

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

**Dearolf &
Mereness** LLP
certified public accountants

Board of Directors
International Society for
Pharmaceutical Engineering, Inc.
Tampa, Florida

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of the International Society for Pharmaceutical Engineering, Inc. as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Organization's 2009 financial statements, and in our report dated March 31, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Society for Pharmaceutical Engineering, Inc. as of December 31, 2010, and the activities, functional expenses, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dearolf & Mereness LLP

Tampa, Florida
February 24, 2011

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2009)**

| | ASSETS | |
|---|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,816,358 | \$ 3,013,200 |
| Short-term investments | 1,699,842 | 1,492,440 |
| Accounts receivable | 397,255 | 477,985 |
| Inventory of technical materials | 143,943 | 131,217 |
| Prepaid expenses | 240,749 | 295,650 |
| TOTAL CURRENT ASSETS | <u>5,298,147</u> | <u>5,410,492</u> |
| OTHER ASSETS | | |
| Property and equipment - net | 420,783 | 428,592 |
| Investments | 1,861,111 | 2,191,246 |
| Licenses, trademarks, and other intangible assets (net of amortization of \$832,034) | 302,558 | 378,197 |
| Deposits | 36,375 | 298,706 |
| TOTAL OTHER ASSETS | <u>2,620,827</u> | <u>3,296,741</u> |
| TOTAL ASSETS | <u>\$ 7,918,974</u> | <u>\$ 8,707,233</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 481,564 | \$ 878,814 |
| Accrued expenses | 216,806 | 258,835 |
| Postretirement benefit payable | 8,192 | - |
| Deferred revenues | 2,065,788 | 2,162,543 |
| TOTAL CURRENT LIABILITIES | <u>2,772,350</u> | <u>3,300,192</u> |
| LONG-TERM LIABILITIES | | |
| Postretirement benefit payable | 62,108 | 167,598 |
| TOTAL LIABILITIES | <u>2,834,458</u> | <u>3,467,790</u> |
| NET ASSETS | | |
| Unrestricted | <u>5,084,516</u> | <u>5,239,443</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,918,974</u> | <u>\$ 8,707,233</u> |

SEE NOTES TO FINANCIAL STATEMENTS

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2009)**

| | 2010 | 2009 |
|--|--------------|--------------|
| REVENUES | | |
| Program revenues | | |
| Professional development | \$ 4,344,271 | \$ 4,646,637 |
| Membership services | 4,066,055 | 4,395,926 |
| Technical materials | 1,103,008 | 1,256,207 |
| Online learning | 38,825 | 136,189 |
| Certification | 5,371 | 5,064 |
| Royalties | 60,000 | 70,085 |
| Advertising fees | 34,570 | 37,893 |
| TOTAL PROGRAM REVENUES | 9,652,100 | 10,548,001 |
| Other | | |
| Investment income | 221,327 | 439,830 |
| Miscellaneous | 115,179 | 17,099 |
| TOTAL OTHER REVENUES | 336,506 | 456,929 |
| TOTAL REVENUES | 9,988,606 | 11,004,930 |
| EXPENSES | | |
| Program services | | |
| Professional development | 3,337,908 | 3,939,003 |
| Membership services | 3,125,941 | 3,201,849 |
| Technical materials | 672,209 | 862,377 |
| Online learning | 389,327 | 421,239 |
| Certification | 243,512 | 209,240 |
| TOTAL PROGRAM SERVICES | 7,768,897 | 8,633,708 |
| Management and general | 2,381,206 | 2,646,901 |
| TOTAL EXPENSES | 10,150,103 | 11,280,609 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (161,497) | (275,679) |
| NET GAINS ON FOREIGN CURRENCY REMEASUREMENT | 6,570 | 7,632 |
| CHANGE IN NET ASSETS | (154,927) | (268,047) |
| NET ASSETS - BEGINNING OF YEAR | 5,239,443 | 5,507,490 |
| NET ASSETS - END OF YEAR | \$ 5,084,516 | \$ 5,239,443 |

SEE NOTES TO FINANCIAL STATEMENTS

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 1 - Nature of Organization

International Society for Pharmaceutical Engineering, Inc. (ISPE), was incorporated in 1980, in accordance with the laws of the state of Florida. ISPE is a world-wide society of pharmaceutical manufacturing professionals who apply their practical knowledge in the regulated healthcare manufacturing industries. ISPE is committed to the advancement of the educational and technical efficiency of its members through forums for the exchange of ideas and practical experience.

Note 2 - Date of Management's Review

In preparing these financial statements, ISPE has evaluated events and transactions for potential recognition or disclosure through February 24, 2011, the date the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification - Certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year.

