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 **January 31, 2014**

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	**27-1933597**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
720 South Colorado Boulevard, Suite 1150N **Denver, CO**	**80246**
(Address of principal executive offices)	*(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 March 17, 2014
Common Stock, $0.001 par value per share	72,625,002 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 31, 2014 (Unaudited)	April 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 850,627	$ 724,982
Restricted cash	265,579	265,173
Accounts receivable, net of allowance of $215,643 and $72,535, respectively	659,814	364,788
Prepaid expenses	37,420	165,426
Net assets from discontinued operations (Note 1)	5,250	113,822
Total current assets	1,818,690	1,634,191
Property and equipment:		
Call center equipment	122,653	121,313
Computer and office equipment	66,118	61,036
Furniture and fixtures	32,914	32,914
Library (online)	100,000	100,000
Software	1,809,860	1,518,142
	2,131,545	1,833,405
Less accumulated depreciation and amortization	(837,427)	(569,665)
Total property and equipment, net	1,294,118	1,263,740
Courseware, net	129,367	208,095
Accounts receivable, secured - related party, net of allowance of $625,962 and $502,315, respectively	146,831	270,478
Debt issuance costs, net	260,114	—
Other assets	25,181	25,181
Total assets	$ 3,674,301	$ 3,401,685

(Continued)

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

	January 31, 2014 (Unaudited)	April 30, 2013
Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	$ 376,600	$ 313,405
Accrued expenses	133,148	128,569
Deferred revenue	806,160	904,590
Loan payable to stockholder	491	491
Title IV Funds In Transit	235,311	253,883
Deferred rent, current portion	12,879	10,418
Convertible notes payable, current portion	200,000	200,000
Net liabilities from discontinued operations (Note 1)	11,475	124,504
Total current liabilities	1,776,064	1,935,860
Line of credit	244,175	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 $573,060	1,666,940	—
Deferred rent	11,750	21,450
Total liabilities	5,298,929	2,807,310
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, 69,667,107 issued and 69,467,107 outstanding at January 31, 2014 and 58,573,222 issued and 58,373,222 outstanding at April 30, 2013	69,467	58,573
Additional paid-in capital	15,343,576	13,345,888
Treasury stock (200,000 shares)	(70,000)	(70,000)
Accumulated deficit	(16,967,671)	(12,740,086)
Total stockholders' equity (deficiency)	(1,624,628)	594,375
Total liabilities and stockholders' equity (deficiency)	$ 3,674,301	$ 3,401,685

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 January 31,		For the Nine Months Ended January 31,	
	2014	**2013**	**2014**	**2013**
Revenues	$ 1,002,167	$ 831,562	$ 2,817,497	$ 2,257,354
Operating expenses				
Cost of revenues (exclusive of amortization expense included in depreciation and amortization shown separately below)	555,625	557,689	1,558,599	1,579,813
General and administrative	1,697,403	1,043,461	4,698,343	3,547,485
Receivable collateral valuation reserve	123,647	—	123,647	502,316
Depreciation and amortization	121,904	111,862	350,990	316,141
Total operating expenses	2,498,579	1,713,012	6,731,579	5,945,755
Operating loss from continuing operations	(1,496,412)	(881,450)	(3,914,082)	(3,688,401)
Other income (expense):				
Interest income	136	3,479	750	4,037
Interest expense	(260,062)	(6,395)	(398,916)	(363,528)
Total other expense, net	(259,926)	(2,916)	(398,166)	(359,491)
Loss from continuing operations before income taxes	(1,756,338)	(884,366)	(4,312,248)	(4,047,892)
Income tax expense (benefit)	—	—	—	—
Loss from continuing operations	(1,756,338)	(884,366)	(4,312,248)	(4,047,892)
Discontinued operations (Note 1)				
Income (loss) from discontinued operations, net of income taxes	29,751	(150,223)	84,663	(10,048)
Net loss	$ (1,726,587)	$ (1,034,589)	$ (4,227,585)	$ (4,057,940)
Loss per share from continuing operations - basic and diluted	$ (0.03)	$ (0.02)	$ (0.07)	$ (0.09)
Income (loss) per share from discontinued operations - basic and diluted	$ 0.00	$ (0.00)	$ 0.00	$ 0.00
Net loss per share - basic and diluted	$ (0.03)	$ (0.02)	$ (0.07)	$ (0.09)
Weighted average number of common shares outstanding: basic and diluted	59,780,884	43,749,427	59,098,885	46,595,461

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 NINE MONTHS ENDED JANUARY 31, 2014
(Unaudited)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficiency)
	Shares	Amount				
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	—	—	395,940	—	—	395,940
Warrants issued in financing	—	—	483,881	—	—	483,881
Warrants exercised	7,006,064	7,006	953,995	—	—	804,049
Warrant modification expense	—	—	—	—	—	156,952
Shares issued for price protection	3,270,678	3,271	(3,271)	—	—	—
Net loss, nine months ended January 31, 2014	—	—	—	—	(4,227,585)	(4,227,585)
Balance at January 31, 2014	69,467,107	$ 69,467	$ 15,343,576	$ (70,000)	$ (16,967,671)	$ (1,624,628)

