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

FORM 10-Q

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

For the quarterly period ended **October 31, 2013**

OR

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

For the transition period from _____ to _____

Commission file number: **000-55107**

Aspen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

27-1933597

(I.R.S. Employer Identification No.)

720 South Colorado Boulevard, Suite 1150N

Denver, CO

(Address of principal executive offices)

80246

(Zip Code)

Registrants telephone number: (646) 450-1843

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

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

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

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

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

Class Outstanding as of December 11, 2013
Common Stock, \$0.001 par value per share 59,190,365 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	<u>October 31,</u> <u>2013</u>	<u>April 30,</u> <u>2013</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,096,690	\$ 724,982
Restricted cash	265,444	265,173
Accounts receivable, net of allowance of \$101,371 and \$72,535, respectively	617,001	364,788
Prepaid expenses	235,586	165,426
Net assets from discontinued operations (Note 1)	215,316	113,822
Total current assets	<u>2,430,037</u>	<u>1,634,191</u>
Property and equipment:		
Call center equipment	122,653	121,313
Computer and office equipment	64,336	61,036
Furniture and fixtures	32,914	32,914
Library (online)	100,000	100,000
Software	1,722,689	1,518,142
	<u>2,042,592</u>	<u>1,833,405</u>
Less accumulated depreciation and amortization	<u>(740,548)</u>	<u>(569,665)</u>
Total property and equipment, net	1,302,044	1,263,740
Courseware, net	151,393	208,095
Accounts receivable, secured - related party, net of allowance of \$502,315 and \$502,315, respectively	270,478	270,478
Debt issuance costs, net	316,978	—
Other assets	25,181	25,181
Total assets	<u>\$ 4,496,111</u>	<u>\$ 3,401,685</u>

(Continued)

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

	<u>October 31,</u> <u>2013</u>	<u>April 30,</u> <u>2013</u>
	<u>(Unaudited)</u>	
Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	\$ 379,402	\$ 313,405
Accrued expenses	115,536	128,569
Deferred revenue	766,983	904,590
Loan payable to stockholder	491	491
Title IV Funds In Transit	257,378	253,883
Deferred rent, current portion	12,059	10,418
Convertible notes payable, current portion	200,000	200,000
Net liabilities from discontinued operations (Note 1)	<u>319,742</u>	<u>124,504</u>
Total current liabilities	2,051,591	1,935,860
Line of credit	244,482	250,000
Loan payable to officer - related party	1,000,000	—
Convertible notes payable - related party	600,000	600,000
Debenture payable, net of discounts of \$697,403	1,542,597	—
Deferred rent	15,093	21,450
Total liabilities	<u>5,453,763</u>	<u>2,807,310</u>
Commitments and contingencies - See Note 8		
Stockholders' equity (deficiency):		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized	—	—
Common stock, \$0.001 par value; 120,000,000 shares authorized, 59,390,365 issued and 59,190,365 outstanding at October 31, 2013 and 58,573,222 issued and 58,373,222 outstanding at April 30, 2013	59,190	58,573
Additional paid-in capital	14,294,242	13,345,888
Treasury stock (200,000 shares)	(70,000)	(70,000)
Accumulated deficit	<u>(15,241,084)</u>	<u>(12,740,086)</u>
Total stockholders' equity (deficiency)	<u>(957,652)</u>	<u>594,375</u>
Total liabilities and stockholders' equity (deficiency)	<u>\$ 4,496,111</u>	<u>\$ 3,401,685</u>

The accompanying unaudited 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 October 31,		For the Six Months Ended October 31,	
	2013	2012	2013	2012
Revenues	\$ 885,338	\$ 727,640	\$ 1,815,331	\$ 1,425,793
Operating expenses				
Cost of revenues (exclusive of amortization expense included in depreciation and amortization shown separately below)	494,304	387,052	1,002,973	1,023,824
General and administrative	1,577,086	1,069,042	3,000,942	2,437,325
Receivable collateral valuation reserve	—	193,198	—	502,316
Depreciation and amortization	119,651	105,707	229,086	204,278
Total operating expenses	<u>2,191,041</u>	<u>1,754,999</u>	<u>4,233,001</u>	<u>4,167,743</u>
Operating loss from continuing operations	<u>(1,305,703)</u>	<u>(1,027,359)</u>	<u>(2,417,670)</u>	<u>(2,741,950)</u>
Other income (expense):				
Interest income	326	453	613	557
Interest expense	<u>(122,695)</u>	<u>(229,349)</u>	<u>(138,854)</u>	<u>(357,133)</u>
Total other expense, net	<u>(122,369)</u>	<u>(228,896)</u>	<u>(138,241)</u>	<u>(356,576)</u>
Loss from continuing operations before income taxes	<u>(1,428,072)</u>	<u>(1,256,255)</u>	<u>(2,555,911)</u>	<u>(3,098,526)</u>
Income tax expense (benefit)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loss from continuing operations	<u>(1,428,072)</u>	<u>(1,256,255)</u>	<u>(2,555,911)</u>	<u>(3,098,526)</u>
Discontinued operations (Note 1)				
Income (loss) from discontinued operations, net of income taxes	<u>32,650</u>	<u>(14,867)</u>	<u>54,913</u>	<u>75,176</u>
Net loss	<u>\$ (1,395,422)</u>	<u>\$ (1,271,122)</u>	<u>\$ (2,500,998)</u>	<u>\$ (3,023,350)</u>
Loss per share from continuing operations - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>
Income (loss) per share from discontinued operations - basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Net loss per share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>
Weighted average number of common shares outstanding:				
basic and diluted	<u>58,990,365</u>	<u>35,295,204</u>	<u>58,760,342</u>	<u>35,295,204</u>

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

ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE SIX MONTHS ENDED OCTOBER 31, 2013
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficiency)</u>
	<u>Shares</u>	<u>Amount</u>				
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	—	—	297,330	—	—	297,330
Warrants issued in financing	—	—	483,881	—	—	483,881
Net loss, six months ended October 31, 2013	—	—	—	—	(2,500,998)	(2,500,998)
Balance at October 31, 2013	59,190,365	\$ 59,190	\$ 14,294,242	\$ (70,000)	\$(15,241,084)	\$ (957,652)

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

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

	For the Six Months Ended October 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (2,500,998)	\$ (3,023,350)
Less income (loss) from discontinued operations	54,913	75,176
Loss from continuing operations	(2,555,911)	(3,098,526)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	28,837	48,476
Receivable collateral valuation reserve	—	502,316
Depreciation and amortization	229,086	204,278
Stock-based compensation	297,330	152,061
Amortization of debt issue costs	20,193	266,473
Amortization of debt discount	50,008	—
Amortization of prepaid shares for services	120,737	—
Changes in operating assets and liabilities:		
Restricted cash	—	(252,968)
Accounts receivable	(281,049)	(41,884)
Prepaid expenses	25,103	(36,309)
Other assets	—	(21,122)
Accounts payable	65,996	(728,705)
Accrued expenses	(13,033)	17,287
Deferred rent	(4,716)	(2,503)
Title IV Funds in Transit	3,495	56,134
Deferred revenue	(137,607)	60,940
Net cash used in operating activities	<u>(2,151,531)</u>	<u>(2,874,052)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(209,187)	(158,996)
Purchases of courseware	(1,500)	(32,464)
Increase in restricted cash	(271)	(209,683)
Net cash used in investing activities	<u>(210,958)</u>	<u>(401,143)</u>
Cash flows from financing activities:		
Proceeds from (repayments on) line of credit, net	(5,518)	(224,900)
Proceeds from issuance of common shares and warrants, net	—	2,583,053
Proceeds from loan from related party	1,000,000	322,491
Proceeds received from issuance of convertible notes and warrants, net of costs	1,639,298	947,000
Offering costs associated with private placement	(48,240)	(155,303)
Purchase of Treasury shares	—	(132,000)
Other	—	1,964
Net cash provided by financing activities	<u>2,585,540</u>	<u>3,342,305</u>
Cash flows from discontinued operations:		
Cash flows from discontinued activities	148,657	468,180
Net cash provided by discontinued operations	<u>148,657</u>	<u>468,180</u>
Net increase in cash and cash equivalents	371,708	535,290
Cash and cash equivalents at beginning of period	724,982	486,104
Cash and cash equivalents at end of period	<u>\$ 1,096,690</u>	<u>\$ 1,021,394</u>

(Continued)

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

	For the Six Months Ended October 31,	
	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 39,570	\$ 4,627
Cash paid for income taxes	\$ —	\$ —
Supplemental disclosure of non-cash investing and financing activities		
Common stock issued for prepaid services	\$ 216,000	\$ —
Warrant value recorded as debt issue cost	\$ 94,316	\$ —
Warrant value recorded as debt discount	\$ 389,565	\$ —

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

ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2013
(Unaudited)

Note 1. Nature of Operations and Liquidity

Overview

Aspen Group, Inc. (together with its subsidiary, the “Company” or “Aspen”) was founded in Colorado in 1987 as the International School of Information Management. On September 30, 2004, it was acquired by Higher Education Management Group, Inc. (“HEMG”) and changed its name to Aspen University Inc. On March 13, 2012, the Company was recapitalized in a reverse merger. All references to the Company or Aspen before March 13, 2012 are to Aspen University Inc.

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

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

Aspen’s mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 86% of our full-time degree-seeking students (as of October 31, 2013) were enrolled in graduate degree programs (Master or Doctorate degree program). Since 1993, we have been nationally accredited by the Distance Education and Training Council (“DETC”), a national accrediting agency recognized by the U.S. Department of Education (the “DOE”).

Basis of Presentation

A. Interim Financial Statements

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three months and six months ended October 31, 2013 and 2012, our cash flows for the six months ended October 31, 2013 and 2012, and our financial position as of October 31, 2013 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-KT for the period ended April 30, 2013 as filed with the SEC on July 30, 2013. The April 30, 2013 balance sheet is derived from those statements.

ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
October 31, 2013
(Unaudited)

B. Discontinued Operations

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

	For the Three Months Ended October 31,		For the Six Months Ended October 31,	
	2013	2012	2013	2012
Revenues	\$ 326,500	\$ 428,146	\$ 549,125	\$ 1,087,936
Costs and expenses:				
Instructional costs and services	293,850	378,013	494,212	947,760
General and administrative	—	65,000	—	65,000
Total costs and expenses	293,850	443,013	494,212	1,012,760
Income (loss) from discontinued operations, net of income taxes	\$ 32,650	\$ (14,867)	\$ 54,913	\$ 75,176

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

	October 31, 2013	April 30, 2013
Assets		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net of allowance of \$295,045 and \$295,045, respectively	215,316	113,822
Other current assets	—	—
Net assets from discontinued operations	\$ 215,316	\$ 113,822
Liabilities		
Accounts payable	\$ 1,178	\$ 1,178
Accrued expenses	318,564	70,201
Deferred revenue	—	53,125
Net liabilities from discontinued operations	\$ 319,742	\$ 124,504

C. Liquidity

As a result of the June and September financing transactions disclosed in Notes 6 and 7, the Company has a cash position of approximately \$1.4 million as of October 31, 2013. With the additional cash, the growth in the company revenues and improving operating margins the Company believes that it has sufficient cash to allow the Company to grow to positive operating cash flow. Management expects to use approximately \$1,000,000 in cash from October 2013 to April 2014, at which time the Company forecasts to begin generating cash from operations.

ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
October 31, 2013
(Unaudited)

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Restricted Cash

Restricted cash represents amounts pledged as security for letters of credit for transactions involving Title IV programs. The Company considers \$265,444 as restricted cash (shown as a current asset as of October 31, 2013) until such letter of credit expires on December 31, 2013. As of October 31, 2013, the account bears interest of 0.20%.

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.

Title IV Funds in Transit

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

ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
October 31, 2013
(Unaudited)

Revenue Recognition and Deferred Revenue

Revenues consist primarily of tuition and fees derived from courses taught by the Company online as well as from related educational resources that the Company provides to its students, such as access to our online materials and learning management system. Tuition revenue is recognized pro-rata over the applicable period of instruction. The Company 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 (loss) from discontinued operations, net of income taxes for all periods presented (See Note 1).

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 9,433,092 and 5,942,931 common shares, warrants to purchase 18,249,528 and 5,887,090 common shares, and \$3,040,000 and \$800,000 of convertible debt (convertible into 8,093,985 and 1,357,143 common shares) were outstanding during the six months ended October 31, 2013 and 2012, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

Reclassifications

The Company reclassified \$257,378 and \$253,883 at October 31, 2013 and April 30, 2013, respectively, from Deferred Revenue to Title IV Funds in Transit. Both are classified in Current Liabilities. For the three and six months ended October 31, 2013, the Company reclassified \$62,250 and \$113,250, respectively, from Cost of Revenues to General and Administrative, both within Operating Expenses. There were no corresponding reclassifications for the three and six months ended October 31, 2012.

ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
October 31, 2013
(Unaudited)

Recent Accounting Pronouncements

We have implemented all new accounting standards that are in effect and that may impact our unaudited consolidated financial statements and do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our 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 Company sold courseware pursuant to marketing agreements to HEMG, a related party and principal stockholder of the Company whose president is Mr. Patrick Spada, the former Chairman of the Company, in the amount of \$455,000 and \$600,000, respectively; UCC filings were filed accordingly. Under the marketing agreements, the receivables are due net 60 months. On September 16, 2011, HEMG pledged 772,793 Series C preferred shares (automatically converted to 654,850 common shares on March 13, 2012) of the Company as collateral for this account receivable. On March 8, 2012, due to the impending reduction in the value of the collateral as the result of the Series C conversion ratio and the Company's inability to engage Mr. Spada in good faith negotiations to increase HEMG's pledge, Michael Mathews, the Company's CEO, pledged 117,943 common shares of the Company, owned personally by him, valued at \$1.00 per share based on recent sales of capital stock as additional collateral to the accounts receivable, secured – related party. On March 13, 2012, the Company deemed the receivables stemming from the sale of courseware curricula to be in default. On April 4, 2012, the Company entered into an agreement with: (i) an individual, (ii) HEMG, a related party and principal stockholder of the Company whose president is Mr. Patrick Spada, the former Chairman of the Company and (iii) Mr. Patrick Spada. Under the agreement, (a) the individual purchased and HEMG sold to the individual 400,000 common shares of the Company at \$0.50 per share; (b) the Company guaranteed it would purchase at least 600,000 common shares of the Company at \$0.50 per share within 90 days of the agreement and the Company would use its best efforts to purchase from HEMG and resell to investors an additional 1,400,000 common shares of the Company at \$0.50 per share within 180 days of the agreement; (c) provided HEMG and Mr. Patrick Spada fulfilled their obligations under (a) and (b) above, the Company shall consent to additional private transfers by HEMG and/or Mr. Patrick Spada of up to 500,000 common shares of the Company on or before March 13, 2013; (d) HEMG agreed to not sell, pledge or otherwise transfer 142,500 common shares of the Company pending resolution of a dispute regarding the Company's claim that HEMG sold 131,500 common shares of the Company without having enough authorized shares and a stockholder did not receive 11,000 common shares of the Company owed to him as a result of a stock dividend; and (e) the Company waived any default of the accounts receivable, secured - related party and extend the due date to September 30, 2014. As of September 30, 2012, third party investors purchased 336,000 shares for \$168,000 and the Company purchased 264,000 shares for \$132,000 per section (b) above. Based on proceeds received on September 28, 2012 under a Unit private placement that equates to approximately \$0.35 per common 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. As of October 31, 2013 and April 30, 2013, the balance of the account receivable, net of allowance, was \$270,478, based on continuing private placement sales equating to approximately \$0.35 per share, and is shown as accounts receivable, secured – related party, net (See Note 10).

Note 4. Property and Equipment

Property and equipment consisted of the following at October 31, 2013 and April 30, 2013:

	October 31, 2013	April 30, 2013
Call center equipment	\$ 122,653	\$ 121,313
Computer and office equipment	64,336	61,036
Furniture and fixtures	32,914	32,914
Library (online)	100,000	100,000
Software	1,722,689	1,518,142
	2,042,592	1,833,405
Accumulated depreciation and amortization	(740,548)	(569,665)
Property and equipment, net	<u>\$ 1,302,044</u>	<u>\$ 1,263,740</u>

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Depreciation and amortization expense for the three months ended October 31, 2013 and October 31, 2012 was \$92,190 and \$70,527, respectively. Depreciation and amortization expense for the six months ended October 31, 2013 and October 31, 2012 was \$170,884 and \$133,520, respectively.

Amortization expense for software, included in the above amounts, for the three months ended October 31, 2013 and October 31, 2012 was \$82,729 and \$62,578, respectively. Amortization expense for software, included in the above amounts, for the six months ended October 31, 2013 and October 31, 2012 was \$154,648 and \$117,790, respectively. Software consisted of the following at October 31, 2013 and April 30, 2013:

	<u>October 31,</u> <u>2013</u>	<u>April 30,</u> <u>2013</u>
Software	\$ 1,722,689	\$ 1,518,142
Accumulated amortization	(541,247)	(386,599)
Software, net	<u>\$ 1,181,442</u>	<u>\$ 1,131,543</u>

The following is a schedule of estimated future amortization expense of software at October 31, 2013:

<u>Year Ending April 30,</u>	
2014	\$ 172,269
2015	344,538
2016	343,692
2017	220,960
2018	99,983
Total	<u>\$ 1,181,442</u>

Note 5. Courseware

Courseware costs capitalized were \$1,500 for the six months ended October 31, 2013.

Courseware consisted of the following at October 31, 2013 and April 30, 2013:

	<u>October 31,</u> <u>2013</u>	<u>April 30,</u> <u>2013</u>
Courseware	\$ 2,099,038	\$ 2,097,538
Accumulated amortization	(1,947,645)	(1,889,443)
Courseware, net	<u>\$ 151,393</u>	<u>\$ 208,095</u>

Amortization expense of courseware for the three months ended October 31, 2013 and October 31, 2012 was \$27,731 and \$35,180, respectively. Amortization expense of courseware for the six months ended October 31, 2013 and October 31, 2012 was \$58,202 and \$70,758, respectively.

The following is a schedule of estimated future amortization expense of courseware at October 31, 2013:

<u>Year Ending April 30,</u>	
2014	\$ 47,261
2015	65,317
2016	28,030
2017	9,396
2018	1,389
Total	<u>\$ 151,393</u>

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Note 6. Loans Payable

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

Note 7. Convertible Notes 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 are 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. As these loans (now convertible promissory notes) are due in February 2014, they have been included in current liabilities as of October 31, 2013 and April 30, 2013.

On March 13, 2012, the Company's CEO loaned the Company \$300,000 and received a convertible promissory note due March 31, 2013, bearing interest at 0.19% per annum. The note is convertible into common shares of the Company at the rate of \$1.00 per share upon five days written notice to the Company. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012, the maturity date was extended to August 31, 2014. On September 25, 2013, as a term of the convertible debenture issued as discussed further in this Note, the maturity of the debt to the CEO, has been extended to April 5, 2015. There was no accounting effect for these modifications. (See Note 10).

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, 2014. On September 25, 2013, as a term of the convertible debenture issued as discussed further in this Note, the maturity of the debt to the CEO has been extended to April 5, 2015. There was no accounting effect for this modification. (See Note 10).

