## Business Description

Aspen Group, Inc. is a private, for-profit provider of online post-secondary education classes in the U.S. As of 7/31/2013 Aspen enrolled 2,016 full-time degree seeking students. Approximately 87% of these full-time students are pursuing graduate degrees. The company specializes in online MBA and MSN (Master's in Nursing) programs. The company's proprietary, in-house internet marketing system facilitates comparatively lower tuition offerings and consequently students rely less on federal loan assistance. The university is accredited by the DETC (Distance Education and Technology Council) and the CCNE (Commission on Collegiate Nursing Education). As of 3/15/13 the company retained 38 full-time employees and 91 adjunct professors.

## Company Information

| | |
|---|---|
| Stock Symbol | ASPU |
| Headquarters | Denver, CO |
| Stock Price | $.21 |
| Shares Outstanding | 59 mil |
| Market Capitalization | $12 mil |
| Book Value | NA |
| Working Capital | $.7 mil |
| Insider Ownership | 15% |

## Financial Data

| EPS | CY11 | CY12 | FY14E | FY15E | FY16E |
|---|---|---|---|---|---|
| Jul | | | ($.02A) | | |
| Oct | | | ($.02E) | | |
| Jan | | | ($.01E) | | |
| Apr | | | ($.01E) | | |
| | ($.14) | ($.17) | ($.06E) | $.00E | $.06E |
| | | | | | |
| Revenue | $4.5 | $5.0 | $4.9 | $9.0 | $14.9 |
| % Chg | | 12% | | 83% | 65% |
| | | | | | |
| Cash | $1 | $1 | ($2) | ($1) | $3 |
| Assets | $4 | $4 | $3 | $3 | $5 |
| Debt | $0 | $1 | $2 | $2 | $2 |
| Equity | ($2) | $1 | ($2) | ($2) | $1 |
| Figures in $millions except per share data | | | | | |

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**Aspen Group, Inc.**
**OTC: ASPU**
**DATE: September 24, 2013**
**PRICE: $.21**

**Q1 EPS of ($.02) matched our estimate and increased from ($.05) in the prior year due to increased sales and significant gross margin expansion.**

**Q1 New Enrollments increased 19% sequentially despite a seasonally weak quarter.**

**Q1 Sales grew 33% YOY primarily due to a 232% increase in nursing education revenue.**

**Q1 Gross margin improved YOY from 12.4% to 39.8% due to higher average tuition rates and less impact from lower priced legacy tuition plans.**

**Q1 Adjusted EBITDA loss narrowed YOY by $.7 million to ($.8) million.**

**Q2 is tracking for record new enrollments in excess of 300 students.**

**The stock appears undervalued based on recent acquisition activity in the industry.**

**We are maintaining our prior sales and EPS estimates. The company remains on track to reach Adjusted EBITDA profitability by the middle of CY 2014.**

## Key Operating Metrics

| | 4q11 | 1q12 | 2q12 | 3q12 | 4q12 | Transition 4 months 4/30/2013 | 7/31/2013 | CY14E | CY15E | CY16E |
|---|---|---|---|---|---|---|---|---|---|---|
| Regular Rate Students | 329 | 437 | 551 | 724 | 949 | 1,166 | 1,348 | | | |
| Full-time Degree Students | 1,478 | 1,488 | 1,502 | 1,585 | 1,681 | 1,875 | 2,016 | 2,300 | 3,500 | 5,000 |
| Avg Tuition Per Course | $496 | $463 | $512 | $537 | $653 | $700 | | | | |
| Legacy Plan Students: lower margin | 1,149 | 1,051 | 951 | 861 | 732 | 709 | 668 | | | |
| % Class Starts | 75% | 67% | 58% | 45% | 36% | 26% | | | | |
| % Tuition Gross Profit | 52% | 35% | 23% | 12% | 6% | NA | | | | |
| EBITDA | ($1.8m) | ($1.6m) | ($1m) | ($1m) | ($.6m) | ($1m) | ($.8m) | ($.7m) | $1.3m | $4.7m |

**Review of Q1 Results**

Q1 EPS of ($.02) matched our estimate and improved from ($.05) in the prior year period due to increased sales and gross margin improvement from 12.4% to 39.8%. Q1 sales grew 33% YOY to $929,993 and exceeded our estimate of $800,000. The sales increase was driven primarily by nursing program revenue which grew over $150,000 YOY to $231,980. Please note that Q1 is typically the company's weakest quarter due to summer seasonality.

