

ASPEN GROUP, INC.
Form 10-K
July 28, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: **April 30, 2015**

Or

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

For the transition period from _____ to _____

ASPEN GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or Other Jurisdiction
of Incorporation or
Organization)*

000-55107
*(Commission
File Number)*

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

720 South Colorado Boulevard, Suite 1150N, Denver, CO 80246

(Address of Principal Executive Office) (Zip Code)

(303) 333-4224

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$19.9 million (\$0.245 price).

The number of shares outstanding of the registrant's classes of common stock, as of July 28, 2015 was 128,253,605 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended April 30, 2015.

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PART I

ITEM 1. BUSINESS.

Aspen Group, Inc., or Aspen Group, owns 100% of Aspen University Inc., a Delaware corporation, or Aspen. 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. On March 13, 2012, Aspen Group acquired Aspen in a transaction we refer to as the Reverse Merger.

Description of Business

Founded in 1987, Aspen's mission is to offer any motivated college-worthy student the opportunity to receive a high quality, responsibly priced distance-learning education for the purpose of achieving sustainable economic and social benefits for themselves and their families. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 60% of our adjunct professors hold doctorate degrees.

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

In the 16 months since the announcement, 45% of courses are now paid through monthly payment methods (based on courses started in June, 2015). Aspen offers two monthly payment methods, a monthly payment plan described above in which students make payments every month over a fixed period (36, 39 or 72 months depending on the degree program), and a monthly installment plan in which students pay three monthly installments only while active in a 10-week course. As of July 10, 2015, Aspen has over 1,000 students paying tuition through monthly payment methods, which today equates to approximately \$200,000 of monthly recurring tuition revenue.

Aspen offers certificate programs and associate, bachelor, master and doctoral degree programs in a broad range of areas, including nursing, business, education, technology, and professional studies. In terms of enrollment growth

during fiscal year 2015, Aspen's full time, degree-seeking student body grew by 824 students, from 2,485 to 3,309 students. Aspen's School of Nursing grew by 546 students, from 828 to 1,374 students, which represented 66% of Aspen's fiscal year 2015 full-time degree-seeking student body growth.

One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that approximately 42% of our full-time degree-seeking students (as of April 30, 2015) were enrolled in Aspen's School of Nursing.

On November 10, 2014, Aspen University announced that the Commission on Collegiate Nursing Education (CCNE) had awarded accreditation to its Bachelor of Science in Nursing program (RN to BSN) through December 31, 2019. CCNE is officially recognized by the U.S. Department of Education (DOE) and is a nongovernmental accrediting agency, which provides specialized accreditation for nursing programs by ensuring the quality and integrity of nursing education in preparing effective nurses. This newly CCNE-accredited undergraduate RN to BSN degree program is expected to grow rapidly given Aspen's debtless education approach, which allows nurses to pay the \$9,750 tuition for the 10-course RN to BSN completion program at \$250 per month for 39 months. In fact, Aspen projects the BSN program to be the largest growth driver in the next 12 months, which we estimate will result in over 50% or the majority of Aspen's degree-seeking student body to be enrolled in the School of Nursing by early 2016.

Since 2008, Aspen's Master of Science in Nursing Program has held CCNE accreditation. The Master of Science in Nursing program most recently underwent accreditation review by CCNE in March 2011. At that time, the program's accreditation was reaffirmed, with a new accreditation term to expire December 30, 2021. We currently offer a variety of nursing degrees including: Master of Science in Nursing, Master of Science in Nursing - Nursing Education, Master of Science in Nursing - Nursing Administration and Management and Bachelor of Science in Nursing.

In addition to the specialized CCNE nursing program accreditation, since 1993 Aspen University has been accredited by the Distance Education Accrediting Commission (DEAC), a national institutional accrediting agency recognized by the DOE.¹ On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years through January 2019. Aspen University's accreditation is further discussed in the Accreditation Section of this Form 10-K.

Aspen University also maintains approvals from professional associations, such as its approval as a Global Charter Education Provider from the Project Management Institute (PMI), and as 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 (PMP), certification examination. PMP certification is the project management profession's most recognized and respected certification credential. Project management professionals may take the PMI approved Aspen courses to fulfill continuing education requirements for maintaining their PMP certification.

Similarly, in connection with our Bachelor and Master degrees in Psychology of Addiction and Counseling, the National Association of Alcoholism and Drug Abuse Counselors, (NAADAC), has approved Aspen as an academic education provider. NAADAC-approved education providers offer training and education for those who are seeking to become certified, and those who want to maintain their certification, as alcohol and drug counselors. In connection with the approval process, NAADAC reviews all educational training programs for content applicability to state and national certification standards.

Aspen also is a participant in the U.S. DOE federal student aid programs. Beginning in 2009, and following Aspen's change of control in 2012, Aspen was provisionally certified to participate in the federal student aid programs authorized under Title IV Higher Education Act, or HEA. In order for Aspen to continue to participate in these programs, on February 9, 2015, based on DOE financial responsibility requirements, the DOE provided Aspen the option of posting a letter of credit equal to 50% of all Title IV funds received by Aspen in the last program year, \$2,244,971, to remain permanently certified, or remain provisionally certified by increasing Aspen's existing 25% letter of credit to \$1,122,485. Aspen informed the DOE on March 3, 2015 of its decision to remain provisionally certified and posted the \$1,122,485 letter of credit for the DOE on April 29, 2015. The DOE permits institutions that are provisionally certified pursuant to DOE financial responsibility requirements to participate in federal financial aid programs under provisional certification for up to three years. This is further discussed in the Regulation of Federal Student Financial Aid Programs Section of this Form 10-K.

Competitive Strengths - We believe that we have the following competitive strengths:

Exclusively Online Education - We have designed our courses and programs specifically for online delivery, and we recruit and train faculty exclusively for online instruction. We provide students the flexibility to study and interact at

times that suits their schedules. We design our online sessions and materials to be interactive, dynamic and user friendly.

