ASPEN GROUP, INC.
Form 10-Q
September 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

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

OR

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

For the transition period from ________ to ________

Commission file number: 000-55107

Aspen Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrants telephone number: (303) 333-4224

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

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

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

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

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

Class	Outstanding as of September 14, 2016
Common Stock, $0.001 par value per share	137,958,145 shares

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PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		July 31, 2016 (Unaudited)		April 30, 2016
Assets				
Current assets:				
Cash and cash equivalents	$	480,317	$	783,796
Accounts receivable, net of allowance of $449,946 and $449,946, respectively		2,760,765		2,179,852
Prepaid expenses		214,230		123,055
Total current assets		3,455,312		3,086,703
Property and equipment:				
Call center equipment		33,731		79,199
Computer and office equipment		73,674		67,773
Furniture and fixtures		155,453		114,964
Software		2,321,367		2,567,383
		2,584,225		2,829,319
Less accumulated depreciation and amortization		(1,391,623)		(1,680,687)
Total property and equipment, net		1,192,602		1,148,632
Courseware, net		183,480		194,932
Accounts receivable, secured - related party, net of allowance of $625,963, and $625,963, respectively		45,329		45,329
Other assets		54,176		31,175
Total assets	$	4,930,899	$	4,506,771

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

	July 31, 2016 (Unaudited)	April 30, 2016
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 418,699	$ 9,201
Accrued expenses	250,267	176,974
Deferred revenue	1,203,234	1,013,434
Refunds Due Students	121,938	110,883
Deferred rent, current portion	8,156	2,345
Convertible notes payable, current portion	50,000	50,000
Total current liabilities	2,052,294	1,362,837
Line of credit	248,783	1,783
Loan payable officer - related party	1,000,000	1,000,000
Convertible notes payable - related party	300,000	300,000
Deferred rent	47,066	29,169
Total liabilities	3,648,143	2,693,789
Commitments and contingencies - See Note 8		
Stockholders equity:		
Common stock, $0.001 par value; 250,000,000 shares authorized, 135,158,145 issued and 134,958,145 outstanding at April 30, 2016, 138,158,145 issued and 137,958,145 outstanding at July 31, 2016	137,959	134,958
Additional paid-in capital	26,325,671	26,353,451
Treasury stock (200,000 shares)	(70,000)	(70,000)
Accumulated deficit	(25,110,874)	(24,605,427)
Total stockholders equity	1,282,756	1,812,982
Total liabilities and stockholders equity	$ 4,930,899	$ 4,506,771

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended July 31, 2016		For the Three Months Ended July 31, 2015	
Revenues	$	2,756,815	$	1,705,861
Operating expenses				
Cost of revenues (exclusive of depreciation and amortization shown separately below)		896,059		774,109
General and administrative		2,182,078		1,477,617
Depreciation and amortization		151,049		143,459
Total operating expenses		3,229,186		2,395,185
Operating loss		(472,371)		(689,324)
Other income (expense):				
Other income		57		3,733
Interest expense		(33,133)		(33,115)
Total other expense, net		(33,076)		(29,382)
Loss before income taxes		(505,447)		(718,706)
Income tax expense (benefit)				
Net loss	$	(505,447)	$	(718,706)
Net loss per share allocable to common stockholders - basic and diluted	$	(0.01)	$	(0.01)
Weighted average number of common shares outstanding: basic and diluted		135,845,102		128,188,025

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

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ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED July 31, 2016

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
Balance at April 30, 2016	134,958,145	$ 134,958	$ 26,353,451	$ (70,000)	$ (24,605,427)	$ 1,812,982
Attorney fees associated with Registration Statement			(1,388)			(1,388)
Stock-based compensation			95,607			95,607
Warrant buyback	2,500,000	2,500	(196,500)			(194,000)
Shares issued for services	500,000	501	74,501			75,002
Net loss, three months ended July 31, 2016					(505,447)	(505,447)
Balance at July 31, 2016	**137,958,145**	**$ 137,959**	**$ 26,325,671**	**$ (70,000)**	**$ (25,110,874)**	**$ 1,282,756**

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

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ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended July 31, 2016		For the Three Months Ended July 31, 2015	
Cash flows from operating activities:				
Net loss	$	(505,447)	$	(718,706)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Bad debt expense				31,889
Depreciation and amortization		151,049		143,459
Stock-based compensation		95,607		72,941
Warrant modification expense				6,000
Amortization of prepaid shares for services		7,015		
Warrant buyback expense		206,000		
Changes in operating assets and liabilities:				
Accounts receivable		(580,913)		(259,509)
Prepaid expenses		(23,188)		18,221
Other assets		(23,001)		2
Accounts payable		409,498		275,321
Accrued expenses		73,293		44,581
Deferred rent		23,708		(4,000)
Refunds due students		11,055		69,418
Deferred revenue		189,800		(25,537)
Net cash provided by (used in) operating activities		34,476		(345,920)
Cash flows from investing activities:				
Purchases of property and equipment		(179,117)		(105,503)
Purchases of courseware		(4,450)		(41,104)
Net cash used in investing activities		(183,567)		(146,607)
Cash flows from financing activities:				
Warrant buyback		(400,000)		
Payments for line of credit		247,000		5,794
Disbursements for equity offering costs		(1,388)		
Net cash (used in) provided by financing activities		(154,388)		5,794
Net decrease in cash and cash equivalents		(303,479)		(486,733)
Cash and cash equivalents at beginning of period		783,796		2,159,463

Cash and cash equivalents at end of period	$	480,317	$	1,672,730

(Continued)

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	For the Three Months Ended July 31,			
	2016		2015	
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	28,327	$	28,876
Cash paid for income taxes	$		$	
Supplemental disclosure of non-cash investing and financing activities				
Common stock issued for services	$	75,002	$	
Common stock issued from conversion of notes	$		$	

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Note 1. Nature of Operations and Liquidity

Overview

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

Aspen s mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 61% of our adjunct professors hold doctorate degrees.

