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THE OFFERING

Common stock outstanding prior to the offering:	58,573,223 shares
Common stock offered by the selling shareholders:	20,582,633 shares of common stock, all of which are outstanding as of the date this prospectus
Common stock offered by the selling shareholders upon exercise of warrants:	7,958,016 shares
Common stock outstanding immediately following the offering:	66,531,239 shares
Use of proceeds:	Except for the proceeds we receive upon the exercise of warrants, we will not receive any proceeds fro e E$ e xcept for the pset 9 wa rocnot

SUMMARY FINANCIAL DATA

The following summary of our financial data should be read in conjunction with, and is qualified in its entirety by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements appearing elsewhere in this prospectus. The data for the years ended December 31, 2012 and December 31, 2011 has been taken from our audited financial statements and the data for the three months ended March 31, 2013 and March 31, 2012 has been taken from our unaudited financial statements.

Statements of Operations Data

	Three Months Ended March 31, 2013 (Unaudited)	Three Months Ended March 31, 2012 (Unaudited)	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenue	$ 892,334	$ 546,778	$ 2,684,931	$ 2,346,238
Loss from continuing operations	$ (930,207)	$ (1,916,912)	$ (6,147,044)	$ (2,593,139)
Net loss per common share, allocable to common stockholders (basic and diluted)	$ (0.02)	$ (0.11)	$ (0.17)	$ (0.14)
Weighted average number of common shares outstanding (basic and diluted)	55,671,814	16,473,874	35,316,681	15,377,413

Balance Sheet Data

	March 31, 2013 (Unaudited)	December 31, 2012
Cash and cash equivalents	$ 479,344	$ 577,238
e		
Working capital	$ (418,631)	$ 106,222
Total assets	$ 3,192,121	$ 3,497,198
Total current liabilities	$ 1,831,451	$ 1,630,426
Accumulated deficit	$ (12,285,975)	$ (11,337,104)
Total shareholders' equity	$ 490,101	$ 801,755

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following Risk Factors before dec

Our business may be adversely affected by a further economic slowdown in the U.S. or abroad or by an

Establishing new academic programs or modifying existing programs may require us to make investments in management and faculty, incur marketing expenses and reallocate other resources. If we are unable to increase the number of students, or offer new programs in a cost-effective manner, or are otherwise unable to manage effectively the operations of newly established academic programs, our results of operations and financial condition could be adversely affected.

Because our future growth and profitability will depend in large part upon the effectiveness of our marketing and advertising efforts, if those efforts are unsuccessful we maqob, RoA

Because we rely on third party administration and hosting of open source software for our online classroom, if that third party were to cease to do business or alter its business practices and services, it could have an adverse impact on our ability to operate.

Our online classroom employs the Moodle learning management system which is an open source learning platform and is supported by the open source community. The system is a web-based portal that stores and delivers course content, provides interactive communication between students and faculty, and supplies online evaluation tools. While Moodle is an open source learning platform, we rely on third parties to host and help with the administration of it. We further rely on third parties, the Moodlerooms, Inc. agreement and the open source community as well as our internal staff for ongoing support and customization and integration of the system with the rest of our technology infrastructure. If Moodlerooms or the open source community that supports it were unable or unwilling to continue to provide us with service, we may have difficulty maintaining the software required for our online classroom or updating it for future technological changes. Any failure to maintain our online classroom would have an adverse impact on our operations, damage our reputation and limit our ability to attract and retain students.

Because the personal information that we or our vendors collect may be vulnerable to breach, theft or loss, any of these factors could adversely affect our reputation and operations.

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. Aspen uses a third party to collect and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, personal and family financial data and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal information is held and managed by certain of our vendors. Errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require notification of data breaches, restrict our use of personal information, and cause us to lose our certification to participate in the Title IV programs. We cannot guarantee that there will not be a breach, loss or theft of personal information that we store or our third parties store. A breach, theft or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under state and federal privacy statutes and legal or administrative actions by state attorneys general, private litigants, and federal regulators any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because the CAN-SPAM Act imposes certain obligations on the senders of commercial emails, it could adversely impact our ability to market Aspen's educational services, and otherwise increase the costs of our business.

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, establishes requirements for commercial email and specifies penalties for commercial email that violates the CAN-SPAM Act. In addition, the CAN-SPAM Act gives consumers the right to require third parties to stop sending them commercial email.

The CAN-SPAM Act covers email sent for the primary purpose of advertising or promoting a commercial product, service, or Internet website. The Federal Trade Commission, a federal consumer protection agency, is primarily responsible for enforcing the CAN-SPAM Act, and the Department of Justice, other federal agencies, State Attorneys General, and Internet service providers also have authority to enforce certain of its provisions.

The CAN-SPAM Act's main provisions include:

- Prohibiting false or misleading email header information;
- Prohibiting the use of deceptive subject lines;
- Ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender;
- Requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively permitted the message; and
- Requiring that the sender include a valid postal address in the email message.

The CAN-SPAM Act also prohibits unlawful acquisition of email addresses, such as through directory harvesting and transmission of commercial emails by unauthorized means, such as through relaying messages with the intent to deceive recipients as to the origin of such messages.

Violations of the CAN-SPAM Act's provisions can result in criminal and civil penalties, including statutory penalties that can be based in part upon the number of emails sent, with enhanced penalties for commercial email companies who harvest email addresses, use dictionary attack patterns to generate email addresses, and/or relay emails through a network without permission.

The CAN-SPAM Act acknowledges that the Internet offers unique opportunities for the development and growth of frictionless commerce, and the CAN-SPAM Act was passed, in part, to enhance the likelihood that wanted commercial email messages would be received.

The CAN-SPAM Act preempts, or blocks, most state restrictions specific to email, except for rules against falsity or deception in commercial email, fraud and computer crime. The scope of these exceptions, however, is not settled, and some states have adopted email regulations that, if upheld, could impose liabilities and compliance burdens in addition to those imposed by the CAN-SPAM Act.

Moreover, some foreign countries, including the countries of the European Union, have regulated the distribution of commercial email and the online collection and disclosure of personal information. Foreign governments may attempt to apply their laws extraterritorially or through treaties or other arrangements with U.S. governmental entities.
Because we use email marketing, our requirement to comply with the CAN-SPAM Act could adversely affect Aspen's marketing activities and increase its costs.

If we lose the services of key personnel, it could adversely affect our business.

Our future success depends, in part, on our ability to attract and retain key personnel. Our future also depends on the continued services of Mr. Michael Mathews, our Chief Executive Officer, who is critical to the management of our business and operations and the development of our strategic direction and would also be difficult to replace. We have a $3 million key man life insurance policy on Mr. Mathews. The loss of the services of Mr. Mathews and other key individuals and the process to replace these individuals would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

If we are unable to attract and retain our faculty, administrators, management and skilled personnel, we may not be able to support our growth strategy.

To execute our growth strategy, we must attract and retain highly qualified faculty, administrators, management and skilled personnel. Competition for hiring these individuals is intense, especially with regard to faculty in specialized areas. If we fail to attract new skilled personnel or faculty or fail to retain and motivate our existing faculty, administrators, management and skilled personnel, our business and growth prospects could be severely harmed. The DOE's revised incentive payment rule, which took effect July 1, 2011, may affect the manner in which we attract, retain, and motivate new and existing employees.

If we are unable to protect our intellectual property, our business could be harmed.

In the ordinary course of our business, we develop intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, trade secret or other protections. This intellectual property includes but is not limited to courseware materials, business know-
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Risks Related to the Regulation of Our Industry

If we fail to comply with the extensive regulatory requirements for our business, we could face penalties and significant restrictions on our operations, including loss of access to Title IV loans.

We are subject to extensive regulation by (1) the federal government through the DOE and under the Higher Education Act, (2) state regulatory bodies and (3) accrediting agencies recognized by the DOE, including the Distance Education and Training Council, or DETC, a "national accrediting agency" recognized by the DOE. The U.S. Department of Defense and the U.S. Department of Veterans Affairs regulate our participation in the military's tuition assistance program and the VA's veterans' education benefits program, respectively. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recr ranaeff, admicppppstrati

Because we are only provisionally certified by the DOE, we must reestablish our eligibility and certification to participate in the Title IV programs, and there are no assurances that DOE will recertify us to participate in the Title IV programs.

An institution generally must seek recertification from the DOE at least every six years and possibly more frequently depending on various factors. In certain circumstances, the DOE provisionally certifies an institution to participate in Title IV programs, such as when it is an initial participant in Title IV programs or has undergone a change in ownership and control. On September 28, 2012, the DOE notified us that following our application for change of control, it extended our provisional certification until September 30, 2013. Pending this approval, we delivered a $264,665 letter of credit to the DOE. Furthermore, DOE may impose additional or different terms and conditions in any final program participation agreement that it may issue, including growth restrictions or limitation on the number of students who may receive Title IV aid. The DOE could also decline to finally certify Aspen, otherwise limit its participation in the Title IV programs, or continue provisional certification.

If the DOE does not ultimately approve our permanent certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our enrollments, revenues and results of operations. In addition, regulatory restraints related to the addition of new programs could impair our ability to attract and retain students and could negatively affect our financial results.

Because the DOE may conduct compliance reviews of us, we may be subject to adverse review and future litigation which could affect our ability to offer Title IV student loans.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of non-compliance and lawsuits by government agencies, regulatory agencies, and third parties, including claims brought by third parties on behalf of the federal government. If the results of compliance reviews or other proceedings are unfavorable to us, or if we are unable to defend successfully against lawsuits or claims, we may be required to pay monetary damages or be subject to fines, limitations, loss of Title IV funding, injunctions or other penalties, including the requirement to make refunds. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or to defend against those lawsuits or claims. Claims and lawsuits brought against us may damage our reputation, even if such claims and lawsuits are without merit.

If our competitors are subject to further regulatory claims and adverse publicity, it may affect our industry and reduce our future enrollment.

We are one of a number of for-profit institutions serving the postsecondary education market. In recent years, regulatory investigations and civil litigation have been commenced against several companies that own for-profit educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with DOE regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been prim 7ssi hme sllegations h age sl ainst seeriaicacompanies drouge tllegations hl ainst she sveragefor-profit eth ffefecoorymay

Our failure to obtain DOE approval, where

We may issue preferred stock without the approval of our shareholders and have other anti-takeover defenses, which could make it more difficult for a third party to acquire us and could depress our stock price.

Our Board may issue, without a vote of our shareholders, one or more additional series of preferred stock that have more than one vote per share. This could permit our Board to issue preferred stock to investors who support us and our management and give effective control of our business to our management. Additionally, issuance of preferred stock could block an acquisition resulting in both a drop in our stock price and a decline in interest of our common stock. This could make it more difficult for shareholders to sell their common stock. This could also cause the market price of our common stock shares to drop significantly, even if our business is performing well.

An investment in Aspen Group may be diluted in the future as a result of the issuance of additional securities.

If we need to raise additional capital to meet our working capital needs, we expect to issue additional shares of common stock or securities convertible, exchangeable or exercisable into common stock from time to time, which could result in substantial dilution to investors. Investors should anticipate being substantially diluted based upon the current condition of the capital and credit markets and their impact on small companies.

Because we may not be able to attract the attention of major brokerage firms, it could have a material impact upon the price of our common stock.

It is not likely that securities analysts of major brokerage firms will provide research coverage for our common stock since the firm itself cannot recommend the purchase of our common stock under the penny stock rules referenced in an earlier risk factor. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It may also make it more difficult for us to attract new investors at times when we acquire additional capital.