Debt Minimization - We are committed to offering among the lowest tuition rates in the sector, which to date has alleviated the need for a significant majority of our students to borrow money to fund Aspen's tuition requirements. Aspen's course-by-course tuition rates are \$150/credit hour for degree-seeking undergraduate programs, \$325/credit hour for all master programs and the Bachelor of Science in Nursing (BSN) program and \$450/credit hour for all doctoral degree programs. These tuition rates are designed to allow students to pay their tuition through monthly payment plans, thereby having the opportunity to earn their degree debt free.

Commitment to Academic Excellence - We are committed to continuously improving our academic programs and services, as evidenced by the level of attention and resources we apply to instruction and educational support. We are committed to achieving high course completion and graduation rates compared to competitive distance learning, for-profit schools. 60% of our adjunct faculty members hold a doctorate degree. One-on-one contact with our highly experienced faculty brings knowledge and great perspective to the learning experience. Faculty members are available by telephone and email to answer questions, discuss assignments and provide help and encouragement to our students.

¹ DEAC was formerly known as the Distance Education and Training Council or DETC.

Highly Scalable and Profitable Business Model - We believe our online education model, our relatively low student acquisition costs, and our variable faculty cost model will enable us to expand our operating margins. If we increase student enrollments we will be able to scale on a variable basis the number of adjunct faculty members after we reach certain enrollment metrics (not before). A single adjunct faculty member can work with as little as two students or as many as 30 at any given time.

One Student at a Time personal care - We are committed to providing our students with highly responsive and personal individualized support. Every student is assigned an Academic Advisor who becomes an advocate for the student's success. Our one-on-one approach assures contact with faculty members when a student needs it and monitoring to keep them on course. Our administrative staff is readily available to answer any questions and works with a student from initial interest through the application process and enrollment, and most importantly while the student is pursuing a degree or studies.

Admissions

In considering candidates for acceptance into any of our certificate or degree programs, we look for those who are serious about pursuing or advancing in a professional career, and who want to be both prepared and academically challenged in the process. We strive to maintain the highest standards of academic excellence, while maintaining a friendly learning environment designed for educational, personal and professional success. A desire to meet those standards is a prerequisite. Because our programs are designed for self-directed learners who know how to manage their time, successful students have a basic understanding of management principles and practices, as well as good writing and research skills. Admission to Aspen is based on thorough assessment of each applicant's potential to complete successfully the program. Additionally, we require students to complete an essay as part of their admission process as we are looking for students not only with the potential to succeed but also with the motivation to succeed.

Industry Overview

The U.S. market for postsecondary education is a large, growing market. According to a 2012 publication by the National Center for Education Statistics, (NCES), the number of postsecondary learners enrolled as of Fall 2010 in U.S. institutions that participate in Title IV programs was approximately 21 million (including both undergraduate and graduate students), up from 18.2 million in the Fall of 2007. We believe the growth in postsecondary enrollment is a result of a number of factors, including the significant and measurable personal income premium that is attributable to postsecondary education, and an increase in demand by employers for professional and skilled workers.

According to the Integrated Postsecondary Education Data System (IPEDS) data managed by the DOE, the number of students that took at least one online course in fall 2012 was about 5.5 million -- roughly one-quarter of the total enrollment. Among those 5.5 million students, about 2.6 million were enrolled in fully online programs -- the rest took some traditional courses, some online. Additionally, the share of graduate students enrolled in fully online programs was twice as high as the share of undergraduates -- 22 to 11 percent.

Competition

There are more than 4,200 U.S. colleges and universities serving traditional college age students and adult students. Any reference to universities herein also includes colleges. Competition is highly fragmented and varies by geography, program offerings, delivery method, ownership, quality level, and selectivity of admissions. No one institution has a significant share of the total postsecondary market. While we compete in a sense with traditional brick and mortar universities, our primary competitors are with online universities. Our online university competitors that are publicly traded include: Apollo Group, Inc. (Nasdaq: APOL), American Public Education, Inc. (Nasdaq: APEI), DeVry Inc. (NYSE: DV), Grand Canyon Education, Inc. (Nasdaq: LOPE), ITT Educational Services, Inc. (NYSE: ESI), Capella Education Company (Nasdaq: CPLA), Career Education Corporation (Nasdaq: CECO) and Bridgepoint Education, Inc. (NYSE: BPI). American Public Education, Inc. and Capella Education Company are wholly online while the others are not. Based upon public information, Apollo Group, which includes University of Phoenix, is the market leader with University of Phoenix having degree enrollments exceeding 200,000 students (based upon APOL's Form 10-Q filed on June 29, 2015). As of April 30, 2015, Aspen had 3,309 degree-seeking students enrolled. These competitors have substantially more financial and other resources.

The primary mission of most accredited four-year universities is to serve generally full-time students and conduct research. Aspen acknowledges the differences in the educational needs between working and full-time students at brick and mortar schools and provides programs and services that allow our students to earn their degrees without major disruption to their personal and professional lives.

We also compete with public and private degree-granting regionally and nationally accredited universities. An increasing number of universities enroll working students in addition to the traditional 18 to 24 year-old students, and we expect that these universities will continue to modify their existing programs to serve working learners more effectively, including by offering more distance learning programs. We believe that the primary factors on which we compete are the following:

active and relevant curriculum development that considers the needs of employers;

the ability to provide flexible and convenient access to programs and classes;

high-quality courses and services;

comprehensive student support services;

breadth of programs offered;

the time necessary to earn a degree;

qualified and experienced faculty;

reputation of the institution and its programs;

the variety of geographic locations of campuses;

regulatory approvals;

cost of the program;

name recognition; and

convenience.

