ASPEN GROUP, INC.
Form 424B3
August 15, 2013

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-188277

ASPEN GROUP, INC.

PROSPECTUS

28,540,649 Shares of Common Stock

This prospectus relates to the sale of up to 28,540,649 shares of Aspen Group, Inc. common stock which may be offered by the selling shareholders identified in this prospectus.

We will not receive any proceeds from the sales of shares of our common stock by the selling shareholders named on page 62.

Our common stock trades on the Over-the-Counter Bulletin Board under the symbol ASPU . As of the last trading day before the date of this prospectus, the closing price of our common stock was $0.21 per share.

The common stock offered in this prospectus involves a high degree of risk. See Risk Factors beginning on page 4 of this prospectus to read about factors you should consider before buying shares of our common stock.

The selling shareholders are offering these shares of common stock. The selling shareholders may sell all or a portion of these shares from time to time in market transactions through any market on which our common stock is then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. The selling shareholders will receive all proceeds from the sale of the common stock. For additional information on the methods of sale, you should

refer to the section entitled Plan of Distribution.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 13, 2013

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	1
RISK FACTORS	4
FORWARD-LOOKING STATEMENTS	19
USE OF PROCEEDS	20
CAPITALIZATION	21
MARKET FOR COMMON STOCK	21
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
BUSINESS	32
MANAGEMENT	50
EXECUTIVE COMPENSATION	53
PRINCIPAL SHAREHOLDERS	60
SELLING SHAREHOLDERS	62
RELATED PERSON TRANSACTIONS	65
DESCRIPTION OF SECURITIES	67
PLAN OF DISTRIBUTION	68
LEGAL MATTERS	70
EXPERTS	70
ADDITIONAL INFORMATION	70

You should rely only on information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. The selling shareholders are not offering to sell or seeking offers to buy shares of common stock in jurisdictions where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully including the section entitled Risk Factors before making an investment decision. In March 2012, Aspen Group, Inc., or Aspen Group, and Aspen University Inc., a privately held Delaware corporation, or Aspen, entered into a merger agreement whereby Aspen became a wholly-owned subsidiary of Aspen Group. We refer to the merger as the Reverse Merger. All references to we, our and us refer to Aspen Group and its subsidiaries (including Aspen), unless the context otherwise indicates. In referring to academic matters, these words refer solely to Aspen University.

Our Company

Aspen is an online postsecondary education company. Founded in 1987, Aspen s mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. We are dedicated to helping our students exceed their personal and professional objectives in a socially conscious and economically sensible way. Aspen s mission in fact is to help students achieve their long-term goals of upward mobility and long-term economic success through providing superior education, exerting financial prudence, and supporting our students career advancement goals. Aspen is dedicated to providing the highest quality education experiences taught by top-tier professors - 67% of our adjunct professors hold doctorate degrees.

Corporate Information

Our corporate headquarters are located at 720 South Colorado Boulevard, Suite 1150N, Denver, Colorado 80246 and our phone number is (303) 333-4224. Our corporate website can be found at www.aspen.edu/investor-relations. The information on our website is not incorporated in this prospectus.

Risks Affecting Us

Our business is subject to numerous risks as discussed more fully in the section entitled “Risk Factors” immediately following this Prospectus Summary. In particular, our business would be adversely affected if:

- we are unable to comply with the extensive regulatory requirements to which our business is subject, including Title IV of the Higher Education Act, or Title IV, and the regulations under that act, state laws and regulations, accrediting agency requirements, and our inability to comply with these regulations could result in our ceasing operations altogether;
- we are unable to raise enough money or generate sufficient revenue to meet our future working capital needs;
- our marketing and advertising efforts are not effective;
- we are unable to develop new programs and expand our existing programs in a timely and cost-effective manner;
- we are unable to increase our class starts by existing students and increase new enrollments;
- our new monthly payment plan is unsuccessful;
- we are unable to attract and retain key personnel needed to sustain and grow our business; or
- our reputation is damaged by regulatory actions or negative publicity affecting us or other companies in the for-profit higher education sector.

For a discussion of these and other risks you should consider before making an investment in our common stock, see the section entitled Risk Factors beginning on page 4 of this prospectus.

THE OFFERING

Common stock outstanding prior to the offering:	58,573,237 shares
Common stock offered by the selling shareholders:	20,582,633 shares of common stock, all of which are outstanding as of the date this prospectus
Common stock offered by the selling shareholders upon exercise of warrants:	7,958,016 shares
Common stock outstanding immediately following the offering:	66,531,253 shares
Use of proceeds:	Except for the proceeds we receive upon the exercise of warrants, we will not receive any proceeds from the sale of shares by the selling shareholders. See Use of Proceeds on page 20.
Stock symbol:	OTCBB: ASPU

The number of shares of common stock to be outstanding prior to and after this offering excludes:

- a total of 9,110,592 shares of common stock issuable upon the exercise of outstanding stock options;
- a total of 189,408 shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan;
- a total of 2,159,302 shares of common stock issuable upon the exercise of warrants, which does not include the warrants referred to above; and
- a total of 1,357,143 shares of common stock issuable upon the conversion of notes.

SUMMARY FINANCIAL DATA

The following summary of our financial data should be read in conjunction with, and is qualified in its entirety by reference to Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements appearing elsewhere in this prospectus.

Statements of Operations Data

	Four Months Ended April 30,		Year Ended December 31,	
	2013	2012 (Unaudited)	2012	2011
Revenue	$ 1,229,096	$ 745,656	$ 2,684,931	$ 2,346,238
Loss from continuing operations	$ (1,291,055)	$ (2,361,632)	$ (6,147,044)	$ (2,593,139)
Net loss per common share, allocable to common stockholders (basic and diluted)	$ (0.03)	$ (0.11)	$ (0.17)	$ (0.14)
Weighted average number of common shares outstanding (basic and diluted)	56,089,884	21,135,361	35,316,681	15,377,413

Balance Sheet Data

	April 30, 2013	December 31, 2012

Cash and cash equivalents	$	724,982	$	577,238
Working capital (deficit)	$	(301,669)	$	106,222
Total assets	$	3,401,685	$	3,497,198
Total current liabilities	$	1,935,860	$	1,630,426
Accumulated deficit	$	(12,740,086)	$	(11,337,104)
Total shareholders equity	$	594,375	$	801,755

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following Risk Factors before deciding whether to invest in Aspen Group. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations or our financial condition. If any of the events discussed in the Risk Factors below occur, our business, consolidated financial condition, results of operations or prospects could be materially and adversely affected. In such case, the value and marketability of the common stock could decline.

Risks Relating to Our Business

If we are unable to generate positive cash flows from our operations or we are unable to raise capital, our ability to continue as a going concern is in doubt.

We incurred a net loss of approximately $1.4 million for the four months ended April 30, 2013, $6 million in 2012 and $2.1 million in 2011 (using our then fiscal year of December 31st). Beginning in September 2012, we closed equity financings totaling gross proceeds of approximately $4.6 million, which has provided working capital necessary because of these losses. Additionally, in July 2013, Michael Mathews, our Chief Executive Officer, loaned us $1 million and we issued him a $1 million Promissory Note due December 31, 2013. Aspen Group believes that it will begin generating positive cash flows from operations by the end of fiscal 2014. We are planning to conduct a future offering to raise up to $4 million from the sale of equity securities in a private placement offering. These proceeds will be used to meet cash flow deficits and to accelerate the growth of the business. We cannot assure you that this plan will result in the consummation of a successful offering. In the event that we are not successful at generating positive cash flows or we are unable to raise capital, we will be required to reduce our operating expenses which will limit our ability to grow our business. Additionally, our audited consolidated financial statements contain a going concern opinion. This going concern opinion may affect our ability to obtain DOE permanent certification for Title IV purposes.

If we are unable to raise sufficient enough capital, we may have to scale back our operations, reduce our marketing spend and may encounter regulatory restrictions, any of which will adversely affect our results of operations.

Investors are subject to substantial risk if we do not raise enough capital through the contemplated offering described in the Risk Factor above or by other means. Because of the continued volatility and disruption in worldwide capital and credit markets, potential deteriorating conditions in the U.S., ongoing financial issues in Europe, and difficulties

which microcap companies have in raising capital, the lack of available credit for companies similar to us and our stock price, we may be hampered in our ability to raise the necessary working capital. As a result, we cannot give you any assurance that we will be successful in raising capital, and even if successful, we cannot give you assurance that it will be on terms favorable to us. If we do not raise the necessary working capital and if we do not generate sufficient revenues, we may not be able to remain operational or we may have to scale back our operations including our marketing spend which will adversely affect our future enrollments. Moreover, we operate in a regulated environment and are required to meet capital requirements set by the DOE and the DETC. If we fail to meet these requirements, we will be unable to offer federal loans to students and may be precluded from continuing in business.

Because our management team has been in place for two years, it may be difficult to evaluate our future prospects and the risk of success or failure of our business.

Our management team began the process of taking control of Aspen from its then Chairman in May 2011 and embarked upon changes in Aspen s business model including adopting a new tuition plan effective upon receiving regulatory approval, revamping Aspen s marketing approach, substantially increasing marketing expenditures, and upgrading Aspen s technology infrastructure. While the results to date are very encouraging, the limited time period makes it difficult to project whether we will be successful.

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

The U.S. and much of the world economy are experiencing difficult economic circumstances. We believe the economic downturn in the U.S., particularly the continuing high unemployment rate, has contributed to a portion of our recent enrollment growth as an increased number of working students seek to advance their education to improve job security or reemployment prospects. This effect cannot be quantified. However, to the extent that the economic downturn and the associated unemployment have increased demand for our programs, an improving economy and increased employment may eliminate this effect and reduce such demand as fewer potential students seek to advance their education. We do not know whether the gradually reduced unemployment rate will reduce future demand for our services, which would have a material adverse effect on our business, financial condition, results of operations and cash flows. Conversely, a worsening of economic and employment conditions could adversely affect the ability or willingness of prospective students to pay our tuition and our former students to repay student loans, which could increase our bad debt expense, impair our ability to offer students loans under Title IV, and require increased time, attention and resources to manage defaults.

If we cannot manage our growth, our results of operations may suffer and could adversely affect our ability to comply with federal regulations.

The growth that we have experienced after our new management began in May 2011, as well as any future growth that we experience, may place a significant strain on our resources and increase demands on our management information and reporting systems and financial management controls. If growth negatively impacts our ability to manage our business, the learning experience for our students could be adversely affected, resulting in a higher rate of student attrition and fewer student referrals. Future growth will also require continued improvement of our internal controls and systems, particularly those related to complying with federal regulations under the Higher Education Act, as administered by the DOE, including as a result of our participation in federal student financial aid programs under Title IV. If we are unable to manage our growth, we may also experience operating inefficiencies that could increase our costs and adversely affect our profitability and results of operations.

Because there is strong competition in the postsecondary education market, especially in the online education market, our cost of acquiring students may increase and our results of operations may be harmed.

Postsecondary education is highly fragmented and competitive. We compete with traditional public and private two-year and four-year brick and mortar colleges as well as other for-profit schools, particularly those that offer online learning programs. Public and private colleges and universities, as well as other for-profit schools, offer programs similar to those we offer. Public institutions receive substantial government subsidies, and public and private institutions have access to government and foundation grants, tax-deductible contributions that create large

endowments and other financial resources generally not available to for-profit schools. Accordingly, public and private institutions may have instructional and support resources that are superior to those in the for-profit sector. In addition, some of our competitors, including both traditional colleges and universities and online for-profit schools, have substantially greater name recognition and financial and other resources than we have, which may enable them to compete more effectively for potential students. We also expect to face increased competition as a result of new entrants to the online education market, including established colleges and universities that have not previously offered online education programs. Recently, major brick and mortar universities have advertised their online course offerings.

We may not be able to compete successfully against current or future competitors and may face competitive pressures including price pressures that could adversely affect our business or results of operations and reduce our operating margins. These competitive factors could cause our enrollments, revenues and profitability to decrease significantly.

In the event that we are unable to update and expand the content of existing programs and develop new programs and specializations on a timely basis and in a cost-effective manner, our results of operations may be harmed.

The updates and expansions of our existing programs and the development of new programs and specializations may not be accepted by existing or prospective students or employers. If we cannot respond to changes in market requirements, our business may be adversely affected. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as students require or as quickly as our competitors introduce competing programs. To offer a new academic program, we may be required to obtain appropriate federal, state and accrediting agency approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, a new academic program that must prepare students for gainful employment must be approved by the DOE for Title IV purposes if the institution is provisionally certified, which we are through September 30, 2013. If we are unable to respond adequately to changes in market requirements due to financial constraints, regulatory limitations or other factors, our ability to attract and retain students could be impaired and our financial results could suffer.

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

Because our future growth and profitability will depend in large part upon the effectiveness of our marketing and advertising efforts, if those efforts are unsuccessful we may not be profitable in the future.

Our future growth and profitability will depend in large part upon our media performance, including our ability to:

Create greater awareness of our school and our programs;

Identify the most effective and efficient level of spending in each market and specific media vehicle;

Determine the appropriate creative message and media mix for advertising, marketing and promotional expenditures; and

Effectively manage marketing costs (including creative and media).

Our marketing expenditures may not result in increased revenue or generate sufficient levels of brand name and program awareness. If our media performance is not effective, our future results of operations and financial condition will be adversely affected.

Although our management is spearheading a new marketing and advertising program, it may not be successful.

Mr. Michael Mathews, our Chief Executive Officer, has developed a new marketing campaign designed to substantially increase our student enrollment. While initial results have been as anticipated, there are no assurances that this marketing campaign will continue to be successful. Among the risks are the following:

Our ability to compete with existing online colleges which have substantially greater financial resources, deeper management and academic resources, and enhanced public reputations;

the emergence of more successful competitors;

factors related to our marketing, including the costs of Internet advertising and broad-based branding campaigns;

limits on our ability to attract and retain effective employees because of the new incentive payment rule;

performance problems with our online systems;

our failure to maintain accreditation;

student dissatisfaction with our services and programs;

adverse publicity regarding us, our competitors or online or for-profit education generally;

a decline in the acceptance of online education;

a decrease in the perceived or actual economic benefits that students derive from our programs;

potential students may not be able to afford the monthly payments; and

potential students may not react favorably to our marketing and advertising campaigns, including our new monthly payment plan.

If our new marketing campaign is not favorably received, our revenues may not increase. Moreover, in June 2013, we launched a monthly payment plan designed to encourage students to enroll in courses without borrowing. It is too soon to know if this plan will increase our revenues.