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 Nine Months Ended January 31, 2014	2013
Cash flows from operating activities:		
Net loss	$ (4,227,585)	$ (4,057,940)
Less income (loss) from discontinued operations	84,663	(10,048)
Loss from continuing operations	(4,312,248)	(4,047,892)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	148,837	—
Receivable collateral valuation reserve	123,647	502,316
Depreciation and amortization	350,990	316,141
Stock-based compensation	395,940	305,333
Warrant modification expense	156,952	—
Amortization of debt issue costs	77,058	268,973
Amortization of debt discount	174,351	—
Amortization of prepaid shares for services	285,084	32,498
Changes in operating assets and liabilities:		
Accounts receivable	(443,863)	(91,274)
Prepaid expenses	58,922	51,503
Other assets	—	(21,122)
Accounts payable	63,195	(1,018,133)
Accrued expenses	4,578	91,451
Deferred rent	(7,239)	(3,218)
Title IV Funds in Transit	(18,572)	42,392
Deferred revenue	(98,430)	89,064
Net cash used in operating activities	(3,040,798)	(3,481,968)
Cash flows from investing activities:		
Purchases of property and equipment	(298,140)	(328,605)
Purchases of courseware	(4,499)	(17,100)
Increase in restricted cash	(406)	(159,162)
Net cash used in investing activities	(303,045)	(504,867)
Cash flows from financing activities:		
Proceeds from (repayments on) line of credit, net	(5,825)	24,000
Proceeds from issuance of common shares and warrants, net	—	3,120,239
Proceeds from loan from related party	1,000,000	300,491
Proceeds received from issuance of convertible notes and warrants, net of costs	1,639,298	947,000
Proceeds from warrant exercise	804,049	—
Offering costs associated with private placement	(48,240)	(154,453)
Purchase of Treasury shares	—	(202,000)
Net cash provided by financing activities	3,389,282	4,035,277
Cash flows from discontinued operations:		
Cash flows from discontinued activities	80,206	(154,379)
Net cash provided by (used in) discontinued operations	80,206	(154,379)
Net increase (decrease) in cash and cash equivalents	125,645	(105,937)
Cash and cash equivalents at beginning of period	724,982	486,104
Cash and cash equivalents at end of period	$ 850,627	$ 380,167

(Continued)

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

	For the Nine Months Ended January 31, 2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 95,653	$ 5,281
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.

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 University's mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 87% of our full-time degree-seeking students (as of January 31, 2014) 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 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 nine months ended January 31, 2014 and 2013, our cash flows for the nine months ended January 31, 2014 and 2013, and our financial position as of January 31, 2014 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Report on Form 10-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.

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 January 31,		For the Nine Months Ended January 31,	
	2014	2013	2014	2013
Revenues	$ —	$ 202,571	$ 549,125	$ 1,290,508
Costs and expenses:				
Instructional costs and services	—	182,794	494,21 3	1,130,556
General and administrative	(29,751)	170,000	(29,751)	170,000
Total costs and expenses	(29,751)	352,794	464,462	1,300,556
Income (loss) from discontinued operations, net of income taxes	$ 29,751	$ (150,223)	$ 84,663	$ (10,048)

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

	January 31, 2014	April 30, 2013
Assets		
Cash and cash equivalents	$ —	$ —
Accounts receivable, net of allowance of $481,531 and $295,045, respectively	5,250	113,822
Other current assets	—	—
Net assets from discontinued operations	$ 5,250	$ 113,822
Liabilities		
Accounts payable	$ 11,475	$ 1,178
Accrued expenses	—	70,201
Deferred revenue	—	53,125
Net liabilities from discontinued operations	$ 11,475	$ 124,504

C. Liquidity

As a result of the January 2014 warrant exercise transaction for approximately $804,000 disclosed in Note 9, the Company has a cash position of approximately $1.1 million as of January 31, 2014 which includes $266,000 of restricted cash. In March 2014, the company raised an additional $600,000 in equity funds and intends to raise an additional $400,000. 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 $750,000 in cash from February 2014 to July 2014, at which time the Company forecasts to begin generating cash from operations.

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 $265,579 as restricted cash (shown as a current asset as of January 31, 2014). As of January 31, 2014, the account bears interest of 0.20%. (See Note 11)

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, this amount is captured in a current liability account called Title IV Funds in Transit. Typically, the funds are paid to the students within two weeks.

