Operator:

Good day ladies and gentlemen and welcome to the Aspen Group Incorporated's Fiscal First Quarter Conference Call.

At this time all participant lines are in a listen-only mode to reduce background noise. But later we will be conducting a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder today's conference call is being recorded.

I would now like to introduce your fist speaker for today Janet Gill, Chief Financial Officer. You have the floor ma'am.

Janet Gill – CFO:

Okay. Thank you, Andrew. Good afternoon all. Thank you for joining us today for Aspen Group's fiscal year 2016 first quarter earnings call. Please note that the company's remarks made during this call, including answers to questions, include forward-looking statements which are subject to various risks and uncertainties. These include statements relating to expectations from our Nursing programs, new student enrollments, increase in marketing spend, and forecasts including growth in revenue, gross margins, and adjusted EBITDA. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

A discussion of risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission, particularly the section titled Risk Factors in our Form 10-K filed on July 28, 2015.

Aspen Group disclaims any obligation to update any forward-looking statement as a result of future developments.

Also, I'd like to remind you that during the course of this conference call we will discuss adjusted EBITDA and adjusted Gross Profit, which are non-GAAP measures, in talking about the Company's performance. Reconciliation to the most directly comparable GAAP financial measures are provided in the tables in the press release issued by the Company today. There will be a transcript of this conference call available for 1 year at the Company's website. I would now like to turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews.

Michael Mathews – CEO:

Thank you, Janet. I'll begin today by reviewing the financial highlights of our first quarter, then I'll provide a business update focusing on the growth of our school of nursing. After my prepared remarks, we'll then turn to Q&A.

To open, Quarterly revenues were $1,705,861, which represents an increase of 46% year-over-year. Aspen Group's Gross Profit for the 1st quarter increased 32% from the comparable prior year period to $799,232 or 47% margin. Our Adjusted Gross Profit (exclusive of depreciation and amortization) increased 29% from the comparable prior year period to $931,752 or 55% margin. On a sequential basis, our gross margins marginally declined by 3 percentage points, from 50% to 47%, which was expected as we increased our marketing spend rate by 15% sequentially.

Just as a reminder, when we materially increase our marketing spend in a given quarter, margins will typically soften in that quarter given it takes on average 60-90 days to generate a new student enrollment once a new lead hits our enrollment center.

Our Adjusted EBITDA resulted in a loss of $(299,625), a sequential decline of 12%. Finally, net loss applicable to shareholders was ($718,706) or Loss Per Share of one Cent ($0.01). That's a sequential improvement of 30%. From a balance sheet perspective, Aspen ended the quarter with a cash balance of approximately $2.8 million, which includes $1,122,485 of restricted cash. Finally, our total stockholders' equity ended at a positive $1,958,414.

Now let's discuss our business progress, specifically the rapid growth in our school of nursing. Let's start by looking back a year ago. In July of 2014, Aspen had 920 students enrolled in our school of nursing. Two quarters later, Aspen grew by 231 nursing students to 1,151. However, in the April quarter, we added 223 nursing students. And in the July quarter just ended, we added another 230 nursing students…meaning our historical quarterly growth rate of our nursing student body in the last two quarters has essentially doubled.
Two-thirds of our nursing enrollment growth in the past six months comes from our newly CCNE accredited RN to BSN program. Specifically, our RN to BSN program has grown by 300 students in this timeframe, from 139 to 439 BSN students.

As a result of the acceleration of growth caused by our BSN program, in the past year our nursing student body has grown by 74% -- delivering 69% of Aspen's overall student body growth. Consequently, Aspen's school of nursing now represents 44% of Aspen's total student body and is projected to become a majority of our student body sometime early in calendar year 2016.

But let's dig a little deeper, in order for you to understand why Aspen is so focused on becoming predominantly a nursing school.

