

ASPEN GROUP, INC.  
Form 10-Q  
August 20, 2012

---

---

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 June 30, 2012

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: 333-165685

Aspen Group, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation  
or organization)

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

720 South Colorado Boulevard, Suite 1150N  
Denver, CO  
(Address of principal executive offices)

80246  
(Zip Code)

Registrants telephone number: (646) 450-1843

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

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

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

Edgar Filing: ASPEN GROUP, INC. - Form 10-Q

Large accelerated  Accelerated   
filer  Accelerated   
filer   
Non-accelerated  (Do not check if a  Smaller   
filer  smaller reporting  reporting    
company)  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 August 20, 2012 |
|---|-----------------------------------|
| Common Stock, \$0.001 par value per share | 35,295,204 shares                 |

## Index

## PART I – FINANCIAL INFORMATION

|   |     |
|---|-----|
| Item 1. Condensed Consolidated Financial Statements (Unaudited)                           |     |
| Condensed Consolidated Balance Sheets   | F-2 |
| Condensed Consolidated Statements of Operations (Unaudited)                               | F-3 |
| Condensed Consolidated Statements of Changes in Stockholders Deficiency (Unaudited)       | F-4 |
| Condensed Consolidated Statements of Cash Flows (Unaudited)                               | F-5 |
| Notes to Condensed Consolidated Financial Statements (Unaudited)                          | F-6 |
| Item  |     |
| 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. | 4   |
| Item  |     |
| 3. Quantitative and Qualitative Disclosures About Market Risk.                            | 10  |
| Item  |     |
| 4. Controls and Procedures.   | 10  |

## PART II – OTHER INFORMATION

|  |    |
|--|----|
| Item 1. Legal Proceedings.   | 11 |
| Item   |    |
| 1A. Risk Factors.  | 11 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. | 11 |
| Item 3. Defaults Upon Senior Securities.                             | 11 |
| Item 4. Mine Safety Disclosures.                                     | 11 |
| Item 5. Other Information.   | 11 |
| Item 6. Exhibits.  | 11 |
| SIGNATURES   | 12 |

Aspen Group, Inc. and Subsidiaries Index to Condensed Consolidated Financial Statements

|  | Page |
|--|------|
| Financial Statements   |      |
| Condensed Consolidated Balance Sheets as of June 30, 2012 (unaudited ) and December 31, 2011                               | F-2  |
| Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011 (unaudited)      | F-3  |
| Condensed Consolidated Statement of Changes in Stockholders' Deficiency for the six months ended June 30, 2012 (unaudited) | F-4  |
| Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 (unaudited)                | F-5  |
| Notes to Condensed Consolidated Financial Statements (unaudited)   | F-6  |

F-1

---

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

ASPEN GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | June 30,<br>2012<br>(Unaudited) | December 31,<br>2011 |
|---|---------------------------------|----------------------|
| Assets  |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 265,570                      | \$ 766,602           |
| Restricted cash   | 105,932                         | -                    |
| Accounts receivable, net of allowance of \$84,541 and \$47,595, respectively                      | 1,094,448                       | 847,234              |
| Accounts receivable, secured - related party  | -                               | 772,793              |
| Note receivable from officer, secured - related party   | -                               | 150,000              |
| Prepaid expenses and other current assets   | 116,561                         | 103,478              |
| Total current assets  | 1,582,511                       | 2,640,107            |
| Property and equipment, net   | 112,201                         | 129,944              |
| Intangible assets, net  | 1,372,524                       | 1,236,996            |
| Debt issuance costs, net  | 180,908                         | -                    |
| Accounts receivable, secured - related party, net of allowance of \$309,117 and \$0, respectively | 463,676                         | -                    |
| Other assets  | 6,559                           | 6,559                |
| Total assets  | \$ 3,718,379                    | \$ 4,013,606         |
| Liabilities and Stockholders' Deficiency  |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable  | \$ 1,457,889                    | \$ 1,094,029         |
| Accrued expenses  | 703,406                         | 167,528              |
| Deferred revenue  | 932,366                         | 835,694              |
| Convertible notes payable, current portion (includes \$300,000 to related parties)                | 2,055,825                       | -                    |
| Notes payable, current portion  | 22,000                          | 6,383                |
| Loan payable to stockholder   | 491                             | -                    |
| Deferred rent, current portion  | 5,274                           | 4,291                |
| Total current liabilities   | 5,177,251                       | 2,107,925            |
| Line of credit  | 222,703                         | 233,215              |
| Loans payable (includes \$50,000 to related parties)  | -                               | 200,000              |
| Convertible notes payable (includes \$50,000 to related parties)                                  | 200,000                         | -                    |
| Notes payable   | -                               | 8,768                |
| Deferred rent   | 18,146                          | 21,274               |
| Total liabilities   | 5,618,100                       | 2,571,182            |

## Commitments and contingencies - See Note 7

## Temporary equity:

|  |   |           |
|--|---|-----------|
| Series A preferred stock, \$0.001 par value; 850,500 shares designated,<br>none and 850,395 shares issued and outstanding,<br>respectively   | - | 809,900   |
| Series D preferred stock, \$0.001 par value; 3,700,000 shares designated,<br>none and 1,176,750 shares issued and outstanding,<br>respectively<br>(liquidation value of \$1,176,750) | - | 1,109,268 |
| Series E preferred stock, \$0.001 par value; 2,000,000 shares designated,<br>none and 1,700,000 shares issued and outstanding,<br>respectively<br>(liquidation value of \$1,700,000) | - | 1,550,817 |
| Total temporary equity   | - | 3,469,985 |

## Stockholders' deficiency:

|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized  |              |              |
| Series C preferred stock, \$0.001 par value; 11,411,400 shares designated,<br>none and 11,307,450 shares issued and outstanding,<br>respectively<br>(liquidation value of \$11,307) | -            | 11,307       |
| Series B preferred stock, \$0.001 par value; 368,421 shares designated,<br>none and 368,411 shares issued and outstanding,<br>respectively  | -            | 368          |
| Common stock, \$0.001 par value; 120,000,000 shares authorized,<br>35,295,204 and 11,837,930 issued and outstanding,<br>respectively  | 35,295       | 11,838       |
| Additional paid-in capital  | 6,845,754    | 3,275,296    |
| Accumulated deficit   | (8,780,770)  | (5,326,370)  |
| Total stockholders' deficiency  | (1,899,721)  | (2,027,561)  |
| Total liabilities and stockholders' deficiency  | \$ 3,718,379 | \$ 4,013,606 |

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

ASPEN GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2012 | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2011 | For the Six<br>Months<br>Ended<br>June 30,<br>2012 | For the Six<br>Months<br>Ended<br>June 30,<br>2011 |
|---|---|---|--|--|
| Revenues  | \$ 1,407,282  | \$ 950,592  | \$ 2,765,101                                       | \$ 1,958,464                                       |
| Costs and expenses:                                   |   |   |  |  |
| Instructional costs and services                      | 924,189   | 465,415   | 1,828,886  | 996,674  |
| Marketing and promotional                             | 446,652   | 60,796  | 883,957  | 140,390  |
| General and administrative                            | 1,168,168   | 675,626   | 2,887,494  | 1,044,123  |
| Receivable collateral valuation reserve               | 309,117   | -   | 309,117  | -  |
| Depreciation and amortization                         | 96,188  | 53,959  | 185,937  | 106,404  |
| Total costs and expenses                              | 2,944,314   | 1,255,796   | 6,095,391  | 2,287,591  |
| Operating loss  | (1,537,032 )  | (305,204 )  | (3,330,290 )                                       | (329,127 )   |
| Other income (expense):                               |   |   |  |  |
| Interest income                                       | 85  | 4   | 729  | 8  |
| Interest expense                                      | (127,687 )  | (3,479 )  | (130,718 )   | (6,826 )   |
| Gain on disposal of property and equipment            | -   | -   | 5,879  | -  |
| Loss due to unauthorized borrowing                    | -   | -   | -  | (14,876 )  |
| Total other income (expense)                          | (127,602 )  | (3,475 )  | (124,110 )   | (21,694 )  |
| Loss before income taxes                              | (1,664,634 )  | (308,679 )  | (3,454,400 )                                       | (350,821 )   |
| Income tax expense (benefit)                          | -   | -   | -  | -  |
| Net loss  | (1,664,634 )  | (308,679 )  | (3,454,400 )                                       | (350,821 )   |
| Cumulative preferred stock dividends                  | -   | (11,969 )   | (37,379 )  | (15,534 )  |
| Net loss allocable to common stockholders             | \$(1,664,634 )  | \$(320,648 )  | \$(3,491,779 )                                     | \$(366,355 )                                       |
| Loss per share:                                       |   |   |  |  |
| Basic and diluted                                     | \$(0.05 )   | \$(0.02 )   | \$(0.13 )  | \$(0.02 )  |
| Weighted average number of common shares outstanding: |   |   |  |  |
| Basic and diluted                                     | 35,289,204  | 16,860,212  | 25,881,462   | 18,941,542   |