Revenue Recognition and Deferred Revenue

Revenues consist primarily of tuition and fees derived from courses taught by the Company online as well as from related educational resources that the Company provides to its students, such as access to our online materials and learning management system. Tuition revenue is recognized pro-rata over the applicable period of instruction. The Company 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 9,583,086 and 6,880,467 common shares, warrants to purchase 19,196,635 and 7,216,522 common shares, and $2,240,000 and $800,000 of convertible debt (convertible into 8,093,985 and 1,357,143 common shares) were outstanding during the nine months ended January 31, 2014 and 2013, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

Reclassifications

The Company reclassified $235,311 and $253,883 at January 31, 2014 and April 30, 2013, respectively, from Deferred Revenue to Title IV Funds in Transit. Both are classified in Current Liabilities. For the nine months ended January 31, 2014, the Company reclassified $113,250, from Cost of Revenues to General and Administrative, both within Operating Expenses. There were no corresponding reclassifications for the three and nine months ended January 31, 2013.

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 January 31, 2014, the balance of the account receivable, net of allowance of $625,962, was $146,831. Based on the reduction in value of the collateral to $0.19, the company recognized an expense of $123,647 during the three months ended January 31, 2014 (See Note 9). The net receivable of $146,831 is reflected as accounts receivable, secured – related party, net (See Note 10).

Note 4. Property and Equipment

Property and equipment consisted of the following at January 31, 2014 and April 30, 2013:

	January 31, 2014	April 30, 2013
Call center equipment	$ 122,653	$ 121,313
Computer and office equipment	66,118	61,036
Furniture and fixtures	32,914	32,914
Library (online)	100,000	100,000
Software	1,809,860	1,518,142
	2,131,545	1,833,405
Accumulated depreciation and amortization	(837,427)	(569,665)
Property and equipment, net	$ 1,294,118	$ 1,263,740

Depreciation and amortization expense for the three months ended January 31, 2014 and 2013 was $96,879 and $77,484, respectively. Depreciation and amortization expense for the nine months ended January 31, 2014 and 2013 was $267,763 and $211,004 respectively.

Amortization expense for software, included in the above amounts, for the three months ended January 31 2014, and 2013 was $87,610 and $68,676, respectively. Amortization expense for software, included in the above amounts, for the nine months ended January 31, 2014 and 2013 was $242,259 and $186,466, respectively. Software consisted of the following at January 31, 2014 and April 30, 2013:

	January 31, 2014	April 30, 2013
Software	$ 1,809,860	$ 1,518,142
Accumulated amortization	(628,858)	(386,599)
Software, net	$ 1,181,002	$ 1,131,543

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

Year Ending April 30,	
2014	$ 90,493
2015	361,972
2016	361,126
2017	238,394
2018	129,017
Total	$ 1,181,002

Note 5. Courseware

Courseware costs capitalized were $4,500 for the nine months ended January 31, 2014.

Courseware consisted of the following at January 31, 2014 and April 30, 2013:

	January 31, 2014	April 30, 2013
Courseware	$ 2,102,037	$ 2,097,538
Accumulated amortization	(1,972,670)	(1,889,443)
Courseware, net	$ 129,367	$ 208,095

Amortization expense of courseware for the three months ended January 31, 2014 and 2013 was $25,025 and $34,379, respectively. Amortization expense of courseware for the nine months ended January 31, 2014 and 2013 was $83,227 and $105,137, respectively.

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

Year Ending April 30,	
2014	$ 22,453
2015	65,917
2016	28,630
2017	9,996
2018	2,371
Total	$ 129,367

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 January 31, 2014 and April 30, 2013. Two of the above mentioned notes were modified in February 2014. (See Note 11)

On March 13, 2012, the Company's CEO loaned the Company $300,000 and received a convertible promissory note due March 31, 2013, bearing interest at 0.19% per annum. The note is convertible into common shares of the Company at the rate of $1.00 per share upon five days written notice to the Company. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. On September 4, 2012, the maturity date was extended to August 31, 2013. On 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 these modifications. (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.

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 January 31, 2014). The line of credit requires minimum monthly payments consisting of interest only. The line of credit is secured by all business assets, inventory, equipment, accounts, general intangibles, chattel paper, documents, instruments and letter of credit rights of the Company. The line of credit is for an unspecified time until the bank notifies the Company of the Final Availability Date, at which time payments on the line of credit become the sum of: (a) accrued interest and (b) 1/60th of the unpaid principal balance immediately following the Final Availability Date, which equates to a five-year payment period. The balance due on the line of credit as of January 31, 2014 was $244,175. Since the earliest the line of credit is due and payable is over a five year period and the Company believes that it could obtain a comparable replacement line of credit elsewhere, the entire line of credit is included in long-term liabilities. The unused amount under the line of credit available to the Company at January 31, 2014 was $5,825.

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 January 31, 2014, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations and there are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest other than described below.

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 status conference in state court of New York is scheduled for mid-March 2014 relative to the two remaining claims.

