

Drexel e-Learning, Inc.

*Financial Statements as of and for the Years
Ended June 30, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, 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 16, 2006

DREXEL e-LEARNING, INC.

BALANCE SHEETS AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$3,586,117	\$2,975,502
Prepaid expenses and other assets	281,295	58,419
Receivable from Drexel University	<u>1,904,958</u>	<u>1,657,081</u>
Total current assets	5,772,370	4,691,002
PROPERTY, PLANT, AND EQUIPMENT—Net	<u>138,595</u>	<u>166,519</u>
TOTAL	<u>\$5,910,965</u>	<u>\$4,857,521</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	\$1,398,765	\$1,142,382
Capital lease obligation	<u>25,000</u>	<u>49,691</u>
Total liabilities	<u>1,423,765</u>	<u>1,192,073</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
Accumulated surplus (deficit)	<u>258,597</u>	<u>(563,155)</u>
Total stockholders' equity	<u>4,487,200</u>	<u>3,665,448</u>
TOTAL	<u>\$5,910,965</u>	<u>\$4,857,521</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUE—Fees	\$ 7,481,645	\$ 7,480,527
Total revenue	<u>7,481,645</u>	<u>7,480,527</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	3,271,014	3,759,818
Marketing	2,253,233	892,920
Non-capital equipment and software	241,977	177,580
Depreciation	47,474	37,894
Professional fees	362,591	308,550
Office expenses	78,132	61,819
Rent	142,654	114,387
Travel and entertainment	52,555	38,801
Taxes	40,210	21,403
Miscellaneous	88,922	67,842
Total expenses	<u>6,578,762</u>	<u>5,481,014</u>
OPERATING INCOME	902,883	1,999,513
INTEREST INCOME	124,872	37,382
INTEREST EXPENSE	<u>(1,062)</u>	<u>(1,106)</u>
INCOME BEFORE INCOME TAXES	1,026,693	2,035,789
INCOME TAXES	<u>(204,941)</u>	<u> </u>
NET INCOME	821,752	2,035,789
ACCUMULATED DEFICIT—Beginning of year	<u>(563,155)</u>	<u>(2,598,944)</u>
ACCUMULATED SURPLUS (DEFICIT)—End of year	<u>\$ 258,597</u>	<u>\$ (563,155)</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES:		
Net income	\$ 821,752	\$2,035,789
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	47,474	37,894
Changes in assets and liabilities:		
Prepaid expenses and other assets	(222,876)	(21,414)
Receivable from Drexel University	(247,877)	(747,020)
Accounts payable and accrued expenses	<u>256,383</u>	<u>621,779</u>
Net cash provided by operating activities	<u>654,856</u>	<u>1,927,028</u>
INVESTING ACTIVITIES—Purchases of property, plant, and equipment	<u>(19,550)</u>	<u>(66,249)</u>
Net cash used in investing activities	<u>(19,550)</u>	<u>(66,249)</u>
FINANCING ACTIVITIES:		
Repayment of line of credit		(195,000)
Payments of capital lease	<u>(24,691)</u>	<u>(24,386)</u>
Net cash used in financing activities	<u>(24,691)</u>	<u>(219,386)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	610,615	1,641,393
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>2,975,502</u>	<u>1,334,109</u>
End of year	<u>\$3,586,117</u>	<u>\$2,975,502</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 1,062</u>	<u>\$ 2,252</u>

See notes to financial statements.

DREXEL e-LEARNING, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment for the years ended June 30, 2006 and 2005, consisted of the following:

	2006	2005
Software	\$ 153,806	\$ 134,256
Equipment	5,385	5,385
Furniture and fixtures	33,250	33,250
Leasehold improvements	<u>34,018</u>	<u>34,018</u>
Total property, plant, and equipment	226,459	206,909
Less accumulated depreciation	<u>(87,864)</u>	<u>(40,390)</u>
	<u>\$ 138,595</u>	<u>\$ 166,519</u>

4. RELATED PARTY TRANSACTIONS

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 was approximately \$10,279. Beginning December 1, 2005, the Company signed a new three-year lease agreement. Monthly base rent under the new lease agreement is \$6,413.

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 \$128,576 and \$108,939 in employer matches during the years ended June 30, 2006 and 2005, 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"). The profit sharing pool for the year ended June 30, 2006, was calculated as 4% of revenue plus 15% of EBIT. Expense under the profit sharing plan during the year ended June 30, 2006 and 2005, was \$463,545 and \$383,465, 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

No income tax expense was recorded for the year ended June 30, 2005, because the Company applied a NOL carried forward from prior years. In June 30, 2006, the Company applied the remainder of the NOL and recorded an income tax expense of \$204,941.

8. LEASE

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, 2006, are:

Fiscal Year	Operating	Capital
2007	\$ 78,393	\$ 25,000
2008	80,745	
2009	<u>30,614</u>	<u> </u>
Total minimum payments	<u>\$189,752</u>	<u>\$ 25,000</u>

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