On September 26, 2013, the Company and an institutional investor (the "Institutional Investor") signed a Securities Purchase Agreement (the "Agreement") with respect to a loan of \$2,240,000 evidenced by an 18 month original issue discount secured convertible debenture (the "Debenture") with gross proceeds of \$2,000,000 prior to fees. Payments on the Debenture are due 25% on November 1, 2014, 25% on January 1, 2015 and the remaining 50% on April 1, 2015 as a final payment. The Company has the option to pay the interest or principal in stock subject to certain "Equity Conditions" such as giving notice of its intent 20 trading days beforehand. The Agreement provides that the Debenture may be converted at the holder's option at \$0.3325 per share at any time after the closing and subject to adjustments. The Company evaluated that for the embedded conversion option, there was no beneficial conversion value to record as the conversion price was greater than the fair market value of the common shares on the note issue date. Warrants with a relative fair value of \$389,565 were issued for 100% of the number of shares of common stock that could be purchased at the conversion price at closing or 6,736,842. The warrants have a five-year term and are exercisable for cash if an outstanding registration statement is in effect within 90 days of closing. The \$389,565 is recorded as a debt discount to be amortized over the debt term. The Debenture bears 8% per annum interest and are amortizable in installments over their term. The financing closed on September 26, 2013 and the Company received proceeds of approximately \$1.7 million, net of certain offering costs and before payment of various debt issue costs. Offering costs to the lender included an original issue discount of \$240,000 and cash loan fees of \$117,846.

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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 are being amortized over the debt term.

Note 8. Commitments and Contingencies

Line of Credit

The Company maintains a line of credit with a bank, up to a maximum credit line of \$250,000. The line of credit bears interest equal to the prime rate plus 0.50% (overall interest rate of 3.75% at October 31, 2013). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of October 31, 2013 was \$244,482. Since the earliest the line of credit is due and payable is over a five year period and the Company believes that it could obtain a comparable replacement line of credit elsewhere, the entire line of credit is included in long-term liabilities. The unused amount under the line of credit available to the Company at October 31, 2013 was \$5,518.

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 were performance-based in nature. During the three months ended July 31, 2013, the Company renegotiated employment agreements. In contrast to the previous employment agreement, the new employment agreements do not include any guaranteed annual bonuses.

Legal Matters

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of October 31, 2013, 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.

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. The Company did not file a motion to dismiss the breach of contract claim, so that claim remains as well. A preliminary conference in state court of New York is scheduled for December 19, 2013 relative to the two remaining claims.

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On November 21, 2013, HEMG and Mr. Spada filed a derivative suit on behalf of the Company against certain former senior management member and our directors in state court in Delaware. The Company is a nominal defendant. The complaint is substantially similar to the complaint filed in state court of New York, except that if successful, the Company will receive the benefits. While the Company has been advised by its counsel that these lawsuits are baseless, the Company cannot provide any assurance as to the ultimate outcome of the cases. Defending the litigations 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 were to be successful, the damages the Company could pay could potentially be material.

On December 10, 2013, the Company filed a series of counter claims against HEMG and Mr. Spada in state court of New York.

Regulatory Matters

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

To participate in the Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agencies of the State in which it is located, and since July 2011, potentially in the States where an institution offers postsecondary education through distance education. In addition, an institution must be accredited by an accrediting agency recognized by the DOE and certified as eligible by the DOE. The DOE will certify an institution to participate in the Title IV programs only after the institution has demonstrated compliance with the HEA and the DOE's extensive academic, administrative, and financial regulations regarding institutional eligibility and certification. An institution must also demonstrate its compliance with these requirements to the DOE on an ongoing basis. Aspen University performs periodic reviews of its compliance with the various applicable regulatory requirements. As Title IV funds received in fiscal 2013 represented approximately 26% of the Company's cash revenues (including revenues from discontinued operations), as calculated in accordance with Department of Education guidelines, the loss of Title IV funding would have a material effect on the Company's future financial performance.

On March 27, 2012 and on August 31, 2012, Aspen University provided the DOE with letters of credit for which the due date was extended to December 31, 2013. 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.

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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, generally within 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.

On June 30, 2013, the Company filed its calendar year 2012 compliance audit with the Department of Education. As a result of the audit findings, the Company recognized that it had not fully complied with all requirements for calculating and making timely returns of Title IV funds (R2T4). In November 2013, the Company returned a total of \$102,810 of Title IV funds to the Department of Education.

Delaware Approval to Confer Degrees

Aspen University is a Delaware corporation. Delaware law requires an institution to obtain approval from the Delaware Department of Education ("Delaware DOE") before it may incorporate with the power to confer degrees. On July 3, 2012, Aspen University received notice from the Delaware DOE that it is granted provisional approval status effective until June 30, 2015. Aspen University is authorized by the Colorado Commission on Education to operate in Colorado as a degree granting institution.

Letter of Credit

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

Note 9. Stockholders' Equity

Common Stock

As part of two contracts entered into during the six months ended October 31, 2013, 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 is being amortized over the service period of the contract. 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 is 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 is being recognized over the service period of the contract.

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Warrants

A summary of the Company's warrant activity during the six months ended October 31, 2013 is presented below:

Warrants	Number of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2013	9,090,292	\$ 0.45		
Granted	9,199,236	0.33		
Exercised	—	—		
Forfeited	(40,000)	0.50		
Expired	—	—		
Balance Outstanding, October 31, 2013	<u>18,249,528</u>	<u>\$ 0.40</u>	<u>4.6</u>	<u>\$ 196,123</u>
Exercisable, October 31, 2013	<u>18,249,528</u>	<u>\$ 0.40</u>	<u>4.6</u>	<u>\$ 196,123</u>

The Company issued 1,115,026 warrants to a placement agent as a fee related to prior investments. There was no accounting effect for this warrant issuance.

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 a thinly trading market, the warrants are excluded from derivative treatment.

On September 26, 2013, warrants were issued in connection with a financing more fully described in Note 7 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. Also, as a placement agent fee, the Company paid \$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 were recorded as a debt issue cost asset and are being amortized over the debt term (See Note 7).

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 2,500,000 shares (increased to 5,600,000 shares effective September 28, 2012, to 8,000,000 shares effective January 16, 2013 and to 9,300,000 on May 14, 2013) 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. On January 16, 2013, 1,291,167 options were modified to be Plan options. There was no accounting effect for such modifications. As of October 31, 2013, there were no shares remaining under the Plan for future issuance.

During the three months ended July 31, 2013, the Company granted to employees 1,536,211 stock options, all of which were under the Plan, having an exercise price of \$0.35 per share. 200,000 of these options vest pro rata over two years on each anniversary date, 545,000 of these options vest pro rata over three years on each anniversary date and 791,211 vest over 7 months starting June 30, 2013. All options expire five years from grant date. The total fair value of stock options granted to employees during the three months ended July 31, 2013 was \$184,345, which is being recognized over the respective vesting periods. The Company recorded compensation expense of \$148,608 for the three months ended July 31, 2013, in connection with outstanding employee stock options. The Company recorded compensation expense of \$52,701 for the three months ended July 31, 2012, in connection with outstanding employee stock options.

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During the three months ended October 31, 2013, the Company granted to employees 327,500 stock options, all of which were under the Plan, having an exercise price of \$0.35 per share. All of these options vest ratably over three years and expire five years from the grant date. The total fair value of stock options granted to employees during the three months ended October 31, 2013 was \$39,300, which is being recognized over the respective vesting periods. The Company recorded compensation expense of \$147,226 for the three months ended October 31, 2013, in connection with outstanding employee stock options. The Company recorded compensation expense of \$99,360 for the three months ended October 31, 2012, in connection with outstanding employee stock options.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted to employees during the three months ended October 31, 2013:

<u>Assumptions</u>	<u>October 31, 2013</u>
Expected life (years)	3.5
Expected volatility	46.7%
Weighted-average volatility	46.7%
Risk-free interest rate	0.38%
Dividend yield	0.00%

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 six months ended October 31, 2013 is presented below:

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance Outstanding, April 30, 2013	7,344,381	\$ 0.35		
Granted	1,863,711	\$ 0.35		
Exercised	—			
Forfeited	(45,000)	\$ 0.35		
Expired	—			
Balance Outstanding, October 31, 2013	<u>9,163,092</u>	<u>\$ 0.35</u>	<u>4.0</u>	<u>\$ —</u>
Exercisable, October 31, 2013	<u>2,050,332</u>	<u>\$ 0.35</u>	<u>3.8</u>	<u>\$ —</u>

The weighted-average grant-date fair value of options granted to employees during the three months ended October 31, 2013 was \$0.12.

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As of October 31, 2013, there was \$509,425 of total unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 4 years.

Stock Option Grants to Non-Employees

There were no stock options granted to non-employees during the six months ended October 31, 2013. The Company recorded compensation expense of \$1,496 for the six months ended October 31, 2013 in connection with non-employee stock options. No expense was recorded during the same periods in 2012.

The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted to non-employees during the three months ended October 31, 2013:

<u>Assumptions</u>	<u>October 31, 2013</u>
Expected life (years)	NA
Expected volatility	NA
Weighted-average volatility	NA
Risk-free interest rate	NA
Dividend yield	NA

A summary of the Company's stock option activity for non-employees during the six months ended October 31, 2013 is presented below:

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance Outstanding, April 30, 2013	270,000	\$ 0.35		
Granted	—			
Exercised	—			
Forfeited	—			
Expired	—			
Balance Outstanding, October 31, 2013	<u>270,000</u>	<u>\$ 0.35</u>	<u>3.7</u>	<u>\$ —</u>
Exercisable, October 31, 2013	<u>58,333</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Note 10. Related Party Transactions

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

Note 11. Subsequent Events

In November 2013, the Company returned a total of \$102,810 of Title IV funds to the Department of Education. The students who had originally received the funds were deemed ineligible by the Department of Education and as a result, the Company returned the funds to the Department. The Company will pursue collection of these funds from the recipients.

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

You should read the following discussion in conjunction with our unaudited consolidated financial statements, which are included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in the Risk Factors contained in the Prospectus dated October 21, 2013, filed with the Securities and Exchange Commission, or the SEC.

