

## Operator:

Good day ladies and gentlemen and welcome to the Aspen Group Incorporated's Fiscal 2016 Second Quarter Earnings Call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder today's conference is being recorded.

I would now like to introduce your host for today's conference, Miss Janet Gill, Chief Financial Officer. Ma'am, please begin.

## Janet Gill - CFO

Okay. Thank you, very much Liz. Good afternoon. Thank you for joining us today for Aspen Group's fiscal year 2016 second 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 and our press release issued today. 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 financial 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 one year at the Company's website.

I will begin today by reviewing our financial results for our fiscal second quarter, then will turn the call over to the Chairman & CEO of Aspen Group, Mr. Michael Mathews, to provide a business update focusing on our record new student enrollment and revenue growth.

To open, quarterly revenues were \$1,913,161, a 58% increase from the comparable prior year period, which is an acceleration from 46% year-over-year growth in the previous quarter. Note that the 58% revenue growth increase beat our previous 54% revenue growth pre-earnings guidance, largely based on the fact that we delivered over 200 new student enrollments in the month of October, which was our highest new student enrollment month in our history.

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Aspen Group's Gross Profit for the 1st quarter increased 40% from the comparable prior year period to \$909,019 or 48% margin.

Our Adjusted Gross Profit (exclusive of depreciation and amortization) increased 35% from the comparable prior year period to \$1,045,360 or 55% margin.

On a sequential basis, our gross margins increased modestly by one percentage point, from 47% to 48%, which was expected as we increased our marketing spend rate by 23% sequentially. To be more specific, beginning in August, the first month of the quarter, we increased our average monthly marketing spend rate by \$30,000 per month; from \$120,000 per month to \$150,000 per month.

Given it takes on average 60-90 days to generate a new student enrollment once a new lead hits our enrollment center...the fact that our margins sequentially increased slightly in the quarter, rather than declining, is a result of the rapid rise in revenues we're currently experiencing.

Given we plan to maintain our marketing spend rate at \$150,000 per month for the remaining 6 months of our fiscal year, we expect to see gross margins improve materially in the coming two quarters.

Finally, Our Adjusted EBITDA resulted in a loss of \$(279,352), a sequential improvement of 7%.

Our net loss applicable to shareholders was (\$744,420) or Loss Per Share of one Cent (\$0.01). That's a sequential decline of 4%.

From a balance sheet perspective, Aspen ended the quarter with a cash balance of approximately \$2.1 million, which includes \$1,122,485 of restricted cash.

Finally, our total stockholders' equity ended at a positive \$1,316,961.

Now I'll turn the call over to Michael Mathews to discuss our business progress, specifically the rapid growth in new student enrollments and revenues.

## **Michael Mathews – CEO**

This past quarter we delivered 557 new student enrollments, as compared to 265 a year ago, an improvement of 110%. As mentioned earlier, enrollments accelerated in the last month of the quarter, as we enrolled over 200 new students in October, a monthly record for the university.

As we have forecasted, Aspen's school of nursing is responsible for the lion's share of the new student enrollment growth. Specifically, Aspen's school of nursing is now on pace to grow on an annualized basis by 1,500 nursing students – net, or 125 per month on average.

Aspen's Bachelor of Science in Nursing (or BSN) program is accounting for 72% of that growth, as that program is on pace to increase on an annualized basis by 1,080 students – net, or 90 per month on average.

Based on this accelerated growth in our BSN program, we now expect our total degree-seeking student body to grow from 4,015 students at quarter end to approximately 5,000 students by the end of our fiscal year, April 30, 2016.

That means we're now on pace to increase our degree-seeking student body by 2,000 students – net, on an annualized basis...versus the previous pace of 1,200 students – net, on an annualized basis earlier this fiscal year.

I'm sure you're interested as to why our BSN new student enrollments accelerated in the past quarter. Well there's several reasons. First, as mentioned earlier, beginning in August, the first month of the quarter, we increased our average monthly marketing spend rate by \$30,000; from \$120,000 per month to \$150,000 per month.

Prior to the start of the quarter, we grew our Phoenix-based enrollment center to 21 enrollment advisors, all of whom are operating at a very high productivity level.

Normally when a university increases their marketing spend in a given quarter, enrollment increases can be expected one or two quarters later. Not with Aspen University. We increased our marketing spend by 23% sequentially, but delivered 36% more enrollments sequentially.

Bottom line. Over the past year, we've now more than doubled our marketing spend rate and more than doubled the size of our enrollment center and we're not seeing degradation in our average cost of enrollment. It's an enviable position to be in.

