

# *Drexel e-Learning, Inc.*

*Financial Statements as of and for the Years  
Ended June 30, 2005 and 2004, and  
Independent Auditors' Report*

# DREXEL e-LEARNING, INC.

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004:	
Balance Sheets	2
Statements of Operations	3
Statements of Cash Flows	4
Notes to Financial Statements	5-7



Deloitte & Touche LLP  
1700 Market Street  
Philadelphia, PA 19103-3984  
USA

Tel: +1 215 246 2300  
Fax: +1 215 569 2441  
www.deloitte.com

## 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, 2005 and 2004, 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, 2005 and 2004, 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.

*Deloitte & Touche LLP*

November 18, 2005

# DREXEL e-LEARNING, INC.

## BALANCE SHEETS

AS OF JUNE 30, 2005 AND 2004

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,975,502	\$ 1,334,109
Prepaid expenses and other assets	58,419	37,005
Receivable from Drexel University	<u>1,657,081</u>	<u>910,061</u>
Total current assets	4,691,002	2,281,175
PROPERTY, PLANT AND EQUIPMENT—NET	<u>166,519</u>	<u>138,164</u>
<b>TOTAL</b>	<u>\$ 4,857,521</u>	<u>\$ 2,419,339</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,142,382	\$ 520,603
Line of credit to Drexel University		195,000
Capital lease obligation	<u>49,691</u>	<u>74,077</u>
Total liabilities	<u>1,192,073</u>	<u>789,680</u>
<b>STOCKHOLDERS' EQUITY:</b>		
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
Accumulated deficit	<u>(563,155)</u>	<u>(2,598,944)</u>
Total stockholders' equity	<u>3,665,448</u>	<u>1,629,659</u>
<b>TOTAL</b>	<u>\$ 4,857,521</u>	<u>\$ 2,419,339</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUE—Fees	\$ 7,480,527	\$ 4,119,302
Total revenue	<u>7,480,527</u>	<u>4,119,302</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	2,646,259	2,276,133
Buyout of ownership commitment	1,113,559	
Marketing	892,920	785,966
Equipment and software	177,580	135,443
Depreciation	37,894	2,496
Professional fees	308,550	196,308
Office expenses	61,819	37,680
Rent	114,387	69,429
Travel and entertainment	38,801	27,325
Taxes	21,403	9,837
Miscellaneous	67,842	31,817
Total expenses	<u>5,481,014</u>	<u>3,572,434</u>
OPERATING INCOME	1,999,513	546,868
INTEREST INCOME	37,382	1,671
INTEREST EXPENSE	<u>(1,106)</u>	<u>(1,146)</u>
INCOME BEFORE INCOME TAXES	2,035,789	547,393
INCOME TAXES	<u>                    </u>	<u>                    </u>
NET INCOME	2,035,789	547,393
ACCUMULATED DEFICIT—Beginning of year	<u>(2,598,944)</u>	<u>(3,146,337)</u>
ACCUMULATED DEFICIT—End of year	<u>\$ (563,155)</u>	<u>\$ (2,598,944)</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Net income	\$ 2,035,789	\$ 547,393
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	37,894	2,496
Changes in assets and liabilities:		
Prepaid expenses and other assets	(21,414)	(18,781)
Receivable from Drexel University	(747,020)	(1,119,423)
Accounts payable and accrued expenses	621,779	265,129
Net cash provided by (used in) operating activities	<u>1,927,028</u>	<u>(323,186)</u>
INVESTING ACTIVITIES—Purchases of property, plant and equipment		
	<u>(66,249)</u>	<u>(66,583)</u>
Net cash used in investing activities	<u>(66,249)</u>	<u>(66,583)</u>
FINANCING ACTIVITIES:		
Repayment of line of credit	(195,000)	
Payments of capital lease	(24,386)	
Net borrowings under line of credit		195,000
Capital contributions by Drexel		806,571
Net cash (used in) provided by financing activities	<u>(219,386)</u>	<u>1,001,571</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,641,393	611,802
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,334,109</u>	<u>722,307</u>
End of year	<u>\$ 2,975,502</u>	<u>\$ 1,334,109</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 2,252</u>	<u>\$ -</u>
Acquisition of property under capital lease	<u>\$ -</u>	<u>\$ 74,077</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