Since we intend to retain any earnings for development of our business for the foreseeable future, you will likely not receive any dividends for the foreseeable future.

We have not and do not intend to pay any dividends in the foreseeable future, as we intend to retain any earnings for development and expansion of our business operations. As a result, you will not receive any dividends on your investment for an indefinite period of time.

If we do not successfully defend the pending litigation brought by our former chairman and large shareholder, we may incur material damages.

In February 2013, our former Chairman and a company he controls sued us, certain senior management members and our directors in state court in New York seeking damages arising from losses and other matters incurred in the operation of Aspen's business since May 2011, our filings with the SEC and the DOE where we stated that he and his company borrowed $2.2 million without board authority and our failure to use our best efforts to purchase certain shares of common stock from him following the April Agreement. See "Related Person Transactions." While we have been advised by our counsel that the lawsuit is baseless, we cannot assure you that we will be successful. Defending the litigation will be expensive and divert our management from Aspen's business. If we are unsuccessful, the damages we pay may be material. See "Legal Proceedings" on page 49 for a further description of the litigation.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements including statements regarding liquidity, anticipated marketing spending, capital expenditures and planned financings. All statements other than statements of historical facts contained in this prospectus, 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. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors"

PRIVATE PLACEMENTS

From March to July 2012, we sold approximately $1.7 million of secured convertible notes, or Notes, and approximately 1.3 million warrants to purchase our common stock from which we received approximately $1.4 million in net proceeds. The Notes converted into Aspen Group's common stock at $0.3325 per share, which we refer to as the "Conversion Price". The warrants are exercisable over a five-year period and are exercisable at the Conversion Price. Additionally, 202,334 shares and 50,591 warrants were issued in connection with accumulated interest accruing as of the conversion date.

In September 2012, we sold $2,757,000 of units. The units contained 7,877,144 shares of common stock and 3,938,570 five-year warrants exercisable at $0.50 per share.

In December 2012, we sold $715,000 of units. The units contained 2,042,857 shares of common stock and 1,021,432 five-year warrants exercisable at $0.50 per share.

In February 2013, we sold $315,000 of units. The units contained 900,000 shares of common stock and 450,000 five-year warrants exercisable at $0.50 per share.

In March 2013, we sold $250,000 of units. The units contained 714,286 shares of common stock and 357,143 five-year warrants exercisable at $0.50 per share.

In April 2013, we sold $600,328 of units. The units contained 1,715,217 shares of common stock and 857,606 five-year warrants exercisable at $0.50 per share.

This prospectus covers the offer and sale of the common stock (including the shares underlying the warrants) issued in the offerings described above.

We used the proceeds from the private placements to supp

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2013. The table should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus:

	As of March 31, 2013
	(Unaudited)
Cash and cash equivalents	$ 479,344
Restricted Cash	265,131
Debt	
Convertible notes	800,000
Line of Credit	250,250
Shareholders' equity:	
Common stock	56,858
Treasury stock	(70,000)
Additional paid-in capital	12,789,218
Accumulated deficit	(12,285,975)
Total shareholders' equity	$ 490,101

MARKET FOR COMMON STOCK

Our stock trades on the Bulletin Board, under the symbol "ASPU." Since March 31, 2011, Aspen Group's common stock i ceeTrt $

General and Administrative

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Non-GAAP – Financial Measure

The following discussion and analysis includes both financial measures in accordance with Generally Accepted Accounting Principles, or GAAP, as well as a non-GAAP financial measure. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternatives to net income, operating income, and cash flow from operating activities, liquidity or any other financial measures. They may not be indicative of the historical operating results of Aspen Group nor are they intended to be predictive of potential future results. Investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP.

Our management uses and relies on Adjusted EBITDA, a non-GAAP financial measure. We believe that both management and shareholders benefit from referring to the following non-GAAP financial measure in planning, forecasting and analyzing future periods. Our management uses this non-GAAP financial measure in evaluating its financial and operational decision making and as a means to evaluate period-to-period comparison.

Aspen Group defines Adjusted EBITDA as earnings (or loss) from continuing operations before preferred dividends, interest expen ss yincome taxes, coll ateral valuation adju

Our 2012 and 2011 revenues were impacted by the 2010 (and previous years) pre-payment tuition plan, or the Legacy Tuition Plan, which was discontinued on July 15, 2011. The Legacy Tuition Plan had students paying full-rate tuition for a degree program's first four coursT 2 Ú

Marketing and Promotional

Marketing and promotional costs for the year ended December 31, 2012 increased to $1,442,128 from $515,362 for the year ended December 31, 2011, an increase of 180%. The increase is primarily attributable to expenses related to the launch and operation of Aspen's new marketing and student enrollment program. With Aspen's strategy of proprietary lead generation driving higher marketing and promotional spending levels, it is highly likely that these expenditures will increase in 2013 over 2012 levels. Factors serving to mitigate the expected increase include possible economies realized in cost per lead as well as the yield realized in terms of higher enrollments per unit of marketing and promotional spending. While such economies were realized in 2012, we cannot assure you that we will realize further economies of scale in 2013.

General and Administrative

General and administrative costs for the year ended December 31, 2012 increased to $5,235,282 from $3,593,956 for the year ended December 31, 2011, an increase of 46%. The most significant factor is the higher employment level as Aspen increased staffing to support its growth objectives. To that end, payroll costs for the period rose to $2,716,302 from the prior year period's $1,596,711, an increase of 70%. Separately, professional fees for the period rose to $920,086 from $583,416, an increase of 58%. Within professional fees, accounting fees for the period rose to $509,711 from $58,707, a 768% increase, while legal fees for the period declined to $395,375 from $523,233, a 24% decrease. 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-Qs with the SEC, along with our capital raising and other transactional activities. Relative to the professional fees incurred a total of $702,093 is non-recurring (accounting, $340,778: legal, $361,315). We expect professional fees to decline in 2013, particularly as Aspen Group's auditors agreed to a flat-fee arrangement. Apart from payroll costs and professional fees, bad debt expense for the period rose to $132,952 as management took steps to ensure the conservative presentation of our consolidated financial statements. Separately, general and administrative costs in 2012 reflected non-cash stock-based compensation expense of $347,657 as Aspen Group's board of directors approved an option program on March 13, 2012. Based on grants made to date, non-cash stock-based compensation expense should be $374,091 in 2013. We expect to recognize an additional $606,807 of non-cash stock-based compensation through December 31, 2016. Excluding payroll, professional fees, bad debt expense and non-cash stock-based compensation expense, general and administrative costs for the year ended December 31, 2012 declined to $1,118,285 from $1,413,829, a decrease of 21%.

Overall general and administrative costs are expected to experience moderate growth in 2013 from 2012 as the cost associated with state regulatory compliance and DOE reporting requirements on topics such as gainful employment standards will increase in 2013. It is not feasible to quantify these future costs.

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 $0.35/share based on the financing by Aspen Group that closed September 28, 2012, a non-cash valuation reserve expense of $502,315 was recorded for the year ended December 31, 2012.

Depreciation and Amortization

Depreciation and amortization costs for the year ended December 31, 2012 rose to $397,923 from $264,082 for the year ended December 31, 2011, an increase of 51%. The increase is primarily attributable 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 year ended December 31, 2012 declined to an expense of ($354,418) from an expense of ($40,070), a decrease of $314,34 nse of

Net Cash Used in Investing Activities

Net cash used in investing activities during the 2013 Quarter totaled ($139,247) and resulted primarily from capitalized technology expenditures of ($139,108).

Net cash used in investing activities during the 2012 Quarter totaled ($96,911), resulted primarily from capitalized technology expenditures of ($141,383) and an increase in restricted cash of ($105,865) offset by officer loan repayments received of $150,000.

Net cash used in investing activities during the year ended December 31, 2012 totaled ($619,801) and resulted primarily from capitalized technology and courseware expenditures of ($505,146) and a net increase of restricted cash of ($264,992), offset by officer loan repayments received of $150,000.

Net cash used in investing activities during the year ended December 31, 2011 totaled ($1,261,777) and resulted primarily from capitalized technology and courseware expenditures of ($1,114,977), and an advance to an officer of ($388,210) offset by repayments of $238,210.

Net Cash Provided By Financing Activities

Net cash provided by financing activities during the 2013 Quarter totaled $519,620 which resulted primarily from the issuance of common shares and warrants of $519,370.

Net cash provided by financing activities during the 2012 Quarter totaled $444,231 and resulted primarily from proceeds from the issuance of convertible notes of $450,000.

Net cash provided by financing activities during the year ended December 31, 2012 totaled $4,901,548 which resulted primarily from proceeds from the net issuance of debt and equity securities and warrants of $5,370,021 offset by issuance costs of ($266,473) and the repurchase of treasury shares of ($202,000).

Net cash provided by financing activities during the year ended December 31, 2011 totaled $2,830,630 which resulted primarily from proceeds from the issuance of securities of $3,724,985 offset by disbursements to purchase treasury shares of ($761,200) and the payments for shareholder rescissions of ($165,000).

Liquidity and Capital Resource Considerations

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

From September 2012 through April 2013, we raised gross proceeds of approximately $4.6 million through the sale of 13,249,503 shares of common stock and 6,624,751 five-year warrants exercisable at $0.50 per share. On July 1, 2013, Mr. Michael Mathews, our Chief Executive Officer, loaned Aspen Group $1 million and was issued a $1 million Promissory Note due December 31, 2013. The Promissory Note bears 10% interest per annum, payable monthly in arrears. Mr. Mathews also holds two $300,000 convertible notes which are due on August 31, 2014, one of which is convertible at $0.35 per share and the other at $1.00 per share. See "Related Person Transactions" below. Additionally, $200,000 in notes convertible at $1.00 per share come due in February 2014.

As of July 1, 2013, Aspen Group had borrowed approximately $246,000 under its line of credit and had approximately $1.2 million in available cash. Aspen Group is planning to conduct a future offering in Fall 2013 to raise up to $7êllu2013 5B. Th sairaisetiebn tiand i

For accounts receivable from primary payors other than students, Aspen estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an extended period beyond contractual terms. In these cases, Aspen uses assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance. Aspen may also record a general allowance as necessary.

Direct write-offs are taken in the period when Aspen has exhausted its efforts to collect overdue and unpaid receivables or otherwise evaluate other circumstances that indicate that Aspen should abandon such efforts.

Related Party Transactions

At March 31, 2013, we included as a long term asset an account receivable of $270,478 net of an allowance of $502,315 from our former Chairman. 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 note to Mr. Michael Mathews, our Chief Executive Officer, in consideration for a $300,000 loan. The note was originally due March 31, 2013, but was amended to extend the due date to August 31, 2014. The note bears interest at 0.19% per annum and is convertible at $1.00 per share. [illegible] In August 2012, we issued a $300,000 convertible note to Mr. Mathews in consideration for [illegible] March 31, 2013, was amended to extend the due date to August 31, 20[illegible] note bears interest at

BUSINESS

On March 13, 2012, Aspen Group and Aspen closed a Merger Agreement whereby Aspen became a wholly-owned subsidiary of Aspen Group. We refer to the merger as the "Reverse Merger." All references to "we," "our" and "us" refer to Aspen Group, unless the context otherwise indicates. In referring to academic matters, these words refer solely to Aspen University Inc.

Description of Business

Aspen's 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. Aspen's mission in fact is to help students achieve their long-term goals of upward mobility and long-term economic success through providing superior education, exerting financial prudence, and supporting our students' career advancement goals. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 67% 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 education. We have expanded our degree offerings broadly but the vision remains the same: to provide students with the best value in high quality education and to help them achieve their academic and career goals.