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 February 28, 2014, the Company filed a motion to dismiss the complaint. Mr. Spada's opposition papers are due on March 31, 2014. Arguments will likely be in May or June.

On December 10, 2013, the Company filed a series of counter claims against HEMG and Mr. Spada in state court of New York. The plaintiffs filed a motion to dismiss our counterclaims. Our opposition papers are due on March 31, 2014.

Regulatory Matters

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

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

On March 27, 2012 and on August 31, 2012, Aspen University provided the DOE with letters of credit for which the due date was extended to December 31, 2013. On January 30, 2014, the DOE provided Aspen University with an option to become permanently certified by increasing the letter of credit to 50% of all Title IV funds received in the last program year, equaling $1,696,445, or to remain provisionally certified by increasing the 25% letter of credit to $848,225. Aspen informed the DOE of its desire to remain provisionally certified and plans to post the $848,225 letter of credit by the DOE approved extended deadline of April 17, 2014. The DOE may impose additional or different terms and conditions in any final provisional program participation agreement that it may issue (See Note 2 "Restricted Cash").

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

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

Return of Title IV Funds

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

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” and Note 8 “Regulatory Matters”).

Note 9. Stockholders’ Equity

Common Stock

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

The Company issued 7,006,064 shares of common stock and received $804,049 in connection with warrant exercises more fully described below.

As a result of the warrant modifications and exercises described below, the Company issued 3,270,678 shares of common stock as price protection on prior cash investments.

Warrants

A summary of the Company's warrant activity during the nine months ended January 31, 2014 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	$ 0.40		
Issued	14,378,183	0.29		
Exercised	(4,231,840)	0.19		
Forfeited	(40,000)	0.50		
Expired	—	—		
Balance Outstanding, January 31, 2014	19,196,635	$ 0.33	4.5	$ 1,003,192
Exercisable, January 31, 2014	19,196,635	$ 0.33	4.5	$ 1,003,192

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).

On January 15, 2014, a warrant exercise offering was completed whereby 4,231,840 warrants were offered at an exercise price of $0.19 per warrant. The total proceeds received were $804,049 and since the exercise price was discounted from the stated prices of either $0.50 or $0.3325, a warrant modification expense of $156,952 was recorded in accordance with ASC 718-20-35. This expense was calculated by comparing the value of the warrants before and after the reduced price.

As a result of the $0.19 exercise, an additional 5,178,947 new warrants were issued at $0.19 per warrant as part of a price protection agreement with two investors. There was no accounting effect for this warrant issuance.

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, 9,300,000 on May 14, 2013 and to 11,300,000 on December 17, 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 January 31, 2014, there were 1,986,914 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.

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.

During the three months ended January 31, 2014, the Company granted to non-employee directors 600,000 stock options, all of which were under the Plan, having an exercise price of $0.17 per share. All of these options vest ratably over four years and expire five years from the grant date. The total fair value of these options was $30,000, which is being recognized over the respective vesting periods. The Company recorded compensation expense of $98,609 for the three months ended January 31, 2014, in connection with outstanding employee stock options. The Company recorded compensation expense of $99,360 for the three months ended January 31, 2013, 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 January 31, 2014:

Assumptions	January 31, 2014
Expected life (years)	3.75
Expected volatility	45.0%
Weighted-average volatility	45.0%
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 nine months ended January 31, 2014 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2013	7,344,381	$ 0.35		
Issued	2,463,711	$ 0.35		
Exercised	—			
Forfeited	(495,006)	$ 0.34		
Expired	—			
Balance Outstanding, January 31, 2014	9,313,086	$ 0.34	4.1	$ —
Exercisable, January 31, 2014	2,005,885	$ 0.35	3.8	$ —

As of January 31, 2014, there was $684,745 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 nine months ended January 31, 2014. The Company recorded compensation expense of $2,244 for the nine months ended January 31, 2014 in connection with non-employee stock options. No expense was recorded during the same periods in 2013.

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 January 31, 2014:

Assumptions	January 31, 2014
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 nine months ended January 31, 2014 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, April 30, 2013	270,000	$ 0.35		
Granted	—			
Exercised	—			
Forfeited	—			
Expired	—			
Balance Outstanding, January 31, 2014	270,000	$ 0.35	3.7	$ —
Exercisable, January 31, 2014	58,333	N/A	N/A	N/A

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

On February 18, 2014 the company renegotiated the terms of one of the $50,000 convertible notes, specifically the one dated February 27, 2012. The maturity date was extended to December 1, 2014 and the conversion price has been reduced to $0.19 per share. The interest rate has been amended to 3.25% from February 27, 2014. This will be treated as a note extinguishment in accordance with ASC 470-50.