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





ASPEN GROUP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY  
 FOR THE SIX MONTHS ENDED JUNE 30, 2012  
 (Unaudited)

|  | Preferred Stock    |                    |              |          | Common Stock |          | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Deficiency |
|--|--------------------|--------------------|--------------|----------|--------------|----------|----------------------------------|------------------------|--------------------------------------|
|  | Series B<br>Shares | Series C<br>Amount |              |          | Shares       | Amount   |                                  |                        |                                      |
| Balance at<br>December 31,<br>2011                             | 368,411            | \$368              | 11,307,450   | \$11,307 | 11,837,930   | \$11,838 | \$3,275,296                      | \$(5,326,370)          | \$(2,027,561)                        |
| Conversion of<br>all preferred<br>shares into<br>common shares | (368,411)          | (368)              | (11,307,450) | (11,307) | 13,677,274   | 13,677   | 3,467,983                        | -                      | 3,469,985                            |
| Recapitalization   | -                  | -                  | -            | -        | 9,760,000    | 9,760    | (30,629)                         | -                      | (20,869)                             |
| Conversion of<br>convertible<br>notes into<br>common shares    | -                  | -                  | -            | -        | 20,000       | 20       | 19,980                           | -                      | 20,000                               |
| Stock-based<br>compensation                                    | -                  | -                  | -            | -        | -            | -        | 113,124                          | -                      | 113,124                              |
| Net loss   | -                  | -                  | -            | -        | -            | -        | -                                | (3,454,400)            | (3,454,400)                          |
| Balance at June<br>30, 2012                                    | -                  | \$-                | -            | \$-      | 35,295,204   | \$35,295 | \$6,845,754                      | \$(8,780,770)          | \$(1,899,721)                        |

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

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

|   | For the Six<br>Months<br>Ended<br>June 30,<br>2012 | For the Six<br>Months<br>Ended<br>June 30,<br>2011 |
|---|--|--|
| Cash flows from operating activities:                                       |  |  |
| Net loss  | \$(3,454,400)                                      | \$(350,821 )                                       |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |  |
| Provision for bad debts   | 84,476   | 10,060   |
| Receivable collateral valuation reserve                                     | 309,117  | -  |
| Amortization of debt issuance costs   | 85,565   | -  |
| Gain on disposal of property and equipment                                  | (5,879 )   | -  |
| Depreciation and amortization   | 185,937  | 106,404  |
| Issuance of convertible notes in exchange for services rendered             | 38,175   | 22,000   |
| Stock-based compensation  | 113,124  | -  |
| Changes in operating assets and liabilities, net of effects of acquisition: |  |  |
| Accounts receivable   | (331,690 )   | (83,309 )  |
| Accounts receivable, secured - related party                                | -  | 7,376  |
| Prepaid expenses and other current assets                                   | (13,083 )  | (29,489 )  |
| Accounts payable  | 375,510  | 258,189  |
| Accrued expenses  | 535,163  | (70,161 )  |
| Deferred rent   | (2,145 )   | (1,162 )   |
| Deferred revenue  | 96,672   | 4,969  |
| Net cash (used in) operating activities                                     | (1,983,458)  | (125,944 )   |
| Cash flows from investing activities:                                       |  |  |
| Cash acquired as part of merger   | 337  | 3,200  |
| Purchases of property and equipment   | (6,005 )   | (115,046 )   |
| Purchases of intangible assets  | (306,989 )   | (427,603 )   |
| Increase in restricted cash   | (105,932 )   | -  |
| Proceeds received from officer loan repayments                              | 150,000  | -  |
| Net cash (used in) investing activities                                     | (268,589 )   | (539,449 )   |
| Cash flows from financing activities:                                       |  |  |
| Proceeds from (repayments on) line of credit, net                           | (10,512 )  | (4,293 )   |
| Principal payments on notes payable   | -  | (2,874 )   |
| Proceeds from note payable  | 22,000   | -  |
| Proceeds received from issuance of convertible notes and warrants           | 2,006,000  | 328,000  |
| Disbursements for debt issuance costs                                       | (266,473 )   | -  |
| Proceeds from issuance of Series A and D preferred stock                    | -  | 1,169,419  |
| Repayments of convertible notes payable                                     | -  | (10,000 )  |
| Disbursements to purchase treasury shares                                   | -  | (740,000 )   |
| Net cash provided by financing activities                                   | 1,751,015  | 740,252  |
| Net (decrease) increase in cash and cash equivalents                        | (501,032 )   | 74,859   |

|   |             |           |
|---|-------------|-----------|
| Cash and cash equivalents at beginning of period                        | 766,602     | 294,838   |
| Cash and cash equivalents at end of period                              | \$265,570   | \$369,697 |
| Supplemental disclosure of cash flow information:                       |             |           |
| Cash paid for interest  | \$89,942    | \$13,058  |
| Cash paid for income taxes  | \$-         | \$-       |
| Supplemental disclosure of non-cash investing and financing activities: |             |           |
| Conversion of all preferred shares into common shares                   | \$3,469,985 | \$-       |
| Conversion of loans payable to convertible notes payable                | \$200,000   | \$-       |
| Liabilities assumed in recapitalization                                 | \$21,206    | \$-       |
| Conversion of convertible notes payable into common shares              | \$20,000    | \$-       |
| Settlement of notes payable by disposal of property and equipment       | \$15,151    | \$-       |
| Issuance of convertible notes payable to pay accounts payable           | \$11,650    | \$-       |
| Conversion of convertible notes payable into Preferred Series B shares  | \$-         | \$350,000 |
| Recognition of accrual to rescinding common shares                      | \$-         | \$165,000 |

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

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

Note 1. Nature of Operations and Going Concern

Overview

Aspen Group, Inc. (together with its subsidiaries, 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 May 13, 2011, the Company formed in Colorado a subsidiary, Aspen University Marketing, LLC, which is currently inactive. On March 13, 2012, the Company was recapitalized in a reverse merger (See Note 9). All references to the Company or Aspen before March 13, 2012 are to Aspen University Inc.

Aspen’s mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 88% of our degree-seeking students (as of June 30, 2012) 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

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three and six months ended June 30, 2012 and 2011, our cash flows for the six months ended June 30, 2012 and 2011 and our financial position as of June 30, 2012 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Report on Form 8-K/A for the year ended December 31, 2011, as filed with the SEC on August 20, 2012. The December 31, 2011 balance sheet is derived from those statements.

Going Concern

The Company had a net loss allocable to common stockholders of \$3,491,779 and negative cash flows from operations of \$1,983,458 for the six months ended June 30, 2012. The Company’s ability to continue as a going concern is contingent on securing additional debt or equity financing from outside investors. These matters raise substantial doubt about the Company’s ability to continue as a going concern. Management plans to continue to implement its business plan and to fund operations by raising additional capital through the issuance of debt and equity securities. The Company has presently engaged a placement agent, Laidlaw & Company (UK) Ltd., to assist with raising up to \$7,200,000 in additional debt and equity capital subsequent to the close of the merger with Aspen Group, Inc. Since the beginning of 2012, the Company has raised \$2,306,000 in gross funding including \$1,706,000

from the sale of convertible notes and warrants under the Laidlaw arrangement (see Note 6) and \$600,000 from the sale of convertible notes to the Company's CEO (See Notes 6 and 12).

The financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

F-6

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of the unaudited condensed 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 condensed consolidated financial statements. Actual results could differ from those estimates. Significant estimates in the accompanying unaudited condensed consolidated financial statements include the allowance for doubtful accounts and other receivables, the valuation of collateral on certain receivables, the valuation and amortization periods of intangible assets, valuation of stock-based compensation and the valuation allowance on deferred tax assets.

Restricted Cash

Restricted cash represents amounts pledged as security for transactions involving Title IV programs. Upon the DOE's completion of its review of the Company's application to participate in Title IV programs, the funds are expected to be released and available for use by the Company.

Consistent with the Higher Education Act, Aspen's certification to participate in Title IV programs terminated after closing of the reverse merger, and Aspen must apply to DOE to reestablish its eligibility and certification to participate in the Title IV programs. However, in order to avoid significant disruption in disbursements of Title IV funds, the DOE may temporarily and provisionally certify an institution that is seeking approval of a change in ownership, like Aspen, under certain circumstances while the DOE reviews the institution's application. On March 15, 2012 the DOE asked Aspen to provide to the DOE by March 28, 2012 a letter of credit in the amount of \$105,865, which is 10% of Aspen's Title IV receipts in 2011. On March 27, 2012, the Company opened a 12-month money market account, maturing March 28, 2013, with its banking institution in the amount of \$105,865 and pledged that to the letter of credit. The Company shall consider \$105,932 (includes accrued interest of \$67) as restricted cash until such letter of credit expires. As of June 30, 2012, the account bears interest of 0.25%.

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:

Edgar Filing: ASPEN GROUP, INC. - Form 10-Q

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.

F-7

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

Net Loss Per Share

Net loss per common share is based on the weighted average number of shares of common stock outstanding during each period. Common stock equivalents, including 1,925,000 and 0 stock options, 882,500 and 400,000 stock warrants, and a variable amount of shares underlying \$2,255,825 (a minimum of 2,255,825 common shares as of June 30, 2012) and \$15,000 of convertible notes payable for the six months ended June 30, 2012 and 2011, respectively, are not considered in diluted loss per share because the effect would be anti-dilutive.

Recent Accounting Pronouncements

In June 2011, the FASB, issued ASU 2011-05, which amends ASC Topic 220, Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The ASU does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This ASU is effective for interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-05 effective January 1, 2012, and such adoption did not have a material effect on the Company's financial statements.

Note 3. Secured Note and Accounts Receivable – Related Parties

Note Receivable, Secured – Related Party

On December 14, 2011, the Company loaned \$150,000 to an officer of the Company in exchange for a promissory note bearing 3% per annum. As collateral, the note was secured by 500,000 shares of the Company's common stock owned personally by the officer. The note along with accrued interest was due and payable on September 14, 2012. For the six months ended June 30, 2012, interest income of \$594 was recognized on the note receivable. As of December 31, 2011, the balance due on the note receivable was \$150,000, all of which is short-term. On February 16, 2012, the note receivable from an officer was repaid along with accrued interest (See Note 11).

Accounts Receivable, Secured – Related Party

On March 30, 2008 and December 1, 2008, the Company sold course curricula pursuant to marketing agreements to Higher Education Group Management, Inc. ("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.



F-8

---

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

On April 4, 2012, the Company entered into an agreement with: (i) an individual, (ii) Higher Education Group Management, Inc. (“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 shall purchase and HEMG shall sell to the individual 400,000 common shares of the Company at \$0.50 per share by April 10, 2012; (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 fulfill 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 agrees 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 shall waive any default of the accounts receivable, secured - related party and extend the due date to September 30, 2014. A group of predominantly existing shareholders implemented the purchase of 400,000 common shares at \$0.50 per share per section (a) above on or before the April 10, 2012 deadline. Subsequent to June 30, 2012, third party investors placed \$168,000 in escrow to purchase 336,000 shares per section (b) above (See Note 7). Based on the Company plans to raise additional capital from the sale of its common stock, and the estimated price per share from such offering, the value of the aforementioned collateral shall decrease. Accordingly, as of June 30, 2012, the Company has recognized an allowance of \$309,117 for this account receivable. As of June 30, 2012 and December 31, 2011, the balance of the account receivable, net of allowance, was \$463,676 and \$772,793 and is shown as accounts receivable, secured – related party, net (See Note 11).

## Note 4. Intangible Assets

Intangible assets consisted of the following at June 30, 2012 and December 31, 2011:

|                          | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------|------------------|----------------------|
| Course curricula         | \$ 2,092,638     | \$ 2,072,238         |
| Call center              | 1,214,044        | 927,455              |
|                          | 3,306,682        | 2,999,693            |
| Accumulated amortization | (1,934,158)      | (1,762,697)          |
| Intangible assets, net   | \$ 1,372,524     | \$ 1,236,996         |

The following is a schedule of estimated future amortization expense of intangible assets as of June 30, 2012:

| Year Ending December 31, |              |
|--------------------------|--------------|
| 2012                     | \$ 378,257   |
| 2013                     | 339,902      |
| 2014                     | 300,484      |
| 2015                     | 262,242      |
| 2016                     | 91,639       |
| Total                    | \$ 1,372,524 |

Amortization expense for the six months ended June 30, 2012 and 2011 was \$171,461 and \$98,456, respectively.

F-9

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

Note 5. Loans Payable

During 2009, the Company received advances aggregating \$200,000 from three individuals. Of the total funds received, \$50,000 was received from a related party. From the date the funds were received through the date the loans were converted into convertible promissory notes payable, the loans were non-interest bearing demand loans and, therefore, no interest expense was recognized or due. As of December 31, 2011, the entire balance of the loans payable is included in long-term liabilities as the Company, in February 2012, has converted the loans into long-term convertible notes payable (See Notes 6 and 11).

Note 6. Convertible Notes Payable

As part of the recapitalization that occurred on March 13, 2012, the Company assumed from the public entity an aggregate of \$20,000 of convertible notes bearing interest at 10% per annum. Each note holder had the right, at its option and simultaneously with the first closing thereof, to convert all or a portion of the principal amount of the note into shares of the Company's common stock at the conversion price of the next equity offering of the Company. The notes meet the criteria of stock settled debt under ASC 480, "Distinguishing Liabilities from Equity", and accordingly are presented at their fixed monetary amount of \$20,000. The convertible notes were past due as of the date of assumption and, accordingly, the Company was in default. In April 2012, the convertible notes payable of \$20,000 were converted into 20,000 common shares of the Company and, accordingly, the default was cured (See Note 9).

On February 25, 2012, February 27, 2012 and February 29, 2012, loans payable to an individual, another individual and a related party (the brother of Patrick Spada, the former Chairman of the Company), 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 not due for at least 12 months after the balance sheet, they have been included in long-term liabilities as of June 30, 2012 (See Notes 5 and 11).

On March 13, 2012, the Company's CEO made an investment of \$300,000 in 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 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 date (See Note 11).