One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is an emphasis on post-graduate degree programs (master or doctorate). As of March 31, 2013, 1,836 students were enrolled as full-time degree-seeking students with 1,593 of those students or 87% in a master or doctoral graduate degree program. In addition, 943 students are engaged in part-time programs, such as continuing education courses and certificate level programs (includes 370 part-time undergraduate military students). Aspen is committed to maintaining its focus on being a predominantly graduate school for the foreseeable future.

Today, Aspen offers certificate programs and associate, bachelor, master and doctoral degree programs in a broad range of areas, including business and organization management, education, nursing, information technology, and general studies. In terms of enrollments, our most popular schools are our school of business and our school of nursing. Specifically, our Master of Business Administration, or MBA, and Master of Science in Nursing represent the two largest degree programs among our full-time, degree-seeking student body as of March 31, 2013. Aspen's School of Nursing is our fastest growing program, having grown from 5% of our full-time, degree-seeking student body at year-end 2011, to 19% of our full-time, degree-seeking student body at March 31, 2013.

We are accredited by the DETC. Aspen first received DETC accreditation in 1993 and most recently received re-accreditation in January 2009. Aspen is scheduled for re-accreditation review in November 2013.

Aspen is provisionally certified by the DOE through September 30, 2013. Under such certification, Aspen is restricted to a limit of 1,200 student recipients for Title IV funding for the period ending June 30, 2013. As of March 31, 2013, Aspen had 442 students that were currently participating in the Title IV programs. Since inception of Aspen's provisional certification status, it has had 576 total Title IV student participants. In the future when it considers whether to extend the provisional certification or make the certification permanent, the DOE may impose additional or different terms and conditions, including growth restrictions or limitation on the number of students who may receive Title IV aid. In terms of future deadlines with the DOE, Aspen is required to re-apply by June 30, 2013 to continue its participation in the Title IV Higher Education Act, or HEA, programs. At that time, a determination will be made whether we meet the requirements for full certification.

In 2008, Aspen received accreditation of its Master of Science in Nursing Program with the Commission on Collegiate Nursing Education, or the Nursing Commission. Officially recognized by the DOE, the Nursing Commission is a nongovernmental accrediting agency, which ensures the quality and integrity of education programs in preparing effective nurses. Aspen's Master of Science in Nursing program most recently underwent accreditation review by the Nursing Commission in March 2011. At that time, the program's accreditation was reaffirmed, with the accreditation term to expire December 30, 2021. We currently offer a variety of nursing degrees including: Masters of Science in Nursing, Master of Science in Nursing - Nursing Education, Masters of Science in Nursing – Nursing Administration and Management and Bachelor of Science in Nursing.

Aspen [illegible] Global Charter Education Provider for the Project Management Institute, or PMI, and a Registered Education Provider (R.E.P.) of the PMI. The PMI recognizes select Aspen Project Management Courses as Professional Development Units. These courses help prepare individuals to sit for the Project Management Professional, or PMP, certification examination. PMP certification is the project management profession's most recognized and respected certification credential. Project management professionals may take the PMI p s videceren Pr r rses helsitl

In connection with our Bachelor and Master degrees in Psychology of Addiction and Counseling, the

Curricula

Certificates

- Certificate in Information Technology with specializations in:
- Information Systems Management
- Java Development
- Object Oriented Application Development
- Smart Home Integration
- Web Development
- Certificate in Project Management

Associates Degrees

- Associate of General Studies
- Associate of Applied Science Early Childhood Educationi

- Administration and Management, (RN to MSN Bridge Program)
- Nursing Education
- Nursing Education, (RN to MSN Bridge Program)

- Master of Science in Physical Education and Sports Management
- Master of Science in Technology and Innovation with a specialization in
  - Business Intelligence and Data Management
  - Electronic Security
  - Project Management
  - Systems Design
  - Technical Languages
  - Vendor and Change Control Management
- Master in Business Administration
- Master in Business Administration with specializations in
  - Entrepreneurship
  - Finance
  - Information Management
  - Pharmaceutical Marketing and Management
  - Project Management
- Master in Education
  - Curriculum Development and Outcomes Assessment
  - Education Technology
  - Transformational Leadership

Doctorates

- Doctorate of Science in Computer Science
- Doctorate in Education Leadership and Learning
- Doctorate in Education Leadership and Learning with specializations
- Education Administration
- Faculty Leadership
- Instructional Design
- Leadership and Learning

Independent online classes start on the 1st and the 16th of every month and students may enroll in up to a maximum of three courses at a time. Online interactive courses are offered five times a year.

Sales and Marketing

Prior to Mr. Michael Mathews becoming Aspen's Chief Executive Officer in May 2011, Aspen had conducted minimal efforts and spent immaterial sums on sales and marketing. During the second half of 2011, Mr. Mathews and his team made significant changes to our sales and marketing program and spent a significant amount of time, money and resources on our marketing program.

What is unique about Aspen's marketing program is that we have no plans in the near future to utilize third-party online lead generation companies to attract prospective students. To our knowledge, most if not all for-profit online universities utilize multiple third-party online lead generation companies to obtain a meaningful percentage of their prospective student leads. Aspen's executive officers have many years of expertise in the online lead generation and Internet advertising industry, which for the foreseeable future will allow Aspen to cost-effectively drive all prospective student leads internally. This is a competitive advantage for Aspen because third-party leads are typically unbranded and non-exclusive (lead generation firms typically sell prospective student leads to multiple universities), therefore the conversion rate for those leads tends to be appreciably lower than internally generated, Aspen branded, proprietary leads.

In May 2011, Aspen expanded on its current search engine marketing initiatives related to Google. Aspen expanded the use of Aspen keyword search terms and keywords related to its MBA program and nursing program. Aspen also refined its testing of keywords, marketing messages and the establishment of program specific informational pages that have been matched to those keywords. Landing pages and keywords have been further optimized in order to facilitate streamlined communication of Aspen's programs, degrees and courses offered in order to ensure that prospective students are provided with information necessary to make an informed decision regarding Aspen and to begin a dialogue with an Aspen advisor. The search engine marketing program was expanded in July 2011, to include the Microsoft and Yahoo search engines for general university terms, MBA and nursing programs, utilizing the samepimd Êsitiocompanies to athon

The DOE enacted regulations relating to the Title IV programs which became effective July 1, 2011. Under these new regulations, an institution, like ours, that offers postsecondary education through distance education to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by that state, must meet any state requirements to offer legally postsecondary education to students in that state. The institution must be able to document state approval for distance education if requested by the DOE.

This new regulation has been recognized as a significant departure from the state authorization procedures followed by most, if not all, institutions before its enactment. Although these new rules became effective July 1, 2011, the DOE indicated in an April 20, 2011 guidance letter that it would not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities undertaken before July 1, 2014, provided the institution was making a good faith effort to identify and obtain necessary state authorization before that date. However, on July 12, 2011, a federal judge for the U.S. District Court for the District of Columbia vacated the portion of the DOE'hait e$'nr s nedrimi

Administrative Capability. DOE regulations specify extensive criteria by which an institution must establish that it hae li

Financial Responsibility. The Higher Education Act and DOE regulations establish extensive standards of financial responsibility that institutions such as Aspen must satisfy to participate in Title IV programs. These standards generally require that an institution provide the resources necessary to comply with Title IV program requirements and meet all of its financial obligations, including required refunds and any repayments to the DOE for liabilities incurred in programs administered by the DOE.

[illegible] formula that uses line items from the institution's audited financial statements. In addition, the financial responsibility standards require an institution to receive an unqualified opinion from its accountants on its audited financial statements, maintain sufficient cash reserves to satisfy refund requirements, meet all of its financial obligations, and remain current on its debt payments. The formula focuses on three financial ratios: (1) equity ratio (which measures the institution's capital resources, financial [illegible]

Title IV Return of Funds. Under the DOE's return of funds regulations, when a student withdraws, an institution must return unearned funds to the DOE in a timely manner. An institution must first determine the amount of Title IV program funds that a student "earned." If the student withdraws during the first 60% of any period of enrollment or payment period, the amount of Title IV program funds that the student earned is equal to a pro rata portion of the funds for which the student would otherwise be eligible. If the student withdraws after the 60% threshold, then the student has earned 100% of the Title IV program funds. The institution must return to the appropriate Title IV programs, in a specified order, the lesser of (i) the unearned Title IV program funds and (ii) the institutional charges incurred by the student for the period multiplied by the percentage of unearned Title IV program funds. An institution must return the funds no later than 45 days after the date of the institution's determination that a student withdrew. If such payments are not timely made, an institution may be subject to adv[illegible] letter of credit equal to 25% of the refunds the institution should have made in its most recently completed year. Under DOE regulations, late returns of Title IV program funds for 5% or more of students sampled in the institution's annual compliance audit constitutes material non-compliance. Aspen's academic calendar structure is a non-standard term with rolling start dates with defined length of term (16 week term).

The "90/10 Rule." A requirement of the Higher Education Act commonly referred to as the "90/10 Rule," applies only to "proprietary institutions of higher education," which includes Aspen. An institution is subject to loss of eligibility to participate in the Title IV programs if it derives more than 90% of its revenues (calculated on a cash basis and in accordance with a DOE formula) from Title IV programs for [illegible]

Incentive Compensation Rules. As a part of an institution's program participation agreement with the DOE and in accordance with the Higher Education Act, an institution may not provide any commission, bonus or other incentive payment to any person or entity engaged in any student recruitment, admissions or financial aid awarding activity based directly or indirectly on success in securing enrollments or financial aid. Failure to comply with the incentive payment rule could result in termination of participation in T ve pce nieoñ i asbn of par inacipation in T ve pce nieoñ i ab

Compliance Reviews. We are subject to announced and unannounced compliance reviews and audits by various external agencies, including the DOE, its Office of Inspector General, state licensing agencies, and accrediting agencies. As part of the DOE's ongoing monitoring of institutions' administration of Title IV programs, the Higher Education Act and DOE regulations require institutions to submit annually a compliance audit conducted by an independent certified public accountant in accordance with Government Auditing Standards and applicable audit standards of the DOE. These auditing standards differ from those followed in the audit of our financial statements contained in this prospectus. In addition, to enable the DOE to make a determination of financial responsibility, institutions must annually submit audited financial statements prepared in accordance with DOE regulations. Furthermore, the DOE regularly conducts program reviews of education institutions that are participating in the Title IV programs, and the Office of Inspector General of the DOE regularly conducts audits and investigations of such institutions. In August 2010, the Secretary of Education announced in a letter to several members of Congress that, in part in response to recent allegations against proprietary institutions of deceptive trade practices and noncompliance with DOE regulations, the DOE planned to strengthen its oversight of Title IV programs through, among other approaches, increasing the number of program reviews by 50%, from 200 conducted in 2010 to up to 300 reviews in 2011. The DOE has apparently not yet reported on the number of reviews conducted in 2012. Pending legislation including the "Students First Act" introduced in the United States Senate on February 28, 2013, would – if passed – increased the number of program reviews for various institutions deemed at-risk of violating DOE requirements.

Potential Effect of Regulatory Violations. If we fail to comply with the regulatory standards governing Title IV programs, the DOE could impose one or more sanctions, including transferring Aspen to the reimbursement or cash monitoring system of payment, seeking to require repayment of certain Title IV program funds, requiring Aspen to post a letter of credit in favor of the DOE as a condition for continued Title IV certification, taking emergency action against us, referring the matter for criminal prosecution or initiating proceedings to impose a fine or to limit, condition, suspend or terminate our participation in Title IV programs.

