fair Value Measurements

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

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

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

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

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

Refunds Due Students

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

Revenue Recognition and Deferred Revenue

Revenues consist primarily of tuition and fees derived from courses taught by the Company online as well as from related educational resources that the Company provides to its students, such as access to our online materials and learning management system. Tuition revenue is recognized pro-rata over the applicable period of instruction. The Company allows a student to make three monthly tuition payments during each 10-week class. The Company maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. Certain states in which students reside impose separate, mandatory refund policies, which override the Company s policy to the extent in conflict. If a student withdraws at a time when a portion or none of the tuition is refundable, then in accordance with its revenue recognition policy, the Company recognizes as revenue the tuition that was not refunded. Since the Company recognizes revenue pro-rata over the term of the course and because, under its institutional refund policy, the amount subject to refund is never greater than the amount of the revenue that has been deferred, under the Company s accounting policies revenue is not recognized with respect to amounts that could potentially be refunded. The Company s educational programs have starting and ending dates that differ from its fiscal quarters. Therefore, at the end of each fiscal quarter, a portion of revenue from these programs is not yet earned and is therefore deferred. The Company also charges students annual fees for library, technology and other services, which are recognized over the related service period. Deferred revenue represents the amount of tuition, fees, and other student payments received in excess of the portion recognized as revenue and it is included in current liabilities in the accompanying consolidated balance sheets. Other revenues may be recognized as sales occur or services are performed.

Net Loss Per Share

Net loss per common share is based on the weighted average number of common shares outstanding during each period. Options to purchase 19,107,313 and 14,576,412 common shares, warrants to purchase 28,871,757 and 44,007,963 common shares, and $650,000 and $650,000 of convertible debt (convertible into 1,207,143 and 1,207,143 common shares, respectively) were outstanding during the nine months ended January 31, 2016 and 2015, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

Reclassifications

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

	For the Three Months Ended January 31, 2015		
	Originally Reported	**Adjustment**	**As Adjusted**
Marketing Expense	364,219	(29,371)	334,848
Cost of revenues	662,368	(29,371)	632,997
Total operating expenses	2,498,205	(29,371)	2,468,834
Operating loss from operations	(1,212,067)	29,371	(1,182,696)
Loss from operations before income taxes	(1,244,322)	29,371	(1,214,951)
Net loss	(1,244,322)	29,371	(1,214,951)

Recent Accounting Pronouncements

Financial Accounting Standards Board, Accounting Standard Updates which are not effective until after January 31, 2016, are not expected to have a significant effect on the Company s unaudited consolidated financial position or results of operations.

Note 3. Secured Note and Accounts Receivable Related Parties

On March 30, 2008 and December 1, 2008, the Aspen University sold courseware pursuant to marketing agreements to Higher Education Management Group, Inc. (HEMG ,) which was then a related party and principal stockholder of the Company. HEMG s president is Mr. Patrick Spada, the former Chairman of the Company, the sold courseware amounts were $455,000 and $600,000, respectively; UCC filings were filed accordingly. HEMG s president is Mr. Patrick Spada, the former Chairman of the Company. Under the marketing agreements, the receivables were due net 60 months. On September 16, 2011, HEMG pledged 772,793 Series C preferred shares (automatically converted to 654,850 common shares on March 13, 2012) of the Company as collateral for this account receivable which at that time had a remaining balance of $772,793. Based on the reduction in value of the collateral to $0.19 based on the then current price of the Company s common stock, the Company recognized an expense of $123,647 during the year ended April 30, 2014 as an additional allowance. As of January 31, 2016 and April 30, 2015, the balance of the account receivable, net of allowance, was $45,329.

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

Note 4. Property and Equipment

Property and equipment consisted of the following at January 31, 2016 and April 30, 2015:

	January 31, 2016	April 30, 2015
Call center hardware	$ 133,965	$ 132,798
Computer and office equipment	69,772	78,626
Furniture and fixtures	70,021	42,698
Library (online)		100,000
Software	2,515,703	2,244,802
	2,789,461	2,598,924
Accumulated depreciation and amortization	(1,651,352)	(1,387,876)
Property and equipment, net	$ 1,138,109	$ 1,211,048

Software consisted of the following at January 31, 2016 and April 30, 2015:

	January 31, 2016	April 30, 2015
Software	$ 2,515,703	$ 2,244,802
Accumulated amortization	(1,485,141)	(1,130,453)
Software, net	$ 1,030,562	$ 1,114,349

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

	For the Three Months Ended	For the Nine Months Ended

	January 31,		January 31,	
	2016	**2015**	**2016**	**2015**
Depreciation and Amortization Expense	135,084	114,559	390,010	329,799
Software Amortization Expense	122,619	104,441	354,688	300,642

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

Year Ending April 30,		
2016	$	124,939
2017		379,563
2018		246,527
2019		163,354
2020		116,179
Total	$	1,030,562

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

Note 5. Courseware

Courseware costs capitalized were $81,634 and $109,305 for the nine months ended January 31, 2016 and 2015 respectively. During September 2015, $1,970,670 of fully amortized courseware was written off against the accumulated amortization. There was no expense impact to this write-off.

