
Executive Summary

The Company

CE University, Inc. (“CEU”) is a learning management system company. It is early stage venture that creates and sells online education for the continuing education marketplace. The Company is a Delaware corporation with its main office in New Haven, Connecticut. Its web site is www.CEU.com.

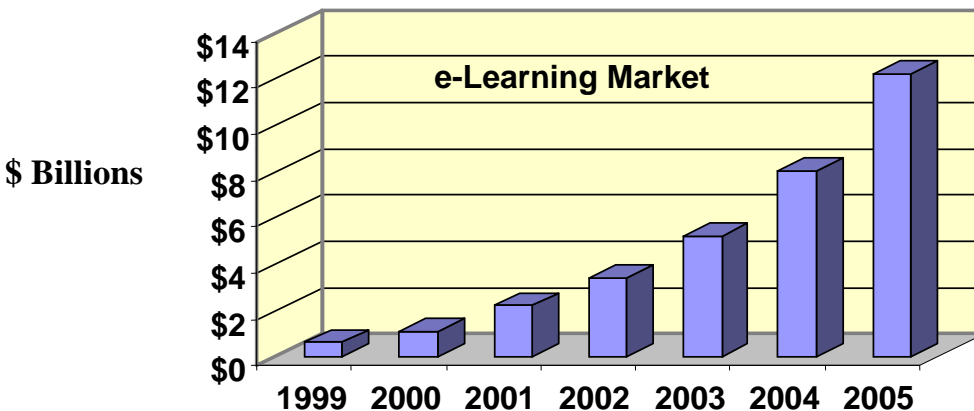
Mission

CEU intends to grow into the best online source for continuing education for people who work as licensed professionals. These include insurance agents, lawyers, teachers, real estate brokers and health care professionals. The Company will offer the highest quality education to its adult students in an easy to use, multi-media format, at a reasonable price.

For its initial efforts, CEU has targeted the insurance industry in the U.S. There are at least three million potential customers here, the largest single market segment.

Rapidly Growing Market – Online Education

The market for online learning is relatively new and emerging. According to research consultants,¹ corporate e-Learning will grow at a CAGR of 80% to \$12 billion by 2005.



State licensing laws require that people in some 27 different professions must update their skills and knowledge through continuing education (“CE”). Each year, these licensed professionals take over 200 million CE courses at an estimated cost of \$10 to \$15 billion. Insurance agents and brokers generally must take 12 credit hours of CE each year. At a tuition fee cost of \$10 per credit, this represents a \$400 million market segment for CEU.

¹ International Data Corporation

Business Description

CE University creates and sells online courses that allow large number of students to take a course at their own pace, in an easy-to-use way. The Company presents all its courses in an interactive, streaming, multi-media format (voice, video, text and graphics).

Customers can register, pay their fee, view and hear the lectures from their home or office, using any standard web browser. Compared to classroom learning, CEU's online courses are faster, better, cheaper and more convenient for the student. No travel time or costly hotel bills. Learn what you want, when you want, from any location.

CEU employs the best available software on a stable and scalable platform. All of its technology contains CEU proprietary software that it has created using a combination of its own custom software and widely-available software products. CEU delivers courses to the student using Macromedia Flash software, which imports course data from XML files, which serve as a course database.

- * The Company believes that only a few online competitors today are using Flash to stream CE course content to customers. Flash enables the student to view complex multi-media presentations at high speed, even over a 28k or 56k phone line.
- * By drawing content from XML programs tied to flash files, CEU's customers can jump back and forth within a given lecture series, or they can repeat a segment. Course authors can update or change a portion of a course, without the costly need to reproduce the entire presentation.

Competition

The Company's main competition is the old way of doing things (the classroom). While online education and other forms of distance learning are growing rapidly from a very small base, online learning today still is only a tiny fraction of the total education market.

