

# *Drexel e-Learning, Inc.*

*Financial Statements as of and for the Years  
Ended June 30, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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 28, 2008

# DREXEL e-LEARNING, INC.

## BALANCE SHEETS AS OF JUNE 30, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,114,836	\$ 4,349,100
Prepaid expenses and other assets	331,903	392,040
Receivable from Drexel University (Net)	<u>3,230,019</u>	<u>2,342,476</u>
Total current assets	7,676,758	7,083,616
PROPERTY, PLANT AND EQUIPMENT—Net	<u>440,262</u>	<u>210,765</u>
<b>TOTAL</b>	<u>\$ 8,117,020</u>	<u>\$ 7,294,381</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ <u>1,869,558</u>	\$ <u>2,028,945</u>
Total liabilities	<u>1,869,558</u>	<u>2,028,945</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>2,018,859</u>	<u>1,036,833</u>
Total stockholders' equity	<u>6,247,462</u>	<u>5,265,436</u>
<b>TOTAL</b>	<u>\$ 8,117,020</u>	<u>\$ 7,294,381</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUE—Fees	\$ 12,520,212	\$ 10,716,588
Total revenue	<u>12,520,212</u>	<u>10,716,588</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	4,843,146	4,126,298
Marketing	4,336,810	3,905,020
Non-capital equipment and software	545,011	379,632
Depreciation	116,049	61,050
Professional fees	496,757	488,166
Office expenses	151,949	136,524
Rent	221,523	156,148
Travel and entertainment	44,276	29,800
Tax	25,133	14,164
Miscellaneous	150,221	120,106
Bad debt expenses	17,531	13,583
Total expenses	<u>10,948,406</u>	<u>9,430,491</u>
OPERATING INCOME	1,571,806	1,286,097
INTEREST INCOME	123,473	165,664
INTEREST EXPENSE	-	-
INCOME BEFORE INCOME TAXES	1,695,279	1,451,761
INCOME TAXES	<u>(713,253)</u>	<u>(673,525)</u>
NET INCOME	982,026	778,236
RETAINED EARNINGS —Beginning of year	<u>1,036,833</u>	<u>258,597</u>
RETAINED EARNINGS —End of year	<u>\$ 2,018,859</u>	<u>\$ 1,036,833</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 982,026	\$ 778,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	116,049	61,050
Changes in assets and liabilities:		
Prepaid expenses and other assets	60,137	(110,745)
Receivable from Drexel University (Net)	(887,543)	(437,518)
Accounts payable and accrued expenses	(159,387)	630,180
Net cash provided by operating activities	<u>111,282</u>	<u>921,203</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	<u>(345,546)</u>	<u>(133,220)</u>
Net cash used in investing activities	<u>(345,546)</u>	<u>(133,220)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments of capital lease	<u>-</u>	<u>(25,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(25,000)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(234,264)</b>	<b>762,983</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>4,349,100</u>	<u>3,586,117</u>
End of year	<u>\$ 4,114,836</u>	<u>\$ 4,349,100</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 1,219,386	\$ 275,493

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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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 are expensed when purchased.

**Reclassification**—Certain prior-year amounts have been reclassified to conform to the current year presentation. Local income taxes of \$76,654 were reclassified out of tax expenses and were moved to income tax. The reclassification has no impact on net income.

### 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2008 and 2007, consisted of the following:

	2008	2007
Software	\$ 179,065	\$ 174,056
Equipment	66,997	20,322
Furniture and fixtures	110,756	33,250
Leasehold improvements	<u>348,406</u>	<u>132,050</u>
Total property, plant and equipment	705,224	359,678
Less: accumulated depreciation	<u>(264,962)</u>	<u>(148,913)</u>
Net property, plant and equipment	<u>\$ 440,262</u>	<u>\$ 210,765</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 is \$8,656.

### 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 \$197,448 and \$171,432 for the years ended June 30, 2008 and 2007, 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, 2007, was calculated as 3% of revenue plus 15% of earnings before interest and taxes ("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. The profit sharing pool for the year ended June 30, 2008, was calculated as 3% of revenue plus 10% of EBIT. Expense under the profit sharing plan during the years ended June 30, 2008 and 2007, was \$763,055 and \$668,378, 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 taxes for the years ended June 30, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Federal	\$ 453,000	\$ 436,866
State	186,500	160,005
Local	<u>73,753</u>	<u>76,654</u>
	<u>\$ 713,253</u>	<u>\$ 673,525</u>



For the years ended June 30, 2008 and 2007, the Company's effective tax rate varied from the statutory federal income tax rate principally due to non-deductible expenses, primarily business meals and entertainment.

**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, 2008, are:

<b>Fiscal Year</b>	
2009	\$ 106,987
2010	110,196
2011	113,502
2012	<u>116,907</u>
<b>Total minimum payments</b>	<b><u>\$ 447,592</u></b>

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