

Drexel e-Learning, Inc.

Financial Statements as of and for the
Years Ended June 30, 2012 and 2011, and
Independent Auditors' Report

DREXEL e-LEARNING, INC.

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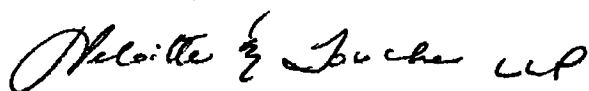
INDEPENDENT AUDITORS' REPORT

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, 2012 and 2011, 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, 2012 and 2011, 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 9, 2012

DREXEL e-LEARNING, INC.

BALANCE SHEETS

AS OF JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 4,637,017 | \$ 6,529,791 |
| Prepaid expenses and other assets | 974,567 | 513,892 |
| Receivable from Drexel University — net | <u>5,425,077</u> | <u>3,582,410</u> |
| Total current assets | 11,036,661 | 10,626,093 |
| PROPERTY, PLANT, AND EQUIPMENT — Net | <u>995,322</u> | <u>1,007,772</u> |
| TOTAL | <u>\$12,031,983</u> | <u>\$11,633,865</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Accounts payable | \$ 294,008 | \$ 114,462 |
| Accrued expenses | <u>1,991,212</u> | <u>2,153,644</u> |
| Total liabilities | <u>2,285,220</u> | <u>2,268,106</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>5,518,160</u> | <u>5,137,156</u> |
| Total stockholders' equity | <u>9,746,763</u> | <u>9,365,759</u> |
| TOTAL | <u>\$12,031,983</u> | <u>\$11,633,865</u> |

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| REVENUE — Fees | \$21,700,576 | \$18,113,651 |
| Total revenues | <u>21,700,576</u> | <u>18,113,651</u> |
| EXPENSES: | | |
| Payroll, payroll taxes, and employee benefits | 7,969,329 | 6,981,676 |
| Marketing | 8,656,805 | 7,684,908 |
| Non-capital equipment and software | 1,206,008 | 959,871 |
| Depreciation | 365,210 | 246,918 |
| Professional fees | 922,747 | 505,238 |
| Office expenses | 361,114 | 231,810 |
| Rent | 351,905 | 306,457 |
| Other tax expense, non-income tax | 30,716 | 25,645 |
| Travel and entertainment | 516,943 | 357,222 |
| Miscellaneous | <u>368,232</u> | <u>257,399</u> |
| Total expenses | <u>20,749,009</u> | <u>17,557,144</u> |
| OPERATING INCOME | 951,567 | 556,507 |
| INTEREST INCOME | <u>6,905</u> | <u>9,974</u> |
| INCOME BEFORE INCOME TAXES | 958,472 | 566,481 |
| INCOME TAXES | <u>(577,468)</u> | <u>(188,402)</u> |
| NET INCOME | 381,004 | 378,079 |
| RETAINED EARNINGS — Beginning of year | <u>5,137,156</u> | <u>4,759,077</u> |
| RETAINED EARNINGS — End of year | <u>\$ 5,518,160</u> | <u>\$ 5,137,156</u> |

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net income | \$ 381,004 | \$ 378,079 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 365,210 | 246,918 |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | (460,675) | 217,158 |
| Receivable from Drexel University — net | (1,842,667) | (134,643) |
| Accounts payable and accrued expenses | <u>17,114</u> | <u>(96,965)</u> |
| Net cash (used in)/provided by operating activities | <u>(1,540,014)</u> | <u>610,547</u> |
| INVESTING ACTIVITIES — Purchases of property, plant, and equipment | | |
| | <u>(352,760)</u> | <u>(831,137)</u> |
| Net cash used in investing activities | <u>(352,760)</u> | <u>(831,137)</u> |
| NET DECREASE IN CASH | (1,892,774) | (220,590) |
| CASH: | | |
| Beginning of year | <u>6,529,791</u> | <u>6,750,381</u> |
| End of year | <u>\$ 4,637,017</u> | <u>\$ 6,529,791</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for income taxes | | |
| | <u>\$ 495,000</u> | <u>\$ 30,000</u> |

See notes to financial statements.

DREXEL e-LEARNING, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 ("GAAP").