The first reason is our lower cost of acquisition. Many of the nurses that reach out to Aspen are communicating that they are required to obtain their BSN by a specific deadline…so not only is an advanced degree an opportunity to increase one's income, but in many cases in this nursing sector, getting an advanced degree is necessary to ensure long-term employment. It's for this reason that in some media channels, Aspen enjoys double the conversion rates with nursing leads than, for example, MBA student leads.

Second, while 44% of Aspen's student body are now nursing students, they actually represent a majority of our revenues today at 52%...meaning that the lifetime value (or LTV) is higher among nursing students compared to non-nursing students. Why?

Well, our nursing students are more active than students in our other four schools, as they take on average approximately 18% more courses per year than non-nursing students.

So, to recap, our cost of acquisition is significantly lower for nursing students, while our nursing students are more active than other students delivering higher annualized revenues and higher LTV's. So, it's no surprise that given these comparative metrics…Aspen for the foreseeable future will continue to focus almost exclusively on growing its nursing school.

In fact, we're projecting that by the end of 2016, approximately two-thirds of our student body will be nursing students – delivering over 75% of Aspen's revenues. I'd like to end my prepared remarks today with an exciting data point.

As mentioned earlier, this past quarter, our student body increased by a net 300 students, growing from 3,309 to 3,609 total students. Unbelievably, among the entire student body, the university is adding, on average, net 75 students every month to one of our debtless education, monthly payment methods. That’s net 225 students on average per quarter, which means our monthly payment students are increasing at roughly 75% of the rate of the overall student body growth.

That metric provides crystal clear evidence that working professionals will choose the debt free alternative if given a monthly payment method to pay for their education.

That ends our prepared comments for this afternoon, now we’d like to open the call to address any questions.

QUESTION-AND-ANSWER SESSION

OPERATOR:

[Operator Instructions] Our first question is from the line of Brett Reiss from Janney Montgomery. Your line is open.

Brett Reiss - Janney Montgomery:

Hi Michael, hi Ms. Gill.

Janet Gill – CFO:

Hi Brett.

Brett Reiss - Janney Montgomery:

Hi, could you modestly increase prices without derailing the great growth you’re enjoying?

Michael Mathews – CEO:

Hi Brett, it’s Mike Mathews. We certainly could. There is no question. I guess the critical question Brett would be, “What is the maximum amount of monthly spend that a working professional can put into their monthly budget?”
And in our humble opinion, we think that limit is $325 after doing a number of different studies. That's the number we arrived at which obviously then backs into $975 over a term (over a three month period).

Brett Reiss - Janney Montgomery:

Michael forgive me you cut off maybe the last 45 seconds of what you said, you cut out. I think towards the tail end, you’re not planning to raise prices?

Michael Mathews – CEO:

Yes, what we said was that we did a lot of research to determine what we felt was the proper amount that working professionals would be able to put into their budget to pay for their education and we think the limit is $325 per month.

Brett Reiss - Janney Montgomery:

Okay.

Michael Mathews – CEO:

And so as a consequence, this model is working so beautifully that we have no intent in the future of changing the pricing model.

Brett Reiss - Janney Montgomery:

Okay. What keeps you up, is there anything that keeps you up at night that could derail this meteoric growth that you're enjoying and it looks like you've got a runway to continue. But is there anything that concerns you or do you have a clear path?

Michael Mathews – CEO:

Well our largest shareholders and our largest investors in the past 12 months, they've made the point to me very clearly, and I agree with them, that we have a window of opportunity and what we want to do is we want to capture that window of opportunity and take advantage of it while we're doing so well and while we have a unique offering.

Obviously at some point in time, a number of universities are likely to follow suit particularly when they see how well we're doing.

But we're obviously capturing a significant amount of market share in the undergraduate nursing field today. Again, some of the older traditional non-profit universities, they have an operating cost structure and a G&A that doesn't really allow them to offer this innovative approach.