The online CE market is quickly evolving. It is subject to rapid changes in technology. The market is highly fragmented and no single competitor holds a dominant market share. In the insurance CE segment, the largest competitors are the Bisys Group and a publisher, National Underwriter. Neither holds more than a 5% share of the CE market. The field of education, however, is fiercely competitive. New competitors will emerge over time.

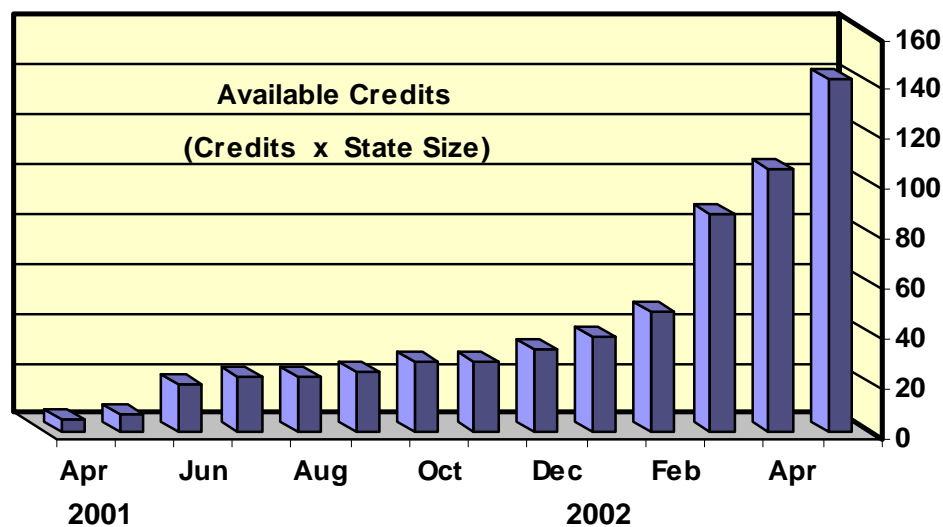
Profit Strategy

A new course (with 12 credit hours) costs CEU under \$15,000 to produce. Once a course is online, the Company earns a marginal gross margin in excess of 90%. The list price for a CE credit hour is roughly \$12 (but is 25% less, on average, after price discounts). Realized net revenue per customer is about \$100. CEU believes that its cost of getting a customer will be less than \$50 -- and that it can breakeven with about 15,000 customers.

Company History

CE University is a result of a merger in 2000 between Online Learning International, LLC and Graduate School Online, Inc., a Yale University spin-off. In April, 2001 CEU raised \$300,000 in seed capital and began to develop its software, website and test courseware.

Since then, the Company has produced 11 courses (141 credit hours) and has registered these in 38 states, including California. Another three CE courses are complete. CEU has submitted them for approval by state insurance officials. More courses are in the pipeline.



To date, CEU has sold 420 courses to about 320 different customers. (Some 30% of its students have taken more than one course.) Total sales to date are \$38,000. CEU has not yet launched a major selling effort nor has it spent much money on marketing activities.

Marketing

Selling online education is a form of retailing. Many insurance agents and brokers work for large insurance companies. Others work for large brokers or for large regional agency managers. Still others are independent or work out of very small shops. Reaching all of these three major categories of CE buyers will require a combination of online and print media advertising, trade shows and direct marketing. Key partnerships will help as well.

The Hartford recently agreed to include CE University as one of only three CE providers on its corporate university web site. It has over 65,000 insurance employees and agents. The Company's courses will go live with *The Hartford* in late June 2002.

The Company plans to raise another \$500,000+ by July 2002 (a) to substantially ramp up its selling efforts and (b) to hire a proven CEO with marketing experience. The leading CEO candidate is a highly experienced marketing professional. He has spent 15 years selling training products to large corporate clients, including insurance companies.

Management

CE University has a small staff that until now has focused mainly on website and courseware development, product testing and the process for getting state approvals.

