

# *Drexel e-Learning, Inc.*

*Financial Statements as of and for the Years  
Ended June 30, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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*

October 22, 2007

**BALANCE SHEETS**  
**AS OF JUNE 30, 2007 AND 2006**

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$4,349,100	\$3,586,117
Prepaid expenses and other assets	392,040	281,295
Receivable from Drexel University (Net)	<u>2,342,476</u>	<u>1,904,958</u>
Total current assets	7,083,616	5,772,370
PROPERTY, PLANT AND EQUIPMENT—Net	<u>210,765</u>	<u>138,595</u>
<b>TOTAL</b>	<u><u>\$7,294,381</u></u>	<u><u>\$5,910,965</u></u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$2,028,945	\$1,398,765
Capital lease obligation	<u>-</u>	<u>25,000</u>
Total liabilities	<u>2,028,945</u>	<u>1,423,765</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
Retained Earnings	<u>1,036,833</u>	<u>258,597</u>
Total stockholders' equity	<u>5,265,436</u>	<u>4,487,200</u>
<b>TOTAL</b>	<u><u>\$7,294,381</u></u>	<u><u>\$5,910,965</u></u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUE—Fees	\$ 10,716,588	\$ 7,481,645
Total revenue	<u>10,716,588</u>	<u>7,481,645</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	4,126,298	3,271,014
Marketing	3,905,020	2,253,233
Non-capital equipment and software	379,632	241,977
Depreciation	61,050	47,474
Professional fees	488,166	362,591
Office expenses	136,524	78,132
Rent	156,148	142,654
Travel and entertainment	29,800	52,555
Taxes	90,818	40,210
Miscellaneous	120,106	88,922
Bad debt expenses	13,583	-
Total expenses	<u>9,507,145</u>	<u>6,578,762</u>
OPERATING INCOME	1,209,443	902,883
INTEREST INCOME	165,664	124,872
INTEREST EXPENSE	-	(1,062)
INCOME BEFORE INCOME TAXES	1,375,107	1,026,693
INCOME TAXES	<u>(596,871)</u>	<u>(204,941)</u>
NET INCOME	778,236	821,752
RETAINED EARNINGS (DEFICIT)—Beginning of year	<u>258,597</u>	<u>(563,155)</u>
REAINED EARNINGS —End of year	<u>\$ 1,036,833</u>	<u>\$ 258,597</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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	2007	2006
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 778,236	\$ 821,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61,050	47,474
Changes in assets and liabilities:		
Prepaid expenses and other assets	(110,745)	(222,876)
Receivable from Drexel University (Net)	(437,518)	(247,877)
Accounts payable and accrued expenses	<u>630,180</u>	<u>256,383</u>
Net cash provided by operating activities	<u>921,203</u>	<u>654,856</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	<u>(133,220)</u>	<u>(19,550)</u>
Net cash used in investing activities	<u>(133,220)</u>	<u>(19,550)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments of capital lease	<u>(25,000)</u>	<u>(24,691)</u>
Net cash used in financing activities	<u>(25,000)</u>	<u>(24,691)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	762,983	610,615
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>3,586,117</u>	<u>2,975,502</u>
End of year	<u>\$4,349,100</u>	<u>\$3,586,117</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ -	\$ 1,062
Cash paid for income taxes	\$ 275,493	\$ -

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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### 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 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 a percentage of the online course tuition. The fee percentage earned by the Company equals 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 and Equipment**—The Company capitalizes property, plant, and equipment that is individually \$5,000 or greater. All other property, plant and equipment is expensed when purchased.

### 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2007 and 2006, consisted of the following:

	2007	2006
Software	\$ 174,056	\$ 153,806
Equipment	20,322	5,385
Furniture and fixtures	33,250	33,250
Leasehold improvements	<u>132,050</u>	<u>34,018</u>
Total property, plant and equipment	359,678	226,459
Less: accumulated depreciation	<u>(148,913)</u>	<u>(87,864)</u>
Net property, plant and equipment	<u>\$ 210,765</u>	<u>\$ 138,595</u>

**4. RELATED PARTY TRANSACTIONS**

Effective December 1, 2005 the Company signed a three-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 \$6,413.

**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 \$171,432 and \$128,576 for the years ended June 30, 2007 and 2006, 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, 2006, was calculated as 4% of revenue plus 15% of earnings before interest and taxes ("EBIT"). The profit sharing pool for the year ended June 30, 2007, was calculated as 3% of revenue plus 15% of EBIT. An additional \$120,000 was also applied to the profit sharing pool during 2007 to offset the effect of the Company's investment in a marketing campaign. Expense under the profit sharing plan during the years ended June 30, 2007 and 2006, was \$668,378 and \$463,545, 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, 2007 and 2006 was \$596,871 and \$204,941, respectively. For the year ended June 30, 2006, the Company utilized a net operating loss carryforward from the prior year in the amount of \$531,134.

**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, 2007, are:

<b>Fiscal Year</b>	
2008	\$ 80,745
2009	<u>30,614</u>
<b>Total minimum payments</b>	<b><u>\$ 111,359</u></b>

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