On February 29, 2012, (the "Effective Date") (and as amended on March 30, 2012) the Company retained the investment bank of Laidlaw & Company (UK) Ltd. ("Laidlaw") on an exclusive basis with certain "carve-out" provisions for the purpose of raising up to \$6,000,000 (plus up to an additional \$1,200,000 million to cover over-allotments at the option of Laidlaw) through two successive best-efforts private placements of the Company's securities. The Phase One financing was an offering of up to 40 Units of \$50,000 each and was to be completed by March 31, 2012, but was extended to May 31, 2012 (extended to June 30, 2012 per the March 30, 2012 amendment). Each Unit consists of: (i) senior secured convertible notes (the "Convertible Notes"), bearing 10% interest, convertible into the Company's common shares at the lower of (a) \$1.00 or (b) 95% of the per share purchase

price of any shares of common stock (or common stock equivalents) issued on or after the original issue date of the note and (ii) five-year warrant to purchase that number of the Company's common shares equal to 25% of the number of shares issuable upon conversion of the Convertible Notes. Mandatory conversion will occur on the initial closing of the Phase Two financing. The Convertible Notes mature on June 30, 2012 (extended to September 30, 2012 per the March 30, 2012 amendment), carry provisions for price protection and require the Company to file a registration statement for the resale of the underlying common stock nine months after closing of the Phase Two offering. For the Phase One financing, Laidlaw received a cash fee of 10% of aggregate funds raised along with a five-year warrant (the "Laidlaw Warrant") equal to 10% of the common stock reserved for issuance in connection with the Units.

Separately, Laidlaw required an activation fee of \$25,000, of which \$15,000 was paid upon execution of the agreement and the remaining \$10,000 was paid as of May 18, 2012. As of June 30, 2012, the Company, without the assistance of any broker dealer, raised \$150,000 from the sale of 3.0 Units (including convertible notes payable and an estimated 37,500 warrants) from the Phase One financing and, raised another \$1,289,527 (net of debt issuance costs of \$266,473) from the sale of 31.12 Units (including convertible notes payable and an estimated 389,000 warrants) through Laidlaw. The convertible note embedded conversion options did not qualify as derivatives since the conversion shares were not readily convertible to cash due to an inactive trading market and there was no beneficial conversion value since the conversion price equaled the fair value of the shares.

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

On May 1, 2012, the Company issued a convertible promissory note payable to a consultant in the amount of \$49,825 in exchange for past services rendered, of which \$38,175 pertains to the six months ended June 30, 2012. The note bears interest at 0.19% per annum, matures September 30, 2012, and is convertible into the Company's common shares at the lower (a) \$1.00 or (b) the per share purchase price of any shares of common stock (or common stock equivalents) issued on or after the original issue date of the note. The convertible note embedded conversion options did not qualify as derivatives since the conversion shares were not readily convertible to cash due to an inactive trading market and there was no beneficial conversion value since the conversion price equaled the fair value of the shares.

Convertible notes payable consisted of the following at June 30, 2012:

|  | June 30,<br>2012 |
|--|------------------|
| Notes payable - originating March 15, 2012 through March 23, 2012; no monthly payments required; bearing interest at 10%; maturing at September 30, 2012 [A] | 150,000          |
| Notes payable - originating April 27, 2012 through June 15, 2012; no monthly payments required; bearing interest at 10%; maturing at September 30, 2012      | 1,556,000        |
| Note payable - originating May 1, 2012; no monthly payments required; bearing interest at 0.19%; maturing at September 30, 2012                              | 49,825           |
| Note payable - related party originating March 13, 2012; no monthly payments required; bearing interest at 0.19%; maturing at March 31, 2013                 | 300,000          |
| Note payable - originating February 25, 2012; no monthly payments required; bearing interest at 0.19%; maturing at February 25, 2014                         | 100,000          |
| Note payable - originating February 27, 2012; no monthly payments required; bearing interest at 0.19%; maturing at February 27, 2014                         | 50,000           |
| Note payable - related party originating February 29, 2012; no monthly payments required; bearing interest at 0.19%; maturing at February 29, 2014           | 50,000           |
| <b>Total</b>   | <b>2,255,825</b> |
| Less: Current maturities (includes \$300,000 to related parties)   | (2,055,825)      |
| Amount due after one year (includes \$50,000 to related parties)   | \$ 200,000       |

[A] - maturity date extended from June 30, 2012 to September 30, 2012.

Future maturities of the convertible notes payable are as follows:

Year Ending December 31,

|      |    |           |
|------|----|-----------|
| 2012 | \$ | 1,755,825 |
| 2013 |    | 300,000   |
| 2014 |    | 200,000   |
|      | \$ | 2,255,825 |

F-11

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

Note 7. 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 June 30, 2012). 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. The balance due on the line of credit as of June 30, 2012 was \$222,703. 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 June 30, 2012 was \$27,297.

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 June 30, 2012, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations.

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.

Regulatory Matters

The University is subject to extensive regulation by Federal and State governmental agencies and accrediting bodies. In particular, the HEA and the regulations promulgated thereunder by the DOE subject the 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. The 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 500 student recipients for Title IV funding for the duration of the provisional certification. During 2011, the University's provisional certification was scheduled to expire, but the University timely filed its application for recertification with the DOE, which extended the term of the University's certification pending DOE review. The provisional certification restrictions continue with regard to the 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. The University performs periodic reviews of its compliance with the various applicable regulatory requirements. If we were ineligible to receive Title IV funding, given Title IV cash receipts represented approximately 7% of total revenues in 2011, our operations and liquidity would be minimally impacted.

F-12

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

As a result of certain events in 2012, the Company has been requested by DOE to provide a letter of credit in the amount of \$105,865, which is 10% of Aspen's Title IV receipts in 2011, by March 28, 2012. On March 27, 2012, the Company provided the DOE with the requested letter of credit expiring March 28, 2013. On June 18, 2012, the DOE, having reviewed Aspen's same-day balance sheet filing and application for approval of the change in ownership and control, notified Aspen of the DOE's requirement that Aspen increase its letter of credit by August 31, 2012 from 10% to 25% of Aspen's Title IV receipts in 2011. Aspen has timely informed the DOE that it will provide the additional letter of credit in the amount of \$158,800 by August 31, 2012. The DOE may impose additional or different terms and conditions in any final provisional program participation agreement that it may issue.

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 the Company 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.

#### Delaware Approval to Confer Degrees

Aspen 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. Aspen did not obtain such approval prior to the period ended June 30, 2012. On July 3, 2012, Aspen received notice from the Delaware DOE that it is granted provisional approval status effective until June 30, 2015. Aspen is authorized by the Colorado Commission on Education to operate in Colorado as a degree granting institution.

#### Guarantee to Purchase Common Shares

On April 4, 2012, the Company entered into an agreement with: (i) an individual, (ii) Higher Education Group Management, Inc. ("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 (See Note 3). As part of the agreement, 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. As of July 3, 2012, the guarantee resulted in a liability of the Company to purchase these shares. Subsequent to June 30, 2012, third party investors placed \$168,000 in escrow to purchase 336,000 common shares, leaving the Company with a remaining liability to purchase 264,000 common shares for \$132,000.

#### Note 8. Temporary Equity

Prior to their conversion to common shares on March 13, 2012, the Series A, Series D and Series E preferred shares were classified as temporary equity. During 2012 through March 13, 2012, the preferred shares accumulated additional dividends of \$37,379 and as of March 13, 2012, total cumulative preferred dividends were \$124,705. On March 13, 2012, all preferred shares were automatically converted into common shares and, based on the terms of the preferred shares, none of the cumulative dividends shall ever be paid (See Note 9).

Note 9. Stockholders' Equity

Stock Dividend and Reverse Split

On February 23, 2012, the Company approved a stock dividend of one new share of the Company for each share presently held. Following the stock dividend, the Company approved a one-for-two reverse stock split as of the close of business on February 24, 2012 in which each two shares of common stock shall be combined into one share of common stock. This was done in order to reduce the conversion ratio of the convertible preferred stock for all Series to 1 for 1 except for Series C, which had a conversion ratio of 0.8473809.

F-13

---

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

## Common Stock

On March 13, 2012, all of the outstanding preferred shares of the Company were automatically converted into 13,677,274 common shares of Aspen Group, Inc. (See Note 8).

Pursuant to the recapitalization discussed below, the Company is deemed to have issued 9,760,000 common shares to the original stockholders of the publicly-held entity.

In April 2012, the Company issued 20,000 common shares upon the conversion of \$20,000 of convertible notes payable (See Note 6).

