

Drexel e-Learning, Inc.

Financial Statements as of and for the
Years Ended June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 21, 2011

DREXEL e-LEARNING, INC.

BALANCE SHEETS

AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 6,529,791	\$ 6,750,381
Prepaid expenses and other assets	513,892	731,050
Receivable from Drexel University — net	<u>3,582,410</u>	<u>3,447,767</u>
Total current assets	10,626,093	10,929,198
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>1,007,772</u>	<u>423,553</u>
TOTAL	<u>\$ 11,633,865</u>	<u>\$ 11,352,751</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 114,462	\$ 340,170
Accrued expenses	<u>2,153,644</u>	<u>2,024,901</u>
Total liabilities	<u>2,268,106</u>	<u>2,365,071</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>5,137,156</u>	<u>4,759,077</u>
Total stockholders' equity	<u>9,365,759</u>	<u>8,987,680</u>
TOTAL	<u>\$ 11,633,865</u>	<u>\$ 11,352,751</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUE:		
Fees	\$ 18,113,651	\$16,677,315
Total Revenues	<u>18,113,651</u>	<u>16,677,315</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	6,981,676	\$ 6,532,009
Marketing	7,684,908	6,833,475
Non-capital equipment and software	959,871	728,162
Depreciation	246,918	141,133
Professional fees	505,238	364,065
Office expenses	231,810	180,791
Rent	306,457	239,370
Other tax expense, non-income tax	25,645	23,619
Travel and entertainment	357,222	223,695
Miscellaneous	257,399	194,706
Total Expenses	<u>17,557,144</u>	<u>15,461,025</u>
OPERATING INCOME	556,507	1,216,290
INTEREST INCOME	<u>9,974</u>	<u>14,401</u>
INCOME BEFORE INCOME TAXES	566,481	1,230,691
INCOME TAXES	<u>(188,402)</u>	<u>(530,792)</u>
NET INCOME	378,079	699,899
RETAINED EARNINGS — Beginning of year	<u>4,759,077</u>	<u>4,059,178</u>
RETAINED EARNINGS — End of year	<u>\$ 5,137,156</u>	<u>\$ 4,759,077</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES:		
Net income	\$ 378,079	\$ 699,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	246,918	141,133
Changes in assets and liabilities:		
Prepaid expenses and other assets	217,158	(382,117)
Receivable from Drexel University — Net	(134,643)	(195,853)
Accounts payable and accrued expenses	<u>(96,965)</u>	<u>337,449</u>
Net cash provided by operating activities	<u>610,547</u>	<u>600,511</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	<u>(831,137)</u>	<u>(173,797)</u>
Net cash used in investing activities	<u>(831,137)</u>	<u>(173,797)</u>
NET (DECREASE)/INCREASE IN CASH	(220,590)	426,714
CASH:		
Beginning of year	<u>6,750,381</u>	<u>6,323,667</u>
End of year	<u>\$ 6,529,791</u>	<u>\$ 6,750,381</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ 30,000</u>	<u>\$ 958,711</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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 as a percentage of the online course tuition. The fee percentage earned by the Company equals 30% of the net tuition collected for the courses for the years ended June 30, 2011 and 2010, respectively. The fee revenue is recorded at the time the student actively enrolls in the course.

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

Property, Plant, and Equipment — The Company capitalizes property, plant, and equipment that is individually \$2,500 or greater. All other property, plant and equipment is expensed when purchased.

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 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.

Reclassifications - Certain amounts within the 2010 Balance Sheet and Statement of Operations have been reclassified to conform with 2011 presentation. These changes relate to the presentation of accounts payable, accrued expenses and certain expense line items within the Statement of Operations. The current presentation of the Balance Sheet and Statement of Operations is more reflective of the core

operations of the Company. Such amounts are not material in nature and do not impact Net Income nor any of the other totals on the Balance Sheet or Statement of Operations.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2011 and 2010, consisted of the following:

	2011	2010
Software	\$ 328,016	\$ 165,721
Equipment	375,896	205,364
Furniture and fixtures	264,558	138,930
Leasehold improvements	<u>710,655</u>	<u>351,131</u>
Total property, plant, and equipment, Gross	1,679,126	861,146
Less accumulated depreciation	<u>(671,354)</u>	<u>(437,593)</u>
Total property, plant, and equipment, Net	<u>\$ 1,007,772</u>	<u>\$ 423,553</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. During the current fiscal year this agreement was amended to include the rental of a fourth space within One Drexel Plaza. Monthly base rent under the lease agreement was \$12,165 and \$9,334 for the years ended June 30, 2011 and 2010, respectively.

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 \$249,480 and \$244,235 for the years ended June 30, 2011 and 2010, respectively.

6. PROFIT SHARING PLAN

The Company established a profit sharing plan during the year ended June 30, 2005, which allocates a portion of the profit sharing pool to each of its employees. The profit sharing pool for the years ended June 30, 2011 and 2010, was calculated as 4.5% of revenue plus 30% of Earnings before Interest (EBI) and 4.5% of revenue plus 15% of EBI, respectively. Expense under the profit sharing plan during the years ended June 30, 2011 and 2010, was \$985,508 and \$1,050,474, 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, 2011 and 2010, are summarized as follows:

	2011	2010
Federal	\$ 110,747	\$ 365,194
State	58,875	143,762
Local	<u>18,780</u>	<u>21,836</u>
	<u>\$ 188,402</u>	<u>\$ 530,792</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, 2011, are:

Fiscal Years

2012	\$165,061
2013	169,572
2014	169,936
2015	164,319
2016	169,249
Total minimum payments	<u>\$ 838,137</u>

9. SUBSEQUENT EVENTS

On August 22, 2011 the Company entered into a new Master Agreement with Drexel, effective July 1, 2011, which superseded in its entirety the existing Master Agreement dated April 17, 2003 and its subsequent amendments. Under the terms of the new Agreement, the Company will receive a fixed fee for its services, rather than a percentage of net tuition collected for online course enrollment. As provided for in the Agreement, in advance of each ensuing year, the fixed fee will be will be reset as mutually agreed upon.

The Company has evaluated subsequent events to June 30, 2011 through November 21, 2011, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.

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