Cash and Cash Equivalents - For purposes of cash flows, ISPE considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based upon historical data and management's assessment of the collectibility of delinquent accounts. Based on these factors, the allowance for doubtful accounts at December 31, 2010, was \$10,000. Accounts receivable are classified as delinquent if they are uncollected 30 days after invoice date or the related event has occurred, whichever is later. These receivables are charged off against the allowance for doubtful accounts when management determines collection efforts have been exhausted.

Inventories - Inventories of technical materials are stated at the lower of cost or market using the first-in, first-out method.

Investments - All investments are carried at fair value with the related gains and losses included in the statement of changes in net assets. The fair value of certificates of deposit and equity securities with readily determinable fair value approximates quoted market prices. Investments with limited marketability are stated at fair value as estimated by recent transactions and/or independent quotation services. ISPE's investments do not have a significant concentration of credit or market risk within any industry, specific institution, or group of investments.

Advertising Costs - Advertising costs are expensed as incurred. ISPE has no direct-response advertising.

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 3 - Summary of Significant Accounting Policies - continued

Shipping and Handling Costs - ISPE classifies freight billed to customers as program revenue and the related freight costs as program service expense.

Depreciation and Amortization - Depreciation and amortization have been provided using straight-line and accelerated methods at rates calculated to amortize the cost of the assets over their estimated useful lives.

The estimated useful lives used in computing depreciation and amortization are as follows:

| | <u>YEARS</u> |
|---------------------------------|--------------|
| Office furniture and equipment | 3 - 7 |
| Computer software and equipment | 3 - 5 |
| Leasehold improvements | 7 |
| Intangible assets | 15 |

Total depreciation expense recognized for the year ended December 31, 2010, was \$190,011. Total amortization expense recognized for the year ended December 31, 2010, was \$75,639. Estimated amortization expense is expected to be \$75,639 for each of the next four years.

Income Taxes - ISPE operates as a tax-exempt organization under section 501(c)(6) of the Internal Revenue Code of 1986, as amended. ISPE generates taxable revenue from the sale of certain advertising and direct mailing lists. After applying related expenses, there was no income tax expense recognized in 2010. ISPE has net operating loss carryforwards of \$600,507. If not utilized, these carryforwards will expire as follows:

| <u>YEAR</u> | <u>AMOUNT</u> |
|-------------|-------------------|
| 2017 | \$ 29,994 |
| 2018 | 41,785 |
| 2019 | 53,393 |
| 2020 | 1,494 |
| 2028 | 175,579 |
| 2029 | 173,684 |
| 2030 | 124,578 |
| TOTAL | <u>\$ 600,507</u> |

ISPE accounts for uncertainty in income taxes in accordance with FASB *Accounting Standards Codification 740, Income Taxes*. This standard prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. Interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 3 - Summary of Significant Accounting Policies - continued

As of December 31, 2010, ISPE had no unrecognized tax benefits, and no adjustments to liabilities or operations were required. No interest or penalties were recognized for the year ended December 31, 2010. Income tax returns for 2007 through 2010 remain subject to examination by the Internal Revenue Service and the Florida Department of Revenue.

Allocation of Expenses by Function - Management and general expenses have been allocated among the Organization's functions based on related financial and nonfinancial data, where appropriate. Where allocation was inappropriate, expenses have been reported as part of the management and general function.

Note 4 - Concentration of Credit Risk

ISPE's revenues are primarily from membership dues and seminar fees from Life Science professionals and related companies located around the world. The North American revenues accounted for approximately 74% of total revenues for 2010. A significant portion of these revenues are collected in advance.

ISPE maintains cash balances at several financial institutions in the U.S., Puerto Rico, and Belgium. The institutions in the U.S. and Puerto Rico are insured by the Federal Deposit Insurance Corporation up to statutory limits (\$250,000 at December 31, 2010), and accounts in Belgium are partially insured by similar agencies. At December 31, 2010, ISPE's uninsured cash balances amounted to \$1,453,810.

ISPE invests excess monies in overnight funds consisting of U.S. Treasuries and federal agencies backed by the U.S. government. The balance held in these funds at December 31, 2010, was \$887,143.

Note 5 - Foreign Currency Exchanges

ISPE conducts operations in several currencies other than the U. S. dollar. As a result, foreign currency gains and losses have been included in the Statement of Changes in Net Assets in order to reflect the results of operations in U.S. dollars. For the year ended December 31, 2010, those gains netted to \$6,570.