## Recapitalization

On March 13, 2012 (the “recapitalization date”), the Company was acquired by Aspen Group, Inc., an inactive publicly-held company, in a reverse merger transaction accounted for as a recapitalization of the Company (the “Recapitalization” or the “Reverse Merger”). The common and preferred stockholders of the Company received 25,515,204 common shares of Aspen Group, Inc. in exchange for 100% of the capital stock of Aspen University Inc. For accounting purposes, Aspen University Inc. is the acquirer and Aspen Group, Inc. is the acquired company because the stockholders of Aspen University Inc. acquired both voting and management control of the combined entity. The Company is deemed to have issued 9,760,000 common shares to the original stockholders of the publicly-held entity. Accordingly, after completion of the recapitalization, the historical operations of the Company are those of Aspen University Inc. and the operations since the recapitalization date are those of Aspen University Inc. and Aspen Group, Inc. The assets and liabilities of both companies are combined at historical cost on the recapitalization date. As a result of the recapitalization and conversion of all Company preferred shares into common shares of the public entity, all redemption and dividend rights of preferred shares were terminated. As a result of the recapitalization, the Company now has 120,000,000 shares of common stock, par value \$0.001 per share, and 10,000,000 shares of preferred stock, par value \$0.001 per share authorized. The assets acquired and liabilities assumed from the publicly-held company were as follows:

|                           |             |
|---------------------------|-------------|
| Cash and cash equivalents | \$337       |
| Liabilities assumed       | (21,206 )   |
| Net                       | \$(20,869 ) |

## Stock Warrants

All outstanding warrants issued by the Company to date have been related to capital raises. Accordingly, the Company has not recognized any stock-based compensation for warrants issued during the periods presented.

A summary of the Company’s warrant activity during the six months ended June 30, 2012 is presented below:

|           | Weighted<br>Average<br>Exercise | Weighted<br>Average<br>Remaining<br>Contractual | Aggregate<br>Intrinsic |
|-----------|---------------------------------|---|------------------------|
| Number of |                                 |   |                        |

Edgar Filing: ASPEN GROUP, INC. - Form 10-Q

| Warrants                               | Shares  | Price   | Term | Value |
|--|---------|---------|------|-------|
| Balance Outstanding, December 31, 2011 | 456,000 | \$ 1.00 |      |       |
| Granted                                | 426,500 | \$ 1.00 |      |       |
| Exercised                              | -       | -       |      |       |
| Forfeited                              | -       | -       |      |       |
| Expired                                | -       | -       |      |       |
| Balance Outstanding, June 30, 2012     | 882,500 | \$ 1.00 | 4.4  | \$ -  |
| Exercisable, June 30, 2012             | 882,500 | \$ 1.00 | 4.4  | \$ -  |

All 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 no active public market existing, the warrants are excluded from derivative treatment.

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

## 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 in the form of incentive stock options, non-qualified stock options, restricted shares, stock appreciation rights and restricted stock units to employees, consultants, officers and directors. As of June 30, 2012, 575,000 shares were remaining under the Plan for future issuance.

During the six months ended June 30, 2012, the Company granted 1,895,000 stock options to employees, all of which were under the Plan, having an exercise price of \$1.00 per share. The options vest pro rata over three years on each anniversary date; all options expire five years from the grant date. The total fair value of stock options granted to employees during the six months ended June 30, 2012 was \$625,350, which is being recognized over the respective vesting periods. The Company recorded compensation expense of \$55,374 for the six months ended June 30, 2012, in connection with 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 six months ended June 30, 2012 and 2011:

| Assumptions                 | For the<br>Six<br>Months<br>Ended<br>June 30,<br>2012 | For the<br>Six<br>Months<br>Ended<br>June 30,<br>2011 |
|-----------------------------|---|---|
| Expected life (years)       | 3.5   | N/A   |
| Expected volatility         | 44.2 %  | N/A   |
| Weighted-average volatility | 44.2 %  | N/A   |
|                             | 0.56%   |   |
| Risk-free interest rate     | - 0.60 %  | N/A   |
| Dividend yield              | 0.00 %  | N/A   |
| Expected forfeiture rate    | 2.0 %   | N/A   |

The Company utilized the simplified method to estimate the expected life for stock options granted to employees. The simplified method was used as the Company does not have sufficient historical data regarding stock option exercises. The expected volatility is based on the average of the expected volatilities from the most recent audited financial statements available for comparative public companies that are deemed to be similar in nature to the

Company. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected life of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

F-15

---

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

A summary of the Company's stock option activity for employees and directors during the three months ended June 30, 2012 is presented below:

| Options                                | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|------------------|---------------------------------|---|---------------------------|
| Balance Outstanding, December 31, 2011 | -                | -                               |   |                           |
| Granted                                | 1,895,000        | \$ 1.00                         |   |                           |
| Exercised                              | -                |                                 |   |                           |
| Forfeited                              | (145,000 )       | \$ 1.00                         |   |                           |
| Expired                                | -                |                                 |   |                           |
| Balance Outstanding, June 30, 2012     | 1,750,000        | \$ 1.00                         | 4.7   | \$ -                      |
| Expected to vest, June 30, 2012        | 1,714,500        | \$ 1.00                         | 4.7   | \$ -                      |
| Exercisable, June 30, 2012             | -                | N/A                             | N/A   | N/A                       |

The weighted-average grant-date fair value of options granted to employees during the six months ended June 30, 2012 was \$0.33.

As of June 30, 2012, there was \$511,095 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 1.5 years.

## Stock Option Grants to Non-Employees

During the six months ended June 30, 2012, the Company granted 175,000 stock options to non-employees, all of which were under the Plan, having an exercise price of \$1.00 per share. The options vest pro rata over three years on each anniversary date; all options expire five years from the grant date. The total fair value of stock options granted to non-employees during the six months ended June 30, 2012 was \$57,750, all of which was recognized immediately as these stock options were issued for prior services rendered. The Company recorded compensation expense of \$57,750 for the six months ended June 30, 2012, in connection with non-employee stock options.

The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted to non-employees during the six months ended June 30, 2012 and 2011:

| Assumptions           | For the Six Months Ended June 30, 2012 | For the Six Months Ended June 30, 2011 |
|-----------------------|--|--|
| Expected life (years) | 3.5                                    | N/A                                    |



Edgar Filing: ASPEN GROUP, INC. - Form 10-Q

|                             |      |   |     |
|-----------------------------|------|---|-----|
| Expected volatility         | 44.2 | % | N/A |
| Weighted-average volatility | 44.2 | % | N/A |
| Risk-free interest rate     | 0.60 | % | N/A |
| Dividend yield              | 0.00 | % | N/A |

F-16

---

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

A summary of the Company's stock option activity for non-employees during the six months ended June 30, 2012 is presented below:

| Options                                | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|--|---|---------------------------------|
| Balance Outstanding, December 31, 2011 | -                   | -  |   |                                 |
| Granted                                | 175,000             | \$ 1.00                                  |   |                                 |
| Exercised                              | -                   |  |   |                                 |
| Forfeited                              | -                   |  |   |                                 |
| Expired                                | -                   |  |   |                                 |
| Balance Outstanding, June 30, 2012     | 175,000             | \$ 1.00                                  | 4.7   | \$ -                            |
| Expected to vest, June 30, 2012        | 175,000             | \$ 1.00                                  | 4.7   | \$ -                            |
| Exercisable, June 30, 2012             | -                   | N/A                                      | N/A   | N/A                             |

The weighted-average grant-date fair value of options granted to non-employees during the three months ended June 30, 2012 was \$0.33.