Not to be too repetitive, but this enviable position we're in today is because of last year's announcement of our debtless education solution. We believed that by advertising to the nursing sector a debt-free solution through monthly payment plans, we would become the university of choice for RNs.

Now that we've become one of the fastest growing universities in America, if not the fastest, it's clear that we've begun the process of ending the long-held assumption that nursing students have historically made -- that they must incur overwhelming debt to obtain a college degree.

I'll complete my prepared remarks today with some revenue and Adjusted EBITDA projections for the remainder of the fiscal year.

First, as mentioned earlier, we plan to keep our marketing spend rate at \$150,000 per month for the remaining 6 months of our fiscal year, which will allow the company to continue its rapid pace of growth, while simultaneously reaching the Adjusted EBITDA breakeven range by the end of our current fiscal year.

We're currently projecting revenues to accelerate again this coming quarter, to over \$2.1 million or over 63% growth year-over-year. Therefore, our Adjusted EBITDA loss this coming quarter is forecasted to decline into the single digits.

The following quarter, which is our fourth fiscal quarter ending April 30, is the quarter the company is expecting to be in the breakeven Adjusted EBITDA range.

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 comes from the line of David Garrity with GVA Research. Your line is now open.

[David Garrity](#) - GVA Research

Hi Mike congratulations on a very strong quarter and congratulations as well in terms of the fact that you are accelerating further.

[Michael Mathews](#) - CEO

Thank you, David.

[David Garrity](#) - GVA Research

Your welcome, it's good to see things are paying off. I was curious, are we seeing anything in the market place where people are starting to perhaps copy the Aspen model as it applies to the nursing vertical and to what extent do you think that you'll be able to maintain this sort of competitive advantage in terms of the business model?

[Michael Mathews](#) - CEO

Yes, great question. Well, to date we haven't seen any competitors that I'm aware of that are targeting the nursing sector with a debtless education monthly payment plan approach. Someday certainly that's possible, however as I have described in previous conference calls, the unit economics would be difficult for a large competitor to follow given that our cost of enrollment is well below \$1000, in fact it was below \$800 this quarter. So you have to have the ability to achieve enrollment costs on average well less than \$1000 in order to offer monthly payments plans where we are charging BSN students for example \$250 a month. So until someone is able to have that kind of expertise, I don't see it happening in the near term.

[David Garrity](#) - GVA Research

Thank you.

### Operator

Our next question comes from the line of Brett Reis with Janney Montgomery Scott. Your line is now open.

[Brett Reis](#) - Janney Montgomery Scott

Thank you, also congratulations on a fantastic quarter for you and the whole team.

[Michael Mathews](#) - CEO

Thank you, Brett.

[Brett Reis](#) - Janney Montgomery Scott

Yes, is there anything that keeps you up at night that could derail the recipe of growth that obviously have been enjoying?

[Michael Mathews](#) - CEO

I have to be honest. I really don't have one particular thing that keeps me up at night. When you build a great company, there's a number of variables involved. The first thing is you have to have a differentiated business model which clearly we do and David of course just asked a question about that. We also have an amazing team of course starting with Janet Gill as my CFO, Gerard Wendolowski as my Chief Operating Officer, and of course our Chief Academic Officer, Dr. Cheri St. Arnauld.

So when you have a great team, good results typically follow. So, at this point there isn't really anything specific that concerns me and we just need to continue executing as a company and as I announced earlier, we see that our accelerated growth is going to continue in the quarter that we are currently in.

[Brett Reis](#) - Janney Montgomery Scott

Right. Now for a company your size, you have a pretty sophisticated shareholder base and sophisticated board -- are they basically giving you the ball and letting you run with it or have they given you any kind of input on where the company might be headed a year to 18 months from now?

[Michael Mathews](#) - CEO

Well let me just say, for any public company as the Chairman, in my case the Chairman and CEO, it's my job to put together a great board and it's my job to find extremely sophisticated investors and I think we've accomplished both. There is no question that I am constantly asking for their thoughts and feedback and ideas from those intelligent folks.

From a long term strategic perspective, the company did in fact put together a special committee of the board of directors in the last month and a half. And we are looking at some strategic initiatives which have the potential to take our growth to yet another level in this coming year. We are not ready and prepared to talk about these things at this point but we are looking at some very interesting initiatives.

[Brett Reis](#) - Janney Montgomery Scott

Right. And maybe one last question, this is probably for Miss Gill. The bad debt expense seems to have more than doubled, what caused that?

[Janet Gill](#) - CFO

Well we basically take all of our receivables and put them into buckets based on the source of the revenue. And we use -- we use a set percentage for any debt over 90 days. So we're just concerned with keeping a certain (bad debt) level based on the over 90 receivables.