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 of students for Drexel online courses. Historically, this fee revenue has been provided under a revenue sharing arrangement with Drexel, whereby the Company has received 30% of all net tuition collected for online courses. This arrangement was evidenced by Master Agreement between the parties and remained in effect through the end of the Company's fiscal year ended June 30, 2011.

Effective July 1, 2011, Department of Education regulations repealed a safe harbor to the "incentive compensation" rule that permitted tuition sharing between an institution and affiliated third parties. Accordingly, in compliance with the new regulation, the Company and Drexel executed a revised Master Agreement effective for the fiscal year ended June 30, 2012 that now compensates the Company on a fixed fee arrangement for the same set of services as provided in past years.

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

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, equipment, and furniture and fixtures generally have useful lives of three, five and five years, respectively. 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, 2012 and 2011 were \$8,077,402 and \$7,413,646, respectively

Income Taxes — The Company accounts for income taxes in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740-10, *Accounting for Income Taxes*. The Company’s Federal, State and City Income Tax Returns for 2012, 2011, 2010, and 2009, remain subject to examination by the Internal Revenue Service. 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.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2012 and 2011, consisted of the following:

| | 2012 | 2011 |
|--|--------------------|---------------------|
| Software | \$ 430,621 | \$ 328,016 |
| Equipment | 492,551 | 375,896 |
| Furniture and fixtures | 293,837 | 264,558 |
| Leasehold improvements | <u>814,010</u> | <u>710,656</u> |
| Total property, plant, and equipment — gross | 2,031,019 | 1,679,126 |
| Less accumulated depreciation | <u>(1,035,697)</u> | <u>(671,354)</u> |
| Total property, plant, and equipment — net | <u>\$ 995,322</u> | <u>\$ 1,007,772</u> |

Depreciation and amortization expense associated with property, plant and equipment totaled \$365,210 and \$246,918 for the years ended June 30, 2012 and 2011, respectively. In the fiscal year 2012, the Company disposed of the assets in the amount of \$2,123 net of \$867 of accumulated depreciation.

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. During the current fiscal year, this agreement was amended to include the rental of a fifth space within One Drexel Plaza. Monthly base rent under the lease agreement was \$13,155 and \$12,165 for the years ended June 30, 2012 and 2011, respectively.

5. 401(k) PLAN

The Company has established the Drexel eLearning 401(k) Plan for the benefit of its employees. Upon completion of one month 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 then matches up to the first 6% of such employee contributions. The Company’s contributions amounted to \$272,761 and \$249,480 for the years ended June 30, 2012 and 2011, 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 years ended June 30, 2012 and 2011 was calculated as 4% of revenue plus 25% of Earnings before Interest "(EBIT)" and 4.5% of revenue plus 30% of EBIT, respectively. Under the terms of the 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, 2012 and 2011 was \$1,105,887 and \$985,508, respectively.

7. INCOME TAXES

Income tax expense for the years ended June 30, 2012 and 2011, are summarized as follows:

| | 2012 | 2011 |
|---------|-------------------|-------------------|
| Federal | \$ 364,654 | \$ 110,747 |
| State | 145,897 | 58,875 |
| Local | <u>66,917</u> | <u>18,780</u> |
| | <u>\$ 577,468</u> | <u>\$ 188,402</u> |

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

| | 2012 | 2011 |
|--|---------------|---------------|
| Statutory U.S. Federal income tax rate | 35.0 % | 35.0 % |
| State income taxes, net of Federal benefit | 9.9 | 6.8 |
| Local income taxes, net of Federal benefit | 4.5 | 2.2 |
| Non-deductible expenses (M-1 items) | 9.8 | (10.7) |
| Other | <u>1.0</u> | <u>0.0</u> |
| Effective income tax rate | <u>60.2 %</u> | <u>33.3 %</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, 2012, are:

| Fiscal Years | |
|------------------------|-------------------|
| 2013 | \$ 176,792 |
| 2014 | 177,371 |
| 2015 | 171,978 |
| 2016 | 177,137 |
| 2017 | - |
| Total minimum payments | <u>\$ 703,278</u> |

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events to June 30, 2012 through November 9, 2012, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.

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