## Note 10. Concentrations

## Concentration of Revenues, Accounts Receivable and Costs and Expenses

For the three and six months ended June 30, 2012 and 2011, the Company had significant customers with individual percentage of total revenues equaling 10% or greater as follows:

|            | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2012 |   | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2011 |   | For the Six<br>Months<br>Ended<br>June 30,<br>2012 |   | For the Six<br>Months<br>Ended<br>June 30,<br>2011 |   |
|------------|---|---|---|---|--|---|--|---|
| Customer 1 | 33.3  | % | 43.9  | % | 39.7   | % | 45.5   | % |
| Customer 2 | 16.3  | % | -   |   | 17.9   | % | -  |   |
| Totals     | 49.6  | % | 43.9  | % | 57.6   | % | 45.5   | % |

## ASPEN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

At June 30, 2012 and December 31, 2011, concentration of accounts receivable with significant customers representing 10% or greater of accounts receivable was as follows:

|            | June 30,<br>2012 |   | December 31,<br>2011 |   |
|------------|------------------|---|----------------------|---|
| Customer 1 | 58.4             | % | 53.4                 | % |
| Customer 2 | 17.0             | % | 17.3                 | % |
| Totals     | 75.4             | % | 70.7                 | % |

For the three and six months ended June 30, 2012 and 2011, the Company had significant vendors representing 10% or greater of cost and expense as follows:

|          | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2012 |   | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2011 |   | For the Six<br>Months<br>Ended<br>June 30,<br>2012 |   | For the Six<br>Months<br>Ended<br>June 30,<br>2011 |   |
|----------|---|---|---|---|--|---|--|---|
| Vendor 1 | 12.1  | % | 27.1  | % | 14.3   | % | 31.8   | % |
| Totals   | 12.1  | % | 27.1  | % | 14.3   | % | 31.8   | % |

## Note 11. Related Party Transactions

On December 14, 2011, the Company loaned \$150,000 to an officer of the Company in exchange for a promissory note bearing 3% per annum. As collateral, the note was secured by 500,000 shares of the Company's common stock owned personally by the officer. The note along with accrued interest was due and payable on September 14, 2012. For the three months ended June 30, 2012, interest income of \$594 was recognized on the note receivable. As of December 31, 2011, the balance due on the note receivable was \$150,000, all of which is short-term. On February 16, 2012, the note receivable from an officer was repaid along with accrued interest (See Note 3).

On March 30, 2008 and December 1, 2008, the Company sold course curricula pursuant to marketing agreements to Higher Education Group Management, Inc. ("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.

F-18

---

ASPEN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

(Unaudited)

On April 4, 2012, the Company entered into an agreement with: (i) an individual, (ii) Higher Education Group Management, Inc. ("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 shall purchase and HEMG shall sell to the individual 400,000 common shares of the Company at \$0.50 per share by April 10, 2012; (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 fulfill 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 agrees 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 shall waive any default of the accounts receivable, secured - related party and extend the due date to September 30, 2014. A group of predominantly existing shareholders implemented the purchase of 400,000 common shares at \$0.50 per share per section (a) above on or before the April 10, 2012 deadline. Subsequent to June 30, 2012, third party investors placed \$168,000 in escrow to purchase 336,000 shares per section (b) above (See Note 7). Based on the Company plans to raise additional capital from the sale of its common stock, and the estimated price per share from such offering, the value of the aforementioned collateral shall decrease. Accordingly, as of June 30, 2012, the Company has recognized an allowance of \$309,117 for this account receivable. As of June 30, 2012 and December 31, 2011, the balance of the account receivable, net of allowance, was \$463,676 and \$772,793 and is shown as accounts receivable, secured – related party, net (See Note 3).

On February 25, 2012, February 27, 2012 and February 29, 2012, loans payable to an individual, another individual and a related party (the brother of Patrick Spada, the former Chairman of the Company), 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 not due for at least 12 months after the balance sheet, they have been included in long-term liabilities as of June 30, 2012 (See Notes 5 and 6).

On March 13, 2012, the Company's CEO made an investment of \$300,000 in 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 (See Note 6).

Note 12. Subsequent Events

On August 14, 2012, the Company's CEO loaned the Company \$300,000 in exchange for a convertible demand note bearing interest at 5% per annum. The note is convertible at the lesser of: (i) \$0.60 per share or (ii) the same conversion price of the convertible notes issued in the Company's current private placement. 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 August 16, 2012, as a direct result of removing the receivable from stockholder of approximately \$2.2 million from the balance sheet and restating the March 31, 2012 and the December 31, 2011 and 2010 consolidated financial statements, the Company rescinded the pledge agreements guaranteeing the receivable and returned the pledged shares to the three directors.

F-19

---

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

You should read the following discussion in conjunction with our consolidated financial statements, which are included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contains 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 Form 8-K/A (the "Super 8-K") filed on August 20, 2012 with the Securities and Exchange Commission ("SEC").

### Company Overview

Our mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. We are dedicated to helping our students exceed their personal and professional objectives in a socially conscious and economically sensible way. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that 88% 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.

### Enrollment Trends

Aspen's total student body increased 6.2% during the second quarter of 2012, to 2,242 from 2,112 students at March 31, 2012. Aspen's degree-seeking student body increased 5.2% in second quarter 2012, to 1,736 students from 1,650 at March 31, 2012.

Highlights of the enrollment growth include the Master of Nursing program, up 14% in the second quarter. The Master of Nursing program now represents 9% of the full-time, degree-seeking student body of Aspen. Aspen enrolled 201 new degree-seeking students in the second quarter of 2012, and conferred degrees to 71 graduating students.

Note that at June 30, 2012, 903 degree-seeking students are enrolled under the legacy tuition pre-payment program that ended on July 15, 2011, versus 963 at March 31, 2012, a decrease of 6.2%. However, as these students currently represent 52% of degree-seeking students, the effect of the minimal revenue and gross profit contribution of the legacy tuition pre-payment program continues to restrain the overall financial performance discussed subsequently.

### Results of Operations

#### Quarter Ended June 30, 2012 Compared with June 30, 2011

#### Revenue

Revenue for the quarter ended June 30, 2012 rose to \$1,407,282 from \$950,592 in the prior year quarter, for a year-over-year increase of 48%. The increase is primarily attributable to the increase in Aspen degree-seeking enrollments and the elimination of the legacy tuition pre-payment program on July 15, 2011 (which provided less revenues per student), as tuition revenues from degree seeking students rose to \$938,607 from \$533,542 for the quarter ended June 30, 2011, an increase of 76% year-over-year.





## Costs and Expenses

### Instructional Costs and Services

Instructional costs and services for the quarter ended June 30, 2012 rose to \$924,189 from \$465,415, an increase of 99%. A component of instructional costs and services, bad debt expense for the quarter ended June 30, 2012 rose to \$51,521 from (\$26,772), an increase of 192% reflecting the write-down of a long-dated receivable. Excluding the bad debt increase, instructional costs and services rose to \$872,668 from \$492,187, an increase of 77%. Notwithstanding the variability in bad debt expense, the increase in instructional costs and services is primarily attributable to higher charges associated with purchased courseware and payments to faculty due to the increase in course completions. Prospectively, as student enrollment levels increase, instructional costs and services should rise commensurately. However, as Aspen increases its degree-seeking student enrollments, the higher gross margins associated with such students should lead the growth rate in instructional costs and services to lag that of overall revenues.

Revenues less instructional costs and services, a measure of the gross profit of Aspen operations, for the quarter ended June 30, 2012 and 2011 were level at \$483,093 versus \$485,177, respectively. Adjusted for bad debt expenses, gross profit for the quarter ended June 30, 2012 rose to \$534,614 from \$458,405, a 17% increase. For reasons discussed above, increased degree-seeking student enrollments are expected prospectively to result in gross profit growth in excess of overall tuition growth.

### Marketing and Promotional

Marketing and promotional costs for the quarter ended June 30, 2012 rose to \$446,652 from \$60,796, an increase of 635%. The increase is primarily attributable to expenses related to the operation of the marketing and student enrollment program that Aspen launched in the third quarter of 2011. The rate of marketing spend is expected to continue to increase over the course of 2012 as Aspen seeks to increase enrollment of degree-seeking students, particularly enrollments in its MBA and MSN Master-level degree programs.