If student enrollment declines or does not increase in reaction to our new monthly installment payment plan, we may not be successful.

Effective June 1, 2013, we began implementing a new monthly installment tuition payment plan. This plan is designed to increase enrollment and encourage students to reduce or eliminate student loans. We do not know if this plan will be successful. If it is not, we may experience a decline in enrollment or a failure to grow our revenues.

If we incur system disruptions to our online computer networks, it could impact our ability to generate revenue and damage our reputation, limiting our ability to attract and retain students.

In 2011, 2012 and 2013, we spent approximately $1.5 million to update our computer network primarily to permit accelerated student enrollment and enhance our students learning experience. We expect to spend $250,000 in capital expenditures over the next 12 months. The performance and reliability of our technology infrastructure is critical to our reputation and ability to attract and retain students. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the unavailability of our online classroom, damaging our reputation and could cause a loss in enrollment. Our technology infrastructure could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters, terrorist activities and telecommunications failures.

Although one of our directors has pledged shares of common stock to secure payment of a receivable, it is possible that the future market price of our common stock will decline in which case we will incur an adverse impact to its future operating results and financial condition.

In March 2012, one of our directors pledged a total of 117,943 shares of personally owned Aspen common stock (now shares of Aspen Group). The shares were pledged (in addition to shares pledged by Aspen's former Chairman and his company) to secure payment of a $772,793 accounts receivable. The Stock Pledge Agreement provides that the shares will be cancelled at the rate of $1.00 per share in the event that we are unable to collect this receivable which is due in 2014. Because of sales of common stock below $1.00 per share, the receivable in total was reduced to $270,478 as of December 31, 2012 and April 30, 2013. If we are unable to collect on this receivable, we will suffer a number of consequences, including a failure to collect a material amount of cash and if our stock price is below $0.35, we will sustain a non cash loss.

If we experience any interruption to our technology infrastructure, it could prevent students from accessing their courses, could have a material adverse effect on our ability to attract and retain students and could require us to incur additional expenses to correct or mitigate the interruption.

Our computer networks may also be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information, personal information about our students or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

Because we rely on third parties to provide services in running our operations, if any of these parties fail to provide the agreed services at an acceptable level, it could limit our ability to provide services and/or cause student dissatisfaction, either of which could adversely affect our business.

We rely on third parties to provide us with services in order for us to efficiently and securely operate our business including our computer network and the courses we offer to students. Any interruption in our ability to obtain the services of these or other third parties or deterioration in their performance could impair the quality of our educational product and overall business. Generally, there are multiple sources for the services we purchase. Our business could be disrupted if we were required to replace any of these third parties, especially if the replacement became necessary on short notice, which could adversely affect our business and results of operations.

If we or our service providers are unable to update the technology that we rely upon to offer online education, our future growth may be impaired.

We believe that continued growth will require our service providers to increase the capacity and capabilities of their technology infrastructure. Increasing the capacity and capabilities of the technology infrastructure will require these third parties to invest capital, time and resources, and there is no assurance that even with sufficient investment their systems will be scalable to accommodate future growth. Our service providers may also need to invest capital, time and resources to update their technology in response to competitive pressures in the marketplace. If they are unwilling or unable to increase the capacity of their resources or update their resources appropriately and we cannot change over to other service providers efficiently, our ability to handle growth, our ability to attract or retain students, and our financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

The CAN-SPAM Act's main provisions include:

Prohibiting false or misleading email header information;

Prohibiting the use of deceptive subject lines;

Ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender;

Requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively permitted the message; and

Requiring that the sender include a valid postal address in the email message.

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

8

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

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

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

Moreover, some foreign countries, including the countries of the European Union, have regulated the distribution of commercial email and the online collection and disclosure of personal information. Foreign governments may attempt to apply their laws extraterritorially or through treaties or other arrangements with U.S. governmental entities.

Because we use email marketing, our requirement to comply with the CAN-SPAM Act could adversely affect Aspen's marketing activities and increase its costs.

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

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

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

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

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

In the ordinary course of our business, we develop intellectual property of many kinds that is or will be the subject of copyright, trademark, service mark, trade secret or other protections. This intellectual property includes but is not limited to courseware materials, business know-how and internal processes and procedures developed to respond to the requirements of operating and various education regulatory agencies. We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names, agreements and registrations to protect our intellectual property. We rely on service mark and trademark protection in the U.S. to protect our rights to the mark "ASPEN UNIVERSITY" as well as distinctive logos and other marks associated with our services. We rely on agreements under which we obtain rights to use course content developed by faculty members and other third party content experts. We cannot assure you that the measures that we take will be adequate or that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the U.S. or select foreign jurisdictions, or that third parties will not infringe upon or violate our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of our curricula, online resource material and other content, and offer competing programs to ours.

In particular, third parties may attempt to develop competing programs or duplicate or copy aspects of our curriculum, online resource material, quality management and other proprietary content. Any such attempt, if successful, could adversely affect our business. Protecting these types of intellectual property rights can be difficult, particularly as it relates to the development by our competitors of competing courses and programs.

We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise a claim against us alleging an infringement or violation of the intellectual property of that third party.

If we are subject to intellectual property infringement claims, it could cause us to incur significant expenses and pay substantial damages.

Third parties may claim that we are infringing or violating their intellectual property rights. Any such claims could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and prevent us from using our intellectual property that may be fundamental to our business. Even if we were to prevail, any litigation regarding the intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

If we incur liability for the unauthorized duplication or distribution of class materials posted online during our class discussions, it may affect our future operating results and financial condition.

In some instances, our faculty members or our students may post various articles or other third party content on class discussion boards. We may incur liability for the unauthorized duplication or distribution of this material posted online for class discussions. Third parties may raise claims against us for the unauthorized duplication of this material. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. As a result we may be required to alter the content of our courses or pay monetary damages.

Because we are an exclusively online provider of education, we are entirely dependent on continued growth and acceptance of exclusively online education and, if the recognition by students and employers of the value of online education does not continue to grow, our ability to grow our business could be adversely impacted.

We believe that continued growth in online education will be largely dependent on additional students and employers recognizing the value of degrees and courses from online institutions. If students and employers are not convinced that online schools are an acceptable alternative to traditional schools or that an online education provides value, or if growth in the market penetration of exclusively online education slows, growth in the industry and our business could be adversely affected. Because our business model is based on online education, if the acceptance of online education does not grow, our ability to continue to grow our business and our financial condition and results of operations could be materially adversely affected.

As Internet commerce develops, federal and state governments may draft and propose new laws to regulate Internet commerce, which may negatively affect our business.

The increasing popularity and use of the Internet and other online services have led and may lead to the adoption of new laws and regulatory practices in the U.S. and to new interpretations of existing laws and regulations. These new laws and interpretations may relate to issues such as online privacy, copyrights, trademarks and service marks, sales taxes, fair business practices and the requirement that online education institutions qualify to do business as foreign corporations or be licensed in one or more jurisdictions where they have no physical location or other presence. New laws, regulations or interpretations related to doing business over the Internet could increase our costs and materially and adversely affect our enrollments, revenues and results of operations.

If there is new tax treatment of companies engaged in Internet commerce, this may adversely affect the commercial use of our marketing services and our financial results.

Due to the growing budgetary problems facing state and local governments, it is possible that governments might attempt to tax our activities. New or revised tax regulations may subject us to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose taxes on commerce over the Internet. New or revised taxes and, in particular, sales or use taxes, would likely increase the cost of doing business online which could have an adverse effect on our business and results of operations.

Risks Related to the Regulation of Our Industry

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

We are subject to extensive regulation by (1) the federal government through the DOE and under the Higher Education Act, (2) state regulatory bodies and (3) accrediting agencies recognized by the DOE, including the DETC, a national accrediting agency recognized by the DOE. The U.S. Department of Defense and the U.S. Department of Veterans Affairs regulate our participation in the military s tuition assistance program and the VA s veterans education benefits program, respectively. The regulations, standards and policies of these agencies cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition. These regulatory requirements can also affect our ability to add new or expand existing educational programs and to change our corporate structure and ownership.

Institutions of higher education that grant degrees, diplomas, or certificates must be authorized by an appropriate state education agency or agencies. In addition, in certain states as a condition of continued authorization to grant degrees and in order to participate in various federal programs, including tuition assistance programs of the United States Armed Forces, a school must be accredited by an accrediting agency recognized by the U.S. Secretary of Education. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution. The Higher Education Act requires accrediting agencies recognized by the DOE to review and monitor many aspects of an institution's operations and to take appropriate action when the institution fails to comply with the accrediting agency's standards.

Our operations are also subject to regulation due to our participation in Title IV programs. Title IV programs, which are administered by the DOE, include loans made directly to students by the DOE. Title IV programs also include several grant programs for students with economic need as determined in accordance with the Higher Education Act and DOE regulations. To participate in Title IV programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting agency recognized by the U.S. Secretary of Education, and be certified as an eligible institution by the DOE. Our growth strategy is partly dependent on enrolling more students who are attracted to us because of our continued participation in the Title IV programs.

The regulations, standards, and policies of the DOE, state education agencies, and our accrediting agencies change frequently. Recent and impending changes in, or new interpretations of, applicable laws, regulations, standards, or policies, or our noncompliance with any applicable laws, regulations, standards, or policies, could have a material adverse effect on our accreditation, authorization to operate in various states, activities, receipt of funds under tuition

assistance programs of the United States Armed Forces, our ability to participate in Title IV programs, receipt of veterans education benefits funds, or costs of doing business. Findings of noncompliance with these regulations, standards and policies also could result in our being required to pay monetary damages, or being subjected to fines, penalties, injunctions, limitations on our operations, termination of our ability to grant degrees, revocation of our accreditation, restrictions on our access to Title IV program funds or other censure that could have a material adverse effect on our business.

If we do not maintain authorization in Colorado, our operations would be curtailed, and we may not grant degrees.

Aspen is headquartered in Colorado and is authorized by the Colorado Commission on Higher Education to grant degrees, diplomas or certificates. If we were to lose our authorization from the Colorado Commission on Higher Education, we would be unable to provide educational services in Colorado and we would lose our eligibility to participate in the Title IV programs.

Our failure to comply with regulations of various states could have a material adverse effect on our enrollments, revenues, and results of operations.

Various states impose regulatory requirements on education institutions operating within their boundaries. Several states assert jurisdiction over online education institutions that have no physical location or other presence in the state but offer education services to students who reside in the state or advertise to or recruit prospective students in the state. State regulatory requirements for online education are inconsistent among states and not well developed in many jurisdictions. As such, these requirements change frequently and, in some instances, are not clear or are left to the discretion of state regulators.

State laws typically establish standards for instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations, and other operational matters. To the extent that we have obtained, or obtain in the future, additional authorizations or licensure, changes in state laws and regulations and the interpretation of those laws and regulations by the applicable regulators may limit our ability to offer education programs and 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 or authorization requirements, we may be subject to the loss of state licensure or authorization. If we fail to comply with state requirements to obtain licensure or authorization, we may be the subject of injunctive actions or penalties. Loss of licensure or authorization or the failure to obtain required licensures or authorizations could prohibit us from recruiting or enrolling students in particular states, reduce significantly our enrollments and revenues and have a material adverse effect on our results of operations. We enroll students in all 50 states, as well as the District of Columbia and Puerto Rico. We have sought and received confirmation that our operations do not require state licensure or authorization, or we have been notified that we are exempt from licensure or authorization requirements, in three states. We, through our legal counsel, are researching the licensure requirements and exemption possibilities in the remaining 47 states. It is anticipated that Aspen will be in compliance with all state licensure requirements by June 2014. Because we enroll students in all 50 states, as well as the District of Columbia and Puerto Rico, we may have to seek licensure or authorization in additional states in the future.

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 that state, the institution must have met any state requirements for it to be legally offering postsecondary distance education in that state. A federal court has vacated such requirement, and an appellate court affirmed that ruling on June 5, 2012, though further guidance is expected. Should the requirement be upheld or otherwise enforced, however, and if we fail to obtain required state authorization to provide postsecondary distance education in a specific state, we could lose our ability to award Title IV aid to students within that state.

The DOE s new requirement could lead some states to adopt new laws and regulatory practices affecting the delivery of distance education to students located in those states. In the event we are found not to be in compliance with a state s new or existing requirements for offering distance education within that state, the state could seek to restrict one or more of our business activities within its boundaries, we may not be able to recruit students from that state, and we may have to cease providing service to students in that state. In addition, under the DOE s regulation regarding state authorization and distance education, if and when the regulation is enforced or re-promulgated, we could lose eligibility to offer Title IV aid to students located in that state.

If we fail to maintain our institutional accreditation, we would lose our ability to participate in the tuition assistance programs of the U.S. Armed Forces and also to participate in Title IV programs.

Aspen is accredited by the DETC, which is a national accrediting agency recognized by the Secretary of Education for Title IV purposes. Accreditation by an accrediting agency that is recognized by the Secretary of Education is required for an institution to become and remain eligible to participate in Title IV programs as well as in the tuition assistance

programs of the United States Armed Forces. DETC may impose restrictions on our accreditation or may terminate our accreditation. To remain accredited we must continuously meet certain criteria and standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Failure to meet any of these criteria or standards could result in the loss of accreditation at the discretion of the accrediting agency. The loss of accreditation would, among other things, render our students and us ineligible to participate in the tuition assistance programs of the U.S. Armed Forces or Title IV programs and have a material adverse effect on our enrollments, revenues and results of operations.

Because we have only recently begun to participate in Title IV programs, our failure to comply with the complex regulations associated with Title IV programs would have a significant adverse effect on our operations and prospects for growth.

We have only recently begun to participate in Title IV programs. Compliance with the requirements of the Higher Education Act and Title IV programs is highly complex and imposes significant additional regulatory requirements on our operations, which require additional staff, contractual arrangements, systems and regulatory costs. We have a limited demonstrated history of compliance with these additional regulatory requirements. If we fail to comply with any of these additional regulatory requirements, the DOE could, among other things, impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

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

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

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

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

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

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

We are one of a number of for-profit institutions serving the postsecondary education market. In recent years, regulatory investigations and civil litigation have been commenced against several companies that own for-profit educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with DOE regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against specific companies, broader allegations against the overall for-profit school sector may negatively affect public perceptions of other for-profit educational institutions, including Aspen. In addition, in recent years, reports on student lending practices of various lending institutions and schools, including for-profit schools, and investigations by a number of state attorneys general, Congress and governmental agencies have led to adverse media coverage of postsecondary education. Adverse media coverage regarding other companies in the for-profit school sector or regarding us directly could damage our reputation, could result in lower enrollments, revenues and operating profit, and could have a negative impact on our stock price. Such allegations could also result in increased scrutiny and regulation by the DOE, Congress, accrediting bodies, state legislatures or other governmental authorities with respect to all for-profit institutions, including us.