We also may be subject, from time to time, to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties, such as present or former students or employees and other members of the public.

Restrictions on Adding Educational Programs. State requirements and accrediting agency standards may, in certain instances, limit our ability to establish additional programs. Many states require approval before institutions can add new programs under specified conditions. The Colorado Commission on Higher Education, and other state educational regulatory agencies that license or authorize us and our programs, may require institutions to notify them in advance of implementing new programs, and upon notification may undertake a review of the institution's licensure or authorization.

In addition, we were advised by the DOE that because we were provisionally certified due to being a new Title IV program participant, we could not add new degree or non-degree programs for Title IV program purposes, except under limited circumstances and only if the DOE approved such new program, until the DOE reviewed a compliance audit that covered one complete fiscal year of Title IV program participation. That fiscal year ended on December 31, 2010, and we timely submitted our compliance audit and financial statements to the DOE. In addition, in June 2011, Aspen timely applied for recertification to participate in Title IV programs. The DOE extended Aspen's provisional certification until September 30, 2013. Aspen is required to re-apply by June 30, 2013 to continue its participation in the Title IV HEA programs. At that time, a determination will be made whether we meet the requirements for full certification.

Recent DOE regulations establish a new process under which an institution must apply for approval to offer a program that, under the Higher Education Act, must prepare students for "gainful employment in a recognized occupation" in order to be eligible for Title IV funds. An institution must notify the DOE at least 90 days before the first day of classes when it intends to add a program that prepares students for gainful employment. The DOE may, as a condition of certification to participate in Title IV programs, require prior approval of programs or otherwise restrict the number of programs an institution may add.

DETC requires pre-approval of new courses, programs, and degrees that are characterized as a "substantive change." An institution must obtain written notice approving such change before it may be included in the institution's grant of accreditation. An institution is further prohibited from advertising or posting on its website information about the course or program before it has received approval. The process for obtaining approval generally requires submission of a report and course materials and may require a follow-up on-site visit by an examining committee.

Change in Ownership Resulting in a Change of Control. In addition to school acquisitions, other types of transactions can also cause a change of control. The DOE, most state education agencies, and DETC all have standards pertaining to the change of control of schools, but those standards are not uniform. DOE regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution' s parent corporation. DOE regulations provide that a change of contr of contr of c t

A change of control also could occur as a result of future tr a

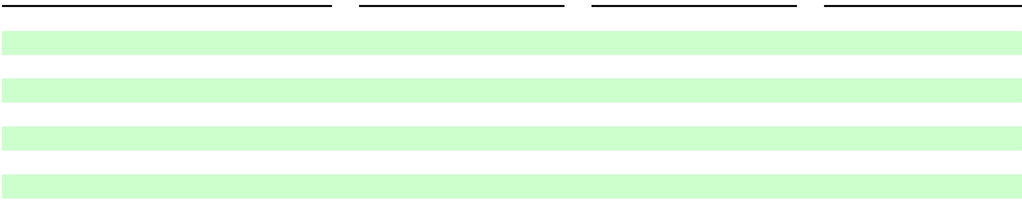
The Plaintiffs' allegations that false or defamatory statements were included in Aspen Group's filings are based on the following disclosures in multiple SEC and DOE filings: "…Aspen discovered in November 2011 that HEMG had borrowed $2,195,084 from it from 2005 to 2012 without Board of Directors authority. Aspen has been unable to reach any agreement with Mr. Spada concerning repayment and is considering its options." In the same filings, Aspen Group disclosed that "There is no agreement with the former chairman that this sum is due and in fact he has denied liability and even claimed that Aspen owes him money." Aside from these disclosures being factuênc$

MANAGEMENT

The following executive officers and directors were appointed to their current positions with Aspen Group listed in the table in connection with the Reverse Merger. Except for Sanford Rich, who was appointed a director effective with the closing of the Reverse Merger and Mr. Matte who was recently appointed, each person listed in the table had identical positions with Aspen.

Name	Age	Position
Michael Mathews	51	Chief Executive Officer and Chairman of the Board
Gerald Williams	59	President
Michael Matte	54	Chief Financial Officer
Angela Siegel	33	Executive Vice President of Marketing
Michael D'Anton	55	Director
C. James Jensen	72	Director
David Pasi	52	Director
Sanford Rich	55	Director
John Scheibelhoffer	51	Director
Paul Schneier	n	

C. James Jensen has served as a director of Aspen since May 2011. Since 1983, Mr. Jensen has been the managing partner of Mara Gateway Associates, L.P., a privately owned real estate investment company he co-founded. Since 2006, Mr. Jensen has been the co-managing partner of Stronghurst, LLC, which provides advisory any7



Director Independence

We currently have seven directors serving on our Board. We are not a listed issuer and, as such, are not subject to any director independence standards. Using the definition of independence set forth in the rules of the NYSE MKT, all of our directors except Mr. Mathews are independent.

Board Committees and Charters

The members of the Audit Committee are Sanford Rich, Chairman, David Pasi and C. James Jensen. Our Board has determined that each of the members are independent in accordance with the independence standards for audit committees under the NYSE MKT listing rules. The Board has also determined that Mr. Rich is an "Audit Committee Financial Expert." The Audit Committee has a written charter approved by the Board.

The members of the Compensation Committee are Mr. Jensen, Chairman, Paul Schneier and John Scheibelhoffer, MD.

Our Board is expected to appoint a Nominating Committee, and to adopt charters relative to the Compensation Committee and the Nominating Committee, in the future. We intend to appoint such persons to the Nominating Committee of the Board as are expected to be required to meet the corporate governance requirements imposed by a national securities exchange, although we are not required to comply with such requirements [illegible] securities exchange, and we are under no obligation to do so.

Code of Ethics

Our Board has adopted a Code of Ethics that applies to all of our employees ger. e ek a ativ

Named Executive Officer Employment Agreements

The following describes the Named Executive Employment Agreements as of December 31, 2012 which have been amended as described below.

Michael Mathews. Effective on July 5, 2011, Aspen entered into a four-year Employment Agreement with Michael Mathews to serve as its Chief Executive Officer. The Employment Agreement provides that Mr. Mathews will receive a base salary of $250,000 per year, which will be increased by at least 10% annually. In addition to a base salary, Mr. Mathews was eligible to receive an annual performance bonus based upon the achievement of pre-established performance milestones of which at least half would be paid in cash and the remaining in common stock. If performance milestones were met, Mr. Mathews' bonus would have been 100% of his base salary for the year the milestone was met. If Mr. Mathews and a majority of the Board were unable to mutually agree on performance milestones, Mr. Mathews was to receive a guaranteed bonus for that fiscal year of no less than 15% of his base salary. In 2012, no performance milestones were set and Mr. Mathews waived his right to a guaranteed annual performance bonus. Additionally, in March 2012, Mr. Mathews was granted 300,000 five-year options to purchase shares of Aspen Group common stock exercisable at $1.00 per share vesting over a three-year period. In December 2012, the options were re-priced to $0.35 per share.

See below for a description of Mr. Mathews' new Employment Agreement.

David Garrity. Effective on June 9, 2011, Aspen entered into a four-year Employment Agreement with David Garrity to serve as its Chief Financial Officer. In accordance with the Employment Agreement, from June 9, 2011 through July 4, 2011, Mr. Garrity was paid a fee in lieu of salary at a rate of $10,000 per month pursuant to a separate Consulting Agreement with Mr. Garrity. From July 4 until September 30, 2011, Aspen paid Mr. Garrity $10,000 per month (a rate of $125,000 per annum). Under his Employment Agreement, from October 1, 2011, Mr. Garrity was to be paid at the rate of $250,000 per year, which was to be increased by at least 10% annually. In addition to a base salary, Mr. Garrity was eligible to receive an annual performance bonus based upon the achievement of pre-established performance milestones of which at least half would be paid in cash and the remaining in Aspen common stock. If performance milestones were met, Mr. Garrity's bonus would have been 100% of his base salary for the year the milestone was met. If Mr. Garrity and a majority of the Board were unable to mutually agree on performance milestones, Mr. Garrity would have received a guaranteed bonus for that fiscal year of no less than 15% of his base salary. In 2012, no performance milestones were set and Mr. Garrity waived his right to a guaranteed annual performance bonus. Additionally, in March 2012, Mr. Garrity was granted 200,000 five-year options to purchase shares of Aspen Group common stock exercisable at $1.00 per share vesting over a three-year period. In December 2012, the options were re-priced to $0.35 per share.

Effective May 14, 2013, Mr. Garrity's resigned as Chief Financial Officer and was appointed Executive Vice President, Corporate Development. Mr. Garrity will be paid $100,000 per annum for services provided under this new position.

Brad Powers. Effective on July 5, 2011, Aspen entered into a four-year Employment Agreement with Brad Powers to serve as its Chief Marketing Officer. In accordance with the Employment Agreement, Mr. Powers was to be paid a base salary of $250,000 per year. In March 2012, Mr. Powers was granted 200,000 five-year options to purchase shares of Aspen Group common stock exercisable at $1.00 per share vesting over a three-year period. In December 2012, the options were re-priced to $0.35 per share.

Effective March 1, 2013, Brad Powers resigned as Chief Marketing Officer and as an employee of Aspen Group in order to pursue other business ventures. Mr. Powers has agreed to provide consulting services to Aspen Group for a two-year period. Under a Consulting Agreement, Mr. Powers is receiving a fee of $100,000 per year and his outstanding stock options will continue to vest as originally in accordance with their terms provided that Mr. Powers is providing consulting services. Mr. Powers' Employment Agreement described above has been terminated.

Amendments to Pre-2013 Employment Agreements

On December 31, 2011, Messrs. Michael Mathews and Brad Powers, our Chief Executive Officer and then Chief Marketing Officer, respectively, entered into amendments to their Employment Agreements waiving 50% of their salaries that would have otherwise accrued ($62,500 each). Additionally, effective January 1, 2012, they agreed to defer 50% of their base salaries until such time as Mr. Mathews or our Board determine that we have sufficient cash flow to pay the previously agreed upon amount. As of August 31, 2012, these executives and our Board agreed to continue deferring their salaries until December 31, 2012. Separately, Mr. David Garrity, our former Chief Financial Officer and current Executive Vice President, Corporate Development, effective April 1, 2012 deferred 40% of his base salary. At the same date, Mr. Michael Mathews deferred 60% of his base salary. In consideration for deferring their salaries, Messrs. Mathews, Powers and Garrity were granted 288,911, 255,773 and 136,008 fully-vested five-year stock options, respectively, exercisable at $0.35 per share to settle deferred salaries.

As of August 31, 2012, Messrs. Michael Mathews, Brad Powers, David Garrity, and Gerald Williams, our Academic President, agreed to reduce their base salaries to $100,000 per year for the remainder of 2012. In consideration for reducing their salaries, Messrs. Mathews, Powers and Garrity were each granted 166,666 stock options and Dr. Williams was granted 47,620 stock options. These stock options are exercisable at $0.35 per share and vested in four equal installments at the end of each month of 2012, beginning on September 30, 2012.

Our Board approved the option grants in the two above paragraphs on October 23, 2012. The Board also granted Dr. Williams a $45,000 bonus on October 23, 2012. On September 4, 2012, our Board granted Mr. Mathews up to 2,900,000 five-year options exercisable at $0.35 per share and vesting in equal annual increments over four years with the first vesting date being September 4, 2013.