### General and Administrative

General and administrative costs for the quarter ended June 30, 2012 rose to \$1,168,168 from \$675,626, an increase of 73%. The most significant factor is the higher employment level as the Company increased staffing to support its growth objectives. To that end, payroll costs for the quarter rose to \$630,803 from the prior year period's \$206,621, an increase of 205%. Separately, professional fees for the quarter decreased to \$154,821 from \$161,908, a decrease of 4%. Within professional fees, accounting fees for the quarter rose to \$174,963 from \$20,864, a 739% increase, and legal fees for the quarter decreased to (\$20,142) from \$141,044. Activities supported by the increased level of professional fees were post-reverse merger regulatory filings with the Department of Education (the "DoE"), the filing of the Form 10-Q with the SEC, along with the Company's current capital raising activities. Relative to the professional fees incurred a total of \$91,138 is non-recurring. Aspen expects professional fees to decline over the balance of 2012. Excluding payroll and professional fees, general and 2012 administrative costs for the quarter ended June 30, 2012 rose to \$382,544 from \$307,097, an increase of 25%.

Separately, general and administrative costs in the 2012 quarter reflected non-cash stock-based compensation expense of \$47,020 as Aspen's board of directors approved an option program on March 13, 2012. Based on grants made to date, non-cash stock-based compensation expense will average \$47,536 per quarter over the balance of 2012.

### Receivable Collateral Valuation Reserve

Due to a change in the estimated value of the collateral supporting the Account Receivable, secured – related party from \$1.00/share to \$0.60/share based on a pending financing by the Company, a non-cash valuation reserve expense of \$309,117 has been recorded for the quarter ended June 30, 2012.

### Depreciation and Amortization

Depreciation and amortization costs for the quarter ended June 30, 2012 rose to \$96,188 from \$53,959, an increase of 78%. The increase is primarily attributable to interest expense relating to higher levels of capitalized technology costs as Aspen continues the infrastructure build-out initiated in 2011.

### Other Income (Expense)

Other income (expense) for the quarter ended June 30, 2012 declined to an expense of (\$127,602) from an expense of (\$3,475), a decrease of \$124,127. The decrease is primarily attributable to interest expense related to the issuance of \$1,585,825 in convertible notes payable during the period along with the amortization of debt issue costs.

### Income Taxes

For the quarter ended June 30, 2012 there was no income tax expense as Aspen's operations produced a pre-tax loss of (\$1,664,634) as compared with the prior year quarter's pre-tax loss of (\$308,679).

### Net Loss

For the quarter ended June 30, 2012, Aspen's operations produced a net loss of (\$1,664,634) as compared with the prior year second quarter's net loss of (\$308,679). The increase in the net loss is primarily attributable to the higher levels of marketing and promotional costs, instructional costs and services, and general and administrative costs.

### Six Months Ended June 30, 2012 Compared with June 30, 2011

#### Revenue

Revenue for the six months ended June 30, 2012 rose to \$2,765,101 from \$1,958,464 in the prior year period, an increase of 41%. The increase is primarily attributable to the increase in Aspen degree-seeking enrollments and the elimination of the legacy tuition pre-payment program on July 15, 2011 (which provided less revenues per student), as tuition revenues from degree seeking students rose to \$1,667,101 from \$1,049,339 for the six months ended June 30, 2011, an increase of 59%.

## Costs and Expenses

### Instructional Costs and Services

Instructional costs and services for the six months ended June 30, 2012 rose to \$1,828,886 from \$996,674, an increase of 84%. A component of instructional costs and services, bad debt expense for the six months ended June 30, 2012 rose to \$84,476 from \$10,060, an increase of 740% which reflected the write-down of long-dated receivables. Excluding the bad debt increase, instructional costs and services rose to \$1,744,410 from \$986,614, an increase of 77%. The increase is primarily attributable to higher charges associated with purchased courseware and payments to faculty due to the increase in course completions. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its degree-seeking student enrollments, the higher gross margins associated with such students should lead the growth rate in instructional costs and services to lag that of overall revenues.

Revenues less instructional costs and services, a measure of the gross profit of Aspen operations, for the six months ended June 30, 2012 and 2011 were \$936,215 versus \$961,790 respectively, a decline of 3%. Adjusted for bad debt expense, gross profits for the six months ended June 30, 2012 rose to \$1,020,691 from \$971,850, a 5% increase. For reasons discussed above, increased degree-seeking student enrollments are expected prospectively to result in gross profit growth in excess of overall tuition growth.

### Marketing and Promotional

Marketing and promotional costs for the six months ended June 30, 2012 rose to \$883,957 from \$140,390, an increase of 530%. The increase is primarily attributable to expenses related to the operation of the marketing and student enrollment program that Aspen launched in the third quarter of 2011. The rate of marketing spend is expected to continue to increase over the course of 2012 as Aspen seeks to increase enrollment of degree-seeking students, particularly enrollments in its MBA and MSN Master-level degree programs.

### General and Administrative

General and administrative costs for the six months ended June 30, 2012 rose to \$2,887,494 from \$1,044,123, an increase of 177%. The most significant factor is the higher employment level as the Company increased staffing to support its growth objectives. To that end, payroll costs for the six months rose to \$1,559,425 from the prior year period's \$411,211, an increase of 279%. Separately, professional fees for the period rose to \$673,400 from \$189,438, an increase of 255%. Within professional fees, accounting fees for the period rose to \$352,928 from \$22,919, a 1,440% increase, and legal fees for the six months rose to \$320,472 from \$165,044, a 94% increase. Activities supported by the increased level of professional fees were reverse merger regulatory filings with the DoE and the DETC, post-reverse merger regulatory filings with the DoE, the filing of the Super 8-K and Form 10-Q with the SEC, along with the Company's current capital raising activities. Relative to the 2012 professional fees incurred a total of \$566,275 is non-recurring (accounting, \$281,954; legal \$284,321). Aspen expects professional fees to decline over the balance of 2012. Excluding payroll and professional fees, general and administrative costs for the period ended June 30, 2012 rose to \$654,669 from \$443,474, an increase of 48%.

Separately, general and administrative costs in the 2012 period reflected non-cash stock-based compensation expense of \$113,124 as Aspen's board of directors approved an option program on March 13, 2012. Based on grants made to date, non-cash stock-based compensation expense will average \$47,536 per quarter over the balance of 2012.

### Receivable Collateral Valuation Reserve

Due to a change in the estimated value of the collateral supporting the Account Receivable, secured – related party from \$1.00/share to \$0.60/share based on a pending financing by the Company, a non-cash valuation reserve expense of \$309,117 has been recorded for the six months ended June 30, 2012.

7

---

### Depreciation and Amortization

Depreciation and amortization costs for the six months ended June 30, 2012 rose to \$185,937 from \$106,404, an increase of 75%. The increase is primarily attributable to interest expense relating to higher levels of capitalized technology costs as Aspen continues the infrastructure build-out initiated in 2011.

### Other Income (Expense)

Other income (expense) for the six months ended June 30, 2012 declined to an expense of (\$124,110) from an expense of (\$21,694), a decrease of \$102,416. The decrease is primarily attributable to interest expense related to the issuance of \$2,006,000 in convertible notes payable during the period along with amortization of debt issue costs.

### Income Taxes

For the six months ended June 30, 2012 there was no income tax expense as Aspen's operations produced a pre-tax loss of (\$3,454,400) as compared with the prior year period's pre-tax loss of (\$350,821).

### Net Loss

For the six months ended June 30, 2012, Aspen's operations produced a net loss of (\$3,454,400) as compared with the prior year period loss of (\$350,821). The increase in the net loss is attributable to the higher levels of marketing and promotional costs, instructional costs and services, payroll expenses along with the increase in professional fees discussed above.

### Capital Resources and Liquidity

Net cash used in operating activities during the six months ended June 30, 2012 totaled (\$1,983,458) which resulted from a net loss of (\$3,454,400) offset by non-cash items of \$810,515 and a net change in operating assets and liabilities of \$660,427.

Net cash used in investing activities during the six months ended June 30, 2012 totaled (\$268,589) which resulted primarily from capitalized technology expenditures of (\$306,989) and an increase in restricted cash of (\$105,932), offset by officer loan repayments received of \$150,000.