Due to new regulations or congressional action or reduction in funding for Title IV programs, our future enrollment may be reduced and costs of compliance increased.

The Higher Education Act comes up for reauthorization by Congress approximately every five to six years. When Congress does not act on complete reauthorization, there are typically amendments and extensions of authorization. Additionally, Congress reviews and determines appropriations for Title IV programs on an annual basis through the budget and appropriations process. There is no assurance that Congress will not in the future enact changes that decrease Title IV program funds available to students, including students who attend our institution. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs would require us to arrange for other sources of financial aid and would materially decrease our enrollment. Such a decrease in enrollment would have a material adverse effect on our revenues and results of operations. Congressional action may also require us to modify our practices in ways that could result in increased administrative and regulatory costs and decreased profit margin.

We are not in position to predict with certainty whether any legislation will be passed by Congress or signed into law in the future. The reallocation of funding among Title IV programs, material changes in the requirements for participation in such programs, or the substitution of materially different Title IV programs could reduce the ability of students to finance their education at our institution and adversely affect our revenues and results of operations.

If our efforts to comply with DOE regulations are inconsistent with how the DOE interprets those provisions, either due to insufficient time to implement the necessary changes, uncertainty about the meaning of the rules, or otherwise, we may be found to be in noncompliance with such provisions and the DOE could impose monetary penalties, place limitations on our operations, and/or condition or terminate our eligibility to receive Title IV program funds. We cannot predict with certainty the effect the new and impending regulatory provisions will have on our business.

Investigations by state attorneys general, Congress and governmental agencies regarding relationships between loan providers and educational institutions and their financial aid officers may result in increased regulatory burdens and costs.

In the past few years, the student lending practices of postsecondary educational institutions, financial aid officers and student loan providers were subject to several investigations being conducted by state attorneys general, Congress and governmental agencies. These investigations concern, among other things, possible deceptive practices in the marketing of private student loans and loans provided by lenders pursuant to Title IV programs. Higher Education Opportunity Act, or HEOA, contains new requirements pertinent to relationships between lenders and institutions. In particular, HEOA requires institutions to have a code of conduct, with certain specified provisions, pertinent to interactions with lenders of student loans, prohibits certain activities by lenders and guaranty agencies with respect to institutions, and establishes substantive and disclosure requirements for lists of recommended or suggested lenders of private student loans. In addition, HEOA imposes substantive and disclosure obligations on institutions that make available a list of recommended lenders for potential borrowers. State legislators have also passed or may be considering legislation related to relationships between lenders and institutions. Because of the evolving nature of these legislative efforts and various inquiries and developments, we can neither know nor predict with certainty their outcome, or the potential remedial actions that might result from these or other potential inquiries. Governmental action may impose increased administrative and regulatory costs and decreased profit margins.

Because we are subject to sanctions if we fail to calculate correctly and return timely Title IV program funds for students who stop participating before completing their educational program, our future operating results may be adversely affected.

A school participating in Title IV programs must correctly calculate the amount of unearned Title IV program funds that have been disbursed to students who withdraw from their educational programs before completion and must return those unearned funds in a timely manner, generally within 45 days after the date the school determines that the

student has withdrawn. Under recently effective DOE regulations, institutions that use the last day of attendance at an academically-related activity must determine the relevant date based on accurate institutional records (not a student s certificate of attendance). For online classes, academic attendance means engaging in an academically-related activity, such as participating in class through an online discussion or initiating contact with a faculty member to ask a question; simply logging into an online class does not constitute academic attendance for purposes of the return of funds requirements. Because we only recently began to participate in Title IV programs, we have limited experience complying with these Title IV regulations. Under DOE regulations, late return of Title IV program funds for 5% or more of students sampled in connection with the institution's annual compliance audit constitutes material non-compliance. If unearned funds are not properly calculated and timely returned, we may have to repay Title IV funds, post a letter of credit in favor of the DOE or otherwise be sanctioned by the DOE, which could increase our cost of regulatory compliance and adversely affect our results of operations. This may have an impact on our systems, our future operations and cash flows.

Because our consolidated financial statements are not unqualified, Aspen may lose its eligibility to participate in Title IV programs or be required to post a letter of credit in order to maintain eligibility to participate in Title IV programs.

To participate in Title IV programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the DOE, or post a letter of credit in favor of the DOE and possibly accept other conditions, such as additional reporting requirements or regulatory oversight, on its participation in Title IV programs. Our financial statements are qualified on our ability to continue as a going concern, which means the DOE may determine that we are not financially responsible under DOE regulations. The DOE may also apply its measures of financial responsibility to the operating company and ownership entities of an eligible institution and, if such measures are not satisfied by the operating company or ownership entities, require the institution to meet the alternative standards described under Regulation on page 11 herein. Any of these alternative standards would increase our costs of regulatory compliance. If we were unable to meet these alternative standards, we would lose our eligibility to participate in Title IV programs. If we fail to demonstrate financial responsibility and thus lose our eligibility to participate in Title IV programs, our students would lose access to Title IV program funds for use in our institution, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

If we fail to demonstrate administrative capability, we may lose eligibility to participate in Title IV programs.

DOE regulations specify extensive criteria an institution must satisfy to establish that it has the requisite administrative capability to participate in Title IV programs. If an institution fails to satisfy any of these criteria or comply with any other DOE regulations, 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 be limited in our access to, or lose, Title IV program funding, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operations.

Because we rely on a third party to administer our participation in Title IV programs, its failure to comply with applicable regulations could cause us to lose our eligibility to participate in Title IV programs.

We have been eligible to participate in Title IV programs for a relatively short time, and we have not developed the internal capacity to handle without third-party assistance the complex administration of participation in Title IV programs. A third party assists us with administration of our participation in Title IV programs, and if it does not comply with applicable regulations, we may be liable for its actions and we could lose our eligibility to participate in Title IV programs. In addition, if it is no longer able to provide the services to us, we may not be able to replace it in a

timely or cost-efficient manner, or at all, and we could lose our ability to comply with the requirements of Title IV programs, which would limit our potential for growth and adversely affect our enrollment, revenues and results of operation.

If we pay impermissible commissions, bonuses or other incentive payments to individuals involved in recruiting, admissions or financial aid activities, we will be subject to sanctions.

A school participating in Title IV programs may not provide any commission, bonus or other incentive payment based, directly or indirectly, on success in enrolling students or securing financial aid to any person involved in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. If we pay a bonus, commission, or other incentive payment in violation of applicable DOE rules, we could be subject to sanctions, which could have a material adverse effect on our business. Effective July 1, 2011, the DOE abolished 12 safe harbors that described permissible arrangements under the incentive payment regulation. Abolition of the safe harbors and other aspects of the new regulation may create uncertainty about what constitutes impermissible incentive payments. The modified incentive payment rule and related uncertainty as to how it will be interpreted also may influence our approach, or limit our alternatives, with respect to employment policies and practices and consequently may affect negatively our ability to recruit and retain employees, and as a result our business could be materially and adversely affected.

In addition, the General Accounting Office, or the GAO, has issued a report critical of the DOE s enforcement of the incentive payment rule, and the DOE has undertaken to increase its enforcement efforts. If the DOE determines that an institution violated the incentive payment rule, it may require the institution to modify its payment arrangements to the DOE s satisfaction. The DOE may also fine the institution or initiate action to limit, suspend, or terminate the institution s participation in the Title IV programs. The DOE may also seek to recover Title IV funds disbursed in connection with the prohibited incentive payments. In addition, third parties may file qui tam or whistleblower suits on behalf of the DOE alleging violation of the incentive payment provision. Such suits may prompt DOE investigations. Particularly in light of the uncertainty surrounding the new incentive payment rule, the existence of, the costs of responding to, and the outcome of, qui tam or whistleblower suits or DOE investigations could have a material adverse effect on our reputation causing our enrollments to decline and could cause us to incur costs that are material to our business, among other things. As a result, our business could be materially and adversely affected.

If our student loan default rates are too high, we may lose eligibility to participate in Title IV programs.

DOE regulations provide that an institution s participation in Title IV programs ends when historical default rates reach a certain level in a single year or for a number of years. Because of our limited experience enrolling students who are participating in these programs, we have no historical default rates. Relatively few students are expected to enter the repayment phase in the near term, which could result in defaults by a few students having a relatively large impact on our default rate. If Aspen loses its eligibility to participate in Title IV programs because of high student loan default rates, our students would no longer be eligible to use Title IV program funds in our institution, which would significantly reduce our enrollments and revenues and have a material adverse effect on our results of operations.

Increased scrutiny of accrediting agencies by the Secretary of Education and the U.S. Congress may result in increased scrutiny of institutions, we may lose our ability to participate in Title IV programs.

Increased regulatory scrutiny of accrediting agencies and their accreditation of universities is likely to continue. While Aspen is accredited by the DETC, a DOE-recognized accrediting body, if the DOE were to limit, suspend, or terminate the DETC s recognition, we could lose our ability to participate in the Title IV programs. While the DOE has provisionally certified Aspen through September 30, 2013, there are no assurances that we will remain certified following that date. If we were unable to rely on DETC accreditation in such circumstances, among other things, our students and our institution would be ineligible to participate in the Title IV programs, and such consequence would have a material adverse effect on enrollments, revenues and results of operations. In addition, increased scrutiny of accrediting agencies by the Secretary of Education in connection with the DOE s recognition process may result in increased scrutiny of institutions by accrediting agencies.

Furthermore, because the for-profit education sector is growing at such a rapid pace, it is possible that accrediting bodies will respond to that growth by adopting additional criteria, standards and policies that are intended to monitor, regulate or limit the growth of for-profit institutions like us. Actions by, or relating to, an accredited institution, including any change in the legal status, form of control, or ownership/management of the institution, any significant changes in the institution s financial position, or any significant growth or decline in enrollment and/or programs, could open up an accredited institution to additional reviews by the DETC.

If Aspen fails to meet standards regarding gainful employment, it may result in the loss of eligibility to participate in Title IV programs.

The DOE s regulations on gainful employment programs became effective July 1, 2012. Should a program fail the gainful employment metrics three times within a four year period, the DOE would terminate the program s eligibility

for federal student aid (i.e., students in the program would immediately lose eligibility to participate in Title IV programs), and the institution would not be able to reestablish the program s eligibility for at least three years, though the program could continue to operate without Title IV funding. The earliest a program could lose eligibility under the gainful employment rule will be 2015, based on its 2012, 2013, and 2014 performance under the metrics. Because the DOE s gainful employment rules will be implemented over several years and are based at least in part on data that is unavailable to us, it is not possible at this time to determine with any degree of certainty whether these new regulations will cause any of our programs to become ineligible to participate in the Title IV programs. However, under this new regulation, the continuing eligibility of our educational programs for Title IV funding is at risk due to factors beyond our control, 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, changes in the percentage of our former students who are current in repayment of their student loans, 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 educational institutions.

If we fail to obtain required DOE approval for new programs that prepare students for gainful employment in a recognized occupation, it could materially and adversely affect our business.

Under the DOE regulations, an institution must notify the DOE at least 90 days before the first day of class when it intends to add a program that prepares students for gainful employment in a recognized occupation. The institution may proceed to offer the program, unless the DOE advises the institution that the DOE must approve the program for Title IV purposes. In addition, if the institution does not provide timely notice to the DOE regarding the additional program, the institution must obtain approval of the program for Title IV purposes. If the DOE denies approval, the institution may not award Title IV funds in connection with the program. Were the DOE to deny approval to one or more of our new programs, our business could be materially and adversely affected. Furthermore, compliance with these new procedures could cause delay in our ability to offer new programs and put our business at a competitive disadvantage. Compliance could also adversely affect our ability to timely offer programs of interest to our students and potential students and adversely affect our ability to increase our revenues. As a result, our business could be materially and adversely affected.

If we fail to comply with the DOE s substantial misrepresentation rules, it could result in sanctions against us.

The DOE may take action against an institution in the event of substantial misrepresentation by the institution concerning the nature of its educational programs, its financial charges or the employability of its graduates. Under new regulations, the DOE has expanded the activities that constitute a substantial misrepresentation. Under the DOE regulations, an institution engages in substantial misrepresentation when the institution itself, one of its representatives, or an organization or person with which the institution has an agreement to provide educational programs, marketing, advertising, or admissions services, makes a substantial misrepresentation directly or indirectly to a student, prospective student or any member of the public, or to an accrediting agency, a state agency, or to the Secretary of Education. The final regulations define misrepresentation as any false, erroneous or misleading statement, and they define a misleading statement as any statement that has the likelihood or tendency to deceive or confuse. The final regulations define substantial misrepresentation as any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to the person s detriment. If the DOE determines that an institution has engaged in substantial misrepresentation, the DOE may revoke an institution s program participation agreement, impose limitations on an institution s participation in the Title IV programs, deny participation applications made on behalf of the institution, or initiate a proceeding against the institution to fine the institution or to limit, suspend or termination the institution s participation in the Title IV programs. We expect that there could be an increase in our industry of administrative actions and litigation claiming substantial misrepresentation, which at a minimum would increase legal costs associated with defending such actions, and as a result our business could be materially and adversely affected.

If we fail to comply with the DOE s credit hour requirements, it could result in sanctions against us.

The DOE has defined credit hour for Title IV purposes. The credit hour is used for Title IV purposes to define an eligible program and an academic year and to determine enrollment status and the amount of Title IV aid that an institution may disburse in a payment period. The final regulations define credit hour as an institutionally established equivalency that reasonably approximates certain specified time in class and out of class and an equivalent amount of work for other academic activities. The final regulations also require institutional accreditors to review an institution s policies, procedures, and administration of policies and procedures for assignment of credit hours. An accreditor must take appropriate actions to address an institution s credit hour deficiencies and to notify the DOE if it finds systemic noncompliance or significant noncompliance in one or more programs. The DOE has indicated that if it finds an institution to be out of compliance with the credit hour definition for Title IV purposes, it may require the institution to repay the amount of Title IV awarded under the incorrect assignment of credit hours and, if it finds significant overstatement of credit hours, it may fine the institution or limit, suspend, or terminate its participation in Title IV programs, as a result of which our business could be materially and adversely affected.

The U.S. Congress recently conducted an examination of the for-profit postsecondary education sector that could result in legislation or additional DOE rulemaking that may limit or condition Title IV program participation of proprietary schools in a manner that may materially and adversely affect our business.