On February 28, 2014 the company renegotiated the terms of the $100,000 convertible note dated February 25, 2012. A payment was made in the amount of $25,000 on February 28, 2014, reducing the principal to $75,000. Another principal payment of $25,000 will be made on August 1, 2014 and $50,000 on December 1, 2014. Beginning February 25, 2014 through the date of final payment the interest rate was raised to 3.25%. The conversion price for all of the convertible options was reduced to $0.19 per share. This will be treated as a note extinguishment in accordance with ASC 470-50.

On March 6, 2014, a new Chief Academic Officer was named, Dr. Cheri St. Arnauld. She will receive a base salary of $120,000. After the earlier of the six month period and the Adjusted EBITDA milestone is met, the base salary shall be increased to $240,000. Additionally, she was granted 500,000 five-year stock options (exercisable at $0.19 per share), which vest in three equal increments on March 1, 2015, 2016 and 2017, subject to continued employment on each applicable vesting date.

On March 6, 2014, the Academic President of the University announced his retirement effective March 31, 2014 and will assume the title of President Emeritus. From April 1, 2014 to June 30, 2014, he will provide consulting services on an as-needed basis.

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

On March 11, 2014, the Company appointed Gerard Wendolowski as Chief Operating Officer and Janet Gill as Executive Vice President of the Company. Additionally, Ms. Gill was appointed interim Chief Financial Officer to replace Michael Matte who resigned to pursue other interests. Mr. Matte also entered into a Consulting Agreement with the Company where he agreed to provide part-time services during the period November 1, 2014 through April 30, 2015 in exchange for $150,000.

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.

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 January 31, 2014, 2,392 students were enrolled as full-time degree seeking students with 2,077 of those students or 87% in a master or doctoral graduate degree program. In addition, a further 1,084 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 3,476 as of January 31, 2014.

Among online, for-profit universities, Aspen ranks among the leaders relative to the closely analyzed industry metrics such as high student graduation rates, low Title IV revenues and high student satisfaction rates. During calendar 2013, Aspen had a student graduation rate of 62%, Title IV revenues of 26.3% (fiscal year ending April 30, 2013) and a student satisfaction rate of 97% (calculated in accordance with DETC guidelines which are the average satisfaction rate of students in our top 10 most popular courses).

Student Population

Aspen's full-time degree-seeking student body increased by 10% during the three month period ended January 31, 2014, which we refer to as the "2014 Quarter," from 2,171 to 2,392 students. During the nine month period ended January 31, 2014, which we refer to as the "2014 Period", the full-time degree-seeking student body increased by 28%, from 1,875 to 2,392 students. Among Aspen's degree seeking programs, the Master of Nursing program grew 22% during this quarter from 600 students to 733 students and 97% during the nine month period. When compared to the number of students in the Master of Nursing program at January 31, 2013 to January 31, 2014, the program grew from 274 students to 733 or 168%. As of January 31, 2014, Aspen's School of Nursing now represents 31% of the full-time, degree-seeking student body.

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 has historically been 16 weeks. However, as of the February 1, 2014 start date, Aspen University will no longer be implementing 16 week course terms for financial aid students, moving to a universal 10 week course term length for all students regardless of payment type.

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

	1/31/2013	1/31/2014
Class Starts (Quarter)	1,080	1,235
Average Tuition Per Start	$ 648	$ 752

Class starts for the quarter ended January 31, 2014 increased 14% year-over-year and average tuition rate increased 16% year-over-year.

Results of Operations

For the Three Months Ended January31, 2014 Compared with the Three Months Ended January 31, 2013

Revenue

Revenue from continuing operations for the 2014 Quarter increased to $1,002,167 from $831,562 for the three months ended January 31, 2013, which we refer to as the “2013 Quarter”, an increase of 21%. The increase is primarily attributable to the growth in Aspen student enrollments and the 14% increase in new class starts and the 16% increase in average tuition rates as discussed above. Of particular note, revenues from Aspen’s Nursing degree program increased to $388,650 during the 2014 Quarter from $177,250 during the 2013 Quarter, an increase of 120%.

Our 2013 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 January 31, 2014, 615 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 74% of the population and the population of Legacy Tuition Plan students fell to 26%. In fact, Legacy Tuition Plan students’ contribution to financial results was immaterial for the 2014 Quarter (ending January 31, 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 2014 Quarter rose to $285,221 from $262,665 for the 2013 Quarter, an increase of $22,556 or 9%. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking student enrollments and related class starts, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to significantly lag that of overall revenues growth.

Marketing and Promotional

Marketing and promotional costs for the 2014 Quarter were $270,404 compared to $295,024 for the 2013 Quarter, a decrease of $24,620 or 8%. 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 approximately $80,000 per month.

New student full-time degree seeking enrollments for the 2014 Quarter set a Company record at 327. This equated to the average cost of enrollment dropping to $740 for the 2014 Quarter, another Company record.