Net cash provided by financing activities during the six months ended June 30, 2012 totaled \$1,751,015 which resulted primarily from proceeds from the issuance of convertible notes payable of \$2,006,000 offset by issuance costs of (\$266,473).

We have limited working capital and our current cash position is not sufficient to satisfy our short-term working capital needs. Additionally, we do not anticipate cash from operations will support our working capital needs until approximately July 2013. This assumption is predicated on our raising at least \$3,000,000 from the financings described below and successful implementation of our marketing program. As of the date of this report, we had \$556,371 in available cash. As discussed above, we anticipate our marketing costs will increase.

To meet our working capital needs, we plan to raise additional working capital. In March 2012, we entered into an Agreement with Laidlaw & Company (UK) Ltd. which agreed to use its best efforts to raise up to \$6,000,000 (with an option to sell up to an additional \$1,200,000). In March 2012, under phase 1 of the Laidlaw agreement, we commenced an offering to retail investors to sell \$2,000,000 of convertible notes due September 30, 2012, together with approximately 500,000 five-year warrants. As of the date of this report, we have raised \$2,006,000 (of which we received \$1,739,527 in net proceeds) in this offering. Pursuant to the Laidlaw Agreement, we have been seeking to raise the remainder under phase 2 of the Laidlaw agreement from institutional investors.

Pending completion of the Laidlaw offering, we are negotiating an Agreement with another broker-dealer as of August 20, 2012 to raise up to \$4,000,000 of securities on a non-exclusive basis from retail investors. We expect that the broker-dealer will seek to sell, as our agent, \$4,000,000 of convertible notes on similar terms and conditions as the initial retail sales through Laidlaw. If we do not raise a substantial portion of this new offering, we will not be able to expand as planned and not be able to increase our marketing budget. Additionally, if we are not able to raise \$3,000,000 in financings, we may not have enough capital to remain operational in 12 months.

On August 14, 2012, the Company's Chief Executive Officer loaned the Company \$300,000 in exchange for a convertible demand note bearing interest at 5% per annum. The note is convertible at the lesser of: (i) \$0.60 per share or (ii) the same conversion price of the convertible notes issued in the Company's current private placement.

We expect to spend \$1,500,000 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, academic courseware development and further improvements in Aspen's technology infrastructure. Depending on management's efforts to realize efficiencies in technology development and the amount of capital raised, it is entirely possible Aspen's capital expenditures may not reach \$1,500,000.

#### Related Party Transactions

At June 30, 2012, we included as an asset an account receivable of \$463,676 net of an allowance of \$309,117 from our principal shareholder. Although it is secured by stock pledges, there is a risk that we may not collect all or any of this sum.

In March 2012, we issued a \$300,000 convertible promissory note (the "Note") to Mr. Michael Mathews, our Chief Executive Officer in exchange for a cash loan. The Note is due March 31, 2013, bearing interest at 0.19% per annum and is convertible at \$1.00 per share. On August 14, 2012, the Company's CEO lent the Company \$300,000, and the Company issued him a \$300,000 convertible demand note at 5% per year. The note is convertible at the lesser of (i) \$0.60 per share or (ii) the same price of the convertible notes issued in the Company's current private placement.

See Note 11 to our condensed consolidated financial statements included in this report for additional description of related party transactions that had a material affect on our condensed consolidated financial statements.

#### New Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included in this report for discussion of recent accounting pronouncements.

#### Off Balance Sheet Arrangements

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

#### Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in the Super 8-K/A. During the three months ended June 30, 2012, there have been no significant changes to our critical accounting policies and estimates.



### Cautionary Note Regarding Forward Looking Statements

This report contains forward-looking statements including gross profit growth, increase in marketing spend, 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 competition, failure to maintain the relationship with our business development partner, failure to generate sufficient revenue, the condition of the capital markets or raise enough money to meet our working capital needs. Further information on our risk factors is contained in our filings with the SEC, including the Super 8-K. 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 to smaller reporting companies.

### 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 are party to certain legal proceedings that arise in the ordinary course and are incidental to our business. There are currently no such pending proceedings to which we are a party that our management believes will have a material adverse effect on the Company’s consolidated financial position or results of operations. However, future events or circumstances, currently unknown to management, will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods. See Note 7 to the financial statements contained in this report for information on specific matters.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

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

In addition to those unregistered securities previously disclosed in reports filed with the SEC, we have sold securities without registration under the Securities Act of 1933, which we refer to as the “Securities Act.”

| Name or Class of Investor | Date Sold | No. of Securities                                       | Consideration/Use of Proceeds |
|---------------------------|-----------|---|-------------------------------|
| Consultant (1)            | 05/01/12  | \$49,825 convertible note due September 30, 2012<br>(2) | Services rendered             |

(1) The securities were issued in reliance upon the exemption provided by Section 4(2) under the Securities Act.

(2) The note is convertible at the lesser of: (i) \$1.00 and (ii) the offering price per share of common stock or common stock equivalent in the next private placement offering (“Next Financing”). The note automatically converts on the earlier of: (i) September 30, 2012 and (ii) the closing of the Next Financing.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION

On August 14, 2012, Michael Mathews, the Company's Chief Executive Officer, lent the Company \$300,000, and the Company issued him a \$300,000 convertible demand note at 5% per year. The note is convertible at the lesser of (i)\$0.60 per share or (ii) the same price of the convertible notes issued in the Company's current private placement.

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.

August 20, 2012

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

August 20, 2012

/s/ David Garrity  
David Garrity  
Chief Financial Officer  
(Principal Financial Officer)

## Exhibit Index

| Exhibit # | Exhibit Description                                   | Incorporated by Reference |         |        | Filed or<br>Furnished |
|-----------|---|---------------------------|---------|--------|-----------------------|
|           |   | Form                      | Date    | Number | Herewith              |
| 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      | Stock Pledge Agreement - Mathews dated March 8, 2012  | 8-K                       | 3/19/12 | 10.12  |                       |
| 10.2      | Stock Pledge Agreement - Mathews dated March 16, 2012 | 8-K                       | 3/19/12 | 10.16  |                       |
| 10.3      | Stock Pledge Agreement - Directors                    | 8-K                       | 3/19/12 | 10.11  |                       |
| 10.4      | Form of Convertible Note – Mathews                    | 10-Q                      | 5/15/12 | 10.3   |                       |
| 10.5      | Form of Convertible Note – Private Placement          |                           |         |        | Filed                 |
| 10.6      | Form of Warrant – Private Placement                   |                           |         |        | Filed                 |
| 31.1      | CEO Certification (302)                               |                           |         |        | Filed                 |
| 31.2      | CFO Certification (302)                               |                           |         |        | Filed                 |
| 32.1      | CEO and CFO Certifications (906)                      |                           |         |        | Furnished*            |
| 101       |   |                           |         |        |                       |
| INS       | XBRL Instance Document                                |                           |         |        | Furnished**           |
| 101       |   |                           |         |        |                       |
| SCH       | XBRL Taxonomy Extension Schema                        |                           |         |        | Furnished**           |
| 101       | XBRL Taxonomy Extension Calculation                   |                           |         |        |                       |
| CAL       | Linkbase  |                           |         |        | Furnished**           |
| 101       |   |                           |         |        |                       |
| LAB       | XBRL Taxonomy Extension Label Linkbase                |                           |         |        | Furnished**           |
| 101       | XBRL Taxonomy Extension Presentation                  |                           |         |        |                       |
| PRE       | Linkbase  |                           |         |        | Furnished**           |
| 101       | XBRL Taxonomy Extension Definition                    |                           |         |        |                       |
| DEF       | Linkbase  |                           |         |        | Furnished**           |

\*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.

\*\* Attached as Exhibit 101 to this report are the Company's financial statements for the three and six months ended June 30, 2012 and 2011 formatted in XBRL (eXtensible Business Reporting Language). The XBRL-related information in Exhibit 101 to this report shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of those sections.

Copies of the exhibits referred to above will be furnished at no cost to our shareholders who make a written request to Aspen Group, Inc., 224 West 30th Street, Suite 604 New York, New York 10001 Attention: Corporate Secretary.