Curricula

Certificates

Certificate in Project Management

Associates Degrees

Associate of Applied Science Early Childhood Education

Bachelor's Degrees

Bachelor of Arts in Psychology and Addiction Counseling

Bachelor of Science in Business Administration

Bachelor of Science in Business Administration, (Completion Program)

Bachelor of Science in Criminal Justice

Bachelor of Science in Criminal Justice, (Completion Program)

Bachelor of Science in Criminal Justice with specializations in Criminal Justice Administration and
Major Crime Investigation Procedure

Bachelor of Science in Early Childhood Education

Bachelor of Science in Early Childhood Education, (Completion Program)

Bachelor of Science in Medical Management

Bachelor of Science in Nursing

Master s Degrees

Master of Arts Psychology and Addiction Counseling

Master of Science in Criminal Justice

Master of Science in Criminal Justice with specializations in Forensic Sciences, Law Enforcement Management, and Terrorism and Homeland Security

Master of Science in Information Management

Master of Science in Information Systems with a specializations in Enterprise Application Development and Web Development

Master of Science in Information Technology

Master of Science in Nursing with a specialization in Administration and Management and Administration and Management (RN to MSN Bridge Program)

Master of Science in Nursing with a specialization in Nursing Education and Nursing Education (RN to MSN Bridge Program)

Master of Science in Technology and Innovation Master in Business Administration

Master in Business Administration with specializations in:

Entrepreneurship,

Finance,

Information Management,

Pharmaceutical Marketing and Management, and

Project Management

Master in Education with specializations in:

Curriculum Development and Outcomes Assessment,

Education Technology, and

Transformational Leadership

Doctorate Degrees

Doctorate of Science in Computer Science

Doctorate in Education Leadership and Learning

Independent online classes start on alternating Tuesday s every month.

Sales and Marketing

Following Mr. Michael Mathews becoming Aspen s Chief Executive Officer in May 2011, Mr. Mathews and his team has made significant changes to Aspen s sales and marketing program, specifically spending a significant amount of time, money and resources on our proprietary Internet marketing program. What is unique about Aspen s internet 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.

New Student Enrollment

Aspen has updated its definition of a new student enrollment to only report those new students that complete their first seven day assignment of their first course in their degree program. Based on that definition, below is a quarterly analysis of new student enrollments for the past five quarters, including the recent quarter ending April 30, 2015.

Note that in the recent quarter ending April 30, 2015, new student enrollments were up 89% year-over-year, from 235 to 444.

New Student Enrollments

Fiscal Quarter End April 30, 2014	235
Fiscal Quarter End July 31, 2014	226
Fiscal Quarter End October 31, 2014	265
Fiscal Quarter End January 31, 2015	315
Fiscal Quarter End April 30, 2015	444

Employees

As of July 28, 2015, we had 53 full-time employees, and 71 adjunct professors. None of our employees are parties to any collective bargaining arrangement. We believe our relationships with our employees are good.

Corporate History

Aspen Group was incorporated on February 23, 2010 in Florida as a home improvement company intending to develop products and sell them on a wholesale basis to home improvement retailers. In June 2011, Aspen Group changed its name to Elite Nutritional Brands, Inc. and terminated all operations. In February 2012, Aspen Group reincorporated in Delaware under the name Aspen Group, Inc.

Aspen was incorporated on September 30, 2004 in Delaware. Its predecessor was a Delaware limited liability company organized in Delaware in 1999. In May 2011, Aspen merged with Education Growth Corporation, or EGC. Aspen survived the EGC merger. EGC was a start-up company controlled by Mr. Michael Mathews. Mr. Mathews became Aspen's Chief Executive Officer upon closing the EGC merger. On March 13, 2012, Aspen Group acquired Aspen in the Reverse Merger.

Regulation

Students attending Aspen finance their education through a combination of individual resources, corporate reimbursement programs and federal financial aid programs. The discussion which follows outlines the extensive regulations that affect our business. Complying with these regulations entails significant effort from our executives and other employees. Our Chief Academic Officer has two unique roles: overseeing our accreditation and regulatory compliance and seeking to improve our academic performance. Accreditation and regulatory compliance is also expensive. Beyond the internal costs, we began using education regulatory counsel in the summer of 2011, as our current Chief Executive Officer focused his attention on compliance. Aspen participates in the federal student financial aid programs authorized under Title IV. For the fiscal year ended April 30, 2015, approximately 33% of our cash-basis revenues for eligible tuition and fees were derived from Title IV programs. In connection with a student's receipt of Title IV aid, we are subject to extensive regulation by the DOE, state education agencies and the DEAC. In particular, the Title IV programs, and the regulations issued thereunder by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that we must satisfy. To participate in Title IV programs, a school must, among other things, be:

authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located (in our case, Colorado);

accredited by an accrediting agency recognized by the Secretary of the DOE; and

certified as an eligible institution by the DOE.

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 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's state authorization regulation that requires online education providers to obtain any required authorization from all states in which their students reside, finding that the DOE had failed to provide sufficient notice and opportunity to comment on the requirement. An appellate court affirmed that ruling on June 5, 2012 and therefore this new regulation is currently invalid. On April 16, 2013, the DOE announced its intention to revisit the state authorization requirements for postsecondary distance education in a new negotiated rulemaking process which began in the fall of 2013.

However, the rulemaking process failed to reach consensus on the rule in May 2014. Subsequently, in June 2014, the DOE announced it will pause on issuing a new state authorization for distance education regulation. As a result, there currently is no federal regulation or federal deadline for state authorization, but a new proposal is expected during 2015. If the DOE reinstates the federal regulation, educational institutions without state authorization may be asked to reimburse federal financial aid funds.

In addition, a state may impose penalties on an institution for failure to comply with state requirements related to an institution's activities in a state, including the delivery of distance education to persons in that state.

Because we are subject to extensive regulations by the states in which we become authorized or licensed to operate, we must abide by state laws that typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees. Some states may also prescribe financial regulations that are different from those of the DOE. If we fail to comply with state licensing requirements, we may lose our state licensure or authorizations. Failure to comply with state requirements could result in Aspen losing its authorization from the Colorado Commission on Higher Education, a department of the Colorado Department of Higher Education, (CDHE), its eligibility to participate in Title IV programs, or its ability to offer certain programs, any of which may force us to cease operations.