Note 6 - Investments

At December 31, 2010, investments are stated at fair value and consist of the following:

| | <u>Balance</u> | <u>Level 1</u> | <u>Level 2</u> |
|---|---------------------|---------------------|-------------------|
| Cash held for investment purposes | \$ 9,054 | \$ 9,054 | \$ - |
| Bank certificates of deposit, excluding maturities of 3 months or less | 1,339,001 | 1,339,001 | - |
| Common stocks | 102,760 | 102,760 | - |
| Corporate bonds | 594,361 | 594,361 | - |
| Various domestic and international mutual funds | 1,360,650 | 1,360,650 | - |
| Other investments | 155,127 | - | 155,127 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL INVESTMENTS | <u>\$ 3,560,953</u> | <u>\$ 3,405,826</u> | <u>\$ 155,127</u> |

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 6 - Investments - continued

| | <u>Balance</u> | <u>Level 1</u> | <u>Level 2</u> |
|-----------------------|-------------------------|-------------------------|-----------------------|
| Short-term | \$ 1,699,842 | \$ 1,699,842 | \$ - |
| Long-term | 1,861,111 | 1,705,984 | 155,127 |
| TOTAL INVESTMENTS | <u>\$ 3,560,953</u> | <u>\$ 3,405,826</u> | <u>\$ 155,127</u> |

The levels for measuring fair value are based on the reliability of inputs. Level 1 inputs within the fair value hierarchy are stated at unadjusted quoted prices available in active markets for identical assets. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. These inputs may include quoted prices for similar assets, observable inputs other than quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

Investment income may be summarized as follows:

| | |
|----------------------------------|-----------------------|
| Net unrealized gain | \$ 108,401 |
| Interest and dividend income | 110,359 |
| Capital gain distribution income | 5,335 |
| Net realized loss | <u>(2,768)</u> |
| NET INVESTMENT INCOME | <u>\$ 221,327</u> |

Note 7 - Accounts Receivable

Accounts receivable at December 31, 2010, may be summarized as follows:

| | |
|--|-----------------------|
| Advertisers and exhibitors | \$ 147,543 |
| Domestic and international chapters and affiliates | 94,668 |
| Others | 165,044 |
| Allowance for uncollectible accounts | <u>(10,000)</u> |
| TOTAL | <u>\$ 397,255</u> |

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 8 - Property and Equipment

Property and equipment at December 31, 2010, may be summarized as follows:

| | |
|---------------------------------|--------------------------|
| At cost: | |
| Computer software and equipment | \$ 1,620,377 |
| Office furniture and equipment | 247,146 |
| Leasehold improvements | <u>37,513</u> |
| TOTAL | 1,905,036 |
| Less accumulated depreciation | <u>1,484,253</u> |
| NET | <u><u>\$ 420,783</u></u> |

Expenditures for new equipment and major renewals and betterments that extend the useful lives of property and equipment are capitalized. The amount shown for computer software and equipment includes \$249,695 of construction in progress at year end.

Note 9 - Miscellaneous Income

Miscellaneous income for 2010 may be summarized as follows:

| | |
|---|--------------------------|
| Elimination of post-retirement benefits (See Note 12) | \$ 87,358 |
| Refund of incorrectly charged VAT for prior years | 27,699 |
| Commissions received from Stevens' Institute | 11,964 |
| Loss on disposition of equipment | (19,703) |
| Other | <u>7,861</u> |
| NET MISCELLANEOUS INCOME | <u><u>\$ 115,179</u></u> |

Note 10 - Operating Leases

ISPE is a party to several long-term, noncancellable operating lease agreements, summarized as follows:

- Office space in North America; payments of \$38,603 per month through April 2011.
- Office equipment used in North America; payments of \$2,470 per month through December 2015.
- Office space in North America, commencing April 2011; monthly payments ranging from \$14,634 to \$34,938 through April 2019.

**INTERNATIONAL SOCIETY FOR
PHARMACEUTICAL ENGINEERING, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

Note 10 - Operating Leases - continued

Future minimum required payments are as follows:

| <u>YEAR</u> | <u>AMOUNT</u> |
|--------------|----------------------------|
| 2011 | \$ 320,138 |
| 2012 | 251,732 |
| 2013 | 412,973 |
| 2014 | 424,473 |
| 2015 | 436,317 |
| Thereafter | <u>1,294,690</u> |
| TOTAL | <u>\$ 3,140,323</u> |

Lease expense charged to operations for the year ended December 31, 2010, was \$498,526.

Note 11 - Postretirement Benefit Plan

During 2003, ISPE adopted an unfunded plan for employees to receive a cash payment upon retirement for employees who are sixty years of age with a minimum of six years of service. The payment is equal to one week's wages for each year of service, up to a maximum of ten. During 2010, the plan was eliminated for all but three employees who had already reached retirement age. This elimination resulted in a gain of \$87,358. One payment of \$21,955 was made in 2010. The net periodic benefit cost for 2010 was \$5,808. The cumulative benefit obligation at December 31, 2010, was \$70,300. In determining the obligation, no adjustment was made for compensation increases since wages are expected to remain flat. Expected future benefit payments are as follows:

| <u>YEAR</u> | <u>AMOUNT</u> |
|-------------|---------------|
| 2011 | \$ 8,192 |
| 2012-2015 | - |
| 2016-2019 | 62,108 |

Note 12 - Related Party Transactions

ISPE received \$39,444 from an exempt organization with common officers in 2010. This was a payment for services rendered.