	1/31/2013	10/31/2013	1/31/2014
New Student Full-Time Degree-Seeking Enrollments (Quarter)	208	295	327
Cost Per Enrollment (Qtr. Avg.)	$ 1,063	$ 850	$ 740

Costs and Expenses

General and Administrative

General and administrative costs for the 2014 Quarter were $1,697,403 compared to $1,043,461 during the 2013 Quarter, an increase of $653,942 or 63%. This increase during the quarter ended January 31, 2014 was primarily due to a $158,000 increase in payroll and a $65,000 increase in the costs for deans over the 2013 quarter. In both cases, the increases reflect more employees and deans to meet the needs of a larger enrollment. In addition, the increase is partially due to an increase of $80,000 in bad debt expense over the 2013 quarter, $61,000 of expenses for Title IV consultants to review compliance policies and procedures, $89,000 increase in investor relation expenses, $10,000 for a state attorney relating to the Spada lawsuit and an increase of $29,000 in rent expense. The increase in rent reflects the rent for the Arizona call center which was completed in the 2013 Quarter. All of these increases were partially offset by a decrease of $60,000 in stock compensation expense and $54,000 of accounting consultants. A non-cash expense of $156,952 was recorded in the 2014 Quarter and included in general and administrative expenses. During January 2014, warrants were exercised at a price of $0.19 per warrant. This price was lower than the stated rates of either $0.50 or $0.3325 per warrant. The difference between the valuation of these warrants before and after the lower price was offered is the amount that is recorded as warrant modification expense. The increase in general and administrative expenses for the quarter ended January 31, 2014 included approximately $240,000 of cost of a non-recurring nature, separate from the warrant modification expense. After adjusting for the non-recurring items, general and administrative expense increased only 23% over the same period in the prior year.

Given that the Department of Education Program Review and DETC accreditation will be completed by the end of fiscal 2014, and due to a personnel restructuring implemented in March 2014, the Company expects to experience a moderate decline in overall general and administrative expenses in fiscal 2015 compared to fiscal 2014.

Receivable Collateral Valuation Reserve

A non-cash valuation reserve of $123,647 was recorded for the quarter ended January 31, 2014 to reflect the drop in the collateral supporting the related accounts receivable.

Depreciation and Amortization

Depreciation and amortization costs for the 2014 Quarter rose to $121,904 from $111,862 for the 2013 Quarter, an increase of 9%. 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 2014 Quarter decreased to $136 from $3,479 in the 2013 Quarter, a decrease of $3,343. Interest expense increased from $6,395 to $260,062 primarily due to the amortization of debt issuance costs associated with the debenture issue. In the 2014 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 payment of monthly interest of $13,333.

Income Taxes

Income taxes expense (benefit) for the 2014 Quarter and 2013 Quarter was $0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.

Net Loss

Net loss for the 2014 Quarter was ($1,726,587) as compared to ($1,034,589) for the 2013 Quarter, an increase in the loss of $691,998 or approximately 67%. The increase in the loss is primarily attributable to non-cash expenses including amortization of warrants granted as part of the debenture financing, the warrant modification expense of $156,952, a valuation reserve for the secured accounts receivable of $123,647 and additional one-time costs of $240,000, although partially mitigated by increased revenues in the 2014 Quarter. Included in these numbers are the Discontinued Operations results.

For the Nine Months Ended January 31, 2014 Compared with the Nine Months Ended January 31, 2013

Revenue

Revenue from continuing operations for the nine months ended January 31, 2014 increased to $2,817,497 from $2,257,354 for the nine months ended January 31, 2013, referred to as the 2013 Period, an increase of 25%. The increase is primarily attributable to the growth in Aspen student enrollments and the increase in average tuition rates from approximately $685 to $756 for the comparable periods. Of particular note, revenues from Aspen's Nursing degree program increased to $1,002,372 during the nine months ended January 31, 2014 from $400,075 during the 2013 Period, an increase of 151%.

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 January 31, 2014, 615 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 74% of the population and the population of Legacy Tuition Plan students fell to 26%. 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).

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 nine months ended January 31, 2014 rose to $734,597 from $692,646 for the comparable 2013 Period, an increase of $41,951 or 6%. 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 nine months ended January 31, 2014 was $824,002 compared to $887,167 for the comparable 2013 Period, a decrease of $63,165 or 7%. This decrease is primarily attributable to marketing efficiency. If Aspen decides to further accelerate its growth, it is highly likely that these expenditures will increase in future quarters. 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 nine months ended January 31, 2014 were $4,698,343 compared to $3,547,485 for the 2013 Period, an increase of $1,150,858 or 32%. Professional services were approximately $360,000 higher in the nine months ended January 31, 2014 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.

A non-cash expense of $156,952 was recorded in the 2014 Period and included in general and administrative expenses. During January 2014, warrants were exercised at a price of $0.19 per warrant. This price was lower than the stated rates of either $0.50 or $0.3325 per warrant. The difference between the valuation of these warrants before and after the lower price was offered is the amount that is recorded as warrant modification expense.