- * **Neal Gersony** – founder and interim CEO. Neal holds a Ph.D. in Management of Technology and Entrepreneurship from Rensselaer and an MBA from Columbia. He was the founder of *UNHOnline* where he managed the development of the University of New Haven’s online programs. Dr. Gersony has been involved in numerous startup ventures and has consulted on internet courseware projects.
- * **Greg Catalano** -- Operations Manager. Greg has strong technical skills including HTML and Flash programming, database design and applications. He currently is finishing a Masters Degree in computer science at the University of New Haven.
- * **David Calabrese** – Corporate Sales. David holds a law degree and joined CEU in May 2002. Before CEU, he worked as the Director of Business Development for a software portal company that specialized in financial services.
- * **David Marshall** – Director. Mr. Marshall worked for 30 years at JPMorgan and was President & CEO of JPMorgan Capital Corporation, that firm’s venture capital investment business. Since 1996, he has been an Adjunct Professor at Yale SOM.

Financing

The Company is raising a minimum of \$500,000 in new money to complete a Series A Preferred round, at a post-money valuation of \$1.25 million, excluding a 20% option pool.

Series A Investors (including converted bridge loans) will have invested \$1.035 million and will own 84% of the voting shares and 68% of the fully diluted equity interests.

In 2003, CEU may raise a larger amount of money to grow faster and to enter new vertical market segments. The most likely exit is sale of the entire Company to a strategic buyer.

Fiscal Year to March 31

Financial Summary (000's)	2002A	2003	2004	2005	2006	2007
Number of Customers	0.3	9.4	29.6	58.1	70.8	94.4
Number of Credit Hours Sold	3	105	356	697	920	1,322
\$ Revenues	27	850	2,960	6,680	11,700	20,580
\$ EBITDA	-406	-360	80	430	1,155	3,120

Term Sheet Summary

Company	CE University, Inc.
Investment Amount	Total: \$1,035,000, recapitalization plus new money of \$500,000+.
Investors	New Money (\$400,000) plus NHDC (\$100,000 loan) = \$500,000. Bridge loan conversion (\$225,000). Series B exchange (\$310,000).
Securities to be Issued	Series A Preferred Stock. Voting and convertible into Common. Existing investors will exchange their old Series A Preferred for common stock and their old Series B Preferred for new Series A. NHDC will have 100% five-year warrant cover, strike price \$20.
Valuation	\$1.25 million post-money, on a fully diluted, as converted basis. Series A Investors will own 68% of the fully diluted equity and they will own 84% of the total voting securities.
Series A Dividends	8% per annum, cumulative, payable upon conversion.
Liquidation Preference	\$20 per share (the initial purchase price, as adjusted).
Anti-dilution	Full ratchet against future “down” rounds. Pre-emptive rights.
Conversion	1 for 1 into common stock, or automatically upon Qualified IPO or upon sale of Company for total proceeds of more than \$3 million.
Redemption	Redemption @ \$20 / share in seven years, upon certain conditions.
Sales / Miscellaneous	First Offer, Co-sale and Drag-along rights. Key Man insurance.
Protective Provisions	Standard voting and approval rights. Directed shares in an IPO.
Board of Directors	Five directors. Four designees of the Series A Preferred, including the CEO and one designee of the Common Stock -- the Founder. Board will meet monthly. D&O insurance of \$2 million.
Reporting	Audited annual financial statements, plus unaudited monthly and quarterly financial statements, plus an annual business plan.
Registration Rights	Piggyback and Demand, other standard provisions.
Closing of the Round	Expected closing -- July 31, 2002, subject to conditions, as below.
Stock Option Pool	The Company will establish and maintain an incentive stock option pool equal to 20% of post-money shares, on a fully diluted basis.
Escrow / Drawdown	CEU will escrow \$250,000 new money from Series A. It may draw on these funds monthly if it hits certain milestones: 1) Actual revenue equal to at least 50% of Plan, cumulative basis. 2) Actual cumulative EBITDA losses of not 50% more than Plan.
Conditions to Closing	1) Successful hiring of a CEO, as approved by the full Board. 2) Commitments of at least \$500,000 in new money.
Expenses	Investors will bear their own costs, including all legal expenses.