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

This discussion should be read in conjunction with the other sections contained in this report, including the unaudited consolidated financial statements and the related exhibits contained herein. The various sections of this discussion contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this report as well as other matters over which we have no control. Our actual results may differ materially. See "Cautionary Note Regarding Forward-Looking Statements."

Company Overview

Founded in 1987, Aspen's mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that a majority of our full-time degree-seeking students are enrolled in a graduate degree program (master or doctorate degree program). According to publicly available information, Aspen enrolls a larger percentage of its full-time degree-seeking students in graduate degree programs than its publicly-traded competitors. As of October 31, 2013, 2,171 students were enrolled as full-time degree seeking students with 1,871 of those students or 86% in a master or doctoral graduate degree program. In addition, a further 1,042 students are engaged in part time programs, such as continuing education courses, certificate level programs and military undergraduate programs. Therefore, Aspen's student body totaled 3,213 as of October 31, 2013.

Among online, for-profit universities, Aspen ranks among the leaders relative to the closely analyzed industry metrics such as high student graduation rates, high student course completion rates and high student satisfaction rates. During calendar 2012, Aspen had a student graduation rate of 58%, a student course completion rate of 90% and a student satisfaction rate of 95% (calculated in accordance with DETC guidelines which are the average completion and satisfaction rate of students in our top 10 most popular courses).

Student Population

Aspen's full-time degree-seeking student body increased by 8% during the three month period ended October 31, 2013, which we refer to as the "2013 Quarter", from 2,016 to 2,171 students. During the six month period ended October 31, 2013, which we refer to as the "2013 Period", the full-time degree-seeking student body increased by 16%, from 1,875 to 2,171 students. Among Aspen's degree seeking programs, the Master of Nursing program grew 28% during this quarter from 467 students to 600 students and 60% during the six month period. When compared to the number of students in the Master of Nursing program at October 31, 2012 to October 31, 2013, the program grew from 217 students to 600 or 176%. As of October 31, 2013, Aspen's School of Nursing now represents 28% of the full-time, degree-seeking student body.

In April 2013, Aspen terminated its relationship with CLS 123, LLC, or CLS, which referred Verizon certificate and military students, a step allowing Aspen to focus its efforts on its core business of building a predominantly degree-seeking student body. The 120-day exit period under the partnership ended on August 3, 2013. For 2013, Aspen management expects the total student body growth rate to lag that of the full-time degree-seeking student population as a result of this partnership being terminated.

Impact of Deferred Revenue on Results

According to Generally Accepted Accounting Principles, or GAAP, our revenue is recognized over the life of the course. For cash-based students, the standard course term length is 10 weeks. For financial aid students, the standard course term length is 16 weeks.

New class starts and average tuition rate are two important metrics for the university. New class starts provide the number of students starting a new class in a given period (excluding course retakes). Average tuition rate provides the average amount that students paid for all new class starts in a given period. The cash collected from new class starts in a given quarter is not fully recognized revenue in the current quarter, given that GAAP revenue is recognized over the term length of the class which often affects more than one quarter.

As an example, the revenue for a cash-based student that starts a 10 week class on October 16th will be divided by 70 days and recognized 16 days in October, 30 days in November and 24 days in December. The revenue for a financial aid student that starts a 16 week class on October 16th will be divided by 112 days and recognized 16 days in October, 30 days in November, 31 days in December, 31 days in January and 4 days in February.

The following chart reflects our class starts and average tuition for the current quarter, as compared to the previous quarter and year-over-year:

	10/31/2012	7/31/2013	10/31/2013
Class Starts (Quarter)	1,109	1,006	1,264
Average Tuition Per Start	\$ 601	\$ 705	\$ 755

Class starts for the quarter ended October 31, 2013 increased 14% year-over-year and average tuition rate increased 26% year-over-year. On a sequential basis, average tuition rate increased 7%, from \$705 to \$755. New class starts increased 26% sequentially from 1,006 to 1,264. Note that the October quarter is the strongest quarter in terms of seasonality, given the strength of new class starts throughout the months of August – October. The weakest quarter in terms of seasonality is the Company’s first fiscal quarter (May-July) given the quarter falls during the summer months of June and July, which is why GAAP revenues declined 5% sequentially in the second quarter. Management expects that the upcoming third quarter GAAP revenues will reflect the seasonal strength of the second quarter new class starts, given that a significant portion of the October (and September) new class starts is recognized in the subsequent quarter given the GAAP deferred revenue recognition rules described above.

Results of Operations

For the Three Months Ended October 31, 2013 Compared with the Three Months Ended October 31, 2012

Revenue

Revenue from continuing operations for the 2013 Quarter increased to \$885,338 from \$727,640 for the three months ended October 31, 2012, which we refer to as the “2012 Quarter”, an increase of 22%. The increase is primarily attributable to the growth in Aspen student enrollments and the increase in average tuition rates from approximately \$601 to \$755 for the comparable periods. Of particular note, revenues from Aspen’s Nursing degree program increased to \$381,742 during the 2013 Quarter from \$153,000 during the 2012 Quarter, an increase of 150%.

Our 2013 Quarter and 2012 Quarter revenues were impacted by the 2011 (and previous years) pre-payment tuition plan, or the Legacy Tuition Plan, which was discontinued on July 15, 2011. The Legacy Tuition Plan had students pre-paying tuition for a degree program's first four courses (\$675/course) and a steeply discounted tuition rate for the program's eight course balance (\$112.50/course). Specifically, the Legacy Tuition Plan produced immediate cash flow, but unsustainably low gross profit margins over the length of the degree program. As of October 31, 2013, 628 of our full-time degree-seeking students were still enrolled under the Legacy Tuition Plan. However the contribution from Legacy Tuition Plan students to overall Aspen revenue and profits diminished steadily as the population of full-time degree-seeking students paying regular tuition rates increased to 71% of the population and the population of Legacy Tuition Plan students fell to 29%. Accordingly, future revenue should demonstrate a dramatically diminished effect from the Legacy Tuition Plan and a much greater contribution from the growing number of regular rate students. In fact, Aspen Group expects Legacy Tuition Plan students' contribution to financial results to be immaterial for the full year 2014 (ending April 30, 2014), and on a quarterly basis to be immaterial no later than the third quarter of fiscal 2014.

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 2013 Quarter rose to \$233,794 from \$181,093 for the 2012 Quarter, an increase of \$52,701 or 29%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking student enrollments and related class starts, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to significantly lag that of overall revenues growth.

Marketing and Promotional

Marketing and promotional costs for the 2013 Quarter was \$260,510 compared to \$205,959 for the 2012 Quarter, an increase of \$54,551 or 27%. The primary component of marketing and promotional costs is Aspen's in-house internet advertising program, which generates the Company's prospective student leads. During fiscal year 2014, the internet advertising budget has been, and is planned to continue to be, approximately \$80,000 per month.

New student full-time degree seeking enrollments for the 2013 Quarter set a Company record at 295. This equated to the average cost of enrollment dropping to \$850 for the 2013 Quarter, another Company record. As indicated earlier, the 2013 Quarter ending October 31 is the seasonal high-point of the year given the strength of enrollments and class starts in the months of August – October.

	<u>10/31/2012</u>	<u>7/31/2013</u>	<u>10/31/2013</u>
New Student Full-Time Degree-Seeking Enrollments (Quarter)	232	266	295
Cost Per Enrollment (Qtr. Avg.)	\$ 948	\$ 916	\$ 850

Costs and Expenses

General and Administrative

General and administrative costs for the 2013 Quarter were \$1,577,086 compared to \$1,069,042 during the 2012 Quarter, an increase of \$508,044 or 48%. The increase during the quarter ended October 31, 2013 was partially due to \$80,000 of expenses for Title IV consultants to review compliance policies and procedures, \$144,000 for investor relation expenses, \$46,000 for marketing consulting and \$26,000 for employee recruiting expenses. The increase in general and administrative expenses for the quarter ended October 31, 2013 included approximately \$143,000 of cost of a non-recurring nature. After adjusting for the non-recurring items, general and administrative expense increased only 34% over the same period in the prior year.

In addition, payroll increased approximately \$55,000 due to hiring of employees during the period. Payments to faculty and deans increased \$75,068 or 69%, mostly due to the year-over-year increase in class starts. Stock based compensation included in general and administration expense increased from \$99,360 to \$147,974, an increase of \$48,614 or 49%, reflecting stock option grants under the 2012 Equity Incentive Plan.

Overall general and administrative costs are expected to experience moderate growth in fiscal 2014 compared to fiscal 2013 as the cost associated with regulatory compliance and DOE reporting requirements on topics such as gainful employment standards will continue to increase in the future.

Receivable Collateral Valuation Reserve

A non-cash valuation reserve of \$193,198 was recorded for the quarter ended October 31, 2012 to reflect the drop in the collateral supporting the related accounts receivable. In the first quarter of 2012, a non-cash valuation of \$309,118 was taken. No additional reserve has been required since that time.

Depreciation and Amortization

Depreciation and amortization costs for the 2013 Quarter rose to \$119,651 from \$105,707 for the 2012 Quarter, an increase of 13%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen continues the infrastructure build-out initiated in 2011.

Interest Income (Expense)

Interest income for the 2013 Quarter decreased to \$326 from \$453 in the 2012 Quarter, a decrease of \$127. Interest expense decreased \$116,654 or 47% primarily due to the amortization of debt issuance costs of \$180,908 in the 2012 Quarter. This decrease was partially offset by the increase in the 2013 Quarter of the amortization of debt issue costs and debt discount. In the 2013 Quarter, there was also the addition of \$8,333 of monthly interest expense on the loan payable to the CEO and starting with the financing on September 26, 2013, the accrual of monthly interest of \$13,333.

Income Taxes

Income taxes expense (benefit) for the 2013 Quarter and 2012 Quarter was \$0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.