Additionally, Aspen is a Delaware corporation. Delaware law requires an institution to obtain approval from the Delaware Department of Education, or Delaware DOE, before it may incorporate with the power to confer degrees. In July 2012, Aspen received notice from the Delaware DOE that it is granted provisional approval status effective until June 30, 2015 and is currently in the process of applying for either an extension of its provisional approval status or permanent approval status.

Accreditation

Aspen is accredited by the DEAC, an accrediting agency recognized by the DOE. Accreditation is a non-governmental system for recognizing educational institutions and their programs for student performance, governance, integrity, educational quality, faculty, physical resources, administrative capability and resources, and financial stability. In the U.S., this recognition comes primarily through private voluntary associations that accredit institutions and programs. To be recognized by the DOE, accrediting agencies must adopt specific standards for their review of educational institutions. Accrediting agencies establish criteria for accreditation, conduct peer-review evaluations of institutions and programs for accreditation, and publicly designate those institutions or programs that meet their criteria. Accredited institutions are subject to periodic review by accrediting agencies to determine whether such institutions maintain the performance, integrity and quality required for accreditation.

Accreditation by the DEAC is important. Accreditation is a reliable indicator of an institution's quality and is an expression of peer institution confidence. Universities depend, in part, on accreditation in evaluating transfers of credit and applications to graduate schools. Accreditation also provides external recognition and status. Employers rely on the accredited status of institutions when evaluating an employment candidate's credentials. Corporate and government sponsors under tuition reimbursement programs look to accreditation for assurance that an institution maintains quality educational standards. Moreover, institutional accreditation awarded from an accrediting agency recognized by the DOE is necessary for eligibility to participate in Title IV programs. From time to time, DEAC adopts or makes changes to its policies, procedures and standards. If we fail to comply with any of DEAC's requirements, our accreditation status and, therefore, our eligibility to participate in Title IV programs could be at risk. In 2012, the National Advisory Committee on Institutional Quality and Integrity (the panel charged with advising DOE on whether to recognize accrediting agencies for federal purposes, including Title IV program purposes) recommended that DEAC receive recognition through 2017. On February 25, 2015, the DEAC informed Aspen University that it had renewed its accreditation for five years to January, 2019.

Nature of Federal, State and Private Financial Support for Postsecondary Education

An institution that applies to participate in Title IV programs for the first time, if approved, will be provisionally certified for no more than one complete award year. Furthermore, an institution that undergoes a change in ownership resulting in a change of control must apply to the DOE in order to reestablish its eligibility to participate in Title IV

programs. If the DOE determines to approve the application, it issues a provisional certification, which extends for a period expiring not later than the end of the third complete award year following the date of the provisional certification. A provisionally certified institution, such as Aspen, must apply for and receive DOE approval of substantial changes and must comply with any additional conditions included in its program participation agreement. If the DOE determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, the DOE may seek to revoke the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified.

The federal government provides a substantial part of its support for postsecondary education through the Title IV programs, in the form of grants and loans to students. Students can use those funds at any institution that has been certified by the DOE to participate in the Title IV programs. Aid under Title IV programs is primarily awarded on the basis of financial need, generally defined as the difference between the cost of attending the institution and the amount a student can reasonably contribute to that cost. All recipients of Title IV program funds must maintain satisfactory academic progress and must progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students.

Aspen's mission is to offer students the opportunity to fund their education without relying on student loans. Last year, Aspen launched a \$325 monthly payment plan for master students, a \$250 monthly payment plan for bachelor students, and subsequently a \$375 monthly payment plan for doctoral students. In the month of June 2015, 45% of class starts were paid through monthly payment methods.

When our students borrow from the federal government, they receive loans and grants to fund their education under the following Title IV programs: (1) the Federal Direct Loan program, or Direct Loan and (2) the Federal Pell Grant program, or Pell. For the fiscal year ended April 30, 2015, approximately 33% of our cash-basis revenues for eligible tuition and fees were derived from Title IV programs. Therefore, the majority of Aspen students self-finance all or a portion of their education. Additionally, students may receive full or partial tuition reimbursement from their employers. Eligible students can also access private loans through a number of different lenders for funding at current market interest rates.

Under the Direct Loan program, the DOE makes loans directly to students. The Direct Loan Program includes the Direct Subsidized Loan, the Direct Unsubsidized Loan, the Direct PLUS Loan (including loans to graduate and professional students), and the Direct Consolidation Loan. The Budget Control Act of 2011 signed into law in August 2011, eliminated Direct Subsidized Loans for graduate and professional students, as of July 1, 2012. The terms and conditions of subsidized loans originated prior to July 1, 2012 are unaffected by the law.

For Pell grants, the DOE makes grants to undergraduate students who demonstrate financial need. To date, few Aspen students have received Pell Grants. Accordingly, the Pell Grant program currently is not material to Aspen's cash revenues.

Regulation of Federal Student Financial Aid Programs

The substantial amount of federal funds disbursed through Title IV programs, the large number of students and institutions participating in these programs, and allegations of fraud and abuse by certain for-profit institutions have prompted the DOE to exercise considerable regulatory oversight over for-profit institutions of higher learning. Accrediting agencies and state education agencies also have responsibilities for overseeing compliance of institutions in connection with Title IV program requirements. As a result, our institution is subject to extensive oversight and review. Because the DOE periodically revises its regulations and changes its interpretations of existing laws and regulations, we cannot predict with certainty how the Title IV program requirements will be applied in all circumstances. See the **Risk Factors** contained herein which disclose comprehensive regulatory risks.

In addition to the state authorization requirements and other regulatory requirements described herein, other significant factors relating to Title IV programs that could adversely affect us include the following legislative action and regulatory changes:

Congress reauthorizes the Higher Education Act approximately every five to eight years. Congress most recently reauthorized the Higher Education Act in August 2008. We cannot predict with certainty whether or when Congress

might act to amend further the Higher Education Act. The elimination of additional Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different programs could increase our costs of compliance and could reduce the ability of certain students to finance their education at our institution.

