Drexel eLearning, Inc.

(A wholly owned subsidiary of Drexel University)

Financial Statements for the
Years Ended June 30, 2014 and 2013, and
Independent Auditor's Report

DREXEL eLEARNING, INC.

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Independent Auditor's Report

To the Board of Directors and
Stockholder of Drexel e-Learning, Inc.

We have audited the accompanying financial statements of Drexel e-Learning, Inc., the "Company," which comprise the balance sheets as of June 30, 2014 and June 30, 2013, and the related statements of income and retained earnings and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drexel e-Learning, Inc. at June 30, 2014 and June 30, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 5, 2014

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DREXEL eLEARNING, INC.

BALANCE SHEETS
AS OF JUNE 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash	$ 5,139,581	$ 5,105,477
Prepaid expenses and other assets	896,058	763,140
Receivable from Drexel University – net	5,498,251	5,530,560
Total current assets	11,533,890	11,399,177
PROPERTY, PLANT and EQUIPMENT – Net	711,155	926,261
DEFERRED TAX ASSET	11,837	-0-
TOTAL	$12,256,882	$12,325,438
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Accounts payable	$ 416,549	$ 326,901
Accrued expenses	1,677,375	1,739,931
Total current liabilities	2,093,924	2,066,832
Deferred tax liability	-0-	98,850
Total liabilities	2,093,924	2,165,682
STOCKHOLDER'S 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	5,934,355	5,931,153
Total Stockholder's equity	10,162,958	10,159,756
TOTAL	$12,256,882	$12,325,438

See accompanying notes to financial statements.

DREXEL eLEARNING, INC.

STATEMENTS OF INCOME and RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

	2014	2013
REVENUE – Fees	$21,993,004	$22,122,240
Total revenues	21,993,004	22,122,240
EXPENSES:		
Payroll, payroll taxes, and employee benefits	8,686,121	8,506,467
Marketing	6,944,320	7,057,527
Non-capital equipment and software	1,380,050	1,831,905
Depreciation	384,001	407,556
Professional fees	2,565,134	1,628,072
Office expenses	478,032	413,675
Rent	506,469	397,418
Taxes - other than income	31,132	31,311
Travel and entertainment	701,068	501,755
Miscellaneous	227,448	305,677
Total expenses	21,903,775	21,081,363
OPERATING INCOME	89,229	1,040,877
INTEREST INCOME	8,267	5,811
INCOME BEFORE INCOME TAXES	97,496	1,046,688
INCOME TAXES	(94,294)	(633,695)
NET INCOME	3,202	412,993
RETAINED EARNINGS – Beginning of year	5,931,153	5,518,160
RETAINED EARNINGS – End of year	$ 5,934,355	$ 5,931,153

See accompanying notes to financial statements.

DREXEL eLEARNING, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 3,202	$ 412,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	384,001	407,556
Changes in assets and liabilities:		
Prepaid expenses and other assets	(144,755)	211,427
Receivable from Drexel University – net	32,309	(105,483)
Accounts payable and accrued expenses	(71,758)	(119,538)
Net cash provided / (used) by operating activities	202,999	806,955
INVESTING ACTIVITIES – Purchases of property, plant & equipment	(168,895)	(338,495)
Net cash used in investing activities	(168,895)	(338,495)
NET INCREASE (DECREASE) IN CASH	34,104	468,460
CASH:		
Beginning of year	5,105,477	4,637,017
End of year	$ 5,139,581	$ 5,105,477
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 245,660	$ 576,611

See accompanying notes to financial statements.

1. ORGANIZATION

Drexel eLearning, 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 (“USGAAP”).

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 GAAP 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 and support of students for Drexel online courses. This revenue is derived from a fixed fee arrangement with Drexel which is supported by a Master Agreement executed between the two parties effective July 1, 2012. The Master Agreement calls for the annual fixed fee amount to be agreed upon in advance of the start of the fiscal year and is payable in four equal quarterly invoices.

Receivable from Drexel University – Net – Represents the fees owed to the Company from Drexel in accordance with the revenue recognition policy stated above.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost less accumulated depreciation. The Company capitalizes items that are individually $2,500 or greater in cost. Expenditures under that threshold or for normal repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Software is depreciated based on a three year useful life. Equipment is depreciated over useful lives ranging from three to five years, and furniture and fixtures generally have useful lives of five years. Leasehold improvements are depreciated over the shorter of their lease term, or their useful life.

Advertising – The Company expenses advertising as it is incurred using various forms of media, including print, online search, email campaigns, radio and outdoor formats. Advertising costs for the years ended June 30, 2014 and 2013 were $6,192,712 and $6,353,971, respectively.