Net Loss

Net loss for the 2013 Quarter was (\$1,395,422) as compared to (\$1,271,122) for the 2012 Quarter, an increase in the loss of \$124,300 or approximately 10%. The increase in the loss is primarily attributable to amortization of warrants granted as part of the debenture financing and additional one-time costs associated with investor relations, although partially mitigated by increased revenues in the 2013 Quarter. Included in these numbers are the Discontinued Operations results.

For the Six Months Ended October 31, 2013 Compared with the Six Months Ended October 31, 2012

Revenue

Revenue from continuing operations for the six months ended October 31, 2013 increased to \$1,815,331 from \$1,425,793 for the same period of 2012, an increase of 27%. The increase is primarily attributable to the growth in Aspen student enrollments and the increase in average tuition rates from approximately \$500 to \$750 for the comparable periods. Of particular note, revenues from Aspen's Nursing degree program increased to \$613,722 during the six months ended October 31, 2013 from \$222,825 during the same period of 2012, an increase of 175%.

Our year to date revenues were impacted by the 2011 (and previous years) pre-payment tuition plan, or the Legacy Tuition Plan, which was discontinued on July 15, 2011. The Legacy Tuition Plan had students pre-paying tuition for a degree program's first four courses (\$675/course) and a steeply discounted tuition rate for the program's eight course balance (\$112.50/course). Specifically, the Legacy Tuition Plan produced immediate cash flow, but unsustainably low gross profit margins over the length of the degree program. As of October 31, 2013, 628 of our full-time degree-seeking students were still enrolled under the Legacy Tuition Plan. However the contribution from Legacy Tuition Plan students to overall Aspen revenue and profits diminished steadily as the population of full-time degree-seeking students paying regular tuition rates increased to 71% of the population and the population of Legacy Tuition Plan students fell to 29%. Accordingly, future revenue should demonstrate a dramatically diminished effect from the Legacy Tuition Plan and a much greater contribution from the growing number of regular rate students. In fact, Aspen Group expects Legacy Tuition Plan students' contribution to financial results to be immaterial for the full year 2014 (ending April 30, 2014), and on a quarterly basis to be immaterial no later than the third quarter of fiscal 2014.

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 six months ended October 31, 2013 rose to \$449,375 from \$429,981 for the comparable period of 2012, an increase of \$19,394 or 5%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking student enrollments and related class starts, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to significantly lag that of overall revenues growth.

Marketing and Promotional

Marketing and promotional costs for the six months ended October 31, 2013 was \$553,598 compared to \$593,843 for the comparable period of 2012, a decrease of \$40,245 or 7%. These expenses are primarily attributable to marketing efficiency. If Aspen accelerates its growth, it is highly likely that these expenditures will increase in future quarters as enrollment continues to grow. Factors that may mitigate the expected increase include the economies realized in cost per lead as well as the yield realized in terms of higher enrollments per unit of marketing and promotional spending and potential organic growth opportunities.

Costs and Expenses

General and Administrative

General and administrative costs for the six months ended October 31, 2013 were \$3,000,942 compared to \$2,437,325 for the same period of 2012, an increase of \$563,617 or 23%. Professional services were approximately \$270,000- higher in the six months ended October 31, 2013 than the previous period due to several non-recurring expenses, namely, the costs associated with completing a second full audit as part of our year-end fiscal year change, hiring of a Title IV consultant and incurring marketing consulting costs. All of these professional services costs are non-recurring.

Also, the six months ended October 31, 2013 was higher due to Aspen's biennial formal graduation ceremony that was held in July 2013 and costs for that ceremony were approximately \$40,000. Payroll expenses were \$100,000 higher due to the hire of several employees in the six months ended October 31, 2013. Stock based compensation included in general and administration expense increased from \$152,061 to \$297,330, an increase of \$145,269 or 96%, reflecting stock option grants under the 2012 Equity Incentive Plan.

Overall general and administrative costs are expected to experience moderate growth in fiscal 2014 from fiscal 2013 as the cost associated with state regulatory compliance and DOE reporting requirements on topics such as gainful employment standards will continue to increase in the future.

Receivable Collateral Valuation Reserve

A non-cash valuation reserve of \$193,198 was recorded for the quarter ended October 31, 2012 to reflect the drop in the collateral supporting the related accounts receivable. In the first quarter of 2012, a non-cash valuation of \$309,118 was taken. No additional reserve has been required since that time.

Depreciation and Amortization

Depreciation and amortization costs for the six months ended October 31, 2013 rose to \$229,086 from \$204,278 for the six months ended October 31, 2012, an increase of 12%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen continues the infrastructure build-out initiated in 2011.

Interest Income (Expense)

Interest income for six months ended October 31, 2013 as compared to the six months ended October 31, 2012 increased to \$613 from \$557, an increase of \$56. Interest expense decreased \$218,279 or 61% primarily due to the amortization of debt issuance costs of \$266,473 and interest on notes payable of \$23,857 in the six months ended October 31, 2012, partially offset by interest charges for amortization of debt discount and the debt issuance costs associated with the debenture. Also, beginning in July 2013, there was the addition of \$8,333 of monthly interest expense on the loan payable to the CEO.

Income Taxes

Income taxes expense (benefit) for the six months ended October 31, 2013 and 2012 was \$0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.

Net Loss

Net loss for the six months ended October 31, 2013 was (\$2,500,998) as compared to (\$3,023,350) for the six months ended October 31, 2012, a decrease in the loss of \$522,352 or approximately 17%. The decrease in the loss or improvement is primarily attributable to the increase in revenue and a decrease in interest expense. Included in these numbers are the Discontinued Operations results.

Discontinued Operations

As of August 4, 2013, Aspen Group discontinued business activities related to its agreement with CLS. See Note 1 of the unaudited consolidated financial statements contained herein. The following table details the results of the discontinued operations for the three and six months ended October 31, 2013 and 2012:

	For the Three Months Ended October 31,		For the Six Months Ended October 31,	
	2013	2012	2013	2012
Revenues	\$ 326,500	\$ 428,146	\$ 549,125	\$ 1,087,936
Costs and expenses:				
Instructional costs and services	293,850	378,013	494,212	947,760
General and administrative	—	65,000	—	65,000
Total costs and expenses	293,850	443,013	494,212	1,012,760
Income (loss) from discontinued operations, net of income taxes	\$ 32,650	\$ (14,867)	\$ 54,913	\$ 75,176

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 interest expense, income taxes, depreciation and amortization, amortization of stock-based compensation and the additional items in the table below. Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing the impact of items of a non-operational nature that affect comparability.

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

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

	Three Months Ended October 31, 2013	Three Months Ended July 31, 2013	Three Months Ended October 31, 2012
Net loss	\$(1,395,422)	\$(1,105,576)	\$(1,271,122)
Interest Expense, net of interest income	52,168	15,871	47,988
Bad Debt Expense	15,000	13,837	48,476
Receivable Collateral Valuation Reserve	—	—	193,198
Depreciation & Amortization	119,651	109,435	105,707
Amortization of Prepaid Services	95,677	25,060	—
Amortization of Debt Issue Costs	20,193	—	—
Amortization of Debt Discount	50,008	—	—
Stock-based compensation	147,974	149,356	99,360
Non-recurring charges	187,250	40,000	180,908
Adjusted EBITDA (Loss)	<u>\$ (707,501)</u>	<u>\$ (752,017)</u>	<u>\$ (595,485)</u>

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

	For the Three Months Ended October 31,		For the Six Months Ended October 31,	
	2013	2012	2013	2012
Revenues	\$ 885,338	\$ 727,640	\$ 1,815,331	\$ 1,425,793
Costs of revenues (exclusive of amortization shown separately)	494,304	387,052	1,002,973	1,023,824
Gross profit (exclusive of amortization)	391,034	340,588	812,358	401,969
Amortization expenses excluded from cost of revenues	110,460	97,758	212,850	188,548
GAAP gross profit	\$ 280,574	\$ 242,830	\$ 599,508	\$ 213,421

By the end of fiscal year 2014 (April 30, 2014), Aspen Group expects its gross margin percentage (exclusive of amortization) to increase to at least 50%, resulting from the majority of the Legacy Tuition Plan students graduating or ceasing to take courses.

Liquidity and Capital Resources

A summary of our cash flows is as follows:

	Six Months Ended October 31,	
	2013	2012
Net cash used in operating activities	\$(2,151,531)	\$(2,874,052)
Net cash used in investing activities	(210,958)	(401,143)
Net cash provided by financing activities	2,585,540	3,342,305
Net cash provided by discontinued operations	148,657	468,180
Net increase in cash and cash equivalents	\$ 371,708	\$ 535,290

Net Cash Used in Operating Activities

Net cash used in operating activities during the six months ended October 31, 2013 totaled \$(2,151,531) and resulted primarily from a net loss from continuing operations of \$(2,555,911) offset by non-cash items of \$746,190, of which the \$229,086 in depreciation and amortization and \$297,330 in stock based compensation were the most significant, and a net change in operating assets and liabilities of \$(341,810), of which the \$(281,049), decrease in accounts receivable was the most significant.

Net cash used in operating activities during the six months ended October 31, 2012 totaled \$(2,874,052) and resulted primarily from a net loss from continuing operations of \$(3,098,526) offset by non-cash items of \$1,173,603 and a net change in operating assets and liabilities of \$(949,130).

Net Cash Used in Investing Activities

Net cash used in investing activities during the six months ended October 31, 2013 totaled \$(210,958) and resulted primarily from capitalized technology expenditures.

Net cash used in investing activities during the six months ended October 31, 2012 totaled \$(401,143), resulting primarily from capitalized technology expenditures and increase in restricted cash.

Net Cash Provided By Financing Activities

Net cash provided by financing activities during the six months ended October 31, 2013 totaled \$2,585,540 which resulted primarily from the receipt of a \$1,000,000 loan from the CEO and \$1,639,298 from the proceeds from the issuance of convertible notes.

Net cash provided by financing activities during the six months ended October 31, 2012 totaled \$3,342,305 and resulted primarily from proceeds from the issuance of convertible notes.