On December 23, 2011, President Obama signed into law the Consolidated Appropriations Act of 2012, or the Act. The law includes a number of provisions that significantly affect the Title IV programs. For example, it reduces the income threshold at which students are assigned an automatic zero expected family contribution for purposes of awarding financial aid for the 2012-2013 award year. Under the Act, students who do not have a high school diploma or a recognized equivalent (e.g., GED) or do not meet an applicable home school requirement and who first enroll in a program of study on or after July 1, 2012 are not eligible to receive Title IV aid. The Act also made certain changes to the Pell Grant Program and temporarily eliminates the interest subsidy that is provided for Direct Subsidized Loans during the six-month grace period immediately following termination of enrollment.

Over the last several years, Congressional committees have held hearings related to for-profit postsecondary education institutions. Additionally, the chairmen of the House and Senate education committees, along with other members of Congress, asked the GAO, to review various aspects of the for-profit education sector, including recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud and abuse in Title IV programs, and the degree to which for-profit schools' revenue is comprised of Title IV and other federal funding sources. In 2010, the GAO released a report based on a three-month undercover investigation of recruiting practices at for-profit schools. The report concluded that employees at a non-random sample of 15 for-profit schools (which did not include Aspen) made deceptive statements to students about accreditation, graduation rates, job placement, program costs, or financial aid. On October 31, 2011, the GAO released a second report following an additional undercover investigation related to enrollment, cost, financial aid, course structure, substandard student performance, withdrawal, and exit counseling. The report concluded that while some of the 15 unidentified for-profit schools investigated appeared to follow existing policies, others did not. Although the report identified a number of deficiencies in specific instances, it made no recommendations. On December 7, 2011, the GAO released a report that attempted to compare the quality of education provided by for-profit, nonprofit, and public institutions based upon multiple outcome measures including graduation rates, pass rates on licensing exams, employment outcomes, and student loan default rates. The report found that students at for-profit institutions had higher graduation rates for certificate programs, similar graduation rates for associate's degree programs, and lower graduation rates for bachelor's degree programs than students at nonprofit and public institutions. It also found that a higher proportion of bachelor's degree recipients from for-profit institutions took out loans than did degree recipients from other institutions and that some evidence exists that students at for-profit institutions default on their student loans at higher rates. On nine of the ten licensing exams reviewed, graduates of for-profit institutions had lower pass rates than students from nonprofit and public institutions.

The DOE currently is in the process of developing proposed regulations to amend regulations pertinent to the Title IV loan programs and teacher education. We are unable to predict the timing or the proposed or final form of any regulations that the DOE ultimately may adopt and the impact of such regulations on our business.

Administrative Capability. DOE regulations specify extensive criteria by which an institution must establish that it has the requisite administrative capability to participate in Title IV programs. Failure to satisfy any of the standards may lead the DOE to find the institution ineligible to participate in Title IV programs or to place the institution on provisional certification as a condition of its participation. To meet the administrative capability standards, an institution must, among other things:

comply with all applicable Title IV program regulations;

have capable and sufficient personnel to administer the federal student financial aid programs;

have acceptable methods of defining and measuring the satisfactory academic progress of its students;

have cohort default rates above specified levels;

have various procedures in place for safeguarding federal funds;

not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;

provide financial aid counseling to its students;

refer to the DOE's Office of Inspector General any credible information indicating that any applicant, student, employee, or agent of the institution, has been engaged in any fraud or other illegal conduct involving Title IV programs;

report annually to the Secretary of Education on any reasonable reimbursements paid or provided by a private education lender or group of lenders to any employee who is employed in the institution's financial aid office or who otherwise has responsibilities with respect to education loans;

develop and apply an adequate system to identify and resolve conflicting information with respect to a student's application for Title IV aid;

submit in a timely manner all reports and financial statements required by the regulations; and

not otherwise appear to lack administrative capability.

Among other things, DOE regulations require that an institution must evaluate satisfactory academic progress (1) at the end of each payment period if the length of the educational program is one academic year or less or (2) for all other educational programs, at the end of each payment period or at least annually to correspond to the end of a

payment period. Second, the DOE regulations add an administrative capability standard related to the existing requirement that students must have a high school diploma or its recognized equivalent in order to be eligible for Title IV aid. Under the administrative capability standard, institutions must develop and follow procedures for evaluating the validity of a student's high school diploma if the institution or the Secretary of Education has reason to believe that the student's diploma is not valid.

If an institution fails to satisfy any of these criteria or any other DOE regulation, the DOE may:

require the repayment of Title IV funds;

transfer the institution from the “advance” system of payment of Title IV funds to cash monitoring status or to the “reimbursement” system of payment;

place the institution on provisional certification status; or

commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs.

If we are found not to have satisfied the DOE’s “administrative capability” requirements, we could lose, or be limited in our access to, Title IV program funding.

Distance Education. We offer all of our existing degree and certificate programs via Internet-based telecommunications from our headquarters in Colorado. Under the Higher Education Opportunity Act, or HEOA, an accreditor that evaluates institutions offering distance education must require such institutions to have processes through which the institution establishes that a student who registers for a distance education program is the same student who participates in and receives credit for the program. Under DOE regulations, if an institution 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 the state, the institution must meet any state requirements for it to offer legally postsecondary distance education in that state. The institution must be able to document state approval for distance education if requested by the DOE. In addition, states must have a process to review and take appropriate action on complaints concerning postsecondary institutions. As previously discussed herein, these regulations have been vacated by a federal court. However, if the DOE reinstates these regulations or creates similar regulations, educational institutions without state authorization may be asked to reimburse federal financial aid funds.

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.