---

### 1. ORGANIZATION

Drexel e-Learning, Inc. (the "Company"), a wholly owned for-profit subsidiary of Drexel University ("Drexel"), specializes in 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 and Cash Equivalents**—These are 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 either a flat fee or a percentage of the online course tuition. Effective July 1, 2005, the percentage fee earned by the Company has decreased to 35% of the net tuition collected for the courses. The fee revenue is recorded at the time the student actively enrolls in the course.

**Property, Plant & Equipment**—The Company capitalizes property, plant & equipment that is individually \$5,000 or greater. All other property, plant & equipment is expensed when purchased.

### 3. PROPERTY, PLANT, AND EQUIPMENT

For the years ended June 30, 2005 and 2004, property, plant, and equipment consisted of the following:

	2005	2004
Software	\$ 134,256	\$ 94,077
Equipment	✓ 5,385	5,385
Furniture and fixtures	✓ 33,250	19,250
Leasehold improvements	✓ 34,018	21,948
	<u>206,909</u>	<u>140,660</u>
Total property, plant, and equipment		
	✓ (40,390)	(2,496)
Less accumulated depreciation		
	<u>\$ 166,519</u>	<u>\$ 138,164</u>

#### **4. RELATED PARTY TRANSACTIONS**

The Company rented office space at 3300 Market Street from Drexel through November 14, 2003. Monthly base rent under the lease agreement was approximately \$2,000. Beginning November 15, 2003, the Company signed a two-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 is approximately \$10,279.

#### **5. 401(K) PLAN**

The Company established the Drexel e-Learning 401(k) Plan on January 1, 2002 for the benefit of its employees. The Company will match up to 6% of employee contributions. The Company contributed \$108,939 and \$101,606 in employer matches during the years ended June 30, 2005 and 2004, respectively.

#### **6. PROFIT SHARING PLAN**

The Company established a profit sharing plan during the year ended June 30, 2005 that allocates a portion of the profit sharing pool to each of its employees. The profit sharing pool for the year ended June 30, 2005 was calculated as 3% of revenue plus 5% of earnings before interest and taxes ("EBIT"). Expense under the profit sharing plan during the year ended June 30, 2005 was \$383,465. The profit sharing pool for the years ending June 30, 2006 and 2007 will be calculated as 4% and 3% of revenue, respectively, plus 15% of EBIT. 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**

No deferred tax benefit has been recognized because a 100% valuation allowance has been recorded.

#### **8. CAPITAL CONTRIBUTIONS**

On September 25, 2002, Drexel agreed to convert the then outstanding debt balance of \$1,748,164 due from the Company to Common Stock and Additional Paid-In Capital. Drexel will provide up to \$4,000,000 of capital funding to the Company plus start-up costs of \$228,602, for a total of \$4,228,602. At June 30, 2005 and 2004, Drexel had provided \$4,228,602 of capital funding to the Company, of which \$0 and \$806,571 was contributed during the years ended June 30, 2005 and 2004, respectively.

#### **9. LINE OF CREDIT**

On September 24, 2003, Drexel agreed to make available a \$750,000 line of credit to the Company. Interest on the unpaid balance will accrue at an annual rate equal to LIBOR, and the unpaid principal is payable in full on October 31, 2005. The balance outstanding at June 30, 2005 and 2004 was \$0 and \$195,000, respectively.



## 10. LEASES

Future minimum lease payments under operating and capital leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2005, are:

<b>Fiscal Year</b>	<b>Operating</b>	<b>Capital</b>
2006	\$ 76,463	\$ 25,000
2007	78,393	25,000
2008	80,745	
2009	<u>30,614</u>	<u>          </u>
Total minimum payments	<u>\$ 266,215</u>	50,000
Less—Interest on capital leases		<u>309</u>
Total principal payable on capital leases		<u>\$ 49,691</u>

\* \* \* \* \*