In recent years, the U.S. Congress has increased its focus on for-profit education institutions, including with respect to their participation in the Title IV programs, and has held hearings regarding such matters. In addition, the GAO released a series of reports following undercover investigations critical of for-profit institutions. We cannot predict the extent to which, or whether, these hearings and reports will result in legislation, further rulemaking affecting our participation in Title IV programs, or more vigorous enforcement of Title IV requirements. To the extent that any laws or regulations are adopted that limit or condition Title IV program participation of proprietary schools or the amount of federal student financial aid for which proprietary school students are eligible, our business could be materially and adversely affected.

Other Risks

Because our common stock is subject to the penny stock rules, brokers cannot generally solicit the purchase of our common stock which adversely affects its liquidity and market price.

The SEC has adopted regulations which generally define penny stock to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our common stock on the Over-The-Counter Bulletin Board, or the Bulletin Board, will be substantially less than $5.00 per share and therefore we are considered a penny stock according to SEC rules. This designation requires any broker-dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules limit the ability of broker-dealers to solicit purchases of our common stock and therefore reduce the liquidity of the public market for our shares.

Moreover, as a result of apparent regulatory pressure from the SEC and the Financial Industry Regulatory Authority, a growing number of broker-dealers decline to permit investors to purchase and sell or otherwise make it difficult to sell shares of penny stocks like Aspen Group. The penny stock designation may continue to have a depressive effect upon our common stock price.

Because of their share ownership, our management may be able to exert control over us to the detriment of minority shareholders.

Our executive officers and directors own approximately 15% of our outstanding common stock. These shareholders, if they act together, may be able to control our management and affairs and all matters requiring shareholder approval, including significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing our change in control and might affect the market price of our common stock. For more information see page 61.

If our common stock becomes subject to a chill imposed by the Depository Trust Company, or DTC, your ability to sell your shares may be limited.

The DTC acts as a depository or nominee for street name shares that investors deposit with their brokers. Until the fourth quarter of 2012, our stock was not eligible to be electronically transferred among DTC participants (broker-dealers) and required delivery of paper certificates as a result of a chill imposed by DTC. As a result of becoming DTC-Eligible , our common stock is no longer subject to a chill. However, DTC in the last several years has increasingly imposed a chill or freeze on the deposit, withdrawal and transfer of common stock of issuers whose common stock trades on the Bulletin Board. Depending on the type of restriction, a chill or freeze can prevent shareholders from buying or selling shares and prevent companies from raising money. A chill or freeze may remain imposed on a security for a few days or an extended period of time (in at least one instance a number of years). While we have no reason to believe a chill or freeze will be imposed against our common stock again in the future, if it were your ability to sell your shares would be limited. In such event, your investment will be adversely affected.

Due to factors beyond our control, our stock price may be volatile.

Any of the following factors could affect the market price of our common stock:

Our failure to generate increasing material revenues;

Our failure to become profitable;

Our failure to raise working capital;

Our public disclosure of the terms of any financing which we consummate in the future;

Disclosure of the results of our monthly tuition plan;

Actual or anticipated variations in our quarterly results of operations including class starts by existing student and new enrollments;

Announcements by us or our competitors of significant contracts, new services, acquisitions, commercial relationships, joint ventures or capital commitments;

The loss of Title IV funding or other regulatory actions;

Our failure to meet financial analysts' performance expectations;

Changes in earnings estimates and recommendations by financial analysts;

The sale of large numbers of shares of common stock which we have registered;

Short selling activities; or

Changes in market valuations of similar companies.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert our management s time and attention, which would otherwise be used to benefit our business.

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

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

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

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

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

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

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

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

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

In February 2013, our former Chairman and a company he controls sued us, certain senior management members and our directors in state court in New York seeking damages arising from losses and other matters incurred in the operation of Aspen s business since May 2011, our filings with the SEC and the DOE where we stated that he and his company borrowed $2.2 million without board authority and our failure to use our best efforts to purchase certain shares of common stock from him following the April Agreement. See page 67 below. While we have been advised by our counsel that the lawsuit is baseless, we cannot assure you that we will be successful. Defending the litigation will be expensive and divert our management from Aspen s business. If we are unsuccessful, the damages we pay may

be material. See page 48 below for a further description of the litigation.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements including statements regarding liquidity, anticipated marketing spending, capital expenditures and planned financings. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, liquidity, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, estimate, continue, anticipate, intend, should, plan, could, target, potential, is likely, wi expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in Risk Factors elsewhere in this prospectus. Other sections of this prospectus may include additional factors which could adversely affect our business and financial performance. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this prospectus, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus.

DILUTION

Except for the shares underlying the warrants, the shares of common stock to be sold by the selling shareholders are issued and outstanding. Accordingly, there will be no dilution to our existing shareholders except to the extent warrants are exercised.

PRIVATE PLACEMENTS

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

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

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

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

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

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

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

We used the proceeds from the private placements to support our growth and for general corporate purposes, including working capital.

USE OF PROCEEDS

We will not receive any proceeds upon the sale of shares by the selling shareholders. We will however receive proceeds from the exercise of the warrants. We plan on using these proceeds received from shareholders who exercise their warrants to support our growth and for general corporate purposes, including working capital.

CAPITALIZATION

The following table sets forth our capitalization as of April 30, 2013. The table should be read in conjunction with the consolidated financial statements and related notes included elsewhere herein:

		As of April 30, 2013
Cash and cash equivalents	$	724,982
Restricted Cash		265,173
Debt:		
Convertible notes (includes $600,000 to related parties)		800,000
Line of Credit		250,000
Shareholders equity:		
Common stock		58,573
Treasury stock		(70,000)
Additional paid-in capital		13,345,888
Accumulated deficit		(12,740,086)
Total shareholders equity	$	594,375

The table above does not include a $1,000,000 note issued to Mr. Michael Mathews, our Chief Executive Officer, in connection with a loan of $1,000,000 which was made in July 2013. The note is due December 31, 2013.

MARKET FOR COMMON STOCK

Our stock trades on the Bulletin Board, under the symbol ASPU. Since March 31, 2011, Aspen Group s common stock has been quoted on the Bulletin Board. The last reported sale price of our common stock as reported by the Bulletin Board on August 7, 2013 was $0.22. As of that date, we had approximately 250 record holders of our common stock and we believe that there are substantially more beneficial owners than record holders.

The following table provides the high and low bid price information for our common stock for the periods our stock was quoted on the Bulletin Board. For the period our stock was quoted on the Bulletin Board, the prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and does not necessarily represent actual

transactions. Our common stock does not trade on a regular basis.

Year	Period Ended	Prices (1)(2) High		Low	
2013	April 30	$	0.55	$	0.26
	January 31	$	0.80	$	0.50
2012	October 31	$	3.75	$	0.75
	July 31	$	3.75	$	3.75
	April 30	$	6.50	$	3.28
	January 31	$	6.50	$	6.50
2011	October 31	$	6.50	$	6.50
	July 31	$	6.50	$	0.05
	April 30	$	0.05	$	0.05

(1) All prices give effect to a 12-for-1 forward stock split effected in June 2011.
(2) All prices give effect to a 1-for-2.5 reverse stock split effected in February 2012.

Dividend Policy

We have not paid cash dividends on our common stock and do not plan to pay such dividends in the foreseeable future. Our Board will determine our future dividend policy on the basis of many factors, including results of operations, capital requirements, and general business conditions.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the other sections contained herein, including the risk factors and the consolidated financial statements and the related exhibits contained herein. The various sections of this discussion contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this prospectus as well as other matters over which we have no control. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth in this prospectus. See Risk Factors and Cautionary Note Regarding Forward-Looking Statements.

Company Overview

Founded in 1987, Aspen s mission is to become an institution of choice for adult learners by offering cost-effective, comprehensive, and relevant online education. One of the key differences between Aspen and other publicly-traded, exclusively online, for-profit universities is that a majority of our full-time degree-seeking students are enrolled in a graduate degree program (master or doctorate degree program). According to publicly available information, Aspen enrolls a larger percentage of its full-time degree-seeking students in graduate degree programs than its publicly-traded competitors. As of April 30, 2013, 1,875 students were enrolled as full-time degree seeking students with 1,625 of those students or 87% in a master or doctoral graduate degree program. In addition, a further 951 students are engaged in part time programs, such as continuing education courses and certificate level programs. Therefore, Aspen s student body totaled 2,826 as of April 30, 2013.

Among online, for-profit universities, Aspen ranks among the leaders relative to the closely analyzed industry metrics such as high student graduation rates, high student course completion rates and high student satisfaction rates. During 2012, Aspen had a student graduation rate of 58%, a student course completion rate of 90% and a student satisfaction rate of 95% (calculated in accordance with DETC guidelines which is the average completion and satisfaction rate of students in our top 10 most popular courses).

Student Population

Aspen s degree-seeking student body increased by 12% during the four month period ending April 30, 2013, or the 2013 Transition Period, from 2,024 to 2,266 students. Among Aspen s degree seeking programs, the Master of Nursing program grew 41% during the 2013 Transition Period from 265 students to 373 students. When compared to the

number of students in the Master of Nursing program at April 30, 2012 to April 30, 2013, the program grew from 110 students to 373 or 239%. As of April 30, 2013, Aspen s School of Nursing now represents 20% of the full-time, degree-seeking student body.

In April 2013, Aspen terminated its relationship with CLS 123, LLC, or CLS, which referred Verizon certificate and military students, a step allowing Aspen to focus its efforts on its core business of building a predominantly graduate student body. Under the terminated partnership agreement, there is a 120-day exit period ending on August 3, 2013. For 2013, Aspen management expects the total student body growth rate to lag that of the full-time degree-seeking student population as new certificate and Military students referred by CLS to wind down over the 120-day period. CLS results are reported as Discontinued Operations.

Results of Operations

For the Four Months Ended April 30, 2013 Compared with the Four Months Ended April 30, 2012

Revenue

Revenue from continuing operations for the 2013 Transition Period increased to $1,229,096 from $745,656 for the four months ended April 30, 2012, or the 2012 Transition Period, an increase of 65%. The increase is primarily attributable to the growth in Aspen student enrollments and the increase in average tuition rates from approximately $500 to $700 for the comparable periods. Of particular note, revenues from Aspen s Nursing degree program increased to $287,902 during the 2013 Transition Period from $107,640 during the 2012 Transition Period, an increase of 167%.

Our 2013 Transition Period and 2012 Transition Period revenues were impacted by the 2011 (and previous years) pre-payment tuition plan, or the Legacy Tuition Plan, which was discontinued on July 15, 2011. The Legacy Tuition Plan had students pre-paying tuition for a degree program s first four courses ($675/course) and a steeply discounted tuition rate for the program s eight course balance ($112.50/course). Specifically, the Legacy Tuition Plan produced immediate cash flow, but unsustainably low gross profit margins over the length of the degree program. As of April 30, 2013, 709 of our full-time degree-seeking students were still enrolled under the Legacy Tuition Plan. However the contribution from Legacy Tuition Plan students to overall Aspen revenue and profits diminished steadily over the course of the past 12 months as the population of full-time degree-seeking students paying regular tuition rates increased to 68% of the population and the population of Legacy Tuition Plan students fell to 32%. Accordingly, much as 2012 was affected negatively by the lingering impact of the Legacy Tuition Plan, future revenue should demonstrate a dramatically diminished effect from the Legacy Tuition Plan and a much greater contribution from the growing number of regular rate students. In fact, Aspen Group expects Legacy Tuition Plan students contribution to financial results to be immaterial for the full year 2014, and on a quarterly basis to be immaterial no later than the second quarter of 2014.

Cost of Revenues (exclusive of depreciation and amortization)

The Company s cost of revenues consist of instructional costs and services and marketing and promotional costs which were previously reported separately.

Instructional Costs and Services

Instructional costs and services for the 2013 Transition Period rose to $345,727 from $266,682 for the 2012 Transition Period, an increase of $79,045 or 30%. The increase is primarily attributable to higher faculty cost due to the increase in overall student course completions. As student enrollment levels increase, instructional costs and services should rise proportionately. However, as Aspen increases its full-time degree-seeking student enrollments, the higher gross margins associated with such students should lead to the growth rate in instructional costs and services to significantly lag that of overall revenues growth.

Marketing and Promotional

Marketing and promotional costs for the 2013 Transition Period was $404,203 compared to $598,728 for the 2012 Transition Period, a decrease of $194,525 or 32%. These expenses are primarily attributable to marketing efficiency specifically Aspen s cost per exclusive lead has decreased by 33% year-over-year for the Transition Period, from an average cost per exclusive lead of $78.27 for the 2012 Transition Period to $58.66 for the 2013 Transition Period.

Moreover, Aspen s vertically-integrated strategy of proprietary lead generation marketing has effectively allowed the Company to drop the marketing spend by 32% year-over-year, while achieving 63% more new full-time, degree-seeking enrollments year-over-year. If Aspen accelerates its growth, it is highly likely that these expenditures will increase in 2013 over 2012 levels as enrollment continues to grow. Factors that may mitigate the expected increase include the economies realized in cost per lead as well as the yield realized in terms of higher enrollments per unit of marketing and promotional spending and potential organic growth opportunities.

Costs and Expenses

General and Administrative

General and administrative costs for the 2013 Transition Period were $1,670,812 compared to $2,123,685 during the 2012 Transition Period, a decrease of $452,873 or 21%. The decrease is comprised of two major components payroll costs and professional fees. Payroll costs decreased by approximately $225,000 and professional fees decreased by approximately $276,000 primarily related to legal and accounting fees. Included in the 2012 amounts were professional fees associated with the reverse merger regulatory filings with the DOE and the DETC, post-reverse merger regulatory filings with the DOE, the filing of the Super 8-K and activities for Aspen s capital raising activities. Professional fees declined during the 2013 Transition Period, particularly as a result of a reduction of these one-time costs and Aspen Group s auditors agreeing to a flat-fee arrangement. Stock based compensation included in general and administration expense increased by $72,457 or 89% as a result of the implementation of, and stock option grants under, the 2012 Equity Incentive Plan.

Overall general and administrative costs are expected to experience moderate growth in fiscal 2013 from 2012 as the cost associated with state regulatory compliance and DOE reporting requirements on topics such as gainful employment standards will increase in 2013.

Receivable Collateral Valuation Reserve

A non-cash valuation reserve of $502,315 was recorded for the year ended December 31, 2012 to reflect the drop in the collateral supporting the related accounts receivable. No additional reserve was required during the 2013 Transition Period.