The DOE evaluates institutions on an annual basis for compliance with specified financial responsibility standards that include a complex 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 viability, and ability to borrow); (2) primary reserve ratio (which measures the institution's viability and liquidity); and (3) net income ratio (which measures the institution's profitability or ability to operate within its means). An institution's financial ratios must yield a composite score of at least 1.5 for the institution to be deemed financially responsible without the need for further federal oversight. The DOE may also apply such measures of financial responsibility to the operating company and ownership entities of an eligible institution.

For fiscal year 2014 (ending April 30, 2014), Aspen did not meet the financial responsibility standards due to a failure to meet the minimum composite score of 1.5. Consequently, in order for Aspen to continue to participate in the Title IV, HEA programs, we were required to choose one of two alternatives. The first alternative was to qualify as a financially responsible institution by submitting an irrevocable letter of credit in the amount of \$2,244,971, which represented 50% of the HEA Title IV program funds received by the institution during the recently completed fiscal year (April 30, 2014). The second alternative was to post a letter of credit in the amount of \$1,122,485 and be provisionally certified for a period of up to three complete award years. This amount represented 25% of the HEA Title IV program funds received by the institution during the most recently completed fiscal year (April 30, 2014). Aspen University selected the second alternative and posted the required letter of credit in the amount of \$1,122,485 on April 29, 2015. In addition to posting a 25% letter of credit on April 29, 2015, Aspen is currently subject to Heightened Cash Monitoring 1 (HCM1) status, which requires the institution to first make disbursements to eligible students and parents before it requests for or receives funds for the amount of those disbursements from the DOE.

In late-July, 2015, Aspen reported its financial results to the DOE with an estimated composite score based on those financial results of 1.6 for the fiscal year ended April 30, 2015. Following the DOE's formal review later this calendar year, and assuming the DOE concurs with Aspen's calculations, Aspen would qualify as a financially responsible institution relative to the financial responsibility standard.

Note that the DOE's qualification standards of a financially responsible institution are significantly broader than the Financial Ratio standard, including the acid test ratio, going concern audit opinion and standards related to administrative capability, among others. Although Aspen has reported to the DOE that it has passed the minimum composite score necessary to meet the Financial Ratio standard, the DOE may determine that Aspen's calculation is incorrect, and/or it may determine that Aspen continues to not meet other financial responsibility standards. If the DOE were to continue to determine that we do not meet its financial responsibility standards, we may be able to continue to establish financial responsibility on an alternative basis. Alternative bases include, for example:

posting a letter of credit in an amount equal to at least 50% of the total Title IV program funds received by us during our most recently completed fiscal year;

posting a letter of credit in an amount equal to at least 10% of such prior year's Title IV program funds received by us, accepting provisional certification, complying with additional DOE monitoring requirements and agreeing to receive Title IV program funds under an arrangement other than the DOE's standard advance payment arrangement such as the "reimbursement" system of payment or cash monitoring; or

complying with additional DOE monitoring requirements and agreeing to receive Title IV program funds under an arrangement other than the DOE's standard advance payment arrangement such as the reimbursement system of payment or cash monitoring.

Failure to meet the DOE's financial responsibility requirements, either because we do not meet the DOE's financial responsibility standards or are unable to establish financial responsibility on an alternative basis, would cause us to lose access to Title IV program funding.

Consistent with the Higher Education Act, Aspen's certification to participate in Title IV programs terminated after closing of the Reverse Merger. The DOE received Aspen's application and initially extended the provisional certification through April 15, 2015. When Aspen University posted its most recent letter of credit on April 29, 2015, the DOE extended Aspen's provisional certification for a period of up to three complete award years. In the future, the DOE may impose additional or different terms and conditions in any final or provisional program participation agreement that it may issue.

Third-Party Servicers. DOE regulations permit an institution to enter into a written contract with a third-party servicer for the administration of any aspect of the institution's participation in Title IV programs. The third-party servicer

must, among other obligations, comply with Title IV requirements and be jointly and severally liable with the institution to the Secretary of Education for any violation by the servicer of any Title IV provision. An institution must report to the DOE new contracts with or any significant modifications to contracts with third-party servicers as well as other matters related to third-party servicers. We contract with a third-party servicer which performs certain activities related to our participation in Title IV programs. If our third-party servicer does not comply with applicable statutes and regulations including the Higher Education Act, we may be liable for its actions, and we could lose our eligibility to participate in Title IV programs.

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 adverse action, including being required to submit a 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 (10 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 two consecutive fiscal years. An institution whose rate exceeds 90% for any single fiscal year will be placed on provisional certification for at least two fiscal years and may be subject to other conditions specified by the Secretary of the DOE. For Aspen's most recent fiscal year ending April 30, 2015, only 33% of our revenue was derived from Title IV programs.

Student Loan Defaults. Under the Higher Education Act, an education institution may lose its eligibility to participate in some or all of the Title IV programs if defaults on the repayment of Direct Loan Program loans by its students exceed certain levels. For each federal fiscal year, a rate of student defaults (known as a cohort default rate) is calculated for each institution with 30 or more borrowers entering repayment in a given federal fiscal year by determining the rate at which borrowers who become subject to their repayment obligation in that federal fiscal year default by the end of the following federal fiscal year. For such institutions, the DOE calculates a single cohort default rate for each federal fiscal year that includes in the cohort all current or former student borrowers at the institution who entered repayment on any Direct Loan Program loans during that year.

If the DOE notifies an institution that its cohort default rates for each of the three most recent federal fiscal years are 25% or greater, the institution's participation in the Direct Loan Program and the Federal Pell Grant Program ends 30 days after the notification, unless the institution appeals in a timely manner that determination on specified grounds and according to specified procedures. In addition, an institution's participation in Title IV ends 30 days after notification that its most recent fiscal year cohort default rate is greater than 40%, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution whose participation ends under these provisions may not participate in the relevant programs for the remainder of the fiscal year in which the institution receives the notification, as well as for the next two fiscal years.