The company's growth calculus of increasing its higher margin nursing enrollment while leveraging marketing spending remains on track as overall new enrollment increased 19% sequentially and advertising expense was flat. The company continues to significantly chip away at its adjusted EBITDA losses reporting a YOY adjusted EBITDA improvement of $.7 million. The company remains on pace to achieve adjusted EBITDA profitability by mid CY 2014.

On an YTD basis for calendar year 2013 the company has increased enrollment by 24% while increasing revenue by 50% to $2.2 million. This performance is in stark contrast to the online post-secondary education industry in general which has seen declining enrollment. Aspen's focus on graduate students (86% of full-time degree students) ensures higher course completion rates and less defaults as the students tend to be working adults.

The company also reported that it has signed a term sheet this month to raise additional capital. While due diligence by the respective parties is still pending, the tentative agreement calls for $2.25 million of gross proceeds in the form of a convertible debenture over a term of 18 months with an exercise price of $.3325. The capital raise and existing cash balance appear sufficient to fund working capital over the short-term as cash burn is steadily improving due to better EBITDA performance.

**Outlook**

The company reports that the key growth catalysts within the business model have kept improving in the first 2 months of Q2. New enrollments in Q2 are thus far very strong and are on pace to exceed 300 for the first time ever in company quarterly history. The company also reports that average tuition rates for Q2 have thus far increased 8% sequentially suggesting that sizeable gross margin improvement should continue. We are maintaining our prior estimates and believe topline upside relative to our estimates is possible given the recent quarterly performance.

**Valuation**

As referenced in our initiation report, the market is placing a premium on online education companies with low Title IV (Federal Loan) exposure and a concentration in healthcare. Aspen meets both criteria. We additionally cited the recent acquisition of Hondros College's online nursing school by APEI (American Public Education, Inc.) which represents a highly accurate valuation comparison. Extrapolating the purchase price of this deal paid per nursing student and applying a modest multiple to the non-nursing portion of Aspen's business yielded a fully-diluted valuation of $.52/share for Aspen. This possible valuation does not assume any future performance but rather trailing performance. Additionally, a PEG (Price/Earnings to Growth) analysis on our calendar year EPS forecasts for 2014 and 2015 suggested that growth investors may be willing to pay as much as $1.00/share for Aspen shares assuming a PEG ratio of 1x. We believe a corporate partnership with a major healthcare system offers the greatest upside potential. Such a partnership could significantly increase student enrollment over a short timeframe and enable substantial cost leveraging.