Income Taxes – The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740-10, *Accounting for Income Taxes*. Accordingly, the Company uses the liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes. The Company has deferred tax assets and liabilities that are provided based on the enacted tax rates expected to be in effect at the time such temporary differences are expected to reverse. The Company's Federal, State and City Income Tax Returns for 2011 through 2014 remain subject to examination by the Internal Revenue Service and its state and local counterparts. GAAP requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Company does not believe its financial statements include any uncertain tax positions.

Recent Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update 2014-9, *"Revenue from Contracts with Customers (Topic 606)."* The standard is intended to bring consistency of application and convergence with International Financial Reporting Standards (IFRS) with respect to revenue recognition. The guidance will become effective for annual periods beginning after December 15, 2017. The Company is currently assessing what impact, if any, the standard will have on its revenue recognition practices, but does not believe the impact will be material.

The Company has determined that all other recently issued accounting standards will either not have a material impact on its financial statements, or do not apply to its operations.

3. PROPERTY, PLANT and EQUIPMENT

Property, plant and equipment as of June 30, 2014 and 2013, consisted of the following:

	2014	2013
Software	$ 857,259	$ 718,918
Equipment	574,665	546,249
Furniture and fixtures	295,975	293,837
Leasehold improvements	810,510	810,510
Total property, plant and equipment – gross	2,538,409	2,369,514
Less: accumulated depreciation	(1,827,254)	(1,443,253)
Total property, plant and equipment – net	$ 711,155	$ 926,261

Depreciation and amortization expense associated with property, plant and equipment totaled $384,001 and $407,556 for the years ended June 30, 2014 and 2013, respectively.

4. RELATED PARTY TRANSACTIONS

As noted above, the Company is a wholly owned, for-profit subsidiary of Drexel University (Parent) which provides marketing and support services for an agreed upon fixed-fee each fiscal year. These fees amounted to $21,993,004 and $22,122,240 for the years ended June 30, 2014 and 2013, respectively, and are paid quarterly. Certain nominal operating expenses are cross-charged between Parent and the Company and are settled quarterly on a net basis. As of June 30, 2014 and 2013, a net receivable due from the Parent amounted to $5,498,251 and $5,530,560.

On June 13, 2005, 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. This lease has been amended four times, most recently as of December 2011 and covers six specific spaces within the property. Monthly base rent under the amended lease agreement was $13,914 and $13,510 for the years ended June 30, 2014 and 2013, respectively. The lease expires on June 30, 2016.

5. 401(k) PLAN

The Company established the Drexel eLearning 401(k) Plan for the benefit of its employees. Upon completion of one month of service, the Plan provides eligible employees with an opportunity to make tax deferred contributions into a long-term investment and savings program. All employees over the age of 21 are eligible to participate and contribute up to 25% of pre-tax earnings, subject to Internal Revenue Service limitations. The Company matches up to the first 6% of such employee contributions. The Company's contributions amounted to $252,625 and $328,842 for the years ended June 30, 2014 and 2013, respectively.

6. PROFIT SHARING PLAN

The Company has established a profit sharing plan that allocates a portion of a pre-approved profit sharing pool to each of its employees. The profit sharing pool for the year ended June 30, 2014 was calculated as 4% of revenue plus 22.5% of Earnings before Interest and Taxes ("EBIT"); while the pool was calculated as 4% of revenue and 25% of EBIT for the year ended June 30, 2013. Under the terms of this plan, 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. The expense provided under the profit sharing plan during the plan years ended June 30, 2014 and 2013 was $899,455 and $1,145,109, respectively.

7. INCOME TAXES

The components of income tax expense for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	2013
Current:		
Federal	$ 134,320	$ 340,072
State	47,994	132,684
Local	22,667	62,089
	204,981	534,845
Deferred:		
Federal	(110,687)	98,850
Total	$ 94,294	$ 633,695

During 2013, management identified an error in the accounting for deferred income taxes and recorded an adjustment of $87,533, of which $57,641 and $29,892 related to 2012 and years prior to 2012, respectively, to provide for a deferred tax liability and related expense on the cumulative temporary difference between book and tax depreciation expense. The correction of the error was recorded in 2013 as it was not considered material to either that year or previous issued financial statements.

A reconciliation of income tax computed at the U.S. statutory rate to the effective income tax rate is as follows:

	2014	**2013**
Statutory U.S. Federal income tax rate	35.0%	35.0%
State income taxes, net of Federal benefit	9.7	8.2
Local income taxes, net of Federal benefits	0.9	3.8
Non-deductible expenses	51.3	13.4
Other	1.4	0.1
Effective income tax rate	98.3%	60.5%

8. LEASES

Future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at June 30, 2014 are:

Fiscal Years	**Amount**
2015	$ 182,743
2016	187,903
2017	8,074
2018	-
2019	-
Total minimum payments	$ 378,720

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from June 30, 2014 through September 5, 2014, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.