If an institution's cohort default rate equals or exceeds 25% in any single year, the institution may be placed on provisional certification status. Provisional certification does not limit an institution's access to Title IV program funds; however, an institution with provisional status is subject to closer review by the DOE and may be subject to summary adverse action if it violates Title IV program requirements. If an institution's default rate exceeds 40%, the institution may lose eligibility to participate in some or all Title IV programs. Since Aspen has only recently begun to participate in Title IV programs and our certification limits the number of Aspen students who may receive Title IV aid, we have limited reporting data on our cohort default rates for the three most recent federal fiscal years for which cohort default rates have been officially calculated, namely 2009, 2010 and 2011. As a result of Aspen's recent participation in Title IV programs, the DOE only has calculated Aspen University's official cohort default for fiscal year 2011. This rate is 3%.

HEOA extended by one year the period for measuring the cohort default rate, effective with cohort default rates for federal fiscal year 2009. Currently, institutions that have two-year cohort default rates of 25% or more for each of their three most recent years, or of 40% in any one year, will lose eligibility for Title IV student aid programs; beginning in 2014, institutions that have three-year cohort default rates of 30% or higher for three consecutive years, or of more than 40% in any given year, will lose eligibility for those programs. For the reasons stated above, the DOE has not calculated a three-year cohort default rate for Aspen.

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 Title IV programs, limitation on participation in Title IV programs, or financial penalties. Aspen believes it is in compliance with the incentive payment rule.

In recent years, other postsecondary educational institutions have been named as defendants to whistleblower lawsuits, known as *qui tam* cases, brought by current or former employees pursuant to the Federal False Claims Act, alleging that their institution's compensation practices did not comply with the incentive compensation rule. A *qui tam* case is a civil lawsuit brought by one or more individuals, referred to as a relator, on behalf of the federal government for an alleged submission to the government of a false claim for payment. The relator, often a current or former employee, is entitled to a share of the government's recovery in the case, including the possibility of treble damages. A *qui tam* action is always filed under seal and remains under seal until the government decides whether to intervene in the case. If the government intervenes, it takes over primary control of the litigation. If the government declines to intervene in the case, the relator may nonetheless elect to continue to pursue the litigation at his or her own expense on behalf of the government. Any such litigation could be costly and could divert management's time and attention away from the business, regardless of whether a claim has merit.

The GAO released a report finding that the DOE has inadequately enforced the current ban on incentive payments. In response, the DOE has undertaken to increase its enforcement efforts by, among other approaches, strengthening procedures provided to auditors reviewing institutions for compliance with the incentive payments ban and updating its internal compliance guidance in light of the GAO findings and the recently amended DOE incentive payment rule.

Code of Conduct Related to Student Loans. As part of an institution's program participation agreement with the DOE, HEOA requires that institutions that participate in Title IV programs adopt a code of conduct pertinent to student loans. For financial aid office or other employees who have responsibility related to education loans, the code must forbid, with limited exceptions, gifts, consulting arrangements with lenders, and advisory board compensation other than reasonable expense reimbursement. The code also must ban revenue-sharing arrangements, opportunity pools that lenders offer in exchange for certain promises, and staffing assistance from lenders. The institution must post the code prominently on its website and ensure that its officers, employees, and agents who have financial aid responsibilities are informed annually of the code's provisions. Aspen has adopted a code of conduct under the HEOA which is posted on its website. In addition to the code of conduct requirements that apply to institutions, HEOA contains provisions that apply to private lenders, prohibiting such lenders from engaging in certain activities as they interact with institutions. Failure to comply with the code of conduct provision could result in termination of our participation in Title IV programs, limitations on participation in Title IV programs, or financial penalties.

Misrepresentation. The Higher Education Act and current regulations authorize the DOE to take action against an institution that participates in Title IV programs for any substantial misrepresentation made by that institution regarding the nature of its educational program, its financial charges, or the employability of its graduates. Effective July 1, 2011, DOE regulations expanded the definition of substantial misrepresentation to cover additional representatives of the institution and additional substantive areas and expands the parties to whom a substantial misrepresentation cannot be made. The regulations also augment the actions the DOE may take if it determines that an institution has engaged in substantial misrepresentation. Under the final regulations, the DOE may revoke an institution's program participation agreement, impose limitations on an institution's participation in Title IV programs, or initiate proceedings to impose a fine or to limit, suspend, or terminate the institution's participation in Title IV programs.

Credit Hours. The Higher Education Act and current regulations use the term credit hour to define an eligible program and an academic year and to determine enrollment status and the amount of Title IV aid an institution may disburse during a payment period. Recently, both Congress and the DOE have increased their focus on institutions' policies for awarding credit hours. Recent DOE regulations define the previously undefined term credit hour in terms of a certain amount of time in class and outside class, or an equivalent amount of work. The regulations also require accrediting agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the DOE determines that an institution is out of compliance with the credit hour definition, the DOE could require the institution to repay the incorrectly awarded amounts of Title IV aid. In addition, if the DOE determines that an institution has significantly overstated the amount of credit hours assigned to a program, the DOE may fine the institution, or limit, suspend, or terminate its participation in the Title IV programs.

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 herein. 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. Pending legislation including the Students First Act introduced in the United States Senate on February 28, 2013, would if passed increase 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 re-applied as of June 30, 2013 to continue its participation in the Title IV HEA programs. On February 9, 2015, the DOE notified Aspen that it had the choice of posting a letter of credit for 25% of all Title IV funds and remain provisionally certified or post a 50% letter of credit and become permanently certified. We elected to post a 25% letter of credit and remain provisionally certified increasing our letter of credit to \$1,122,485. In the future, the 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.

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.

DEAC 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.