Historical Financings

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

From September 2012 through April 2013, we raised gross proceeds of approximately \$4.6 million through the sale of 13,249,503 shares of common stock and 6,624,751 five-year warrants exercisable at \$0.50 per share. On July 1, 2013, Mr. Michael Mathews, our Chief Executive Officer, loaned Aspen Group \$1 million and was issued a \$1 million promissory note due April 2, 2015. The promissory note bears 10% interest per annum, payable monthly in arrears. Mr. Mathews also holds two \$300,000 convertible notes which are due on April 2, 2015, one of which is convertible at \$0.35 per share and the other at \$1.00 per share. Additionally, \$200,000 in notes convertible at \$1.00 per share come due in February of 2014.

In September 2013, the Company sold a \$2,240,000 Original Issue Discount Secured Convertible Debenture (the "Debenture") and 6,736,842 five-year warrants (exercisable at \$0.3325) in a private placement offering to an institutional investor for gross proceeds of \$2,000,000. The Debenture pays 8% interest per annum, payable monthly on the first day of each calendar month beginning on November 1, 2013 and are convertible into shares of the Company's common stock at \$0.3325 per share at any time at the option of the holder. The Company is required to redeem 25% of the Debenture on November 1, 2014 and January 1, 2015 and the remaining 50% on April 1, 2015. The Company has the option to pay the interest or principal in stock subject to the Company meeting certain equity conditions. The Company received proceeds of approximately \$1.7 million which will be used to meet cash flow deficits and to accelerate the growth of the business.

Liquidity and Capital Resource Considerations

As of December 6, 2013, Aspen Group had borrowed approximately \$245,000 under its line of credit and had approximately \$1,280,000 in cash, of which \$400,000 was restricted. The restricted cash is comprised of approximately \$135,000 in Title IV accounts that may be disbursed to Aspen Group in the future if participating students complete their given courses, and approximately \$265,000 pledged as security in the form of a letter of credit as required by the DOE. Assuming we continue to grow the business and continue to reduce operating costs, we expect to achieve positive Adjusted EBITDA in mid-calendar 2014. In order to have sufficient working capital and to grow its business, the Company is considering equity financing options to raise capital prior to the end of the fiscal year. If the Company is unable to achieve positive cash flow by mid-2014, and is unsuccessful in raising capital, we will need to significantly reduce operating expenses to continue as a going concern.

Depending on our cash position, we may spend \$250,000 in capital expenditures over the next 12 months. These capital expenditures will be allocated across growth initiatives including expansion of Aspen's call center activities subject to academic courseware development and further improvements in Aspen's technology infrastructure. Depending on management's efforts to realize efficiencies in technology development, our capital expenditures may be less than anticipated.

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

In September 2013, Mr. Michael Mathews, our Chief Executive Officer, extended the due date of all his notes to April 2, 2015.

At October 31, 2013, we included as a long term asset an account receivable of \$270,478 net of an allowance of \$502,315 from Aspen's former Chairman. Although it is secured by stock pledges, there is a risk that we may not collect all or any of this amount.

See Note 10 to our October 31, 2013 unaudited consolidated financial statements included herein for additional description of related party transactions that had a material effect on our consolidated financial statements.

Off Balance Sheet Arrangements

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

New Accounting Pronouncements

See Note 2 to our October 31, 2013 unaudited consolidated financial statements included herein for discussion of recent accounting pronouncements.

Cautionary Note Regarding Forward Looking Statements

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

The results anticipated by any or all of these forward-looking statements might not occur. Important factors that could cause actual results to differ from those in the forward-looking statements include the failure to maintain regulatory approvals including our ability to obtain permanent certification from our accreditor, competition, ineffective media and/or marketing, failure to maintain growth in degree seeking students and the failure to generate sufficient revenue. Further information on our risk factors is contained in our filings with the SEC, including the Prospectus dated October 21, 2013. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of October 31, 2013, 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.

As previously disclosed, the former chairman of Aspen filed suit against the Company, Aspen, the Company's Board of Directors, Chief Executive and Financial Officers and an unrelated party in the New York Supreme Court located in Manhattan. 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. The Company did not file a motion to dismiss the breach of contract claim, so that claim remains as well. A preliminary conference in state court of New York is scheduled for December 19, 2013 relative to the two remaining claims.

On November 21, 2013, HEMG and Mr. Spada filed a derivative suit on behalf of the Company against a certain former senior management member and our directors in state court in Delaware. The Company is a nominal defendant. The complaint is substantially similar to the complaint filed in state court of New York, except that if successful, the Company will receive the benefits. While the Company has been advised by its counsel that these lawsuits are baseless, the Company cannot provide any assurance as to the ultimate outcome of the cases. Defending the litigations 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 were to be successful, the damages the Company could pay could potentially be material.

On December 10, 2013, the Company filed a series of counter claims against HEMG and Mr. Spada in state court of New York.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See the Exhibit Index at the end of this report.

SIGNATURES

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

Aspen Group, Inc.

December 13, 2013

By: /s/ Michael Mathews
Michael Mathews
Chief Executive Officer
(Principal Executive Officer)

December 13, 2013

By: /s/ Michael Matte
Michael Matte
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit #	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date	Number	
2.1	Certificate of Merger	8-K	3/19/12	2.1	
2.2	Agreement and Plan of Merger	8-K	3/19/12	2.2	
2.3	Agreement and Plan of Merger – DE Reincorporation	8-K	3/19/12	2.3	
2.4	Articles of Merger – DE Reincorporation	8-K	3/19/12	2.4	
2.5	Certificate of Merger – DE Reincorporation	8-K	3/19/12	2.5	
3.1	Certificate of Incorporation, as amended	8-K	3/19/12	2.6	
3.2	Bylaws	8-K	3/19/12	2.7	
3.3	Certificate of Incorporation – Acquisition Sub	8-K	3/19/12	2.8	
3.4	Articles of Amendment to FL Articles of Incorporation	8-K	3/19/12	2.9	
3.5	Articles of Amendment to FL Articles of Incorporation	8-K	6/20/11	3.3	
3.6	FL Articles of Incorporation	S-1/A	5/5/10	3.1	
10.1	Form of Securities Purchase Agreement	8-K	9/26/13	10.1	
10.2	Form of 8% Original Issue Discount Secured Convertible Debenture due April 1, 2015	8-K	9/26/13	10.2	
10.3	Form of Warrant	8-K	9/26/13	10.3	
10.4	Form of Security Agreement	8-K	9/26/13	10.4	
10.5	Form of Registration Rights Agreement	8-K	9/26/13	10.5	
10.6	Form of Subsidiary Guarantee	8-K	9/26/13	10.6	
10.7	Form of Subordination of Debt Agreement	8-K	9/26/13	10.7	
10.8	Mathews' Promissory Note				Filed
10.9	Mathews' Convertible Promissory Note (\$1.00)				Filed
10.10	Mathews' Convertible Promissory Note (\$0.35)				Filed
31.1	Certification of Principal Executive Officer (302)				Filed
31.2	Certification of Principal Financial Officer (302)				Filed
32.1	Certification of Principal Executive and Principal Financial Officer (906)				Furnished**
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

** 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.

PROMISSORY NOTE

\$1,000,000.00

September 25, 2013

FOR VALUE RECEIVED, the undersigned (the "Maker") promises to pay to the order of Michael Mathews (the "Holder") the sum of one million and No/100 Dollars (\$1,000,000.00), or such lesser sum as shall have been advanced, together with interest thereon computed at the per annum rate of ten percent (10%) on April 2, 2015. Prior to maturity, the Maker shall pay the Holder interest on the last day of each month. **This Note replaces that certain promissory note dated July 1, 2013.**

While in default this Note shall bear interest at the rate of 18% per annum or such maximum rate of interest allowable under the laws of the State of New York.

Payments shall be made in lawful money of the United States at 224 West 30th Street, Suite 604 New York, N.Y. 10001, or at such other place as may be designated in writing by the Holder.

This Note shall be considered in default at the option of the Holder when (i) any past due installment of interest has not been made within five days after notice of non payment has been provided to the Maker (ii) payment of principal and accrued interest required to be made hereunder shall not have been made on the due date or as provided in the next paragraph. This Note shall remain in default until said payment shall have been made. Failure at any time of the Holder to exercise said option shall not constitute a waiver of the right to exercise the same at any time.

In the event the Maker shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts, or seeking appointment of a receiver, custodian, trustee or other similar official for it or for all or any substantial part of its assets; or there shall be commenced against the Maker, any case, proceeding or other action which results in the entry of an order for relief or any such adjudication or appointment remains undismissed, undischarged or unbonded for a period of 30 days; or there shall be commenced against the Maker, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 10 days from the entry thereof; or the Maker shall make an assignment for the benefit of creditors; or the Maker shall be unable to, or shall admit in writing the inability to, pay its debts as they become due; or the Maker shall take any action indicating its consent to, approval of, or acquiescence in, or in furtherance of, any of the foregoing;

then, or any time thereafter during the continuance of any of such events, any of these events shall cause this Note to be in default and the entire unpaid balance of this Note then outstanding, together with accrued interest thereon, if any, shall be and become immediately due and payable without notice of demand by the Holder.

All makers and endorsers now or hereafter becoming parties hereto jointly and severally waive demand, presentment, notice of non-payment and protest and, if this Note becomes in default and is placed into the hands of an attorney for collection, to pay attorney's fees and all other costs incurred in connection with such collection provided the Holder is the prevailing party. "Attorney's fees" are defined to include, but are not limited to, all fees incurred in all matters of collection and enforcement, construction and interpretation, before, during and after suit, proceedings and appeals, as well as appearances in and connected with any bankruptcy proceedings or creditors, reorganization, or similar proceedings. "Attorney's fees" shall also include paralegal and law clerk fees.