| Income Statement | Q1FY13 Ended 7/31/12 | Four months Ended 4/30/13 | Q1FY14 Ended 7/31/13 | Q2FY14E | Q3FY14E | Q4FY14E | FY14E | FY15E | FY16E |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **$698,152** | **$1,229,096** | **$929,993** | **$1,050,000** | **$ 1,300,000** | **$ 1,650,000** | **$ 4,929,993** | **$ 9,000,000** | **$ 14,850,000** |
| *YOY % Growth* | | | 33.2% | | | | | 82.6% | 65.0% |
| | | | | | | | | | |
| *Full-time Degree Students* | | 1,875 | 2,016 | | | | | | |
| *Total student body* | | 2,826 | 3,015 | | | | | | |
| | | | | | | | | | |
| Cost of Revenue (exclusive of d&a) | $611,772 | $749,930 | $559,470 | $546,000 | $598,000 | $660,000 | $2,363,470 | $2,880,000 | $4,455,000 |
| *Gross Margin (exclusive of d&a)* | $86,380 | $479,166 | $370,523 | $504,000 | $702,000 | $990,000 | $2,566,523 | $6,120,000 | $10,395,000 |
| % of Revenue | 12.4% | 39.0% | 39.8% | 48.0% | 54.0% | 60.0% | 52.1% | 68.0% | 70.0% |
| *General and administrative* | $1,393,282 | $1,670,812 | $1,373,056 | $1,275,000 | $1,300,000 | $1,325,000 | $5,273,056 | $5,536,709 | $6,090,380 |
| % of Revenue | 199.6% | 135.9% | 147.6% | 121.4% | 100.0% | 80.3% | 107.0% | 61.5% | 41.0% |
| Receivable collateral valuation reserve | $309,117 | | | | | | | | |
| % of Revenue | 44.3% | | | | | | | | |
| *Depreciation and Amortization* | $98,571 | $159,269 | $109,435 | $125,000 | $130,000 | $135,000 | $499,435 | $530,000 | $550,000 |
| % of Revenue | 14.1% | 13.0% | 11.8% | 11.9% | 10.0% | 8.2% | 10.1% | 5.9% | 3.7% |
| **Operating Income** | **($1,714,590)** | **($1,350,915)** | **($1,111,968)** | **($896,000)** | **($728,000)** | **($470,000)** | **($3,205,968)** | **$53,291** | **$3,754,620** |
| Add back bad debt | $51,521 | $37,000 | $13,837 | $45,000 | $50,000 | $55,000 | $163,837 | $200,000 | $220,000 |
| Add back D&A | $98,571 | $159,269 | $109,435 | $125,000 | $130,000 | $135,000 | $499,435 | $530,000 | $550,000 |
| Add back stock-based comp | $52,701 | $154,062 | $149,356 | $165,000 | $170,000 | $175,000 | $499,435 | $550,000 | $600,000 |
| **Adjusted EBITDA** | **($1,511,797)** | **($1,000,584)** | **($839,340)** | **($561,000)** | **($378,000)** | **($105,000)** | **($2,043,261)** | **$1,333,291** | **$5,124,620** |
| % of Revenue | | | | | | | | 14.8% | 34.5% |
| | | | | | | | | | |
| Interest income | $104 | $330 | $289 | $225 | $200 | $175 | $889 | $600 | $400 |
| Interest expense | ($127,784) | ($6,737) | ($16,160) | ($5,500) | ($6,000) | ($6,500) | ($34,160) | ($25,000) | ($30,000) |
| Gain on disposal of property and equipment | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Other Income | | $66,267 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Loss due to unauthorized borrowing | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Loss from continuing operations** | **($1,842,270)** | **($1,291,055)** | **($1,127,839)** | **($901,275)** | **($733,800)** | **($476,325)** | **($3,239,239)** | **$28,891** | **$3,725,020** |
| Diluted shares outstanding | 35,295,204 | 56,089,884 | 58,527,790 | 59,300,000 | 59,400,000 | 59,500,000 | 59,181,948 | 59,600,000 | 60,000,000 |
| **Diluted EPS** | **($0.05)** | **($0.02)** | **($0.02)** | **($0.02)** | **($0.01)** | **($0.01)** | **($0.05)** | **$0.00** | **$0.06** |

| Balance Sheet | Q1FY13 Ended 7/31/12 | Four months Ended 4/30/13 | Q1FY14 Ended 7/31/13 | Q2FY14E | Q3FY14E | Q4FY14E | FY14E | FY15E | FY16E |
|---|---|---|---|---|---|---|---|---|---|
| Cash | | $724,982 | $641,009 | | | | ($2,065,387) | ($1,606,496) | $2,518,525 |
| DSO's | | 36 | 48 | | | | | | |
| Assets | | $3,401,685 | $3,770,193 | | | | $2,000,000 | $3,000,000 | $5,000,000 |
| Debt | | $1,050,000 | $845,482 | | | | $2,050,000 | $2,050,000 | $2,050,000 |
| Equity | | $594,375 | ($194,085) | | | | ($2,644,864) | ($2,615,973) | $1,109,048 |
| | | | | | | | | | |
| Cash Flow | | | | | | | | | |
| Net Income | ($1,842,270) | ($1,291,055) | ($1,127,839) | | | | ($3,239,239) | $28,891 | $3,725,020 |
| Working Capital | ($132,422) | $21,783 | ($183,117) | | | | ($300,000) | ($350,000) | ($400,000) |
| Depreciation | $98,571 | $159,269 | $109,435 | | | | $499,435 | $530,000 | $550,000 |
| Stock Comp | $52,701 | $154,062 | $149,356 | | | | $499,435 | $550,000 | $600,000 |
| Cap Ex | ($91,661) | ($166,214) | ($104,385) | | | | ($250,000) | ($300,000) | ($350,000) |
| **Free Cash Flow** | **($1,915,081)** | **($1,122,155)** | **($1,156,550)** | | | | **($2,790,369)** | **$458,891** | **$4,125,020** |