Also, the nine months ended January 31, 2014 was higher due to Aspen's biennial formal graduation ceremony that was held in July 2013, costs for that ceremony were approximately $40,000. Payroll expenses were $300,000 higher and cost of the academic deans was $150,000 higher in these nine months. Stock based compensation included in general and administration expense increased from $305,000 to $396,000 an increase of $91,000 or 30%, reflecting stock option grants under the 2012 Equity Incentive Plan.

Overall general and administrative costs are expected to decline at least 10% over fiscal year 2015 resulting from a cost reduction effort implemented in March 2014.

Receivable Collateral Valuation Reserve

A non-cash valuation reserve of $123,647 was recorded for the period ended January 31, 2014 to reflect the drop in the collateral supporting the related accounts receivable. A non-cash valuation reserve of $502,316 was recorded for the 2013 Period to reflect the drop in the collateral supporting the related accounts receivable.

Depreciation and Amortization

Depreciation and amortization costs for the nine months ended January 31, 2014, rose to $350,990 from $316,141 for the nine months ended January 31, 2013, an increase of 11%. 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 nine months ended January 31, 2014, as compared to the nine months ended January 31, 2013, decreased to $750 from $4,037, a decrease of $3,287. Interest expense increased $35,388 or 9.7% primarily due to 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, and beginning in September 2013, there was a monthly interest expense of $13,333 on the debentures payable. The increase was partially offset by the amortization of debt issuance costs of $266,473 and interest on notes payable of $23,857 in the nine months ended January 31, 2014.

Income Taxes

Income taxes expense (benefit) for the nine months ended January 31, 2014 and 2013 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 nine months ended January 31, 2014 was ($4,227,585) as compared to ($4,057,940) for the nine months ended January 31, 2013, an increase in the loss of $169,645 or approximately 4%. 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 nine months ended January 31, 2014 and 2013:

	For the Three Months Ended January 31,		For the Nine Months Ended January 31,	
	2014	2013	2014	2013
Revenues	$ —	$ 202,571	$ 549,125	$ 1,290,508
Costs and expenses:				
Instructional costs and services	—	182,794	494,213	1,130,556
General and administrative	(29,751)	170,000	(29,751)	170,000
Total costs and expenses	—	352,794	464,462	1,300,556
Income (loss) from discontinued operations, net of income taxes	$ 29,751	$ (150,223)	$ 84,663	$ (10,048)

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		
	01/31/2014	10/31/2013	1/31/2013
Net loss allocable to common shareholders	$(1,726,587)	$(1,395,422)	$(1,034,589)
Interest Expense, net of interest income	78,854	52,168	2,916
Bad Debt Expense	120,000	15,000	—
Receivable Collateral Valuation Reserve	123,664	—	—
Depreciation & Amortization	121,904	119,651	111,862
Amortization of Prepaid Services	105,013	95,677	15,247
Amortization of Debt Issue Costs	56,865	20,193	—
Amortization of Debt Discount	124,343	50,008	—
Warrant conversion exercise expense	156,952	—	—
Stock-based compensation	98,609	147,974	153,273
Non-recurring charges	133,001	187,250	—
Adjusted EBITDA (Loss)	$ (607,382)	$ (707,501)	$ (751,291)

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 January 31,		For the Nine Months Ended January 31,	
	2014	2013	2014	2013
Revenues	$ 1,002,167	$ 831,562	$ 2,817,497	$ 2,257,354
Costs of revenues (exclusive of amortization shown separately)	555,625	557,689	1,558,599	1,579,813
Gross profit (exclusive of amortization)	446,542	273,873	1,258,898	677,541
Amortization expenses excluded from cost of revenues	112,635	103,055	325,785	291,603
GAAP gross profit	$ 333,907	$ 170,818	$ 933,113	$ 385,938

Gross Profit (exclusive of amortization) for the 2014 Quarter increased to 45% compared to 33% for the 2013 Quarter, and increased to 45% for the 2014 Period compared to 30% for the 2013 Period.

Liquidity and Capital Resources

A summary of our cash flows is as follows:

	Nine Months Ended January 31,	
	2014	2013
Net cash used in operating activities	$(3,040,798)	$(3,481,968)
Net cash used in investing activities	(303,045)	(504,867)
Net cash provided by financing activities	3,389,282	4,035,277
Net cash provided by discontinued operations	80,206	(154,379)
Net increase in cash and cash equivalents	$ 125,645	$ (105,937)

Net Cash Used in Operating Activities

Net cash used in operating activities during the nine months ended January 31, 2014 totaled ($3,040,798) and resulted primarily from a net loss from continuing operations of ($4,312,248) offset by non-cash items of $1,712,859, of which the $350,990 in depreciation and amortization and $395,940 in stock based compensation were the most significant, and a net change in operating assets and liabilities of $(441,409), of which the $(443,863), decrease in accounts receivable was the most significant.