Mr. Mathews waived [illegible],750 of accrued but unpaid salary due to him from employment during the first quarter of 2013. Additionally, on that same date, as compensation for reduced salaries for the first quarter of 2013, Mr. Garrity and Dr. Williams were granted 125,000 and 35,714 fully-vested five-year stock options, respectively, exercisable at $0.35 per share.

2013 Employment Agreements

Effective May 16, 2013, Aspen Group and Michael Mathews entered into a new three-year Employment Agreement. In accordance with the Employment Agreement, Mr. Mathews will receive a base salary of $250,000 per year; however, his base salary will be $100,000 per year until the Compensation Committee determines that Aspen Group's cash position permits an increase to $250,000 a year. In contrast to his old Employment Agreement described above, the new Employment Agreement does not include any guaranteed annual bonuses.

Effective May 16, 2013, Aspen Group entered into a three-year Employment Agreement with Michael Matte to serve as its Chief Financial Officer. In accordance with the Employment Agreement, from May 16, 2013 until December 31, 2013, Mr. Matte will be paid a base salary at a rate of $100,000 per year and thereafter will be paid $250,000 per year. In recognition of his reduced salary during the beginning of the term, Mr. Matte was granted 791,211 seven-year stock options (exercisable at $0.35 per share), which vest in seven equal monthly installments on the last calendar day of ea[illegible] to his old

PRINCIPAL SHAREHOLDERS

The following table sets forth the number of shares of Aspen Group's common stock beneficially owned as of July 5, 2013 by (i) those persons known by Aspen Group to be owners of more than 5% of its common stock, (ii) each director (iii) the Named Executive Officers (as disclosed in the Summary Compensation Table), and (iv) Aspen Group's executive officers and directors as a group. Unless otherwise specified in the notes to this table, the address for each person is: c/o Aspen Group, Inc. 224 West 30th Street, Suite 604 New York, New York 10001.

Title of Class	Beneficial Owner	Amount of Beneficial Ownership (1)	Percent Beneficially Owned (1)
Named Executive Officers:			
Common Stock	Michael Mathews (2)	4,532,837	7.5%
Common Stock	David Garrity (3)	675,609	1.1%
Common Stock	Brad Powers (4)	989,106	1.7%
Directors:			
Common Stock	Michael D'Anton (5)	2,246,899	3.8%
Common Stock	James Jensen (6)	738,643	1.3%
Common Stock	David Pasi (7)	383,861	*
Common Stock	Sanford Rich (8)	59,583	*
Common Stock	John Scheibelhoffer (9)	2,198,805	3.7%
Common Stock	Paul Schneier (10)	951,667	1.6%
Common Stock	All directors and executive officers as a group (10 persons) (11)	11,688,846	19.0%
5% Shareholders:			
Common Stock	Higher Education Management Group, Inc. (12)(13)	5,177,315	8.8%
Common Stock	Sophrosyne Capital, LLC (14)	5,571,425	9.2%

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* Less than 1%.

(1) Applicable percentages are based on 58,573,223 shares outstanding as of July1, 2013 adjusted as required by rules of the SEC. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days whether upon the exercise of options, warrants or conversion of notes. Unless otherwise indicated in the footnotes to this table, Aspen Group believes [illegible] the table has sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by them. This table does not include any unvested stock options except for those vesting within 60 days.

(2) Mr. Mathews is our Chairman and Chief Executive Officer. Includes: (i) 300,000 shares issuable upon conversion of a $300,000 Note, (ii) 857,143 shares issuable upon the conversion of a second $300,000 Note, (iii) 117,943 shares pledged as collateral for a receivable and (iv) 722,244 vested stock options.

(3) Mr. Garrity is our former Chief Financial Officer. Includes: (i) 494,341 vested stock options and (ii) 25,000 shares underlying warrants.

(4) Mr. Powers is our former Chief Marketing Officer. Includes 489,106 vested stock options.

(5) Dr. D'Anton is a director. Includes 113,358 shares of common stock and 51,429 shares underlying warrants held as custodian for the benefit of Dr. D'Anton's children. Also includes 129,524 vested stock options.

(6) Mr. Jenson is a director. Includes (i) 150,000 shares underlying warrants and (ii) 66,667 vested stock options.

(7) A director. Includes 66,667 vested stock options.

(8) A director. Includes 33,333 vested stock options.

(9) Dr. Scheibelhoffer is a director. Includes 128,121 shares of common stock and 51,429 shares underlying warrants held as custodian for the benefit of Dr. Scheibelhoffer's children. Also includes 66,667 vested stock options.

(10) Mr. Schneier is a director. Includes (i) 50,000 shares underlying warrants and (ii) 66,667 vested stock options.

(11) In accordance with SEC rules, includes securities held by executive officers who are not N chne s, nef fs whons.

(13) At inception, Aspen issued all of its 10 million shares of authorized common stock to HEMG. In order to raise money over a five-year period, Aspen sold shares and HEMG relinquished and returned to Aspen's treasury the number of shares Aspen sold. Due to some clerical errors, 120,500 shares owned by HEMG were not cancelled by Mr. Spada's personal assistant. Due to this pattern, Aspen does not believe that it sold shares improperly. In support of this, HEMG agreed not to sell 120,500 shares pending resolutions in connection with the April Agreement (described on page 65). Theref [illegible]

SELLING SHAREHOLDERS

The following table provides information about each selling shareholder listing how many shares of our common stock they own on the date of this prospectus, how many shares are offered for sale by this prospectus, and the number and percentage of outstanding shares each selling shareholder will own after the offering assuming all shares covered by this prospectus are sold. Except for Whalehaven Capital Fund Ltd., all selling shareholders purchased the shares being registered in private placements where Aspen Group agreed to register the shares of common stock and the shares of common stock underlying warrants. Three of our directors were investors, and we are only registering the shares purchased in the private placements and not other shares they own. Except as disclosed in this prospectus, none of the selling shareholders have had any position, office, or material relationship with us or our affiliates within the past three years. The information concerning beneficial ownership has been taken from our stock transfer records and information provided by the selling shareholders. Information concerning the selling shareholders may change from time to time, and any changed information will be set forth if and when required in prospectus supplements or other appropriate forms permitted to be used by the SEC.

We do not know when or in what amounts a selling shareholder may offer shares for sale. The selling shareholders may not sell any or all of the shares offered by this prospectus. Because the selling shareholders may offer all or some of the shares, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, we cannot estimate the number of the shares that will be held by the selling shareholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, all of the shares covered by this prospectus will be sold by the selling shareholder.

Unless otherwise indicated, the selling shareholders have sole voting and investment power with respect to their shares of common stock. All of the information contained in the table below is based upon information provided to us by the selling shareholders, and we have not independently verified this information. The selling shareholders may have sold, transferred or otherwise disposed of, or may sell, transfer or otherwise dispose of, at any time or from time to time since the date on which it provided the information regarding the shares beneficially owned, all or a portion of the shares beneficially owned in transactions exempt from the registration requirements of the Securities Act of 1933, or the Securities Act.

The number of shares outstanding and the percentages of beneficial ownership are based on 58,573,223 shares of our common stock issued and outstanding as of July 1, 2013, plus 7,958,016 shares underlying warrants which are being registered hereunder. For the purposes of the following table, the number of shares common stock beneficially owned has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, or the Exchange Act, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under Rule 13d-3, beneficial ownership includes any shares as to which a selling shareholder has sole or shared voting power or investment power and also any shares which that selling shareholder has the right to acquire within 60 days of the date of this prospectus through the exercise of any stock option, warrant or other rights.

Name (1)	Number of securities beneficially owned before offering	Number of securities to be offered	Number of securities owned after offering	Percentage of securities beneficially owned after offering
Sophrosyne Capital, LLC (2)	5,571,425	5,571,425	0	0
Jon D. & Linda W. Gruber Trust DTD 7/4/04 (3)	900,000	900,000	0	0
Whalehaven Capital Fund Ltd. (4)	3,501,604	2,900,000	601,604	*
DPIT 3 LLC (5)	900,000	900,000	0	0
Vulcan Properties Inc. (6)	1,285,714	1,285,714	0	0
Stacie Greene SEP IRA	900,000	900,000	0	0
Kenneth Greene SEP IRA	450,000	450,000	0	0
Michael D'Anton (7)	2,246,899	154,287	2,092,612	3.1%
John Scheibelhoffer (8)	2,198,805	154,287	2,044,518	3.1%
Paul Schneier (9)	951,667	150,000	801,667	1.2%
C. James Jensen (9)	738,643	450,000	288,643	*
Sterne Agee & Leach Inc. C/F Matthew D. Eitner SEP/IRA	214,285	214,285	0	0
Sterne Agee & Leach Inc. C/F Pamela V. Yazgi R/O IRA	192,090	192,090	0	0
Sterne Agee & Leach Inc. C/F Nabil M. Yazgi R/O IRA	588,032	588,032	0	0
Kevin P. McCarthy	196,009	196,009	0	0
Christine Callahan	98,002	98,002	0	0

Edward G. Cullen	476,899	392,021	84,878	*
Joe S. Maiz	98,002	98,002	0	0
Sterne Agee & Leach Inc. C/F Gary A. Washauer IRA	98,002	98,002	0	0
Bruno J. Casatelli	39,202	39,202	0	0
Benjamin Hasty	156,808	156,808	0	0
Allan D. Carlson	39,202	39,202	0	0
Sterne Agee & Leach Inc. C/F Robert P. Vilker IRA	98,002	98,002	0	0
Sterne Agee & Leach Inc. C/F John L. Sommer IRA	303,151	303,151	0	0
Lisa Askenase Konsker	196,009	196,009	0	0
L. Dean Fox	97,457	97,457	0	0
William R. Coole	97,457	97,457	0	0
Thomas G. Hoffman	97,457	97,457	0	0
Fredric Tordella	194,912	194,912	0	0
George M. Zelinski	97,457	97,457	0	0
David and Haya Perlmutter JTWROS	97,457	97,457	0	0
Jan Cees Marijt	38,981	38,981	0	0
Michael Engdall & Susan Engdall JTWROS	155,931	155,931	0	0
Suleiman Al Hedaithy	116,759	116,759	0	0
Sterne Agee & Leach C/F Sean Brennan Rollover IRA	124,744	124,744	0	0
Billy W. Harris	97,457	92,457	0	0
Michael B. Carroll and Sheila J. Carroll JTWROS	292,371	292,371	0	0
Ronald R. y —				

Jan-Hendrik Spilgies	85,713	85,713	0	0
Jay Eisen	167,347	3ln		

Although Mr. Spada is believed to have devoted his full-time services to Aspen, there is no evidence he ever received any salary. For 2010 and 2011, Aspen paid $655,191 of personal expenses on behalf of Mr. Spada. Aspen issued to Mr. Spada and HEMG two 1099s in relation to 2011 for $119,800 and $320,935, respectively. No 1099s were issued to HEMG or Mr. Spada prior to 2011, and the difference was added to the loan receivable. In 2012, Aspen Group issued Mr. Spada an amended 1099 for 2011 which included the full amount of the borrowed funds.