The Maker knowingly, voluntarily and intentionally waives for itself and its heirs, successors and assigns, any rights which any one of them might have to a trial by jury with respect to any litigation, action, suit, or proceeding (whether at law or in equity) based on or arising out of this Note or any course of conduct, course of dealing (oral or written) or actions of any party or their respective officers, principals, partners, employees, agents or representatives in connection with the loan contemplated by this Note whether arising in contract, tort or otherwise and whether asserted by way of complaint, answer, cross claim, counter claim, affirmative defense or otherwise. No party shall seek to consolidate any such litigation, action, suit, or proceeding in which a jury trial cannot be or has not been waived with any other action in which a jury trial has been waived.

This Note may not be changed or terminated orally, but only with an agreement in writing, signed by the parties against whom enforcement of any waiver, change, modification, or discharge is sought with such agreement being effective and binding only upon attachment hereto.

This Note and the rights and obligations of the Holder and of the undersigned shall be governed and construed in accordance with the laws of the State of New York.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Company has caused this Note to be executed as of the date aforesaid.

ASPEN GROUP, INC., a Delaware corporation

By: _____
Michael Matte, Chief Financial Officer

THE SHARES UNDERLYING THIS CONVERTIBLE NOTE AND THE CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE FEDERAL OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR HYPOTHECATED IN ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH LAWS AS MAY BE APPLICABLE OR, AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH APPLICABLE LAWS EXIST.

CONVERTIBLE NOTE

\$300,000

September 25, 2013

FOR VALUE RECEIVED, Aspen Group, Inc., a Delaware corporation (the "Company"), hereby promises to pay to the order of Michael Mathews (together with his permitted successors and assigns, the "Holder") at 224 W. 30th Street Suite 604, New York, NY 10001, or at such other office as the Holder designates in writing to the Company, the principal sum of Three Hundred Thousand and No/100 Dollars (\$300,000.00), with unpaid interest thereon, on or before April 2, 2015 (the "Maturity Date"), if not paid or converted sooner. **This Convertible Note replaces one issued to the Holder on December 18, 2012, which replaced one issued to the holder on September 4, 2012, which replaced one issued to the Holder on March 13, 2012.**

1. General Provisions

(a) Interest Rate. Interest payable on this Note shall accrue at the rate of Nineteen/One Hundred Percent (0.19%) per annum. Accrued interest will be payable on the Maturity Date, accelerated or otherwise, when the principal and remaining accrued but unpaid interest shall be due and payable.

(b) Prepayment. This Note may be paid prior to the Maturity Date, without penalty. Such determination by the Company to prepay shall be made by the vote of a majority of the disinterested directors of the Company. Interest shall accrue through the actual payment date.

2. Conversion to Common Stock.

(a) Conversion Upon Election of Holder. The Holder shall be entitled upon (i) five days prior written notice to the Company (the "Conversion Notice") and (ii) the satisfaction of the requirements set forth in Section 2(d), to convert any part of the outstanding balance of this Note into a number of fully paid and nonassessable shares of the Company's common stock (the "Common Stock"). Notwithstanding the preceding, following the Conversion Notice, the Company shall have the option to prepay that portion of the Note being converted by providing written notice to Holder within three business days following the Conversion Notice. Such

determination by the Company to prepay shall be made by the vote of a majority of the disinterested directors of the Company.

(b) Conversion Price. The outstanding balance to be converted pursuant to Section 2(a) shall be convertible into the number of shares of Common Stock, which results from dividing such outstanding balance to be converted by the Conversion Price. The "Conversion Price" shall initially be \$1.00 per share of Common Stock. The Conversion Price shall be subject to adjustment pursuant to Section 3 from time to time. Following each adjustment, such adjusted Conversion Price shall remain in effect until a further adjustment hereunder.

(c) Fractional Shares. No fractional share of Common Stock shall be issued upon conversion of this Note. In lieu of a fractional share, the Holder shall be paid the value based upon Fair Market Value. Fair Market Value shall mean:

(i) if the Company's Common Stock is traded on a national securities exchange, then the closing price of the Common Stock on the date notice of conversion is given; or

(ii) if the Company's Common Stock is not traded on a national securities exchange, then the last reported sales price of the Common Stock on the principal trading market on the date notice of conversion is given.

Notwithstanding the foregoing, if there is no last reported sales price or, for the day in question, then Fair Market Value shall be determined as of the latest day prior to such day for which such last reported sales prices are available, unless such securities have not been traded any market in any of (i) through (ii) above for 30 or more days immediately prior to the day in question, in which case the Fair Market Value shall be determined in good faith by, and reflected in a formal resolution of, the board of directors of the Company.

(d) Mechanics of Conversion. Before the Holder shall be entitled to convert this Note into shares of Common Stock in connection with a conversion pursuant to Section 2(a), the Holder shall surrender this Note (or, if the Holder alleges that this Note has been lost, stolen or destroyed, an affidavit of loss and agreement reasonably acceptable to the Company to indemnify the Company against any claim that may be made against the Company on account of the alleged loss, theft or destruction of such original promissory note), at the office of the Company together with written notice that the Holder elects to convert all or any portion of this Note and, if applicable, any event on which such conversion is contingent. The notice shall state the Holder's name or the names of the nominees in which such Holder wishes the certificate or certificates for shares of Common Stock to be issued. If required by the Company, this Note shall be endorsed or accompanied by an investment letter in customary form and a written instrument or instruments of transfer, in form reasonably satisfactory to the Company, duly executed by the Holder or his, her or its attorney duly authorized in writing.

(e) New Promissory Note. In the event less than all of the remaining balance of this Note is converted, the Company shall promptly issue to the Holder a similar promissory note representing the outstanding balance of this Note.

3. Adjustments.

(a) Adjustment Upon Common Stock Event. At any time or from time to time after the date hereof (the "Original Issue Date"), upon the happening of a Common Stock Event (as hereinafter defined), the Conversion Price shall, simultaneously with the happening of such Common Stock Event, be adjusted by multiplying the Conversion Price in effect immediately prior to such Common Stock Event by a fraction, (i) the numerator of which shall be the number of shares of Common Stock issued and outstanding immediately prior to such Common Stock Event, and (ii) the denominator of which shall be the number of shares of Common Stock issued and outstanding immediately after such Common Stock Event, and the product so obtained shall thereafter be the Conversion Price. The Conversion Price shall be readjusted in the same manner upon the happening of each subsequent Common Stock Event. As used herein, the term "Common Stock Event" shall mean (i) the issue by the Company of additional shares of Common Stock as a dividend or other distribution on outstanding Common Stock, (ii) a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock, or (iii) a combination of the outstanding shares of Common Stock into a smaller number of shares of Common Stock.

(b) Adjustments for Other Dividends and Distributions. If at any time or from time to time after the Original Issue Date the Company pays a dividend or makes another distribution to the holders of the Common Stock payable in securities of the Company, other than an event constituting a Common Stock Event, then in each such event provision shall be made so that the Holder shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable upon conversion thereof, the amount of securities of the Company which the Holder would have received had this Note been converted into Common Stock on the date of such event (or such record date, as applicable) and had they thereafter, during the period from the date of such event (or such record date, as applicable) to and including the conversion date, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 3 with respect to the rights of the Holder or with respect to such other securities by their terms.

(c) Adjustment for Reclassification, Exchange and Substitution. If at any time or from time to time after the Original Issue Date the Common Stock issuable upon the conversion of this Note is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than by a Common Stock Event or a stock dividend, reorganization, merger, or consolidation provided for elsewhere in this Section 3), then in any such event, but subject to Section 2, the Holder and the Company shall have the right thereafter to convert this Note into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the number of shares of Common Stock into which this Note could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(d) Reorganizations, Mergers and Consolidations. If at any time or from time to time after the Original Issue Date there is a reorganization of the Company (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 3) or a merger or consolidation of the Company with or into another corporation (except a Liquidation Event), then, as a part of such reorganization, merger or consolidation, provision shall be made so that the Holder thereafter shall be entitled to receive, upon conversion of this Note, the number of shares of stock or other securities or property of the Company, or of such successor corporation resulting from such reorganization, merger or consolidation, to which a holder of Common Stock deliverable upon conversion would have been entitled on such reorganization, merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 3 with respect to the rights of the Holder after the reorganization, merger or consolidation to the end that the provisions of this Section 3 (including adjustment of the Conversion Price then in effect and number of shares issuable upon conversion of this Note) shall be applicable after that event and be as nearly equivalent to the provisions hereof as may be practicable. This Section 3 shall similarly apply to successive reorganizations, mergers and consolidations.

4. Event of Default.

(a) For purposes of this Note, an “Event of Default” means:

(i) the Company shall default in the payment of interest and/or principal on this Note within five business days after the Company’s receipt of notice of default from the Holder;

(ii) the Company shall fail to materially perform any covenant, term, provision, condition, agreement or obligation of the Company under this Note (other than for non-payment) and such failure shall continue uncured for a period of 20 business days after notice from the Holder of such failure (or if such breach is not capable of being cured with such 20 business day period but the Company commences to cure and diligently and continuously acts to cure such breach, such longer period as may be necessary to cure such breach);

(iii) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (A) liquidation, reorganization or other relief in respect of the Company or any of their debts, or of a substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (B) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of any of its assets, and, in any such case, such proceeding or petition shall continue undismitted 30 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(iv) the Company shall (A) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (B) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in Section 4(a)(iii), (C) apply for or consent to the appointment

of a receiver, trustee, custodian, conservator or similar official for the Company or for a substantial part of its assets, (D) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (E) make a general assignment for the benefit of creditors or (F) take any action for the purpose of effecting any of the foregoing.

(b) Upon the occurrence of an Event of Default, the Holder shall have the right (but not the obligation) to declare the unpaid principal balance of this Note, and all interest and fees accrued thereon, immediately due and payable in full. Failure to exercise such option shall not constitute a waiver of the right to exercise the same in the event of any subsequent Event of Default.