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

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

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

Basis of Presentation

A. Interim Financial Statements

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

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Report on Form 10-K for the period ended April 30, 2016 as filed with the SEC on July 27, 2016. The April 30, 2016 balance sheet is derived from those statements.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

B. Liquidity

On August 31, 2016, the Company announced that it recently closed on a $3 million credit line with its largest shareholder. The credit line, whose terms include a 12% per annum interest rate on drawn funds and a 2% per annum interest rate on undrawn funds, will extend through August 2019. The Company initially drew down $750,000 under the line, of which approximately $248,000 was used to repay a secured line of credit with a bank. (See Note 11)

At July 31, 2016, the Company had a cash balance of $480,317. The Company had cash provided from operating activities of $34,476.

On April 22, 2016, the Company issued 4,855,487 shares of common stock to two of its warrant holders in exchange for their early exercise of warrants at a reduced exercise price of $0.155 per share. The Company received gross proceeds of $752,500 from these exercises. As a condition of the warrant holders exercising their warrants, Mr. Michael Mathews, the Company s Chairman of the Board and Chief Executive Officer, converted a $300,000 note and in connection with this conversion, Mr. Mathews was issued 1,591,053 shares of common stock. See Note 7. In November of 2015, our letter of credit with Department of Education was released freeing up approximately $1.1 million of cash. With the additional cash raised in the financings, the growth in revenues and improving operating margins, the Company believes that it has sufficient cash to allow the Company to implement its long-term business plan.

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

For the purposes of the unaudited consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at July 31, 2016 and April 30, 2016. The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits of $250,000 per financial institution. The Company has not experienced any losses in such accounts from inception through July 31, 2016. As of July 31, 2016 and April 30, 2016, there were deposits totaling $292,764 and $1,224,863 respectively, held in two separate institutions greater than the federally insured limits.

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Fair Value Measurements

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

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

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

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

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

Refunds Due Students

The Company receives Title IV funds from the Department of Education to cover tuition and living expenses. After deducting tuition and fees, the Company sends checks for the remaining balances to the students.

Revenue Recognition and Deferred Revenue

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

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

Net Loss Per Share

Net loss per common share is based on the weighted average number of common shares outstanding during each period. Options to purchase 22,421,102 and 15,897,313 common shares, warrants to purchase 10,464,657 and 28,871,757 common shares, and $350,000 and $650,000 of convertible debt (convertible into 907,143 and 1,207,143 common shares, respectively) were outstanding during three months ending July 31, 2016 and 2015, respectively, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. The options, warrants and convertible debt are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive.

Recent Accounting Pronouncements

There have been no new relevant pronouncements since those disclosed in the April 30, 2016 Consolidated Financial Statements.

Note 3. Secured Note and Accounts Receivable Related Parties

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

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

Note 4. Property and Equipment

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

		July 31, 2016		April 30, 2016
Call center hardware	$	33,731	$	79,199
Computer and office equipment		73,674		67,773
Furniture and fixtures		155,453		114,964
Software		2,321,367		2,567,383
		2,584,225		2,829,319
Accumulated depreciation and amortization		(1,391,623)		(1,680,687)
Property and equipment, net	$	1,192,602	$	1,148,632

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

		July 31, 2016		April 30, 2016
Software	$	2,321,367	$	2,567,383
Accumulated amortization		(1,316,780)		(1,560,932)
Software, net	$	1,004,587	$	1,006,451

ASPEN GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2016

(Unaudited)

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

	For the Three Months Ended July 31,	
	2016	**2015**
Depreciation and Amortization Expense	135,147	124,770
Software Amortization Expense	124,180	113,832

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

Year Ending April 30,		
2017	$	296,166
2018		291,477
2019		208,304
2020		138,462
2021		70,178
Total	$	1,004,587

Note 5. Courseware

Courseware costs capitalized were $4,450 and $41,104 for the three months ended July 31, 2016 and 2015 respectively. During September 2015, $1,970,670 of fully amortized courseware was written off against the accumulated amortization. There was no expense impact to this write-off.

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

		July 31, 2016		**April 30, 2016**
Courseware	$	316,197	$	319,267
Accumulated amortization		(132,717)		(124,335)
Courseware, net	$	183,480	$	194,932

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

	For the Three Months Ended July 31,			
		2016		**2015**
Amortization Expense	$	15,902	$	18,688

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

Year Ending April 30,		
2017	$	42,100
2018		50,072
2019		48,599
2020		34,757
2021		7,952
Total	$	183,480