On September 16, 2011, Mr. Spada sold 3,769,150 shares of Series C (equivalent to 3,193,906 shares of common stock of Aspen Group) for $1,000,000 or approximately $0.265 per share (or the equivalent of $0.313 per share of Aspen Group's common stock). Mr. Mathews was one of the purchasers; other purchasers included Mr. David Garrity, Aspen's then Chief Financial Officer, and Michael D'Anton, MD, Mr. C. James Jensen and John Scheibelhoffer MD who are directors. On September 21, 2011, Aspen lent $238,210 to Mr. Mathews to allow him to acquire Series C from HEMG. The loan was for a nine month period with 3% per annw

Anti-takeover Effects of Delaware Law

We are subject to the "business combination" provisions of Section 203 of the Delaware General Corporation Law. In general, such provisions prohibit a publicly-held Delaware corporation from engaging in various "business combination" transactions such as a merger with any interested shareholder which includes, a shareholder owning 15% of a corporation's outstanding voting securities, for a period of three years after the date in which the person became an interested shareholder, unless:

- The transaction is approved by the corporation's Board prior to the date the shareholder became an interested shareholder;
- Upon closing of the transaction which resulted in the shareholder becoming an interested shareholder, the shareholder owned at least 85% of the shares of stock entitled to vote generally in the election of directors of the corporation outstanding excluding those shares owned by persons who are both directors and officers and specified types of employee stock plans; or
- On or after such date, the business combination is approved by the Board and at least 66 2/3% of outstanding voting stock not owned by the interested shareholder.

A Delaware corporation may opt out of Section 203 with either an express provision in its original Certificate of Incorporation or an amendment to its Certificate of Incorporation or Bylaws approved by its shareholders. We have not opted out of this Statute. This Statute could prohibit, discourage or delay mergers or other takeover attempts to acquire us.

PLAN OF DISTRIBUTION

The selling shareholders of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the Bulletin Board or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling shareholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- [illegible]
- [illegible] transactions;
- [illegible]

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling shareholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for us to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) the date on which all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling shareholders or any other person. We will make copies of this prospectus available to the selling shareholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including through compliance with Rule 172 under the Securities Act).

Transfer Agent

Action Stock Transfer Corp. is our transfer agent located at 2469 E. Fort Union Boulevard, Suite 214, Salt Lake City, Utah 84121.

LEGAL MATTERS

Aspen Group, Inc. and Subsidiaries

Index to Consolidated Financial Statements

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Condensed Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012	F-2
Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012 (unaudited)	F-3
Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficiency) for the three months ended March 31, 2013 (unaudited)	F-4
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Consolidated Balance Sheets as of December 31, 2012 and 2011	F-23
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Consolidated Statements of Changes in Stockholders' Equity (Deficiency) for the years ended December 31, 2012 and 2011	F-26

ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		March 31, 2013 (Unaudited)		December 31, 2012
Assets				
Current assets:				
Cash and cash equivalents	$	479,344	$	577,238
Restricted cash		265,131		264,992
Accounts receivayäl31				

ASPEN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
Revenues	$ 892,334	$ 546,778
Costs and expenses:		
Instructional costs and services	235,713	187,847
Marketing and promotional	310,491	437,305
General and administrative	1,217,273	1,752,281
Depreciation and amortization	120,357	89,749
Total costs and expenses	1,883,834	2,467,T1

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 a Colorado subsidiary, Aspen University Marketing, LLC, which was inactive and was formally dissolved on November 20, 2012. On March 13, 2012, the Company was recapitalized in a reverse merger (See Note 10). All references to the Company or Aspen before March 13, 2012 are to Aspen University Inc.

On April 5, 2013, the Company gave 120-day notice to CLS 123, LLC of its intent to terminate the agreement between the Company and CLS 123, LLC dated November 9, 2011. Moreover, at the end of the 120-day period, the Company shall no longer be offering the "Certificate in Information Technology with a specialization in Smart Home Integration" program. Accordingly, the activities related to CLS (or the "Smart Home Integration Certificateq̃ d, t0ized i n

The consolidated 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.

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, amortization periods and valuation of software and courseware, valuation of stock-based compensation, the valuation of net assets and liabilities from discontinued operations and the valuation allowance on deferred tax assets.

Restricted Cash

Restricted cash represents amounts pledged as security for letters of credit for transactions involving Title IV programs. The Company considers $265,131 (includes accrued interest of $466) as restricted cash (shown as a current asset as of March 31, 2013) until such letter of credit expires on December 31, 2013. As of March 31, 2013, the account bears interest of 0.20%.

Fair Value Measurements

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

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

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

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

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts paê —paê —ieramark a ark ash ao k s ieramark

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

Revenue Recognition and [illegible]

Note 4. Property and Equipment

Property and equipment consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Call center	$ 121,313	$ 121,313
Computer and office equipment	61,037	45,718
Furniture and fixtures	32,914	11,336
Library (online)	100,000	100,000
Software	1,491,035	1,388,824
	1,806,299	1,667,191
Accumulated depreciation and amortization	(541,216)	(455,871)
Property and equipment, net	$ 1,265,083	$ 1,211,320

Depreciation and amortization expense for the three months ended March 31, 2013 and 2012 was $85,345 and $53,511, respectively. Accumulated depreciation amounted to $541,216 and $455,871 as of March 31, 2013 and December 31, 2012, respectively.

Amortization expense for software, included in the above amounts, for the three months ended March 31, 2013 and 2012 was $74,552 and $46,373, respectively. Software consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Software	$ 1,491,035	$ 1,388,824
Accumulated amortization	(361,296)	(286,744)
Software, net	$ 1,129,739	$ 1,102,080

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

Year Ending December 31,	
2013	$ 223,655
2014	298,207
2015	298,207
2016	237,917
2017	71,753
Total	$ 1,129,739

Note 5. Courseware

Courseware costs capitalized were $0 and $3,200 for the three months ended March 31, 2013 and 2012, respectively.

Courseware consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Courseware	$ 2,097,538	$ 2,097,538
Accumulated amortization		

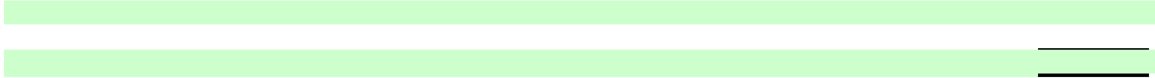
m

The following is a [illegible] h

On October 10, 2012, the Company entered into a non-exclusive agreement with Global Arena Capital Corp. ("GAC"), a broker-dealer, through which GAC agreed to use its best efforts to raise up to $2,030,000 from the sale of Units for $35,000 per Unit, with each Unit consisting of 100,000 shares of common stock and 50,000 five-year warrants exercisable at $0.50 per share. The Company agreed to compensate GAC from sales of Units by paying it compensation equal to 10% of the gross proceeds sold by it. The Company also agreed to issue GAC five-year warrants to purchase 10% of the same Units it sells to investors with an exercise price equal to the purchase price paid by investors ($35,000 per Unit). In addition, the Company agreed to pay GAC a 3% non-accountable expense allowance from the proceeds of Units sold by it. As of December 31, 2012, the Company raised $530,337 (net of offering costs of $184,663 and five-year warrants to purchase: (i) 100,000 common shares at $0.35 per share and (ii) 98,000 common shares at $0.50 per share.) from the sale of 20.43 Units (including 2,042,856 common shares and 1,021,432 warrants) under the offering. On December 31, 2012, the agreement with GAC was terminated. During the period from February 13, 2013 through March 1, 2013, the Company raised $519,370 (net of offering costs of $45,630) from the sale of 16.14 Units (including 1,614,286 common shares and 807,143 five-year warrants exercisable at $0.50 per share) on its own behalf without the use of a broker. The warrants have cashless exercise provisions. On March 14, 2013, and based on the Company having increased the remainder of the Offering by $20,000, the Company entered into an exclusive engagement with Laidlaw & Company (UK) Ltd. under which Laidlaw agreed to use its best effort to sell up to $770,000 of Units with the same terms as the Units the Company sold in 2012 and 2013 to date. Laidlaw will receive cash commissions of 10% based on the number of Units sold and five-year warrants equal to 10% of the securities sold exercisable at $0.50 per share. The offering shall terminate no later than April 15, 2013 (See Note 12).

Recapitalization

On March 13, 2012 (the "recapitalization date"), Aspen University was acquired by Aspen Group, Inc., an inactive publicly-held company, in a reverse merger transaction accounted for as a recapitalization of Aspen University (the "Recapitalization" or the "Reverse Merger"). The



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

Weighted

A

Note 12. Subsequent Events

On April 5, 2013, the Company provided a 120-day notice to CLS 123, LLC of its intent to terminate the agreement between the Company and CLS 123, LLC dated November 9, 2011 (See Note 1 "Discontinued Operations").

On April 18, 2013, the Company raised $522,170 (net of offering costs of $78,158 and five-year warrants to purchase 169,021 common shares at $0.50 per share) from the sale of 17.15 Units (comprised of 1,715,217 common shares and 857,606 five-year warrants exercisable at $0.50 per share). All of the Units were sold with the assistance of Laidlaw except $8,750, which the Company raised on its own behalf and was not subject to a commission. Cash commissions of $59,158 and five-year warrants to purchase 169,021 common shares at $0.50 per share are due to Laidlaw as offering fees.

On April 25, 2013, the Company changed its fiscal year end from December 31 to April 30.

Subsequent to March 31, 2013, the Company granted 160,714 stock options to executive officers in lieu of reduced salaries, 75,000 stock options to a consultant and 25,000 stock options to an employee. All of the aforementioned stock options are five-year options, vest over 3 years and have an exercise price of $0.35 per share.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of:
Aspen Group, Inc.

We have audited the accompanying consolidated balance sheets of Aspen Group, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for each of the two years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aspen Group, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has a net loss allocable to common stockholders and net cash used in operating activities in 2012 of $6,048,113 and $4,522,710, respectively, and has an accumulated deficit of $11,337,104 as of December 31, 2012. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's Plan in regards to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Salberg & Company, P.A.

SALBERG & COMPANY, P.A.
Boca Raton, Florida
March 18, 2013 (Except for Note 1 "Discontinued Operations" and Note 16 as to which the date is July 3, 2013)

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ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
AIW		

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

	December 31, 2012	December 31, 2011
Liabilities and Stockholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable	$ 215,796	$ 414,147
Accrued expenses	75,912	128,303
Deferred revenue		

ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Revenues	$ 2,684,931	$ 2,346,238
Costs and expenses:		
Instructional costs and services	899,909	525,907
Marketing and promotional	1,442,128	515,362
General and administrative	5,235,282	3,593,956
Receivable collateral valuation reserve	502,315	-
Depreciation and amortization	397,923	264,082
Total costs and expenses	8,477,557	4,899,307
Operating loss from continuing operations	(5,792,626)	(2,553,069)
Other income (expense):		
Interest income	4,592	2,656
Interest expense	(364,889)	(27,850)
Gain on disposal of property and equipment	5,879	-
Loss due to unauthorized borrowing	-	(14,876)
Total other expense	(354,418)	(40,070)
Loss from continuing operations before income taxes	(6,147,044)	(2,593,139)
Income tax expense (benefit)	-	-
Loss from continuing operations	(6,147,044)	(2,593,139)
Discontinued operations (Note 1)		
Income from discontinued operations, net of income taxes	136,310	457,566
Net loss	(6,010,734)	(2,135,573)
Cumulative preferred stock dividends	(37,379)	(87,326)
Net loss allocable to common stockholders	$ (6,048,113)	$ (2,222,899)
Loss per share from continuing operations - basic and diluted	$ (0.17)	$ (0.17)
Income per share from discontinued operations - basic and diluted	$ -	$ 0.03
Net loss per share allocable to common stockholders - basic and diluted	$ (0.17)	$ (0.14)
Weighted average number of common shares outstanding:		
Basic and diluted	35,316,681	15,377,413