Depreciation and Amortization

Depreciation and amortization costs for the 2013 Transition Period rose to $159,269 from $121,812 for the 2012 Transition Period, an increase of 31%. The increase is primarily attributable to higher levels of capitalized technology costs as Aspen continues the infrastructure build-out initiated in 2011.

Other Income (Expense)

Other income for the 2013 Transition Period increased to $59,860 from $3,618 in the 2012 Transition Period, an increase of $56,242. The increase is primarily attributable to a tax credit received in Canada related to our technology infrastructure build out.

Income Taxes

Income taxes expense (benefit) for the 2013 and 2012 Transition Periods was $0 as Aspen Group experienced operating losses in both periods. As management made a full valuation allowance against the deferred tax assets stemming from these losses, there was no tax benefit recorded in the statement of operations in both periods.

Net Loss

Net loss allocable to common stockholders for the 2013 Transition Period was ($1,402,982) as compared to ($2,213,119) for the 2012 Transition Period, a decrease of $810,138 or approximately 58%. The decrease is primarily attributable to the absence of the one-time costs in general and administrative cost and the gross profit improvements

discussed herein.

Discontinued Operations

As of March 31, 2013, Aspen Group discontinued business activities related to its agreement with CLS. See Note 1 of the consolidated financial statements contained herein. The following table details the results of the discontinued operations for the 2013 Transition Period and 2012 Transition Period:

	For the Four Months Ended April 30,			
		2013		2012
Revenues	$	140,732	$	1,077,875
Costs and expenses:				
Cost of revenue		126,659		929,362
General and Administrative		126,000		-
Total costs and expenses		252,659		929,362
Income (loss) from discontinued operations, net of income taxes	$	(111,927)	$	148,513

Non-GAAP Financial Measures

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

Our management uses and relies on Adjusted EBITDA and Adjusted Gross Profit (exclusive of depreciation and amortization), non-GAAP financial measures. We believe that both management and shareholders benefit from referring to the following non-GAAP financial measures in planning, forecasting and analyzing future periods. Our management uses these non-GAAP financial measures in evaluating its financial and operational decision making and as a means to evaluate period-to-period comparison. Our management recognizes that the non-GAAP financial measures have inherent limitations because of the described excluded items.

Aspen Group defines Adjusted EBITDA as earnings (or loss) from continuing operations before preferred dividends, interest expense, income taxes, collateral valuation adjustment, bad debt expense, depreciation and amortization, and amortization of stock-based compensation. Aspen Group excludes the charges from collateral valuation adjustment, bad debt expense and stock based compensation because they are non-cash in nature. The preferred dividends were derived from Aspen. Upon the closing of the Reverse Merger in 2012, Aspen preferred stock was exchanged for Aspen Group common stock and dividends will not accrue in the future. Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing the impact of items of a non-operational nature that affect comparability.

Aspen Group defines Adjusted Gross Profit (exclusive of depreciation and amortization), a non-GAAP financial measure, as revenues less cost of revenues (instructional costs and services and marketing and promotional costs) excluding the amortization of courseware and software.

We have included a reconciliation of our non-GAAP financial measures to the most comparable financial measure calculated in accordance with GAAP. We believe that providing the non-GAAP financial measures, together with the reconciliation to GAAP, helps investors make comparisons between Aspen Group and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measure and the corresponding GAAP measure provided by each company under applicable SEC rules.

The following table presents a reconciliation of Adjusted EBITDA to Net loss allocable to common shareholders, a GAAP financial measure:

	Four Months Ended April 30,			
	2013	2012	Difference	Change %

Net loss allocable to common shareholders	$ (1,402,982)	$ (2,213,119)	$ 810,137	-37%
Accretion of preferred dividends	-	37,379	(37,379)	-100%
Interest Expense, net of interest income	6,407	2,261	4,146	183%
Discontinued Operations, net	111,927	(148,513)	260,440	-175%
Bad Debt Expense	37,000	32,955	4,045	12%
Depreciation & Amortization	159,269	121,812	37,457	31%
Stock-based compensation	154,062	81,605	72,457	89%
Adjusted EBITDA (Loss)				

Excess tax benefits from stock-based compensation	1,796	1,041
Proceeds from exercise of stock options	540	2,125
Repurchase and retirement of common stock	(2,556)	
Payments of capital leases and notes payable	(96)	(190)
Payments of acquired notes payable and financed liabilities	(6,079)	
Payments to non-controlling interests	(598)	(620)
Net cash (used in) provided by financing activities	(6,993)	2,356
Net decrease in cash and cash equivalents	(13,392)	(36,583)
Cash and cash equivalents at beginning of period	58,138	93,933
Cash and cash equivalents at end of period	$ 44,746	$ 57,350
Supplemental disclosure of cash flow information		
Cash paid for taxes	$ 54	$ 650
Supplemental disclosure of non-cash investing and financing activities		
Property and equipment and software maintenance costs in accounts payable, accrued expenses and other liabilities	4,679	4,129
Assets acquired in business acquisition	17,317	
Liabilities assumed in business acquisition	12,443	

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

Table of Contents

Boingo Wireless, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except shares and per share amounts)

1. The business

Boingo Wireless, Inc. and its subsidiaries (collectively we , us , our or the Company) is a leading global provider of mobile Wi-Fi Internet solutions. Our solutions enable individuals to access our extensive global Wi-Fi network with devices such as smartphones, laptops and tablet computers. Boingo Wireless, Inc. was incorporated on April 16, 2001 in the State of Delaware. We have direct customer relationships with users who have purchased our mobile Internet services, and we provide solutions to our partners which include telecom operators, cable companies, technology companies, enterprise software and services companies, and communications companies to allow their millions of users to connect to the mobile Internet through hotspots in our network.

2. Summary of significant accounting policies

Basis of presentation

The accompanying interim unaudited condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2013 and 2012 are unaudited. The unaudited interim condensed consolidated financial information has been prepared in accordance with the rules and regulations of the SEC for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) in the United States of America (U.S.) for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2012 contained in our annual report on Form 10-K filed with the SEC on March 18, 2013. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and in the opinion of management, reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our results of operations for the three and nine months ended September 30, 2013 and 2012, our results of cash flows for the nine months ended September 30, 2013 and 2012, and our financial position as of September 30, 2013. The year-end balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP. Interim results are not necessarily indicative of the results to be expected for an entire year or any other future year or interim period.

During the nine months ended September 30, 2013, the Company recorded certain out-of-period adjustments that decreased net loss attributable to common stockholders by $217. The impact of these out-of-period adjustments is not considered material, individually and in the aggregate, to any of the current or prior quarterly or annual periods.

Principles of consolidation

The unaudited condensed consolidated financial statements include our accounts and our majority owned subsidiaries. We consolidate our 70% ownership of Concourse Communications Detroit, LLC, our 70% ownership of Chicago Concourse Development Group, LLC and our 75% ownership of Boingo Holding Participacoes Ltda. in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*. Other parties interests in consolidated entities are reported as non-controlling interests. All intercompany balances and transactions have been eliminated in consolidation.

Business combinations

The results of businesses acquired in a business combination are included in the Company s condensed consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill.

The Company performs valuations of assets acquired and liabilities assumed for an acquisition and allocates the purchase price to its respective net tangible and intangible assets. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenues and cash flows, discount rates and selection of comparable companies. The Company engages the assistance of valuation specialists in concluding on fair value measurements in connection with fair values of assets and liabilities assumed in a business combination.

Table of Contents

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in the condensed consolidated statements of operations. There were no significant transaction costs associated with business combinations for the three months ended September 30, 2013. Transaction costs associated with business combinations were $192 for the nine months ended September 30, 2013.

Segment information

We operate as one reportable segment; a service provider of mobile Internet solutions across our managed and operated network and aggregated network for mobile devices such as laptops, smartphones and tablet computers. This single segment is consistent with the internal organization structure and the manner in which operations are reviewed and managed by our Chief Executive Officer, the chief operating decision maker.

Revenue is predominately generated and all significant long-lived tangible assets are held in the U.S. We do not disclose sales by geographic area because to do so would be impracticable. The following is a summary of our revenue by primary revenue source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Retail subscription	$ 8,860	$ 8,621	$ 25,658	$ 24,484
Retail single-use	2,386	3,304	7,802	10,799
Wholesale	14,328	11,631	38,222	34,837
Advertising and other	3,033	2,461	6,298	4,386
Total revenue	$ 28,607	$ 26,017	$ 77,980	$ 74,506

Marketable securities

Our marketable securities consist of available-for-sale securities with original maturities exceeding three months. In accordance with FASB ASC 320, *Investments Debt and Equity Securities,* we have classified securities, which have readily determinable fair values and are highly liquid, as short-term because such securities are expected to be realized within a one-year period. At September 30, 2013 and December 31, 2012, we had $36,493 and $41,558, respectively, in short-term marketable securities and no long-term marketable securities.

Marketable securities are reported at fair value with the related unrealized gains and losses reported as other comprehensive income (loss) until realized or until a determination is made that an other-than-temporary decline in market value has occurred. No significant unrealized gains and losses have been reported during the periods presented. Factors considered by us in assessing whether an other-than-temporary impairment has occurred include the nature of the investment, whether the decline in fair value is attributable to specific adverse conditions affecting the investment, the financial condition of the investee, the severity and the duration of the impairment and whether we have the ability to hold the investment to maturity. When it is determined that an other-than-temporary impairment has occurred, the investment is written down to its market value at the end of the period in which it is determined that an other-than-temporary decline has occurred. The cost of marketable securities sold is based upon the specific identification method. Any realized gains or losses on the sale of investments are reflected as a component of interest and other (expense) income, net.

For the nine months ended September 30, 2013, we had no significant realized or unrealized gains or losses from investments in marketable securities classified as available-for-sale.

Revenue recognition

We generate revenue from several sources including: (i) retail customers under subscription plans for month-to-month network access that automatically renew, and retail single-use access from sales of hourly, daily or other single-use access plans, (ii) platform service arrangements with wholesale customers that provide software licensing, network access, and professional services fees, (iii) wholesale customers that are telecom operators under long-term contracts for access to our distributed antenna system (DAS) at our managed and operated locations, and (iv) display advertisements and sponsorships on our walled garden sign-in pages. Software licensed by our wholesale platform services customers can only be used during the term of the service arrangements and has no utility to them upon termination of the service arrangement.

We recognize revenue when an arrangement exists, services have been rendered, fees are fixed or determinable, no significant obligations remain related to the earned fees and collection of the related receivable is reasonably assured.

Table of Contents

Subscription fees from retail customers are paid monthly in advance and revenue is deferred for the portions of monthly recurring subscription fees collected in advance. We do not have a stated or published refund policy for our Wi-Fi service, although our customer service representatives will provide a refund on a case-by-case basis. These amounts are not significant and are recorded as contra-revenue in the period the refunds are made. Subscription fee revenue is recognized ratably over the subscription period. Revenue generated from retail single-use access is recognized when earned.

Services provided to wholesale partners under platform service arrangements generally contain several elements including: (i) a term license to use our software to access our Wi-Fi network, (ii) access fees for network usage, and (iii) professional services for software integration and customization and to maintain the Wi-Fi service. The term license, monthly minimum network access fees and professional services are billed on a monthly basis based upon predetermined fixed rates. Once the term license for integration and customization are delivered, the fees from the arrangement are recognized ratably over the remaining term of the platform service arrangement. The initial term of platform service license agreements is generally between two to five years and the agreements generally contain renewal clauses. Revenue for network access fees in excess of the monthly minimum amounts is recognized when earned. All elements within existing platform service arrangements are generally delivered and earned concurrently throughout the term of the respective service arrangement.

Revenue generated from access to our DAS networks consists of build-out fees and recurring access fees under certain long-term contracts with telecom operators. Build-out fees paid upfront are generally deferred and recognized ratably over the term of the estimated customer relationship period, once the build-out is complete. Minimum monthly access fees for usage of the DAS networks are non-cancellable and generally escalate on an annual basis. These minimum monthly access fees are recognized ratably over the term of the estimated customer relationship period. The initial term of our contracts with telecom operations and wholesale partners generally range from three to fifteen years and the agreements generally contain renewal clauses. Revenue from network access fees in excess of the monthly minimums is recognized when earned.

In instances where the minimum monthly network access fees escalate over the term of the wholesale service arrangement, an unbilled receivable is recognized when performance is within our control and when we have reasonable assurance that the unbilled receivable balance will be collected.

We adopted the provisions of Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements* (ASU 2009-13), on a prospective basis on January 1, 2011. For multiple-deliverable arrangements entered into prior to January 1, 2011 that are accounted for under ASC 605-25, *Revenue Recognition Multiple- Deliverable Revenue Arrangements*, we defer recognition of revenue for the full arrangement and recognize all revenue ratably over the wholesale service period for platform service arrangements and the term of the estimated customer relationship period for DAS arrangements, as we do not have evidence of fair value for the undelivered elements in the arrangement. For multiple-deliverable arrangements entered into or materially modified after January 1, 2011 that are accounted for under ASC 605-25, we evaluate whether or not separate units of accounting exist and then allocate the arrangement consideration to all units of accounting based on the relative selling price method using estimated selling prices if vendor specific objective evidence and third party evidence is not available. We recognize the revenue associated with the separate units of accounting upon completion of such services or ratably over the wholesale service period for platform service arrangements and the term of the estimated customer relationship period for DAS arrangements.

Advertising and other revenue is recognized when the services are performed.

Recent accounting pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). This ASU requires the netting of unrecognized tax benefits (UTBs) against a deferred tax asset for a loss or other carryforward that would apply in the settlement of the uncertain tax positions. The UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. ASU 2013-11 will require prospective application with optional retrospective application, and will be effective for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of this standard is not expected to have any impact on our financial statements as we currently present our UTBs as a reduction of our deferred tax assets for a loss or other carryforward rather than as a liability when the uncertain tax position would reduce the loss or other carryforward under the tax law.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, an entity is required to present,

Table of Contents

either on the face of the statement where net income (loss) is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income (loss) but only if the amount reclassified is required under GAAP to be reclassified to net income (loss) in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income (loss), an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. We adopted this standard effective January 1, 2013. The adoption of this standard did not have any impact on our financial statements.

3. Acquisition

On February 22, 2013, we acquired all outstanding stock of Endeka Group, Inc. (Endeka). Endeka is a provider of commercial wireless broadband and Internet Protocol television (IPTV) services at certain military bases, as well as Wi-Fi services to certain federal law enforcement training facilities. We acquired Endeka because Endeka s portfolio of venues and management team are natural additions to our managed network business. We have included the operating results of Endeka in our condensed consolidated financial statements since the date of acquisition. The operating results for Endeka for the three and nine months ended September 30, 2013 is not material. The Endeka acquisition is not a significant acquisition for us and actual and pro forma financial statements have therefore not been included.