Net cash used in operating activities during the nine months ended January 31, 2013 totaled ($3,481,968) and resulted primarily from a net loss from continuing operations of $(4,047,892) offset by non-cash items of $1,425,260 and a net change in operating assets and liabilities of $(859,336).

Net Cash Used in Investing Activities

Net cash used in investing activities during the nine months ended January 31, 2014 totaled ($303,045) and resulted primarily from capitalized technology expenditures.

Net cash used in investing activities during the nine months ended January 31, 2013 totaled ($504,867), 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 nine months ended January 31, 2014 totaled $3,389,282 which resulted primarily from the receipt of a $1,000,000 loan from the CEO, $1,639,298 from the proceeds from the issuance of convertible notes, and the $804,049 warrant proceeds.

Net cash provided by financing activities during the nine months ended January 31, 2013 totaled $4,035,277 and resulted primarily from proceeds from the issuance of common shares and 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 $0.19 per share are due in December 2014.

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

On January 15, 2014, a warrant exercise offering was completed whereby 4,231,840 warrants were offered at an exercise price of $0.19 per warrant. The total proceeds received were $804,049 and since the exercise price was discounted from the stated prices of either $0.50 or $0.3325, therefore a warrant conversion exercise expense of $156,952 was recorded. This expense was calculated by comparing the value of the warrants before and after the reduced price.

Related to this, additional 5,178,947 new warrants were issued at $0.19 per warrant as part of a price protection agreement with two investors.

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

Liquidity and Capital Resource Considerations

As a result of the January 2014 warrant exercise transaction for approximately $804,000 disclosed in Note 9, the Company has a cash position of approximately $1.1 million as of January 31, 2014 which includes $266,000 of restricted cash. In March 2014, the company raised an additional $600,000 in equity funds and intends to raise an additional $400,000. 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 $750,000 in cash from February 2014 to July 2014, at which time the Company forecasts to begin generating cash from operations.

As of March 12, 2014, Aspen Group had borrowed approximately $245,000 under its line of credit and had approximately $1,770,957 in cash, of which $465,000 was restricted. The restricted cash is comprised of approximately $200,000 in Title IV accounts that will be moved to unrestricted as the funds are distributed to students or earned as tuition by the University, and $265,000 pledged as security in the form of a letter of credit as required by the DOE. An additional $540,000 will be restricted as part of the increased Department of Education Letter of Credit. On March 10, 2014, several members of the Board of Directors contributed $600,000 in exchange for 3,157,895 shares of common stock and 3,157,895 warrants at $0.19 per share. This equity raise is part of the goal of raising $1,000,000 at this time. As part of an effort to reduce operating costs, headcount was reduced by 10 employees in late February and other operating costs were reduced. These reductions will help the Company achieve its goal of positive Adjusted EBITDA by August 2014.

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 January 31, 2014, we included as a long term asset an account receivable of $146,831 net of an allowance of $625,962 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 January 31, 2014 unaudited consolidated financial statements included herein for additional description of related party transactions that had a material effect on our consolidated financial statements.

Off Balance Sheet Arrangements

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

New Accounting Pronouncements

See Note 2 to our January 31, 2014 unaudited consolidated financial statements included herein for discussion of recent accounting pronouncements.

Cautionary Note Regarding Forward Looking Statements

This report contains forward-looking statements including 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 January 31, 2014, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations and there are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest other than described below or previously reported.

On December 10, 2013, the Company filed a series of counter claims against HEMG and Mr. Spada in state court of New York relating to the litigation which has previously been reported. The plaintiffs filed a motion to dismiss our counterclaims. Our opposition papers are due on March 31, 2014.

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.
March 17, 2014	By: /s/ Michael Mathews Michael Mathews Chief Executive Officer (Principal Executive Officer)
March 17, 2014	By: /s/ Janet Gill Janet Gill Executive Vice President – Interim 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	10-Q	12/13/13	10.8	
10.9	Mathews' Convertible Promissory Note ($1.00)	10-Q	12/13/13	10.9	
10.10	Mathews' Convertible Promissory Note ($0.35)	10-Q	12/13/13	10.10	
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.

Exhibit 31.1

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: March 17, 2014

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Janet Gill, 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: March 17, 2014

/s/ Janet Gill
Janet Gill
Executive Vice President – Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 January 31, 2014, 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: March 17, 2014

In connection with the quarterly report of Aspen Group, Inc. (the "Company") on Form 10-Q for the quarter ended January 31, 2014, as filed with the Securities and Exchange Commission on the date hereof, I, Janet Gill, 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/ Janet Gill

Janet Gill
Executive Vice President – Interim Chief Financial Officer
(Principal Financial Officer)
Dated: March 17, 2014