Courseware consisted of the following at January 31, 2016 and April 30, 2015:

	January 31, 2016	April 30, 2015
Courseware	$ 358,754	$ 2,247,790
Accumulated amortization	(157,114)	(2,074,479)
Courseware, net	$ 201,640	$ 173,311

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

	For the Three Months Ended January 31,		For the Nine Months Ended January 31,	
	2016	2015	2016	2015
Amortization Expense	16,513	19,407	53,304	59,907

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

Year Ending April 30,

2016	$	15,547
2017		55,473
2018		47,384
2019		45,911
2020		37,325
Total	$	201,640

Note 6. Loan Payable Officer Related Party

On June 28, 2013, the Company received $1,000,000 as a loan from the Company s Chief Executive Officer. This loan was for a term of 6 months with an annual interest rate of 10%, payable monthly. Through various note extensions, the debt was extended to May 31, 2017. There was no accounting effect for these extensions.

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

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

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

On August 14, 2012, the Company s CEO loaned the Company $300,000 and received a convertible promissory note, payable on demand, bearing interest at 5% per annum. The note is convertible into shares of common stock of the Company at a rate of $0.35 per share (based on proceeds received on September 28, 2012 under a private placement at $0.35 per unit). The Company evaluated the convertible notes and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the shares of common stock on the note issue date. Through various note extensions, the debt was extended to May 31, 2017. There was no accounting effect for these modifications.

Note 8. Commitments and Contingencies

Line of Credit

The Company maintains a line of credit with a bank, up to a maximum credit line of $250,000. The line of credit bears interest equal to the prime rate plus 0.50% (overall interest rate of 4.00% at January 31, 2016). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time monthly payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of January 31, 2016 was $249,783. Since the earliest the line of credit is due and payable is over a five year period and the Company believes that it could obtain a comparable replacement line of credit elsewhere, the entire line of credit is included in long-term liabilities. The unused amount under the line of credit available to the Company at January 31, 2016 was $217.

Employment Agreements

From time to time, the Company enters into employment agreements with certain of its employees. These agreements typically include bonuses, some of which are performance-based in nature. As of January 31, 2016, no performance bonuses have been earned.

Legal Matters

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of January 31, 2016, 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 claims. On December 10, 2013, the Company filed a series of counterclaims against HEMG and Mr. Spada in state court of New York. By decision and order dated August 4, 2014, the New York court denied HEMG and Spada s motion to dismiss the fraud counterclaim the Company asserted against them.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

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

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

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

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 had the option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling $2,244,971, or to remain provisionally certified by increasing the existing 25% letter of credit to $1,122,485. Aspen informed the DOE on March 3, 2015 of its desire to remain provisionally certified and post the $1,122,485 letter of credit for the DOE by April 30, 2015. In November of 2015, the DOE informed Aspen that they no longer need to post a letter of credit. It was subsequently released. The DOE may impose additional or different terms and conditions in any final provisional program participation agreement that it may issue (See Note 2 Restricted Cash).

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

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

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

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

Return of Title IV Funds

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

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

Delaware Approval to Confer Degrees

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

Letter of Credit

The Company had maintained a letter of credit under a DOE requirement, and this requirement was lifted in November of 2015 (See Note 2 Restricted Cash).

Note 9. Stockholders Equity

Common Stock

On June 8, 2015, in exchange for the termination of a consulting agreement with a Director, the Company issued 300,000 restricted stock units (with the value of $50,400 based on the market value on the grant date). Two-thirds are fully vested and the remaining balance vests in six equal monthly installments commencing on June 30, 2015. At January 31, 2016, the Company has recorded consulting expense of $50,400 and it was fully vested.

On January 19, 2016, the Company paid $29,500 as part of settlement to repurchase 42,000 shares. After adjusting for the shares, the Company recorded an expense of $23,662.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2016

(Unaudited)

Warrants

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

Warrants	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Balance Outstanding, April 30, 2015	28,871,757	$	0.26			
Granted						
Exercised						
Forfeited						
Expired						
Balance Outstanding, January 31, 2016	28,871,757	$	0.26	3.0	$	
Exercisable, January 31, 2016	28,871,757	$	0.26	3.0	$	

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 January 31, 2016 the warrants are excluded from derivative treatment.

Stock Incentive Plan and Stock Option Grants to Employees and Directors

Immediately following the closing of the Reverse Merger, on March 13, 2012, the Company adopted the 2012 Equity Incentive Plan (the Plan) that provides for the grant of 9,300,000 shares, 14,300,000 effective July 2014, 16,300,000 effective September 2014 and 20,300,000 effective November 2015, in the form of incentive stock options, n