So from a competitive standpoint, I'm worried more about more startup-type universities that follow suit that don't have quite have that G&A. So I hope that answers the question.

Brett Reiss - Janney Montgomery:

All right. Thank you. I'm going to drop back in queue. Thank you.

Michael Mathews – CEO:

Thank you, Brett.

Operator

Thank you. Our next question is from the line of Mark Zinski. Your line is open.

Mark Zinski:

Good afternoon and thanks for taking my questions. I just have three broad questions. I guess the first is in terms of the operating leverage of the model. I think in prior releases or in your Investor presentation you kind of hinted at 5,000 enrolled students kind of being somewhat of a magic number for you and in terms of starting to get some meaningful leverage. Are you still kind of committed to that level?

Michael Mathews – CEO:

Yeah and thanks for the question Mark. So first I will say that we're absolutely forecasting to have over 5,000 students one year out based on our enrollment growth and the success that we've enjoyed in the last several quarters.

As I'm sure everyone is aware, the company is focused on growth given the window of opportunity we're enjoying. As you guys can all see, the cash burn has declined to less than $100,000 per month even as the company continues to grow its marketing budget sequentially by double-digits.

So in terms of operating leverage, first the moderate increase to our G&A this year will be primarily through growing our enrollment center and overall you should expect our G&A to increase at the current level of less than 25% year-over-year. That means that when the university hits a quarterly revenue run rate in the $2.25 million range, which we're getting close to of course, we expect to begin generating cash at that level even given the planned marketing spend increases.

In terms of long-term operating leverage, we're forecasting to generate over 15% adjusted EBITDA margins when our quarterly revenues are in the $3.75 million range and we're forecasting over 30% of adjusted EBITDA margins when our quarterly revenue is in the $6 million range. So that's should give you an idea in terms of operating leverage over time.

Mark Zinski:

Okay. Thank you very much for that specificity. My second question gets to your marketing and frankly your remarkable low cost of student acquisition from your marketing.
And I know you've hinted in the past, but you have some inherent advantages versus the bigger players out there in terms of doing your marketing internally. But is it also just reflective of your senior team in terms of their internet advertising experience?

Michael Mathews – CEO:

Yes, there's no question that my experience at InterClick over a four-year period and selling to Yahoo -- obviously we have a very special team of Internet advertising professionals.
But I have to say there are three or four critical factors that's making this such a special business and such a special model. The first of course is what you hit on, which is from my point of view, we're probably the most efficient university in the country at generating a student lead.

The second thing that we're doing is we're extremely focused on the nursing sector, and as we announced earlier today, over three quarters of the growth of the student body are registered nurse enrollments.

And that our BSN program, which was of course accredited by the CCNE back in November -- that program is growing approximately twice as fast as our MSN program -- which of course grew quite nicely over the last few years. And why is that? Well because nearly half of the RNs in America today don't yet hold a BSN and many healthcare organizations are setting deadlines for their RNs to get their BSN by 2020. So the demand for obtaining BSN degrees is very, very strong.

And thirdly, when you combine that with our unique debtless education solution, we're offering BSN students the ability to pay for their education at $250 a month over 39 months.
Those three factors provide the recipe for what's unfolding, which is the fact that Aspen is rapidly growing market share within the undergraduate nursing field. So its Internet advertising expertise coupled with -- we're targeting I think the strongest demand marketplace in the higher education sector -- combined with having the most unique offer in the marketplace. This is what happens when those three factors are coming together.

Mark Zinski:

Okay. That's very helpful and that leads into my last question and the success of the RN to BSN program. Can you speak in broad terms of the industry and the number of states that are increasingly requiring their nurses to have BSNs -- has that accelerated a bit or do you see it accelerating even more?

Michael Mathews – CEO:

Let me explain that, that's a great question. Well let me backup, today approximately 13% of nurses hold a Masters level degree or higher. The problem now is only 55% of registered nurses hold a Bachelors degree or higher.