5. Miscellaneous.

(a) Loss, Theft, Destruction or Mutilation of Note. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Note, the Company shall execute and deliver, in lieu of this Note, a new note executed in the same manner as this Note, in the same principal amount as the unpaid principal amount of this Note and dated the date to which interest shall have been paid on this Note or, if no interest shall have yet been so paid, dated the date of this Note.

(b) Waivers. The Company hereby waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument.

(c) Usury. In the event that any interest paid on this Note is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note, and any surplus thereafter shall immediately be refunded to the Company.

(d) Waiver and Amendment. Any provision of this Note may be amended, waived or modified only by an instrument in writing signed by the party against which enforcement of the same is sought.

(e) Notices. All notices, offers, acceptance and any other acts under this Note (except payment) shall be in writing, and shall be sufficiently given if delivered to the addressees in person, by FedEx or similar receipted next business day delivery, or by email delivery followed by overnight next business day delivery as follows:

- (i) If to the Holder, to: Michael Mathews
224 W. 30th Street Suite 604
New York, NY 10001
Email: michael.mathews@aspen.edu

(ii) If to the Company, to: Aspen Group, Inc.
224 W. 30th Street Suite 604
New York, NY 10001
Michael.Matte@aspen.edu
Chief Financial Officer

or to such other address as any of them, by notice to the other may designate from time to time. Time shall be counted to, or from, as the case may be, the date of delivery.

(f) Attorneys' Fees. In the event that there is any controversy or claim arising out of or relating to this Agreement, or to the interpretation, breach or enforcement thereof, and any action or proceeding is commenced to enforce the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and expenses (including such fees and costs on appeal).

(g) Successors and Assigns. Upon any endorsement, assignment, or other transfer of this Note by the Holder or by operation of law, the term "Holder," as used herein, shall mean such endorsee, assignee, or other transferee or successor to the Holder, then becoming the holder of this Note. This Note shall inure to the benefit of the Holder and its successors and assigns and shall be binding upon the undersigned and their successors and assigns. The term "Company" as used herein, shall include the respective successors and assigns of the Company and any other obligor.

(h) Governing Law. This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York without reference to principles of conflicts of laws. Any action, proceeding or claim against it arising out of, or relating in any way to, this Note must only be brought and enforced in the courts of the State of New York or of the United States of America located in the County of New York, State of New York, and Company and Holder irrevocably submit to such jurisdiction for such purpose. Company and Holder hereby irrevocably waive any objection to such exclusive jurisdiction or inconvenient forum.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Company has caused this Note to be executed as of the date aforesaid.

Aspen Group, Inc.

By: _____
Michael Matte
Chief Financial Officer

THE SHARES REPRESENTED BY THIS CONVERTIBLE NOTE AND THE CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE FEDERAL OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR HYPOTHECATED IN ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH LAWS AS MAY BE APPLICABLE OR, AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH APPLICABLE LAWS EXIST.

CONVERTIBLE NOTE

\$300,000.00

September 25, 2013

FOR VALUE RECEIVED, Aspen Group, Inc., a Delaware, a Delaware corporation (the "Company"), hereby promises to pay to the order of Michael Mathews (the "Holder") at 224 West 30th Street, Suite 604, New York, NY 10001, or at such other office as the Holder designates in writing to the Company, the principal sum of Three Hundred Thousand Dollars and 00/100 (\$300,000.00) together with interest thereon computed at the annual rate of five percent (5%). Principal and interest shall be due and payable on April 2, 2015. While in default, this Note shall bear interest at the rate of 18% per annual or such maximum rate of interest allowable under the laws of the State of New York.

Payments shall be made in lawful money of the United States. **This Convertible Note replaces one issued to the Holder on December 18, 2012, which replaced one issued to the Holder on September 4, 2012, which replaced one issued to the Holder on August 14, 2012.**

1. Conversion to Common Stock. The Holder shall have the right at any time to convert this Note into shares of common stock of the Company at \$0.35 per share (the "Conversion Price"), as adjusted.

2. Anti-Dilution Protection.

(a) In the event, prior to the payment of this Note, the Company shall issue any of its shares of common stock as a stock dividend or shall subdivide the number of outstanding shares of common stock into a greater number of shares, then, in either of such events, the shares obtainable pursuant to conversion of this Note shall be increased proportionately; and, conversely, in the event that the Company shall reduce the number of outstanding shares of common stock by combining such shares into a smaller number of shares, then, in such event, the number of shares of common stock obtainable pursuant to the conversion of this Note shall be decreased proportionately. Any dividend paid or distributed upon the common stock in shares of any other class of capital stock of the Company or securities convertible into shares of common stock shall be treated as a dividend paid in common stock to the extent that the shares of common stock are issuable upon the conversion of the Note. In the event that the Company shall pay a dividend consisting of the securities of any other entity or in cash or other property, upon conversion of this

Note, the Holder shall receive the securities, cash, or property which the Holder would have been entitled to if the Holder had converted this Note immediately prior to the record date of such dividend.

(b) In the event, prior to the payment of this Note, the Company shall be recapitalized by reclassifying its outstanding common stock (other than into shares of common stock with a different par value, or by changing its outstanding shares of common stock to shares without par value), or in the event the Company or a successor corporation, partnership, limited liability company or other entity (any of which is defined as a "Corporation") shall consolidate or merge with or convey all or substantially all of its, or of any successor Corporation's property and assets to any other Corporation or Corporations (any such other Corporation being included within the meaning of the term "successor Corporation" used in the context of any consolidation or merger of any other Corporation with, or the sale of all or substantially all of the property of any such other Corporation to, another Corporation or Corporations), or in the event of any other material change in the capital structure of the Company or of any successor Corporation by reason of any reclassification, reorganization, recapitalization, consolidation, merger, conveyance or otherwise, then, as a condition of any such reclassification, reorganization, recapitalization, consolidation, merger or conveyance, a prompt, proportionate, equitable, lawful and adequate provision shall be made whereby the Holder of this Note shall thereafter have the right to purchase, upon the basis and the terms and conditions specified in this Note, in lieu of the securities of the Company theretofore purchasable upon the conversion of this Note, such shares, securities or assets as may be issued or payable with respect to or in exchange for the number of securities of the Company theretofore obtainable upon conversion of this Note as provided above had such reclassification, reorganization, recapitalization, consolidation, merger or conveyance not taken place; and in any such event, the rights of the Holder of this Note to any adjustment in the number of shares of common stock obtainable upon conversion of this Note, as provided, shall continue and be preserved in respect of any shares, securities or assets which the Holder becomes entitled to obtain. Notwithstanding anything herein to the contrary, this Section 2(b) shall not apply to a merger with a subsidiary provided the Company is the continuing Corporation and provided further such merger does not result in any reclassification, capital reorganization or other change of the securities issuable under this Note. The foregoing provisions of this Section 2(b) shall apply to successive reclassification, capital reorganizations and changes of securities and to successive consolidation, mergers, sales or conveyances.

(c) In the event the Company, at any time while this Note shall remain outstanding, shall sell all or substantially all of its assets, or dissolves, liquidates, or winds up its affairs, prompt, proportionate, equitable, lawful and adequate provision shall be made as part of the terms of any such sale, dissolution, liquidation, or winding up such that the Holder of this Note may thereafter receive, upon exercise hereof, in lieu of the securities of the Company which it would have been entitled to receive, the same kind and amount of any shares, securities or assets as may be issuable, distributable or payable upon any such sale, dissolution, liquidation or winding up with respect to each common share of the Company; provided, however, that in the event of any such sale, dissolution, liquidation or winding up, the right to convert this Note shall terminate on a date fixed by the Company, such date so fixed to be not earlier than 6:00 p.m., New York time, on the 30th day after the date on which notice of such termination of the right to convert this Note has been

given by mail to the Holder of this Note at such Holder's address as it appears on the books of the Company.

3. Event of Default. In the event the Company shall commence any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts, or seeking appointment of a receiver, custodian, trustee or other similar official for it or for all or any substantial part of its assets; or there shall be commenced against the Company, any case, proceeding or other action which results in the entry of an order for relief or any such adjudication or appointment remains undismissed, undischarged or unbonded for a period of 30 days; or there shall be commenced against the Company, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 10 days from the entry thereof; or the Company shall make an assignment for the benefit of creditors; or the Company shall be unable to, or shall admit in writing the inability to, pay its debts as they become due; or the Company shall take any action indicating its consent to, approval of, or acquiescence in, or in furtherance of, any of the foregoing; then, or any time thereafter during the continuance of any of such events, the entire unpaid balance of this Note then outstanding, together with accrued interest thereon, if any, shall be and become immediately due and payable without notice of conversion by Holder.

4. Miscellaneous.

(a) All makers and endorsers now or hereafter becoming parties hereto jointly and severally waive demand, presentment, notice of non-payment and protest.

(b) This Note may not be changed or terminated orally, but only with an agreement in writing, signed by the parties against whom enforcement of any waiver, change, modification, or discharge is sought with such agreement being effective and binding only upon attachment hereto.

(c) This Note and the rights and obligations of the Holder and of the undersigned shall be governed and construed in accordance with the laws of the State of Delaware.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Company has caused this Note to be executed as of the date aforesaid.

By: _____
Michael Matte, Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Michael Mathews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 13, 2013

/s/ Michael Mathews

Michael Mathews
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Michael Matte, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 13, 2013

/s/ Michael Matte

Michael Matte
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Aspen Group, Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2013, as filed with the Securities and Exchange Commission on the date hereof, I, Michael Mathews, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
2. The information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Mathews

Michael Mathews
Chief Executive Officer
(Principal Executive Officer)
Dated: December 13, 2013

In connection with the quarterly report of Aspen Group, Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2013, as filed with the Securities and Exchange Commission on the date hereof, I, Michael Matte, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
2. The information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Matte

Michael Matte
Chief Financial Officer
(Principal Financial Officer)
Dated: December 13, 2013