

Drexel e-Learning, Inc.

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009, and
Independent Auditors' Report

DREXEL e-LEARNING, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Drexel e-Learning, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of Drexel e-Learning, Inc. (the "Company") as of June 30, 2010 and 2009, and the related statements of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 8, 2010

DREXEL e-LEARNING, INC.

BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	\$ 6,750,381	\$ 6,323,667
Prepaid expenses and other assets	731,050	348,933
Receivable from Drexel University — net	<u>3,447,767</u>	<u>3,251,914</u>
Total current assets	10,929,198	9,924,514
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>423,553</u>	<u>390,889</u>
TOTAL	<u>\$ 11,352,751</u>	<u>\$ 10,315,403</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 377,550	\$ 460,021
Accrued expenses	<u>1,987,521</u>	<u>1,567,601</u>
Total liabilities	<u>2,365,071</u>	<u>2,027,622</u>
STOCKHOLDERS' EQUITY:		
Common stock, par value \$0.01 per share — authorized 100 voting shares; issued 100 shares; authorized 100 non-voting shares; issued 0 shares	1	1
Additional paid-in capital	4,228,602	4,228,602
Retained earnings	<u>4,759,077</u>	<u>4,059,178</u>
Total stockholders' equity	<u>8,987,680</u>	<u>8,287,781</u>
TOTAL	<u>\$ 11,352,751</u>	<u>\$ 10,315,403</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
REVENUE:		
Fees	\$16,677,315	\$15,750,314
Total Revenues	<u>16,677,315</u>	<u>15,750,314</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	6,532,399	5,530,572
Marketing	7,083,842	4,872,572
Non-capital equipment and software	728,162	604,982
Depreciation	141,133	133,474
Professional fees	364,065	219,166
Office expenses	167,599	133,656
Rent	239,370	231,810
Other tax expense, non-income tax	23,619	22,329
Travel and entertainment	55,082	54,256
Miscellaneous	125,754	145,934
Total Expenses	<u>15,461,025</u>	<u>11,948,751</u>
OPERATING INCOME	1,216,290	3,801,563
INTEREST INCOME	<u>14,401</u>	<u>29,647</u>
INCOME BEFORE INCOME TAXES	1,230,691	3,831,210
INCOME TAXES	<u>(530,792)</u>	<u>(1,790,891)</u>
NET INCOME	699,899	2,040,319
RETAINED EARNINGS — Beginning of year	<u>4,059,178</u>	<u>2,018,859</u>
RETAINED EARNINGS — End of year	<u>\$ 4,759,077</u>	<u>\$ 4,059,178</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 699,899	\$2,040,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	141,133	133,474
Changes in assets and liabilities:		
Prepaid expenses and other assets	(382,117)	(17,030)
Receivable from Drexel University — Net	(195,853)	(21,895)
Accounts payable and accrued expenses	<u>337,449</u>	<u>158,064</u>
Net cash provided by operating activities	<u>600,511</u>	<u>2,292,932</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	<u>(173,797)</u>	<u>(84,101)</u>
Net cash used in investing activities	<u>(173,797)</u>	<u>(84,101)</u>
NET INCREASE IN CASH	426,714	2,208,831
CASH:		
Beginning of year	<u>6,323,667</u>	<u>4,114,836</u>
End of year	<u>\$6,750,381</u>	<u>\$6,323,667</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ 958,711</u>	<u>\$1,633,522</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

1. ORGANIZATION

Drexel e-Learning, Inc. (the "Company") is a wholly owned for-profit subsidiary of Drexel University ("Drexel") that specializes in marketing and supporting innovative internet-based distance education programs for working professionals and corporations in the U.S. and abroad.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash — Consists of bank deposits available for operations with original maturities of 90 days or less.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition — The Company earns fee revenue for the recruitment of students for Drexel online courses as a percentage of the online course tuition. The fee percentage earned by the Company equals 30% and 35% of the net tuition collected for the courses for the years ended June 30, 2010 and 2009, respectively. The fee revenue is recorded at the time the student actively enrolls in the course.

Receivable From Drexel University — Net — Represents the fees owed to the Company from Drexel University in accordance with the revenue recognition policy stated above as student billing and collections is performed by Drexel University.

Property, Plant, and Equipment — The Company capitalizes property, plant, and equipment that is individually \$2,500 or greater. All other property, plant and equipment is expensed when purchased.

Income Taxes — The Company accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10 (formerly Statement of Financial Accounting Standards (SFAS) No. 109), *Accounting for Income Taxes*.

Recent Accounting Pronouncements — Effective for fiscal years ending after September 15, 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162*, as the sole source of authoritative accounting principles generally accepted in the United States of America for non-SEC registrants. Adoption of this guidance did not have a material effect on the financial statements. References in the footnotes have been updated to be consistent with the codification.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2010 and 2009, consisted of the following:

	2010	2009
Software	\$ 165,721	\$ 179,065
Equipment	205,364	120,200
Furniture and fixtures	138,930	138,930
Leasehold improvements	<u>351,131</u>	<u>351,130</u>
Total property, plant, and equipment, Gross	861,146	789,325
Less accumulated depreciation	<u>(437,593)</u>	<u>(398,436)</u>
Total property, plant, and equipment, Net	<u>\$ 423,553</u>	<u>\$ 390,889</u>

4. RELATED PARTY TRANSACTIONS

Effective July 1, 2007, the Company signed a five-year lease agreement with Academic Properties, Inc. (a wholly owned subsidiary of Drexel) to rent space in One Drexel Plaza. Monthly base rent under the lease agreement was \$9,334 and \$8,656 for the years ended June 30, 2010 and 2009, respectively.

5. 401(k) PLAN

On January 1, 2002, the Company established the Drexel e-Learning 401(k) Plan for the benefit of its employees and will match up to 6% of employee contributions. The Company's contributions amounted to \$244,235 and \$199,625 for the years ended June 30, 2010 and 2009, respectively.

6. PROFIT SHARING PLAN

The Company established a profit sharing plan during the year ended June 30, 2005, which allocates a portion of the profit sharing pool to each of its employees. The profit sharing pool for the years ended June 30, 2010 and 2009, was calculated as 4.5% of revenue plus 15% of Earnings before Interest (EBI) and 3% of revenue plus 10% of EBI, respectively. Expense under the profit sharing plan during the years ended June 30, 2010 and 2009, was \$1,050,474 and \$856,523, respectively. The profit sharing pool will not exceed 25% of the Company's aggregate base compensation in the applicable fiscal year, and no amount paid to an individual employee may exceed 100% of that individual's base pay.

7. INCOME TAXES

Income tax expense for the years ended June 30, 2010 and 2009, are summarized as follows:

	2010	2009
Federal	\$ 365,194	\$1,118,500
State	143,762	418,500
Local	<u>21,836</u>	<u>253,891</u>
	<u>\$ 530,792</u>	<u>\$1,790,891</u>

8. LEASES

Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2010, are:

Fiscal Years	
2011	\$ 137,356
2012	<u>133,480</u>
Total minimum payments	<u>\$ 270,836</u>

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 8, 2010, and determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.

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