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

ASPEN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Preferred Stock									Total
	Series B		Series C		Common Stock		Additional			Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Treasury Stock	Accumulated Deficit	Equity (Deficiency)

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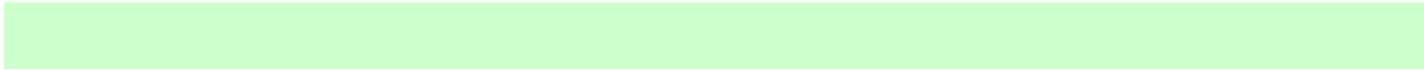
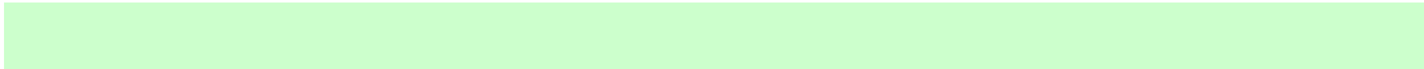
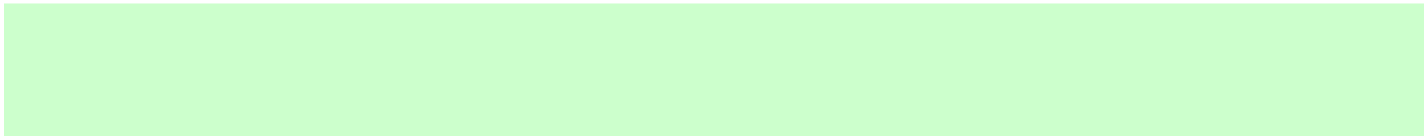
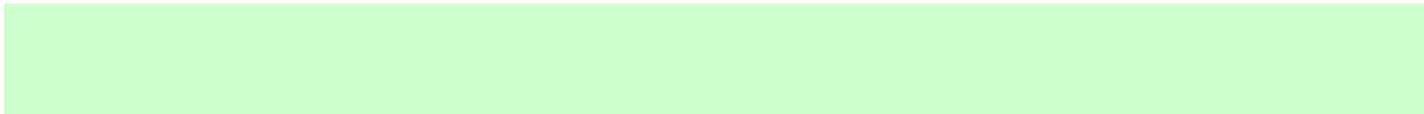
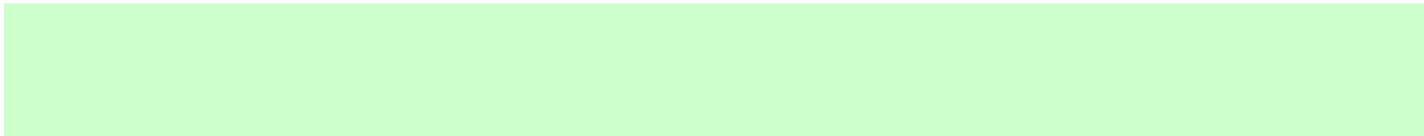
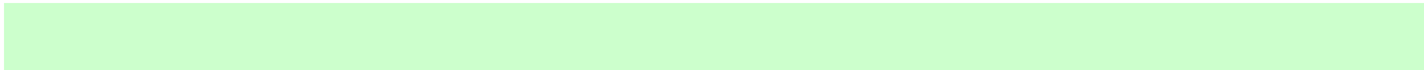


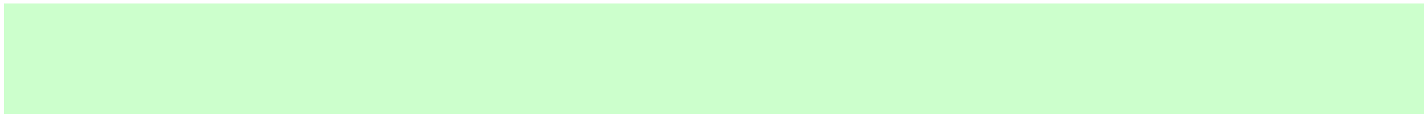


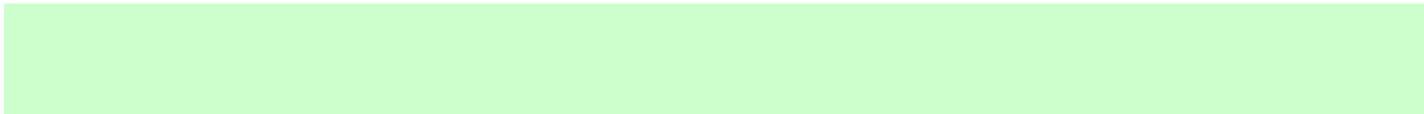






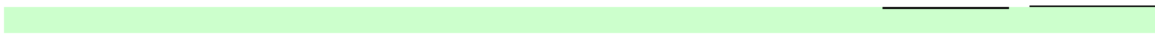
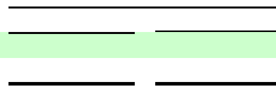






compensation	-	-	-	-	-	-	347,657	-	-	347,657
Net loss, 2012	-	-	-	-	-	-	-	-	(6,010,734)	(6,010,734)
Balance at December 31, 2012	-	$ -	-	$ -	55,243,719	$ 55,244	$ 12,153,615	$ (70,000)	$ (11,337,104)	$ 801,755

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

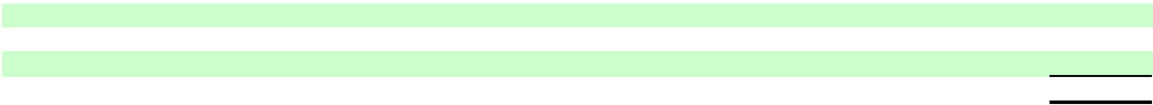



ASPEN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1. Nature of Operations and Going Concern

Overview

Aspen Group, Inc. (together with its subsidiaries, the " kbriptú



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.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

Accounts receivable consist primarily of amounts due for tuition, technology fees and other fees for students who are in the course of completing a degree or certificate program. Students generally fund their education through personal funds, grants and/or loans under various DOE Title IV programs, or tuition assistance from military and corporate employers. Accounts receivable also includes secured amounts presented as non-current due from the sale of courseware to a former related party.

All students are required to select both a primary and secondary payment option with respect to amounts due to the Company for tuition, fees and other expenses. The most common payment option for the Company's students is personal funds or payment made on their behalf by an employer. In instances where a student selects financial aid as the primary payment option, he or she often selects personal cash as the secondary option. If a student who has selected financial aid as his or her primary payment option withdraws prior to the end of a course but after the date that the Company's institutional refund period has expired, the student will have incurred the obligation to pay the full cost of the course. If the withdrawal occurs before the date at which the student has earned 100% of his or her financial aid, the Company will have to return all or a portion of the funds to the DOE and the student will owe the Company all amounts incurred that are in excess of the amount of financial aid that the student earned and that the Company is entitled to retain. In this case, the Company must collect the receivable using the student's second payment option.

For accounts receivable from students, the Company records an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of its students to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of the student's cost of tuition and related fees. The Company determines the adequacy of its allowance for doubtful accounts using a general reserve method based on an analysis of its historical bad debt experience, current economic trends, and the aging of the accounts receivable and student status. The Company applies reserves to its receivables based upon an estimate of the risk presented by the age of the receivables and student status. The Company writes off accounts receivable balances at the time the balances are deemed uncollectible. The Company continues to reflect accounts receivable with an offsetting allowance as long as management believes there is a reasonable possibility of collection.

For accounts receivable from primary payors other than students, the Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an ex nyanobligatio2n1 b ªêbÚliadetetus. In pre bants, the Compan cancy

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 st 1

Reclassifications

Certain amounts in the accompanying 2011 conc c tm1buntonc 1

Stock-Based Compensation

Stock-based compensation expense is measured at the grant date fair value of the award and is expensed over the requisite service period. For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes option pricing model. Determining the fair value of stock-based awards at the grant date under this model requires judgment, including estimating volatility, employee stock option exercise behaviors and forfeiture rates. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. For non-employee stock-based awards, the Company calculates the fair value of the award on the date of grant in the same manner as employee awards, however, the awards are revalued at the end of each reporting period and the prorata compensation expense is adjusted accordingly until such time the non-employee award is fully vested, at which time the total compensation recognized to date shall equal the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient's performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised.

Net Loss Per Share

Net loss per common share is based on the weighted average number of common shares outstanding during each year. Options to purchase 6,972,967 common shares, warrants to purchase 8,112,696 common shares, and $800,000 of convertible debt (convertible into 1,357,143 common shares) were outstanding during the year ended December 31, 2012, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. Warrants to purchase 456,000 common shares were outstanding during the year ended December 31, 2011, 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.

In addition to the above common stock equivalents, the Company had outstanding preferred shares (Series A through E) that were contingently convertible into common shares upon it becoming an SEC reporting company. There were an aggregate of 15,403,006 preferred shares contingently convertible into 13,677,274 common shares for the years ended December 31, 2011 that could have been potentially dilutive in the future. As a result of its merger with Aspen Group, Inc., on March 13, 2012 (the SEC Reporting Date), the Company became subject to SEC reporting requirements. Accordingly, all of the preferred shares were automatically converted into common shares on that date (See Notes 11 and 12).

Segment Information

The Company operates in one reportable segment as a single educational delivery operation using a core infrastructure that serves the curriculum and educational delivery needs of its online students regardless of geography. The Company's chief operating decision makers, its CEO and President, manage the Company's operations as a whole, and no revenue, expense or operating income information is evaluated by the chief operating decision makers on any component level.

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.

In December 2011, the FASB issued ASU 2011-12, which amends ASC Topic 220, Comprehensive Income, to defer certain aspects of ASU 2011-05. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this guidance, along with ASU 2011-05, on January 1, 2012, and such adoption did not have a material impact on the Company's financial statements.

In July 2012, the FASB issued ASU 2012-02, which amends ASC Topic 350 to allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. An entity would not be required to determine the fair value of the indefinite-lived intangible unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company is evaluating the impact of this ASU and does not expect the adoption will have an impact on its consolidated results of operations or financial condition.

We have implemented all new accounting standards that are in effect and that may impact our consolidated financial statements and do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our consolidated financial position or results of operations.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at December 31, 2012 and 2011:

	December 31,	
	2012	2011
Accounts receivable	$ 275,206	$ 262,694
Less: Allowance for doubtful accounts	(35,535)	(47,595)
Accounts receivable, net	$ 239,671	$ 215,099

Bad debt expense was $133,907 and $21,200 for the years ended December 31, 2012 and 2011, respectively.

Note 4. Secured Accounts and Notes Receivable – Related Parties

On September 21, 2011, the Company loaned $238,210 to its CEO in exchange for a promissory note bearing 3% per annum. As collateral, the note was secured by 40,000 shares of common stock of interclick, Inc. (a publicly-traded company) owned personally by the CEO. The note along with accrued interest was due and payable on June 21, 2012. For the year ended December 31, 2011, interest income of $1,867 was recognized. On December 20, 2011, the note along with accrued interest of $1,867 was paid in full (See Note 15).

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. During the year ended December 31, 2011, interest income of $210 was recognized on the note receivable and is included in other current assets. As of December 31, 2011, the balance due on the note receivable was $150,000, all of which is short-term. During the year ended December 31, 2012, interest income of $594 was recognized on the note receivable. On February 16, 2012, the note receivable from an officer was repaid along with accrued interest (See Note 15).