The acquisition has been accounted for under the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. As such, the assets acquired and liabilities assumed are recorded at their acquisition-date fair values. The total purchase price was $6,623, which includes cash paid at closing, holdback consideration to be paid and additional contingent consideration comprised of two components: (i) a payment (Build Payment) if the amount of the capital expenditures incurred for the substantial completion of a specified build project is less than a target; and (ii) a payment (Milestone Payment) based on revenue generated by certain contracts in fiscal year 2014. There is no maximum to the contingent consideration payments for the Milestone Payment. We do not expect to make any payments associated with the Build Payment and the Milestone Payment will be paid by February 28, 2015.

The fair value of the contingent consideration is based on Level 3 inputs as defined in FASB ASC 820, *Fair Value Measurements and Disclosures*. Further changes in the fair value of the contingent consideration will be recorded through operating income (loss). We allocated the excess of the purchase price over the fair value of assets acquired and liabilities assumed to goodwill, which is not deductible for tax purposes. The goodwill arising from the Endeka acquisition is attributable primarily to expected synergies and other benefits, including the acquired workforce, from combining Endeka with us.

The deferred tax liabilities are provisional pending the filing of Endeka s 2012 and final short period 2013 tax returns. The contingent consideration was valued at the date of acquisition using a discounted cash flow method with probability weighted cash flows and a discount rate of 50.5%. The identifiable intangible assets were primarily valued using the excess earnings, relief from royalty, and replacement cost methods using discount rates ranging from 40.0% to 50.0% and royalty rates ranging from 0.5% to 1.5%, where applicable.

Table of Contents

The amortizable intangible assets are being amortized straight-line over their estimated useful lives. The following summarizes the preliminary purchase price allocation:

		Estimated Fair Value	Estimated Useful Life (years)
Consideration:			
Cash paid	$	4,894	
Holdback consideration		400	
Contingent consideration		1,329	
Total consideration	$	6,623	
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash	$	20	
Other current assets		44	
Property and equipment		4,617	
Other assets		12	
Accounts payable		(992)	
Other current liabilities		(186)	
Notes payable and financed liabilities		(6,476)	
Deferred tax liabilities		(3,062)	
Net tangible liabilities acquired		(6,023)	
Existing customer contracts and relationships		4,770	10.0
Technology		930	6.0
Trademark and tradename		300	10.0
Non-compete agreement		250	2.0
Other intangibles		95	10.0
Goodwill		6,301	
Total purchase price	$	6,623	

As of September 30, 2013, we had gross intangible assets of $35,285 and accumulated amortization of $19,763. As of December 31, 2012, we had gross intangible assets of $28,905 and accumulated amortization of $18,311. Based on current intangible assets, amortization expense for the three months ended December 31, 2013 will be $521, and future amortization expense for the years ended December 31, 2014, 2015, 2016, 2017 and 2018 will be $2,034, $1,878, $1,817, $1,651, and $1,444, respectively.

4. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

		September 30, 2013		December 31, 2012
Cash and cash equivalents:				
Cash	$	2,619	$	16,677
Money market accounts		42,127		39,001
Marketable securities				2,460
Total cash and cash equivalents	$	44,746	$	58,138

Marketable securities consist primarily of corporate securities which include commercial paper and corporate debt instruments including notes issued by foreign or domestic corporations which pay in U.S. dollars and carry a rating of A or better with original maturities of three months or less. For the nine months ended September 30, 2013 and 2012, interest income was $145 and $128, respectively, which is included in interest and other (expense) income, net in the accompanying condensed consolidated statements of operations.

Table of Contents

5. Property and equipment

Property and equipment consisted of the following:

	September 30, 2013	December 31, 2012
Leasehold improvements	$ 85,516	$ 72,119
Construction in progress	12,599	6,295
Computer equipment	7,280	7,493
Software	9,848	7,519
Office equipment	413	411
Total property and equipment	115,656	93,837
Less: accumulated depreciation and amortization	(61,051)	(51,426)
Total property and equipment, net	$ 54,605	$ 42,411

Depreciation and amortization of property and equipment is allocated as follows in the accompanying condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Network access	$ 3,058	$ 2,704	$ 9,140	$ 8,848
Network operations	1,116	687	2,932	2,077
Development and technology	507	375	1,395	656
General and administrative	63	32	144	91
Total depreciation and amortization of property and equipment	$ 4,744	$ 3,798	$ 13,611	$ 11,672

6. Fair value measurement

ASC 820 establishes a three-tiered hierarchy that draws a distinction between market participant assumptions based on (i) quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1); (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2); and (iii) unobservable inputs that require us to use present value and other valuation techniques in the determination of fair value (Level 3). The following table sets forth our financial assets and liabilities that are measured at fair value on a recurring basis:

At September 30, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 42,127	$	$	$ 42,127
Marketable securities		36,493		36,493

	Level 1	Level 2	Level 3	Total
Restricted cash	30			30
Total assets	$ 42,157	$ 36,493	$	$ 78,650
Liabilities:				
Contingent consideration	$	$	$ (1,269)	$ (1,269)
Total liabilities	$	$	$ (1,269)	$ (1,269)

At December 31, 2012	**Level 1**	**Level 2**	**Total**
Assets:			
Cash equivalents	$ 39,001	$ 2,460	$ 41,461
Marketable securities		41,558	41,558
Restricted cash	30		30
Total assets	$ 39,031	$ 44,018	$ 83,049

Our marketable securities utilize Level 2 inputs and consist primarily of corporate securities which include commercial paper and corporate debt instruments including notes issued by foreign or domestic corporations which pay in U.S. dollars and carry a rating of A or better. We have evaluated the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Due to variations in trading volumes and the lack of quoted market prices in active markets, our fixed maturities are classified as Level 2 securities. The fair value of our fixed maturity marketable securities is derived through the use of a third party pricing source or recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data.

The Company used the income approach to value the contingent consideration as of September 30, 2013. The contingent consideration used a discounted cash flow method with probability weighted cash flows and a discount rate of 45.0%. The following

Table of Contents

table presents a reconciliation of the beginning and ending amounts related to the fair value of contingent consideration for the Endeka acquisition, categorized as Level 3:

Beginning balance, January 1, 2013	$	
Contingent consideration for acquisition of business		1,329
Change in fair value		(60)
Balance, September 30, 2013	$	1,269

7. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following:

		September 30, 2013		December 31, 2012
Salaries and wages	$	2,674	$	3,312
Revenue share		3,571		3,676
Accrued for construction-in-progress		1,369		1,003
Accrued partner network		1,135		1,134
Deferred rent		883		791
Other		2,124		1,103
Total accrued expenses and other liabilities	$	11,756	$	11,019

8. Income taxes

We calculate our interim income tax provision in accordance with ASC 270, *Interim Reporting,* and ASC 740, *Accounting for Income Taxes*. At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual, or extraordinary items is recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws, rates, or tax status is recognized in the interim period in which the change occurs.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment, including the expected operating income for the year, projections of the proportion of income earned and taxed in various states, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained, or as the tax environment changes.

During the nine months ended September 30, 2013, we recognized excess windfall tax benefits of $2,459 from stock option exercises. These benefits will decrease income taxes payable for the year ending December 31, 2013, and were recorded as an increase to additional paid-in capital in the accompanying condensed consolidated balance sheet as of September 30, 2013.

Income tax (benefit) expense of $(382) and $2,468 reflects an effective tax rate of 35.6% and 27.6% for the nine months ended September 30, 2013 and 2012, respectively. Our effective tax rate differs from the statutory rate primarily due to benefits from disqualifying dispositions of incentive stock options and adjustments relating to our 2012 and 2011 tax returns for the nine months ended September 30, 2013 and 2012 and non-tax deductible transaction costs related to the acquisition of Endeka for the nine months ended September 30, 2013. Under current tax regulations, we do not receive a tax deduction for the issuance, exercise or disposition of incentive stock options if the employee meets certain holding requirements. If the employee does not meet the holding requirements, a disqualifying disposition occurs, at which time we may receive a tax deduction. We do not record tax benefits related to incentive stock options unless and until a disqualifying disposition is reported. At September 30, 2013, we have net deferred tax assets of $2,394, which includes net operating loss carry-forwards. As of September 30, 2013 and December 31, 2012, we had $392 of uncertain tax positions, $106 of which is a reduction to deferred tax assets, which is presented net of uncertain tax positions, in the accompanying condensed consolidated balance sheets.

We are subject to taxation in the United States and in various states. Our tax years 2010 and forward are subject to examination by the IRS and our tax years 2007 and forward are subject to examination by material state jurisdictions. However, due to prior year loss carryovers, the IRS and state tax authorities may examine any tax years for which the carryovers are used to offset future taxable income.

Table of Contents

9. Commitments and contingencies

Legal proceedings

From time to time, we may be involved in or subject to claims, suits, investigations and proceedings arising out of the normal course of business. We are not a party to any litigation that we believe could have a material adverse effect on our business, financial position, results of operations or cash flows.

10. Stock repurchases

On April 1, 2013, the Company approved a stock repurchase program to repurchase up to $10,000 of the Company s common stock in the open market, exclusive of any commissions, markups or expenses. The stock repurchased will be retired and will resume the status of authorized but unissued shares of common stock. During the three months ended September 30, 2013, we repurchased and retired approximately 207,000 shares under this program for approximately $1,485, excluding commissions paid, at an average price per share of $7.18. During the nine months ended September 30, 2013, we repurchased and retired approximately 362,000 shares under this program for approximately $2,541, excluding commissions paid, at an average price per share of $7.02. As of September 30, 2013, the remaining approved amount for repurchases was approximately $7,459.

11. Stock incentive plans

In March 2011, our board of directors approved the 2011 Equity Incentive Plan (2011 Plan). The 2011 Plan provides for the grant of incentive and nonstatutory stock options, stock appreciation rights, restricted shares of our common stock, stock units, and performance cash awards. As of January 1 of each year, the number of shares of common stock reserved for issuance under our stock incentive plan shall automatically be increased by a number equal to the lesser of (a) 4.5% of the total number of shares of common stock then outstanding, (b) 3,000,000 shares of common stock and (c) as determined by our board of directors. As of September 30, 2013, 7,108,013 shares of common stock are reserved for issuance.

No further awards will be made under our Amended and Restated 2001 Stock Incentive Plan (2001 Plan), and it will be terminated. Options outstanding under the 2001 Plan will continue to be governed by their existing terms.

We recognized stock-based compensation expense as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2013	2012	2013	2012
Network operations	$ 241	$ 117	$ 638	$ 227
Development and technology	143	(253)	242	168
Selling and marketing	301	(36)	759	366
General and administrative	667	390	1,560	1,402
Total stock-based compensation	$ 1,352	218	$ 3,199	$ 2,163

A summary of the stock option activity is as follows:

	Number of Options (000 s)	Weighted Average Exercise Price	Weighted-Average Remaining Contract Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	5,045	$ 6.50	6.44	$ 14,742
Granted	951	$ 6.92		
Exercised	(374)	$ 1.45		
Canceled/forfeited	(802)	$ 10.61		
Outstanding at September 30, 2013	4,820	$ 6.30	6.49	$ 11,358
Vested and expected to vest at September 30, 2013	4,662	$ 6.22	6.41	$ 11,327
Exercisable at September 30, 2013	2,729	$ 4.18	4.80	$ 10,889

Table of Contents

The weighted average assumptions used for newly issued stock option grants for the nine months ended September 30, 2013 were an expected term of 6.25 years, an expected volatility of 49.43%, a risk free rate of return of 1.12% and no expected dividends.

During the nine months ended September 30, 2013, we issued restricted stock units (RSU) to executive and non-executive personnel and members of our board of directors. The executive and non-executive RSUs generally vest over a two year period with 50% of the RSUs vesting when the individual completes 12 months of continuous service and the remaining 50% vesting on a quarterly basis thereafter. The board of directors RSUs generally vest over a one year period for existing members and 25% per year over a four year period for new members. A summary of the RSU activity is as follows:

	Number of Shares (000 s)		Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2012		$	
Granted	799	$	6.21
Vested		$	
Forfeited	(30)	$	6.05
Nonvested at September 30, 2013	769	$	6.21

12. Net income (loss) per share attributable to common stockholders

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to common stockholders:

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2013		2012		2013		2012
	(in thousands)							
Numerator:								
Net income (loss) attributable to common stockholders, basic and diluted	$	354	$	2,777	$	(1,166)	$	5,895
Denominator:								
Weighted average common stock, basic		35,593		35,080		35,620		34,618
Dilutive effect of stock options		1,347		2,257				2,706
Dilutive effect of RSUs		189						
Weighted average common stock, dilutive		37,129		37,337		35,620		37,324
Net income (loss) per share attributable to common stockholders:								
Basic	$	0.01	$	0.08	$	(0.03)	$	0.17
Diluted	$	0.01	$	0.07	$	(0.03)	$	0.16

For the three months ended September 30, 2013, 3,086,287 options to purchase common stock were not included in the computation of diluted net income per share as the inclusion would have been anti-dilutive. For the nine months ended September 30, 2013, we excluded all stock options and RSUs from the computation of diluted net loss per share due to the net loss for the period. For the three and nine months ended September 30, 2012, 2,478,156 and 2,442,898, respectively, options to purchase common stock were not included in the computation of diluted net income per share as the inclusion would have been anti-dilutive.

13. Subsequent events

On October 31, 2013, we acquired all outstanding stock of Electronic Media Systems, Inc. (EMS) and all membership interests in its subsidiary, Advanced Wireless Group, LLC (AWG), not otherwise owned by EMS, such that we are now the beneficial owner of all membership interests of AWG, for approximately $16,000 plus contingent consideration and the assumption of certain debt and liabilities. AWG operates public Wi-Fi in seventeen U.S. airports including Los Angeles International, Charlotte/Douglas International, Miami International, Minneapolis-St. Paul International, Detroit Metropolitan Airport, and Boston s Logan International. Due to the timing of the closing, we have not completed the purchase accounting associated with the acquisition as of the date of this report.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and the section titled Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities Exchange Commission on March 18, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on our current expectations, estimates and projections about our operations, industry, financial condition, performance, results of operations, and liquidity. Statements containing words such as may, believe, anticipate, expect, intend, plan, project, projections, business outlook, estimate, or similar expressions constitute forward-looking statements. These forward-looking statements include, but are not limited to, statements about future financial performance; revenues; metrics; operating expenses; market trends, including those in the markets in which we compete; operating and marketing efficiencies; liquidity; cash flows and uses of cash; dividends; capital expenditures; depreciation and amortization; tax payments; foreign currency exchange rates; hedging arrangements; our ability to repay indebtedness, pay dividends and invest in initiatives; our products and services; pricing; competition; strategies; and new business initiatives, products, services, and features. Potential factors that could affect the matters about which the forward-looking statements are made include, among others, the factors disclosed in the section entitled Risk Factors in this Quarterly Report on Form 10-Q and additional factors that accompany the related forward-looking statements in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as the date hereof. Any such forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that may cause actual performance and results to differ materially from those predicted. Reported results should not be considered an indication of future performance. Except as required by law, we undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Boingo makes it simple to connect to the mobile Internet.