[Michael Mathews](#) - CEO

When you look at the amount that our revenues are growing year-over-year, we had an increase in our bad debt of about \$35,000 over the period (sequential quarter) which I don't think is significant.

[Brett Reiss](#) - Janney Montgomery Scott

Okay, great. All right, I'm going to drop back and once again keep up the good work.

## Operator

Unidentified Analyst

Good afternoon. Rather new to the story. I'm wondering if you could maybe take a couple of minutes and talk about the background of the company and how you developed this debtless program and where that basically places you for future growth?

[Michael Mathews](#) - CEO

Yes, sure. So for those of you that aren't aware of my background, I'm the former CEO of interCLICK, ICLK on the NASDAQ. interCLICK was acquired by Yahoo! in December of 2011, four years ago now. So myself and my team has a very special set of expertise in terms of internet advertising. And so I took over Aspen University back in the middle of the year in 2011 and proceeded to build a very sophisticated marketing platform which has allowed our university to drive enrollments well below \$1,000, which in my understanding has never been done in history at volume. Most universities (the public companies, online for-profits) have announced over the past 20 years that their average cost of enrollment is \$4,000 to \$5,000, not less than \$1,000.

So back in May of last year I published a book entitled "Lets Change Higher Education Forever" and announced at that time that we were going to take the efficiency of our cost of enrollment which is less than a thousand dollars at volume and we were going to transfer that efficiency in the form of monthly payment plans to our students, thereby allowing any college student across this country the ability to get a college education by simply paying month to month literally as if similar to your Verizon bill, you just pay month to month. If you ever make a decision to stop the program, of course your Verizon service stops. And this is the same idea -- this is a pay as you go system where a student doesn't take the financial risk of tens of thousands of debt, they just simply pay us month to month. If they ever decided to stop, we let them stop and they can then continue on later down the road when they are ready again. And they pay that monthly payment plan until they are done with their education and they get their degree at that point with no debt.

We decided to focus on the nursing sector as our primary sector initially, because it's one of the fastest growing occupations in America and there's a significant desire by the healthcare profession to ensure that registered nurses have their BSN. So when we obtained our BSN accreditation with the CCNE back in November last year that was one of the seminal moments in our ability to really significantly grow on the topline.

We plan in the coming years at Aspen University to branch out, outside of nursing, and someday don't be surprised if we are announcing to the country monthly payment plans literally in every degree program that you can think of. That's our ultimate aspiration, to offer any college worthy adult the ability to achieve the American dream which is a college degree.

### **Unidentified Analyst**

And your advertising programs, is it constantly being tweaked and changed I guess to find the right potential student?

[Michael Mathews](#) - CEO

So we have implemented very sophisticated data targeting techniques so that we don't waste impressions on the internet in order to obtain a lead from, in this case, a registered nurse. So that's part of the sophistication of our marketing platform, it allows us to achieve very high quality leads at a relatively low cost.

## **Operator**

### **Unidentified Analyst**

Hey, Michael how are you doing today?

[Michael Mathews](#) - CEO

Good.

### **Unidentified Analyst**

I've got a quick question for you. Regional accreditation is pretty important for nurses especially with when it comes to their degrees. When does Aspen expect to achieve getting regional accreditation?

[Michael Mathews](#) - CEO

Well I'm not really prepared to answer that question in public yet. We absolutely aspire to become a regionally accredited institution. There's a number of strategies and ways to get there and we are moving down the path on one of those strategies, which of course at the point when we are ready we will be announcing exactly what our strategy is. But understand that, quite frankly, we really are having no problems whatsoever being nationally accredited in the nursing sector. There are very, very few healthcare organizations that require a regionally accredited degree on top of a CCNE accredited nursing degree.

## **Unidentified Analyst**

The other thing I was going to ask you was in terms of bringing attention and eyeballs to the Aspen Group, are there any plans or directives that you plan on taking to help bring in more investors?

[Michael Mathews](#) - CEO

Yes, we are talking to a number of analysts in the market place about launching coverage; a couple of them are on the call as we speak. And this point I think that's probably the best method for us, in addition to existing non-deal roadshows, that we need to do relative to our investor relations activity.

## **Operator**

I'm showing no further questions in the queue at this time. I'd like to turn the call back to Michael Mathews for closing remarks.

[Michael Mathews](#) - CEO

Thank you everyone for your questions today. I want to thank everyone for joining us this afternoon and the team here looks forward to talking with you again in the coming quarter. Have a good day.

## **Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may all disconnect. Everyone have a great day.