Note 7. Accrued Expenses

Accrued expenses consisted of the following at December 31, 2012 and December 31, 2011:

	December 31,	
	2012	2011
Accrued compensation	$ 50,923	$ 33,930
Accrued settlement payable		

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On May 1, 2012, the Company issued a convertible note payable to a consultant in the amount of $49,825 in exchange for past services rendered, of which $38,175 pertains to the nine months ended September 30, 2012. The note bore interest at 0.19% per annum, had a maturity date of September 30, 2012, and was 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. As a result of the private placement closing on September 28, 2012, the $49,825 (face value) convertible note was automatically converted into 142,357 common shares at the contractual rate of $0.35 per share. In addition, 112 common shares were issued to settle $39 of accrued interest on the aforementioned convertible note. No gain or loss was recognized upon settlement (See Note 12).

On August 14, 2012, the Company's CEO loaned the Company $300,000 and received a convertible promissory note, payable on demand, bearing interest at 5% per annum [illegible] convertible into common shares of the Company at the rate of $0.35 per share (based on proceeds received on September 28, 2012 under a private placement at $0.35 per unit). The Company evaluated the convertible notes and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012, the maturity date was extended to August 31, 2014 (See Note 15).

As of December 31, 2012, the convertible notes embedded conversion options were still not accounted for as bifurcated derivatives since the conversion shares were not readily convertible to cash due to an inactive trading market.

Notes payable consisted of the following at December 31, 2012 [illegible]

Future maturities of notes payable are as follows:

Year Ending December 31,	

On March 27, 2012 and on August 31, 2012, Aspen University provided the D

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 then had a conversion ratio of 0.8473809.

Authorized and Designated Shares

On May 17, 2011, the Company amended its certificate of incorporation whereby the total number of authorized shares was increased from 10,000,000 shares to: (i) 60,000,000 shares of common stock having a par value of $0.001 per share, and (ii) 20,000,000 shares of preferred stock having a par value of $0.001 per share.

On May 17, 2011, the Company designated 850,500 Series A preferred shares, 368,421 Series B preferred shares, 11,411,400 Series C preferred shares, and 3,700,000 Series D preferred shares.

On September 9, 2011, the Company filed its second amended certificate of incorporation whereby the Company designated 2,000,000 Series E preferred shares.

Preferred Shares

In May 2011, $350,000 of convertible notes were converted into 368,411 Series B preferred shares (See Notes 9 and 15). The Series B shares had the following features: (i) equal voting rights as the common shares; (ii) automatically convert to common shares at the time the Company is required to file Forms 10-Q and 10-K with the SEC (the "SEC Reporting Date"); (iii) a conversion ratio of 1 share of common for each share of Series B; (iv) until the SEC Reporting Date, transfer restricted to permitted transfers; and (v) until the SEC Reporting Date, price protection should any common stock or equivalents be issued with a lower conversion ratio.

On May 20, 2011, as part of a post-closing transaction of the merger with EGC, the Company's largest stockholder exchanged all 11,307,450 common shares owned into 11,307,450 Series C shares. The Series C shares had the following features: (i) equal voting rights as the common shares; (ii) automatically convert to common shares at the time the Company is required to file Forms 10-Q and 10-K with the SEC (the "SEC Reporting Date"); (iii) a conversion ratio of 0.8473809 shares of common for each share of Series C; (iv) until the SEC Reporting Date, transfer restricted to permitted transfers; (v) exclusion from the two-for-one stock split effectuated immediately prior to the SEC Reporting Date (See Note 15); and (vi) a liquidation preference of $0.001 per share.

On March 13, 2012, all preferred shares were automatically converted into common shares and, based on the terms of the preferred shares (See below).

Common Shares

On May 11, 2011, pursuant to a rescission offer, the Company repurchased an aggregate of 170,100 common shares and returned to investors an aggregate of $165,000 as a result of Blue Sky violations. The treasury shares were subsequently retired.

On May 19, 2011, the Company issued 3,200,000 common shares of the Company in order to acquire all of the outstanding shares of EGC as part of a merger (See Note 1).

On May 20, 2011, as part of a post-closing transaction of the merger with EGC and a settlement with a certain group of investors, the Company repurchased an aggregate of 850,500 common shares and returned to investors an aggregate of $740,000. The treasury shares were subsequently retired.

On December 28, 2011, the Company repurchased an aggregate of 34,020 common shares and returned to investors an aggregate of $21,200. The treasury shares were subsequently retired.

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 11).

A summary of the Company's warrant activity during the year ended December 31, 2012 is presented below:

Warrants	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Balance Outstanding, December 31, 2011	456,000	$	0.33			
Granted	6,950,522		0.46			
Exercised	-		-			
Forfeited	(150,000)		0.50			
Expired	-		-			
Balance Outstanding, December 31, 2012	7,256,522	$	0.45	4.5	$	32,349
Exercisable, December 31, 2012	7,256,522	$	0.45	4.5	$	32,349

Certain of the Company's warrants contain price protection. The Company evaluated whether the price protection provision of the warrant would cause derivative treatment. In its assessment, the Company determined that since its shares are not readily convertible to cash due to an inactive trading market, the warrants are excluded from derivative treatment.

Stock Incentive Plan and Stock Option Grants to Employees and Directors

Immediately following the closing of the Reverse Merger, on March 13, 2012, the Company adopted the 2012 Equity Incentive Plan (the "Plan") that provides for the grant of 2,500,000 shares (increased to 5,600,000 shares effective September 28, 2012) 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 December 31, 2012, no shares were remaining under the Plan for future issuance (See Note 16).

On October 23, 2012, the Company issued non-Plan stock options to its executive officers as compensation for salary deferrals through August 31, 2012. Messrs. Michael Mathews, Brad Powers and David Garrity received 288,911, 255,773, and 136,008 five-year stock options, respectively, exercisable at $0.35 per share which options are fully vested. In aggregate, 680,692 stock options were issued to settle $238,562 of accrued salaries. No gain was recognized as the settlement was between the Company and related parties. On January 16, 2013, these options were modified to be Plan options (See Note 16).

On October 23, 2012, the Company issued additional non-Plan options to executive officers who reduced their salaries for the period September 1 through December 31, 2012. The Company granted Messrs. Mathews, Powers and Garrity each 166,666 five-year options, respectively, and Dr. Gerald Williams 47,620 five-year options, all exercisable at $0.35 per share with 25% of these options vesting on the last day of September, October, November and December 2012, subject to the applicable executive remaining employed on each applicable vesting date. In aggregate, 547,618 stock options were issued as part of the reduced salaries. All stock options or shares granted are valued on the appropriate measurement date and the related expense shall be recognized over the requisite service period. On January 16, 2013, these options were modified to be Plan options (See Note 16).

During April 2012, the Company received $22,000 from a director of the Company in exchange for a note payable bearing interest of 10%, due on demand. On November 21, 2012, the director forgave a $22,000 note receivable from the Company in exchange for 62,857 five-year vested non-Plan stock options exercisable at $0.35 per share. No gain was recognized as the settlement was between the Company and related parties. On January 16, 2013, these options were modified to be Plan options (See Notes 9, 15 and 16).

On December 17, 2012, the Company repriced 1,705,000 stock options from having an exercise price of $1.00 per share to $0.35 per share. Accordingly, the incremental increase in the fair value due to the repricing is being recognized over the remaining service period of the stock options.

Note 13. Income Taxes

The components of income tax expense (benefit) are as follows:

	For the Year Ended December 31,	
	2012	2011
Current:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred:		
Federal	-	-
State	-	-
	-	-
Total Income tax expense (benefit)	$ -	$ -

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss	$ 3,649,651	$ 2,064,725
Allowance for doubtful accounts	261,946	17,637
Intangible assets	118,740	-
Deferred rent	7,883	9,473
Stock-based compensation	128,827	-
Contributions carryforward	93	-
Total deferred tax assets	4,167,140	2,091,835
		ed t,
Deferred tax liabilities:		
Intangible assets	-	(148,345)
Property and equipment	(630)	(805)
Total deferred tax liabilities	(630)	(149,150)
Deferred tax assets, x e r b P		

On March 30, 2008 and December 1, 2008, the Company sold courseware pursuant to marketing agreements to HEMG, a related party and principal stockholder of the Company whose president is Mr. Patrick Spada, the former Chairman of the Company, in the amount of $455,000 and $600,000, respectively; UCC filings were filed accordingly. Under the marketing agreements, the receivables are due net 60 months. On September 16, 2011, HEMG pledg [illegible]

On March 13, 2012, the Company's CEO loaned the Company $300,000 and received a convertible promissory note due March 31, 2013, bearing interest at 0.19% per annum. The note is convertible into common shares of the Company at the rate of $1.00 per share upon five days written notice to the Company. The Company evaluated the convertible note and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012, the maturity date was extended to August 31, 2014. There was no accounting effect for these two modifications (See Note 9).

On August 14, 2012, the Company's CEO loaned the Company $300,000 and received a convertible promissory note, payable on demand, bearing interest at 5% per annum. The note is convertible into common shares of the Company at the rate of $0.35 per share (based on proceeds received on September 28, 2012 under a private placement at $0.35 per unit). The Company evaluated the convertible notes and determined that, for the embedded conversion option, there was no beneficial conversion value to record as the conversion price is considered to be the fair market value of the common shares on the note issue date. On September 4, 2012, the maturity date was extended to August 31, 2013. On December 17, 2012, the maturity date was extended to August 31, 2014 (See Note 9).

During 2005 through 2011, the Company advanced funds without board authority to both Patrick Spada (former Chairman of the Company) and HEMG, of which Patrick Spada is President. The amount of unauthorized borrowings during the year ended December 31, 2011 was $14,876, which has been expensed as loss due to unauthorized borrowing, a non-operating item (See Note 10).

On September 16, 2011, the Company entered into a two-year consulting agreement with the former Chairman of the Company in which the Company was obligated to pay $11,667 per month. On September 28, 2011, the Company prepaid 13 months of the consulting agreement, or $151,667, which was then amortized until December 31, 2011, at which time the consulting agreement was terminated and the remaining unamortized prepaid expense was recognized immediately as consulting expense. No additional amounts are due under the consulting agreement (See Note 10).

During 2011, the Company sold an aggregate of 850,395 Series A preferred shares in exchange for cash proceeds of $809,900 (of which $230,000 was received from then related parties). The Series A shares had the following features: (i) equal voting rights as the common shares; (ii) automatically convert to common shares at the time the Company is required to file Forms 10-Q and 10-K with the SEC (the "SEC Reporting Date"); (iii) a conversion ratio of 1 share of common for each share of Series A; (iv) until the SEC Reporting Date, transfer restricted to permitted transfers; (v) until the SEC Reporting Date, price protection should any common stock or equivalents be issued with a lower conversion ratio; (vi) 5% cumulative accruing dividends whether or not declared (payable only upon redemption per vii); and (vii) shall be redeemed by the Company if: (a) Michael Mathews is no longer the CEO, or (b) the SEC Reporting Date does not occur on or before January 31, 2012 (on February 29, 2012, this was extended to March 15, 2012), but (c) only to the extent the Company has EBITDA. During the year ended December 31, 2011, cumulative dividend on the Series A preferred shares amounted to $34,500 (See Note 11).

Note 16. Subsequent Events

On January 16, 2013, the Company increased the number of shares in its stock option plan to 8,000,000 shares. Also on January 16, 2013, 1,291,167 options were modified to be Plan options (See Notes 9, 12 and 15). In May 2013, the Board increased the number of shares in its stock option plan to 9,300,000 shares.

On February 11, 2013, HEMG and Mr. Spada sued us, certain senio nngementemumbees end cur od re teesain rtate ccuntain hen