## Disclaimers & Disclosures

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| Balance Sheet | | 7/31/2013 | 4/30/2013 | CY12 |
|---|---|---|---|---|
| | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | 641,009 | 724,982 | 577,238 |
| Restricted cash | $ | 265,310 | 265,173 | 264,992 |
| Accounts receivable | | 493,587 | 364,788 | 239,671 |
| Accounts receivable, secured - related party | | | | |
| Note receivable from officer, secured - related party | | | | |
| Prepaid expenses | | 350,022 | 165,426 | 192,533 |
| Net assets from disc ops | | 257,322 | 113,822 | 393,214 |
| Other current assets | | | | 69,000 |
| **Total current assets** | | 2,007,250 | 1,634,191 | 1,736,648 |
| | | | | |
| Restricted cash | | | | |
| Property and equipment, net | | 1,289,160 | 1,263,740 | 1,211,320 |
| Courseware, net | | 178,124 | 208,095 | 253,571 |
| Accounts receivable, secured - related party | | 270,478 | 270,478 | 270,478 |
| Other assets | | 25,181 | 25,181 | 25,181 |
| **Total assets** | **$** | **3,770,193** | **$ 3,401,685** | **$ 3,497,198** |
| | | | | |
| Current liabilities: | | | | |
| Accounts payable | | 431,855 | 313,405 | 215,796 |
| Accrued expenses | | 126,462 | 128,569 | 75,912 |
| Deferred revenues | | 997,662 | 1,158,473 | 1,036,540 |
| Convertible notes payable, current portion | | 200,000 | 200,000 | |
| Convertible notes payable, current portion - related party | | | | |
| Notes payable, current portion | | | | |
| Loan payable to stockholders | | 1,000,491 | 491 | 491 |
| Net liabilities from disc ops | | 332,817 | 124,504 | 226,430 |
| Other current liabilities | | | | 69,000 |
| Deferred rent, current portion | | 11,238 | 10,418 | 6,257 |
| Total current liabilities | | 3,100,525 | 1,935,860 | 1,630,426 |
| | | | | |
| Line of credit | | 245,482 | 250,000 | 250,000 |
| Loans payable (includes $50,000 to related parties) | | | | - |
| Convertible notes payable (includes $50,000 to related parties) | | 600,000 | 600,000 | 800,000 |
| Notes payable | | | | - |
| Deferred rent | | 18,271 | 21,450 | 15,017 |
| **Total liabilities** | | 3,964,278 | 2,807,310 | 2,695,443 |
| | | | | |
| Temporary equity: | | | | |
| Series A preferred | | | | - |
| Series D preferred | | | | - |
| Series E preferred | | | | - |
| **Total temporary equity** | | | | - |
| | | | | |
| Stockholders' equity (deficiency): | | | | |
| Preferred stock | | | | - |
| Series C preferred | | | | - |
| Series B preferred | | | | - |
| Common stock | | 59,190 | 58,573 | 55,244 |
| Additional paid-in capital | | 13,662,387 | 13,345,888 | 12,153,615 |
| Treasury stock | | (70,000) | (70,000) | (70,000) |
| Accumulated deficit | | (13,845,662) | (12,740,086) | (11,337,104) |
| **Total stockholders' equity (deficiency)** | | (194,085) | 594,375 | 801,755 |
| | | | | |
| **Total liabilities and stockholders' equity (deficiency)** | **$** | **3,770,193** | **$ 3,401,685** | **$ 3,497,198** |

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