We make it easy, convenient and cost effective for individuals to find and gain access to the mobile Internet through high-speed, high-bandwidth Wi-Fi networks globally. We also manage and operate a distributed antenna system infrastructure (DAS), which is a cellular extension network. Our solution includes easy-to-use software for Wi-Fi enabled devices such as smartphones, laptops and tablet computers, and our sophisticated back-end system infrastructure that detects and enables one-click access to our extensive global Wi-Fi network. Individuals use our solutions to access what we believe is the world s largest commercial Wi-Fi network, consisting of over 700,000 Wi-Fi locations, or hotspots, in over 100 countries at venues such as airports, hotels, coffee shops, shopping malls, arenas, stadiums and quick service restaurants.

We have direct customer relationships with users who have purchased our mobile Internet services, and we provide solutions to our partners, which include telecom operators, cable companies, technology companies, enterprise software and services companies, and communications companies to allow their millions of users to connect to the mobile Internet through hotspots in our network. As of September 30, 2013, we have grown our subscriber base to approximately 313,000, an increase of approximately 7.2% over the same prior year period.

Individuals who are accustomed to the benefits of broadband performance at home and work are seeking the same applications, performance and availability on-the-go, through smartphones, laptops, tablet computers and other devices. We believe that this consumer demand has created a significant market opportunity that we are uniquely positioned to capture.

Table of Contents

We generate revenue from individual users, partners and advertisers. Individual users provide approximately 43% of our revenue by purchasing month-to-month subscription plans that automatically renew, or hotspot specific single-use access to our network. In addition, our partners pay us usage-based network access and software licensing fees to allow their customers access to our network. We also generate revenue from telecom operators that pay us build-out fees and recurring access fees so that their cellular customers may use our DAS at locations where we manage and operate the Wi-Fi network. We also generate revenue from advertisers that seek to reach our users with sponsored access, promotional programs and display advertising at locations where we manage and operate the Wi-Fi network and locations where we solely provide authorized access to a partner s Wi-Fi network through sponsored access and promotional programs.

We install, manage and operate a wireless network infrastructure to provide Wi-Fi services at our managed and operated hotspots, where we generally have exclusive multi-year agreements.

The mobile Internet is a complex and constantly evolving ecosystem, comprised of over a billion mobile Internet-enabled devices from dozens of manufacturers, which are powered by many different operating systems. Devices use different network technologies and must be configured with the appropriate software to detect and optimize a connection to the mobile Internet. This complexity is amplified as new device models and operating systems are released, new categories of devices become Internet-enabled, and new network technologies emerge.

The increasing number of mobile Internet-enabled devices in this ecosystem is causing an even more rapid increase in data consumption. Despite spending billions of dollars every year to expand their networks, network and telecom operators still face capacity-strained networks. Innovations in broadband technologies such as 3G and 4G will not be sufficient to relieve the strain on networks.

We believe we are the leading global provider of commercial mobile Wi-Fi Internet solutions. Key elements of our strategy are to:

- grow the installed base of our software;
- leverage our neutral-host business model;
- invest in our software to enhance the customer experience;
- expand our network;
- grow our business internationally; and

- increase our brand awareness.

Reconciliation of Non-GAAP Financial Measures

We define Adjusted EBITDA as net income (loss) attributable to common stockholders plus depreciation and amortization of property and equipment, income tax expense (benefit), amortization of intangible assets, stock-based compensation expense, non-controlling interests and interest and other (expense) income, net.

We believe that Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

- Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and

- it is useful to exclude non-cash charges, such as depreciation and amortization of property and equipment, amortization of intangible assets and stock-based compensation, from Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations, and these expenses can vary significantly between periods as a result of full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards.

Table of Contents

We use Adjusted EBITDA in conjunction with traditional GAAP measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.

We do not place undue reliance on Adjusted EBITDA as our only measure of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do.

We compensate for the inherent limitations associated with using Adjusted EBITDA through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net income (loss) attributable to common stockholders.

The following provides a reconciliation of net income (loss) attributable to common stockholders to Adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
	(unaudited) (in thousands)			
Net income (loss) attributable to common stockholders	$ 354	$ 2,777	$ (1,166)	$ 5,895
Depreciation and amortization of property and equipment	4,744	3,798	13,611	11,672
Income tax expense (benefit)	258	1,101	(382)	2,468
Amortization of intangible assets	541	296	1,456	778
Stock-based compensation expense	1,352	218	3,199	2,163
Non-controlling interests	170	284	476	579
Interest and other expense (income), net	2	(33)	(70)	(170)
Adjusted EBITDA	$ 7,421	$ 8,441	$ 17,124	$ 23,385

Results of Operations

The following tables set forth our results of operations for the specified periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
	(unaudited) (in thousands)			
Consolidated Statement of Operations Data:				

Revenue	$ 28,607	$ 26,017	$ 77,980	$ 74,506
Costs and operating expenses:				
Network access	13,670	10,061	34,375	29,577
Network operations	4,495	3,693	13,199	10,895
Development and technology	2,622	2,300	8,484	7,792
Selling and marketing	3,294	2,567	10,106	7,237
General and administrative	3,201	2,971	11,502	9,455
Amortization of intangible assets	541	296	1,456	778
Total costs and operating expenses	27,823	21,888	79,122	65,734
Income (loss) from operations	784	4,129	(1,142)	8,772
Interest and other (expense) income, net	(2)	33	70	170
Income (loss) before income taxes	782	4,162	(1,072)	8,942
Income tax expense (benefit)	258	1,101	(382)	2,468
Net income (loss)	524	3,061	(690)	6,474
Net income attributable to non-controlling interests	170	284	476	579
Net income (loss) attributable to common stockholders	$ 354	$ 2,777	$ (1,166)	$ 5,895

Table of Contents

Depreciation and amortization expense included in costs and operating expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(unaudited) (in thousands)			
Network access	$ 3,058	$ 2,704	$ 9,140	$ 8,848
Network operations	1,116	687	2,932	2,077
Development and technology	507	375	1,395	656
General and administrative	63	32	144	91
Total (1)	$ 4,744	$ 3,798	$ 13,611	$ 11,672

(1) The $0.9 million and $1.9 million increase in depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2013 as compared to the three and nine months ended September 30, 2012, respectively, is primarily due to increased depreciation and amortization expense from our increased fixed assets in 2013. The increase for the nine months ended September 30, 2013 was offset by $1.3 million from a short term DAS build-out project during the nine months ended September 30, 2012.

Stock-based compensation expense included in costs and operating expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(unaudited) (in thousands)			
Network operations	$ 241	$ 117	$ 638	$ 227
Development and technology	143	(253)	242	168
Selling and marketing	301	(36)	759	366
General and administrative	667	390	1,560	1,402
Total (1)	$ 1,352	$ 218	$ 3,199	$ 2,163

(1) The $1.1 million and $1.0 million increase in stock-based compensation expense for the three and nine months ended September 30, 2013 as compared to the three and nine months ended September 30, 2012, respectively, is primarily due to the reversal of $0.7 million in stock-based compensation expense for unvested options for two senior executives who left the Company during the three months ended September 30, 2012 and stock-based compensation expenses for new stock options and restricted stock units (RSU) granted to our employees and directors in 2013.

The following table sets forth our results of operations for the specified periods as a percentage of our revenue for those periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

	(unaudited) (as a percentage of revenue)			
Consolidated Statement of Operations Data:				
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and operating expenses:				
Network access	47.8	38.7	44.1	39.7
Network operations	15.7	14.2	16.9	14.6
Development and technology	9.2	8.8	10.9	10.5
Selling and marketing	11.5	9.9	13.0	9.7
General and administrative	11.2	11.4	14.7	12.7
Amortization of intangible assets	1.9	1.1	1.9	1.0
Total costs and operating expenses	97.3	84.1	101.5	88.2
Income (loss) from operations	2.7	15.9	(1.5)	11.8
Interest and other (expense) income, net	0.0	0.1	0.1	0.2
Income (loss) before income taxes	2.7	16.0	(1.4)	12.0
Income tax expense (benefit)	0.9	4.2	(0.5)	3.3
Net income (loss)	1.8	11.8	(0.9)	8.7
Net income attributable to non-controlling interests	0.6	1.1	0.6	0.8
Net income (loss) attributable to common stockholders	1.2%	10.7%	(1.5)%	7.9%

Table of Contents

Three Months ended September 30, 2013 and 2012

Revenue

	Three Months Ended September 30, 2013	2012	Change	% Change
	(unaudited) (in thousands, except churn data)			
Revenue:				
Retail subscription	$ 8,860	$ 8,621	$ 239	2.8%
Retail single-use	2,386	3,304	(918)	(27.8)%
Wholesale	14,328	11,631	2,697	23.2%
Advertising and other	3,033	2,461	572	23.2%
Total revenue	$ 28,607	$ 26,017	$ 2,590	10.0%
Key business metrics:				
Subscribers	313	292	21	7.2%
Monthly churn	10.2%	9.0%	1.2%	13.3%
Connects	10,895	8,906	1,989	22.3%

There are three key metrics that we use to monitor results and activity in the business:

Subscribers. This metric represents the number of paying retail customers who are on a month-to-month subscription plan at a given period end.

Monthly churn. This metric shows the number of subscribers who canceled their subscriptions in a given month, expressed as a percentage of the average subscribers in that month. The churn in a given period is the average monthly churn in that period. This measure is one indicator of the longevity of our subscribers. Some of our customers who cancel subscriptions maintain accounts for single-use access.

Connects. This metric shows how often individuals connect to our global Wi-Fi network in a given period. The connects include retail and wholesale customers in both customer pay locations and customer free locations where we are a paid service provider or receive sponsorship or promotional fees. We count each connect as a single connect regardless of how many times the individual accesses the network at a given venue during their 24 hour period. This measure is an indicator of paid activity throughout our network.

Total revenue. Total revenue increased $2.6 million or 10.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

Retail subscription. Retail subscription revenue increased $0.2 million, or 2.8%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to an increase in subscribers. The impact of the increase in subscribers was partially offset by a decrease in our average monthly revenue per subscriber of 4.3% from promotional offers and the growing mix of lower-priced smartphone

subscriptions compared to unlimited subscriptions.

Retail single-use. Retail single-use revenue decreased $0.9 million, or 27.8%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The decrease in retail single-use revenue was due primarily to the transition of certain paid managed and operated locations to a tiered or free pricing model, the loss of certain paid managed and operated locations, and an increase in new customers that opted for subscriptions.

Table of Contents

Wholesale. Wholesale revenue increased $2.7 million, or 23.2%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to a $3.9 million increase in new DAS build-out projects in our managed and operated locations, which includes a $2.5 million short term build-out project that included the sale of equipment and was completed during the three months ended September 30, 2013, and a $0.5 million increase in wholesale service provider revenues. The increases were offset by a $1.7 million decrease in partner usage based fees.

Advertising and other. Advertising and other revenue increased $0.6 million, or 23.2% for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to a $0.3 million increase in advertising revenues from our advertising business that resulted from the assets acquired from Cloud 9 Wireless, Inc. (Cloud 9) in August 2012 and a $0.3 million increase in other revenues.

Costs and Operating Expenses

	Three Months Ended September 30,			
	2013	2012	Change	% Change
	(unaudited) (in thousands, except percentages)			
Costs and operating expenses:				
Network access	$ 13,670	$ 10,061	$ 3,609	35.9%
Network operations	4,495	3,693	802	21.7%
Development and technology	2,622	2,300	322	14.0%
Selling and marketing	3,294	2,567	727	28.3%
General and administrative	3,201	2,971	230	7.7%
Amortization of intangible assets	541	296	245	82.8%
Total costs and operating expenses	$ 27,823	$ 21,888	$ 5,935	27.1%

Network access. Network access costs increased $3.6 million, or 35.9%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase is primarily attributable to a $2.9 million increase in costs associated with the sale of equipment for build-out projects for wholesale service providers and our short term build-out projects, a $0.5 million increase in other cost of sales and bandwidth, and a $0.4 million increase in depreciation expense. The increases were offset by a $0.1 million decrease in revenue share paid to venues in our managed and operated locations.

Network operations. Network operations expenses increased $0.8 million, or 21.7%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due primarily to a $0.4 million increase in depreciation expense and a $0.4 million increase in personnel and other expenses.

Development and technology. Development and technology expenses increased $0.3 million, or 14.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due primarily to a $0.2 million increase in personnel related expenses and a $0.1 million increase in depreciation expense.

Selling and marketing. Selling and marketing expenses increased $0.7 million, or 28.3%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due primarily to a $0.7 million increase in personnel related expenses.

General and administrative. General and administrative expenses increased $0.2 million, or 7.7%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due primarily to a $0.2 million increase in professional fees and a $0.2 million increase in personnel related expenses. The increases were offset by a $0.1 million decrease in other consulting expenses.

Amortization of intangible assets. Amortization of intangible assets expense increased $0.2 million, or 82.8%, for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, due to our acquisitions of Cloud 9 and Endeka in August 2012 and February 2013, respectively.

Interest and Other (Expense) Income, Net

Interest and other (expense) income, net remained relatively unchanged for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

Table of Contents

Income Tax Expense

Income tax expense decreased $0.8 million or 76.6% for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Our effective tax rate increased to 33.1% for the three months ended September 30, 2013 as compared to 26.5% for the three months ended September 30, 2012. The increase in our effective tax rate is primarily due to decreased income tax deductions from the sale of stock related to employee incentive stock options.

Non-controlling Interests

Non-controlling interests relates to our non-controlling owners interests in the net income (loss) generated by Concourse Communications Detroit, LLC, Chicago Concourse Development Group, LLC and Boingo Holding Participacoes Ltda. Non-controlling interests remained relatively unchanged for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

Net Income Attributable to Common Stockholders

Our net income decreased primarily as a result of the $6.0 million increase in costs and operating expenses offset in part by the $2.6 million increase in revenues and the $0.8 million decrease in income tax expense in the current period compared to the comparable 2012 quarter. Our diluted earnings per share decreased primarily as a result of the decrease in net income.