Gainful Employment. Under the Higher Education Act, proprietary schools are eligible to participate in Title IV programs only in respect of education programs that lead to gainful employment in a recognized occupation. Under the DOE rules, with respect to each gainful employment program, a proprietary institution of higher education must disclose to prospective students with the identities of the occupations that the program prepares students to enter, total program cost, on-time completion rate, job placement rate (if applicable), and median loan debt of students who complete the program. Under the new program requirements, institutions are required to notify the DOE at least 90 days before the commencement of new gainful employment programs which must include information on the demand for the program, a wage analysis, an institutional program review and approval process, and a demonstration of accreditation. While the DOE had issued various additional reporting regulations, requiring institutions to annually submit information to the DOE regarding each enrolled student, including the amount of debt incurred, those reporting regulations were vacated in the June 2011 court decision discussed earlier herein, which was affirmed on appeal; new reporting regulations are expected to issue at some point. Institutions need not disclose or report gainful employment information on programs that are not eligible to participate in Title IV programs.

As part of the negotiated rulemaking process under the Higher Education Act, gainful employment rulemaking negotiations began in the fall of 2013 and continued into 2014. However, the negotiators failed to reach consensus on gainful employment rules. As a result, the DOE proposed a new gainful employment rule which it released in March 2014 for public comment, and on October 31, 2014, the DOE published the final regulation which went into effect on July 1, 2015. Under the regulation, gainful employment programs with high debt-to-earnings ratios would lose Title IV eligibility for a period of time. Specifically, the new requirements include two measures. These metrics are as follows:

Debt-to-earnings metric which requires that students who complete a program would need to spend on average no more than 8 percent of their annual income on their student loan payments; or

Discretionary income metric which requires that students who complete a program would have a discretionary income rate that does not exceed 20 percent.

Additionally, a program that does not pass either of the above metrics and that has an annual income rate between 8% and 12% or a discretionary income rate between 20% and 30% would be considered in the warning zone. A program would fail if the program's graduates have an annual income rate of 12% or greater and a discretionary income rate of 30% or greater. If a program fails both metrics for two out of three consecutive years, or fails to pass at least one metric for consecutive years, it becomes Title IV ineligible for three years.

If the DOE notifies an institution that a program could become ineligible based on final rates, for the next award year:

the institution must provide a warning with respect to the program to students and prospective students indicating that students may not be able to use Title IV funds to attend or continue in the program; and

the institution must not enroll, register or enter into a financial commitment with a prospective student until a specified time after providing the warning to the prospective student.

Further, institutions are required to report student and program level data to the DOE and comply with additional disclosure requirements beginning in January 2017.

By December 31, 2015, institutions must certify that eligible gainful employment programs are programmatically accredited if required by a federal governmental entity or a state governmental entity of a state in which it is located or is otherwise required to obtain state approval, and that each eligible program satisfies the applicable educational prerequisites for professional licensure or certification requirements in each state in which it is located or is otherwise required to obtain state approval, so that a student who completes the program and seeks employment in that state qualifies to take any licensure or certification exam that is needed for the student to practice or find employment in an occupation that the program prepares students to enter.

The new gainful employment requirements will likely substantially increase our administrative burdens, particularly during the implementation phase. These reporting and the other procedural changes in the new rules could affect student enrollment, persistence and retention in ways that we cannot now predict. For example, if our reported program information compares unfavorably with other reporting education institutions, it could adversely affect demand for our programs.

Although the rules regarding gainful employment metrics provide opportunities to address program deficiencies before the loss of Title IV eligibility, the continuing eligibility of our educational programs for Title IV funding is at risk, such as changes in the actual or deemed income level of our graduates, changes in student borrowing levels, increases in interest rates, changes in the federal poverty income level relevant for calculating discretionary income and other factors. In addition, even though deficiencies in the metrics may be correctible on a timely basis, the disclosure requirements to students following a failure to meet the standards may adversely impact enrollment in that program and may adversely impact the reputation of our education institution. The exposure to these external factors may reduce our ability to offer or continue confidently certain types of programs for which there is market demand, thus affecting our ability to maintain or grow our business.

Eligibility and Certification Procedures. Each institution must periodically apply to the DOE for continued certification to participate in Title IV programs. Such recertification is required every six years, but may be required earlier, including when an institution undergoes a change of control. An institution may come under the DOE's review when it expands its activities in certain ways, such as opening an additional location, adding a new program, or, in certain cases, when it modifies academic credentials that it offers.

The DOE may place an institution on provisional certification status if it finds that the institution does not fully satisfy all of the eligibility and certification standards and in certain other circumstances, such as when it undergoes a change in ownership and control. The DOE may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change.

In addition, during the period of provisional certification, the institution must comply with any additional conditions included in its program participation agreement. If the DOE determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs with fewer due process protections for the institution than if it were fully certified. Students attending provisionally certified institutions, like Aspen, remain eligible to receive Title IV program funds.

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 DEAC 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 control of a publicly-traded corporation occurs in one of two ways: (i) if there is an event that would obligate the corporation to file a Current Report on Form 8-K with the Securities and Exchange Commission, or the SEC, disclosing a change of control or (ii) if the corporation has a shareholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest shareholder of the corporation, and that shareholder ceases to own at least 25% of such stock or ceases to be the largest shareholder. A significant purchase or disposition of our voting stock could be determined by the DOE to be a change of control under this standard. Many states include the sale of a controlling interest of common stock in the definition of a change of control requiring approval. A change of control under the definition of one of these agencies would require us to seek approval of the change in ownership and control to maintain our accreditation, state authorization or licensure. The requirements to obtain such approval from the states and DETC vary widely. In some cases, approval of the change of ownership and control cannot be obtained until after the transaction has occurred. In December 2011, we provided details regarding the Reverse Merger to the CDHE. The CDHE indicated that under current regulations, as long as we maintain accreditation by DEAC following the Reverse Merger, Aspen will remain in good standing with the CDHE. As described below, DEAC approved the change of ownership, with several customary conditions.

DEAC recently revised its policy pertinent to changes in legal status, control, ownership, or management. The policy revisions add definitions of the situations under which DEAC considers a change in legal status, control, ownership, or management to occur, describe the proce