So approximately 45% of registered nurses don't yet hold a Bachelors degree. That's about two million RNs that we're currently targeting to help them get that Bachelors degree. Now most people think that the demand is based on legislative changes and that's not the case at all. This demand started with a white paper report that was published in 2010 by the Institute of Medicine and in that paper, they recommended that by 2020, the proportion of RNs with baccalaureate level degrees be at 80%.

Since that report, many healthcare organizations have inserted that goal into their operating plans by 2020. So that's why such a large number of RNs have been told to get their BSN by 2020 in order to ensure their job security. So that's really what's led to this demand and that's why I don't see the demand letting up for a minimum three to five years.

Mark Zinski:

Okay. That just leads to my final question then, I know that certain companies, large companies, that they feel that they want to have their employees attain some more credential or specific skills, that contract with a particular online institution.
Could an opportunity like that present itself for you where let's say a particular healthcare system might say here -- we need these 100 RNs to get their BSNs, let's contract with Aspen. Could something -- is there the potential for a deal like that?

Michael Mathews – CEO:

Yeah, absolutely. So unfortunately we're not able to publicly disclose the partnerships that we have with large healthcare organizations, within our contracts we sign they require that we don't disclose this publicly.

But I can tell you that we have currently 15 corporate partnerships with some of the largest health organizations across America and in those agreements we're offering their employee base a 10% discount off our current tuition rate. And we're also working very closely with one of the largest unions in America and we're seeing a number of nurses that are coming together in cohort fashion to enter Aspen University at the same time in order to get their MSNs.

So yes, we're very active in the marketplace. We actually have an executive that's dedicated to helping us get corporate partnership agreements completed and then ultimately once the agreement is completed then our next job is to get into those hospitals and set up tables and talk about our program person to person.

Mark Zinski:

Got you. Okay. Thank you very much for taking my questions.

Operator:

Thank you. [Operator Instructions] And looks like we have a follow-up from Brett Reiss from Janney Montgomery Scott. Your line is open.

Brett Reiss - Janney Montgomery:

Yeah Michael, putting myself in the shoes of a registered nurse that'll need one of these degrees, when you look at the price differential that you offer why -- unless it's an older RN that maybe is not computer literate -- who would not choose to go with somebody like Aspen? Your pricing is just so compelling, but not everyone is going to go in your direction? Who would not choose you?

Michael Mathews – CEO:

Well, I've said in the past that the conversion rates that we have on our nursing leads are just astounding. It's in the range of 10% which is unheard of. So to answer your question, once we get a nurse on the phone and explain what our program is, talk about our curriculum and the support that we provide, and that we give a 45-minute orientation to our new students so that when they do enter the classroom they feel very comfortable when they arrive, which is important because as you guys probably are aware the average age of registered nurses in America today is 48 years old – they are good. Many of these students have not been to college over a decade or two. And so they are concerned about jumping back in, so we have a very, very important process that takes place to help shepherd these folks in so they're successful in their first course and then throughout their whole program.

So that's what the challenge is for us -- ensuring that our students are comfortable and successful when they arrive, more so then talking them into Aspen. Again if we have a nurse that decides not to join Aspen, it's typically not because they're going to go to another school. It's typically because they frankly don't have the confidence level to go back to school.

Brett Reiss - Janney Montgomery:

Right. Okay. Thanks.

Operator:

Thank you. Our next question comes from the line of George Melas from MKH Management. Your line is open.

George Melas - MKH Management:

Great, thank you. Mike and Janet, you've been increasing marketing spend to drive the growth of the business and you've achieved accelerated growth over the last three quarters. Do you see growth remaining in that 40% range or what would it take to continue growing at that rate in the market?

Michael Mathews – CEO:

Our overall revenue growth rate you mean?

George Melas - MKH Management:

Yes exactly you can answer the way you want to Mike.