Adjusted EBITDA

Adjusted EBITDA was $7.4 million for the three months ended September 30, 2013, down 12.1% from the $8.4 million recorded in the three months ended September 30, 2012. As a percent of revenue, Adjusted EBITDA was 25.9% for the three months ended September 30, 2013, down from the 32.4% of revenue in the comparable 2012 quarter. The Adjusted EBITDA decrease was due primarily to a decrease of $3.4 million in pre-tax net income during the three months ended September 30, 2013, which was driven by the $6.0 million increase in costs and operating expenses offset by the $2.6 million increase in revenue in the current period compared to the comparable 2012 quarter. The decrease in pre-tax net income was offset in part by the $2.3 increase in non-cash depreciation, amortization, and stock-based compensation expenses in the current period compared to the comparable 2012 quarter.

Nine Months ended September 30, 2013 and 2012

Revenue

	Nine Months Ended September 30,			
	2013	2012	Change	% Change
	(unaudited) (in thousands, except churn data)			
Revenue:				
Retail subscription	$ 25,658	$ 24,484	$ 1,174	4.8%
Retail single-use	7,802	10,799	(2,997)	(27.8)%
Wholesale	38,222	34,837	3,385	9.7%
Advertising and other	6,298	4,386	1,912	43.6%
Total revenue	$ 77,980	$ 74,506	$ 3,474	4.7%
Key business metrics:				
Subscribers	313	292	21	7.2%
Monthly churn	10.1%	9.4%	0.7%	7.5%
Connects	28,391	16,623	11,768	70.8%

Total revenue. Total revenue increased $3.5 million or 4.7%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

Retail subscription. Retail subscription revenue increased $1.2 million, or 4.8%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to an increase in subscribers. The impact of the increase in subscribers was partially offset by a decrease in our average monthly revenue per subscriber of 5.0% from promotional offers and the growing mix of lower-priced smartphone subscriptions compared to unlimited subscriptions.

Retail single-use. Retail single-use revenue decreased $3.0 million, or 27.8%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The decrease in retail single-use revenue was due primarily to the transition of certain paid managed and operated locations to a tiered or free pricing model, the loss of certain paid managed and operated locations, and an increase in new customers that opted for subscriptions.

Table of Contents

Wholesale. Wholesale revenue increased $3.4 million, or 9.7%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to a $4.3 million increase in new DAS build-out projects in our managed and operated locations, which includes a $2.5 million short term build-out project that included the sale of equipment and was completed during the three months ended September 30, 2013, and a $1.6 million increase in wholesale service provider revenues. The increases were offset by a $2.1 million decrease in partner usage based fees, and a $0.4 million decrease in access fees for usage of the DAS networks.

Advertising and other. Advertising and other revenue increased $1.9 million, or 43.6%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to a $2.1 million increase in advertising revenues from our advertising business that resulted from the assets acquired from Cloud 9 in August 2012.

Costs and Operating Expenses

	Nine Months Ended September 30,			
	2013	2012	Change	% Change
	(unaudited) (in thousands, except percentages)			
Costs and operating expenses:				
Network access	$ 34,375	$ 29,577	$ 4,798	16.2%
Network operations	13,199	10,895	2,304	21.1%
Development and technology	8,484	7,792	692	8.9%
Selling and marketing	10,106	7,237	2,869	39.6%
General and administrative	11,502	9,455	2,047	21.6%
Amortization of intangible assets	1,456	778	678	87.1%
Total costs and operating expenses	$ 79,122	$ 65,734	$ 13,388	20.4%

Network access. Network access costs increased $4.8 million, or 16.2%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The increase is primarily attributable to a $2.9 million increase in costs associated with the sale of equipment for a short term build out project and for build-out projects for wholesale service providers, a $1.2 million increase in revenue share paid to venues, a $1.1 million increase in other cost of sales and bandwidth, and a $0.3 million increase in depreciation expense. The increases were offset by a $0.7 million decrease from customer usage at partner venues.

Network operations. Network operations expenses increased $2.3 million, or 21.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to a $0.9 million increase in personnel related expenses, a $0.8 million increase in depreciation expense, and a $0.4 million increase in internet connectivity expenses and other expenses.

Development and technology. Development and technology expenses increased $0.7 million, or 8.9% for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to a $0.7 million increase in depreciation expense and a $0.2 million increase in software maintenance costs. The increases were offset by a $0.3 million decrease in recruiting expenses.

Selling and marketing. Selling and marketing expenses increased $2.9 million, or 39.6%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to a $2.4 million increase in personnel related expenses and a $0.4

million increase in travel and entertainment expenses.

General and administrative. General and administrative expenses increased $2.0 million, or 21.6%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to a $1.9 million increase in professional fees, a $0.3 million increase in personnel related expenses, and a $0.2 million increase in recruiting expenses. The increases were offset by a $0.2 million decrease in other consulting expenses.

Amortization of intangible assets. Amortization of intangible assets expense increased $0.7 million, or 87.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to our acquisitions of Cloud 9 and Endeka in August 2012 and February 2013, respectively.

Interest and Other Income, Net

Interest and other income, net remained relatively unchanged for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

Table of Contents

Income Tax (Benefit) Expense

We had an income tax benefit of $(0.4) million for the nine months ended September 30, 2013 compared to an income tax expense of $2.5 million for the nine months ended September 30, 2012 due to the operating loss generated during the period. Our effective tax rate also increased to 35.6% for the nine months ended September 30, 2013 as compared 27.6% for the nine months ended September 30, 2012. The increase in our effective tax rate is primarily due to decreased income tax deductions from the sale of stock related to employee incentive stock options and from adjustments realized upon filing our federal income tax returns.

Non-controlling Interests

Non-controlling interests relates to our non-controlling owners interests in the net income (loss) generated by Concourse Communications Detroit, LLC, Chicago Concourse Development Group, LLC and Boingo Holding Participacoes Ltda. Non-controlling interests remained relatively unchanged for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

Net (Loss) Income Attributable to Common Stockholders

Our net income decreased primarily as a result of the $13.4 million increase in costs and operating expenses offset in part by the $3.5 million increase in revenues and the $2.9 million decrease in income tax expense in the current period compared to the comparable 2012 period. Our diluted earnings per share decreased primarily as a result of the decrease in net income.

Adjusted EBITDA

Adjusted EBITDA was $17.1 million for the nine months ended September 30, 2013, down $6.3 million or 26.8% from the $23.4 million recorded in the nine months ended September 30, 2012. As a percent of revenue, Adjusted EBITDA was 22.0%, down from 31.4% of revenue in the comparable 2012 period. The Adjusted EBITDA decrease was due primarily to a decrease of $10.1 million in pre-tax net income during the nine months ended September 30, 2013, which was driven by the $13.4 million increase in costs and operating expenses offset in part by the $3.5 million increase in revenue in the current period compared to the comparable 2012 period. The decrease in pre-tax net income was offset by the $3.7 increase in non-cash depreciation, amortization, and stock-based compensation expenses in the current period compared to the comparable 2012 period.

Liquidity and Capital Resources

We have financed our operations primarily through cash provided by operating activities. Our primary sources of liquidity as of September 30, 2013 consisted of $44.7 million of cash and cash equivalents and $36.5 million of marketable securities.

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions. We expect that these requirements will be our principal needs for liquidity over the near term. Our capital expenditures in the first nine months of 2013 were $19.1 million, of which $10.9 million was reimbursed through revenue for DAS build-out projects from our telecom operators.

We believe that our existing cash and cash equivalents, working capital and our cash flow from operations will be sufficient to fund our operations, planned capital expenditures and potential acquisitions for at least the next 12 months. There can be no assurance, however, that future industry-specific or other developments, general economic trends, or other matters will not adversely affect our operations or our ability to meet our future cash requirements. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of our managed and operated location expansion efforts, the timing and extent of spending to support product development efforts, the timing of introductions of new solutions and enhancements to existing solutions and the continuing market acceptance of our solutions. We may enter into acquisitions of complementary businesses, applications or technologies which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all.

The following table sets forth cash flow data for the nine months ended September 30:

	2013	2012
	(unaudited) (in thousands)	
Net cash provided by operating activities	$ 12,560	$ 17,234
Net cash used in investing activities	(18,959)	(56,173)
Net cash (used in) provided by financing activities	(6,993)	2,356

Table of Contents

Net Cash Provided by Operating Activities

For the nine months ended September 30, 2013, we generated $12.6 million of net cash from operating activities, a decrease of $4.7 million from the prior year comparative period. The decrease is primarily due to a $7.2 million decrease in our net income including non-controlling interests, changes in working capital of $0.8 million resulting from increases in our prepaids and other assets and decreases in our deferred revenue offset by decreases in our accounts receivable and increases in our accrued expenses and other liabilities, and a $0.8 million increase in our excess windfall tax benefits from stock option exercises. The decreases were offset by a $2.6 million increase in depreciation and amortization expenses, a $1.0 million increase in stock-based compensation expenses, and a $0.4 million change in deferred tax assets that was recorded during the nine months ended September 30, 2012.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2013, we used $19.0 million in investing activities, a decrease of $37.2 million from the prior year comparative period. The decrease was primarily due to $5.1 million of cash received from net sales of marketable securities during the nine months ended September 30, 2013 compared to $37.2 million of cash used in net purchases of marketable securities during the nine months ended September 30, 2012. The decrease was offset by $4.9 million of cash payments made for our acquisition of Endeka in February 2013 as compared to the $3.2 million of cash payments made for our acquisition of Cloud 9 in August 2012, and the $3.4 million increase in purchase of property and equipment during the nine months ended September 30, 2013 compared to the prior year comparative period, which primarily related to new build-out projects.

Net Cash (Used in) Provided by Financing Activities

For the nine months ended September 30, 2013, we used $7.0 million in financing activities, a decrease of $9.3 million from the prior year comparative period. This is primarily due to $6.1 million of cash used to repay notes payable and other financed liabilities that were assumed in our acquisition of Endeka in February 2013, the $2.6 million of cash used in the repurchase of our common stock during the nine months ended September 30, 2013, and the $1.6 million decrease in proceeds from the exercise of stock options during the nine months ended September 30, 2013 compared to the prior year comparative period. The decreases were offset by a $0.8 million increase in excess windfall tax benefits from stock option exercises.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements and we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided for the year ended December 31, 2012 in Management s Discussion and Analysis of Financial Condition and Results of Operations, included in our annual report on Form 10-K filed by us with the SEC on March 18, 2013.

Recently Issued Accounting Standards

See Note 2 to our unaudited condensed consolidated financial statements in Part I, Item 1 of this report for a description of recently issued accounting standards, including our expected dates of adoption and estimated effects on our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Market risk represents the potential loss arising from adverse changes in the value of financial instruments. The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows or future earnings.

We have established guidelines relative to the diversification and maturities of investments to maintain safety and liquidity. These guidelines are reviewed periodically and may be modified depending on market conditions. Although investments may be subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. At September 30, 2013, our market risk sensitive instruments consisted of marketable securities available-for-sale, which are comprised of highly rated short-term corporate bonds.

Table of Contents

Marketable securities available-for-sale are carried at fair value and are intended for use in meeting our ongoing liquidity needs. Unrealized gains and losses on available-for-sale securities, which are deemed to be temporary, are reported as a separate component of stockholders equity, net of tax. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization, along with realized gains and losses is included in interest and other (expense) income, net.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of September 30, 2013, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. During the three months ended September 30, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Note 9 Commitments and Contingencies, to the unaudited condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report, is incorporated herein by this reference.

Item 1A. Risk Factors

Certain Factors Affecting Boingo Wireless, Inc.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, which we incorporate by reference into this Quarterly Report on Form 10-Q, which could materially affect our business, results of operations, cash flows, or financial condition. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or future results. There have been no material changes in the risk factors contained in our Annual Report on Form 10-K.

Item 2. Information Regarding Stock Repurchases

On April 1, 2013, the Company approved a stock repurchase program to repurchase up to $10,000,000 of the Company s common stock in the open market, exclusive of any commissions, markups or expenses. The stock repurchased will be retired and will resume the status of authorized but unissued shares of common stock. During the three months ended September 30, 2013, we repurchased and retired approximately 207,000 shares under this program for approximately $1,485,000, excluding commissions paid, at an average price per share of $7.18. During the nine months ended September 30, 2013, we repurchased and retired approximately 362,000 shares under this program for approximately $2,541,000, excluding commissions paid, at an average price per share of $7.02. As of September 30, 2013, the remaining approved amount for repurchases was approximately $7,459,000. Activity under the program for the nine months ended September 30, 2013 was as follows:

Table of Contents

	Total Number of Shares Purchased (1) (000 s)		Average Price Paid Per Share	Approximate Dollar Value of Shares that May Yet Be Purchased (000 s)
As of December 31, 2012		$		
January 1 May 31		$		10,000
June 1 June 30	155	$	6.81	8,944
July 1 July 31		$		8,944
August 1 August 31	77	$	7.45	8,372
September 1 September 30	130	$	7.02	7,459
Total	362			

(1) All shares purchased were purchased as part of a publicly announced program discussed above, in open-market transactions.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On August 19, 2013, we exercised our right to extend our Telecommunications Network Access Agreement with the Port Authority of New York and New Jersey.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q:

Exhibit No.	Description	Incorporated by Reference Form	Date	Number	Filed Herewith
3.2	Amended and Restated Certificate of Incorporation.	S-1	03/21/2011	3.2	
3.4	Amended and Restated Bylaws.	S-1	03/21/2011	3.4	
10.17	Letter, dated August 19, 2013, from New York Telecom Partners, LLC to The Port Authority of New York and New Jersey.				X

31.1	Certification of David Hagan, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification of Peter Hovenier, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Certification of David Hagan, Chief Executive Officer, and Peter Hovenier, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101	The following financial information from the Quarterly Report on Form 10-Q of Boingo Wireless, Inc. for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012 for Boingo Wireless, Inc.; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 for Boingo Wireless, Inc.; (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 for Boingo Wireless, Inc.; (iv) Condensed Consolidated Statements of Equity for Boingo Wireless, Inc.; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.	

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BOINGO WIRELESS, INC.	
Date: November 12, 2013	By:	/s/ DAVID HAGAN **David Hagan** **Chief Executive Officer**
	BOINGO WIRELESS, INC.	
Date: November 12, 2013	By:	/s/ PETER HOVENIER **Peter Hovenier** **Chief Financial Officer** **(Principal Accounting Officer)**