Michael Mathews – CEO:

Yes so until further notice, I think every shareholder should be aware that the growth rate that we just announced is a growth rate that you should expect going forward. And so we're planning to have a compound annual growth rate that's 40% plus for the foreseeable future.

George Melas - MKH Management:

Excellent, what does it take for you to actually achieve this growth rate from both a marketing cost, from a call center spend and from sort of a G&A support expense?

Michael Mathews – CEO:

Well for every $50,000 of spend per month in marketing, we typically -- we have to add somewhere in the vicinity of about five to six call center employees. So and the growth rate on the marketing spend, so if we increase the marketing spend by $50,000, it usually takes two to three quarters before we see the full effect of that spend because it takes 60-90 days to enroll a student and then that subsequent quarter is when they're taking their first course.

And as we continue to increase our marketing spend rate sequentially by 10% to 15%, that's what's causing close to 50% year-over-year growth rate and again as we move from $5 million revenue run rate to now $7 plus million run rate to a $10 million run rate as I said before, you'll then start to see some nice operating leverage as we go.

George Melas - MKH Management:

Okay. And what was your marketing spend in the quarter?

Michael Mathews – CEO:

The quarter that just ended in July?

George Melas - MKH Management:

Yeah exactly.

Michael Mathews – CEO:

Yeah we spent approximately $150,000 a month.

George Melas - MKH Management:

Okay, and do you see that remaining stable for a while or do you think that you will increase that?

Michael Mathews – CEO:

No our plan is to continue to increase our marketing spend rate for the foreseeable future and you're probably looking at around 10% a quarter for several quarters.

George Melas - MKH Management:

Okay. Thanks Mike.

Michael Mathews – CEO:

Thank you.

Operator:

[Operator Instructions] We just got a question from the line of [John Nicola] [ph]. Your line is open.

Unidentified Analyst:

Yes being a shareholder I'm wondering when the profitability will be increased for the shareholder?

Michael Mathews – CEO:

Could you repeat the question, I'm sorry.

Unidentified Analyst:

Yes, I'm wondering when it's going to show up in the profitability for the shareholder in regards to the shares that they own.

Michael Mathews – CEO:
Okay. Yeah so as I indicated earlier, when we are at a $2.25 million revenue run rate per quarter that's when -- that's approximately the range that we'll begin generating cash. We just did of course $1.71 million and that $2.25 million figure is likely to be achieved before this fiscal year ends. So hopefully that gives you a fairly specific understanding of how close we are.

Unidentified Analyst:
So you're considering that is around $50,000 before profitability then?

Michael Mathews – CEO:
I'm not sure I understand the question.

Unidentified Analyst:
You said they were at $1.75 million and were needing to go to $2.05?

Michael Mathews – CEO:
$2.25.

Unidentified Analyst:
$2.25, so you need to increase enrollment or that will increase into the next six months say to the end of 2016?

Michael Mathews – CEO:
That's about the right timeframe correct, approximately.

Unidentified Analyst:
What about the debt structure?

Michael Mathews – CEO:
The company has a line of credit of $250,000 with Chase Manhattan Bank currently and that's our only external debt.

Unidentified Analyst:
And what interest is taken out per month?

Janet Gill – CFO:
About $1,000 a month.

Unidentified Analyst:
I'm sorry would you repeat that please?

Michael Mathews – CEO:
Yeah the interest on that is about a $1000 a month.

Unidentified Analyst
Okay. Thank you.

Michael Mathews – CEO:

Thank you.

Operator:

[Operator Instructions] And that looks like all the questions that we're going to be getting for today. So I'd like to turn the conference back over to management for closing remarks.

Michael Mathews – CEO:

Thanks everybody for your questions. I want to thank everyone for joining us this afternoon and the team here looks forward to talking with you again next quarter. Have a nice day.

Janet Gill – CFO:

Bye, bye now. Take care.

Operator:

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect your telephone lines this time. Everyone have a great evening.