

National American University Holdings, Inc.

A Delaware Corporation

5301 Mt. Rushmore Road
Rapid City, SD 57701
(605)721-5200
www.national.edu

SIC Code:
822101

Quarterly Report **For Quarter Ended February 28, 2021**

The number of shares outstanding of our Common Stock is 24,619,501 as of February 28, 2021.

OTCQB: NAUH

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

National American University Holdings, Inc.

Annual Information and Disclosure Statement

For the Quarter Ended February 28, 2021

All information contained in this Annual Information and Disclosure Statement has been compiled to fulfill the disclosure requirements of OTC Markets Group, Inc. and Rule 15c2-11 under the Securities Exchange Act of 1934. The captions contained herein correspond to the sequential format as set forth in the applicable disclosure guidelines of OTC Markets Group, Inc. All dollar amounts are presented in thousands, except dividend and other per share data. Quantitative share data, among other non-dollar figures, are not presented in thousands.

Forward-Looking Statements

This Annual Information and Disclosure Statement contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. All statements except historical statements contained herein constitute "forward-looking statements." Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting operations, customers, markets, services, products and prices of National American University Holdings, Inc. ("NAUH"); (ii) risk factors affecting the private for-profit higher education industry; and (iii) other factors discussed in NAUH's annual reports, quarterly reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available at either www.otcm Markets.com or at www.otcqx.com), including without limitation, the description of the nature of NAUH's business and its management discussion and analysis of financial condition and results of operations for reported periods. Except as required by law or the OTC Markets Group, Inc., NAUH undertakes no obligation to update, and is not responsible for updating, the information contained or incorporated by reference in this document beyond the publication date, whether as a result of new information or future events, or to conform this document to actual results or changes in NAUH's expectations, or otherwise or for changes made to this document by wire services or Internet services.

Part A General Company Information

Item 1 Exact name of the issuer and the address of its principal executive offices

Principal Executive Offices: National American University Holdings, Inc.
5301 Mt Rushmore Road
Rapid City, SD 57701
(605) 721-5200
www.national.edu

Investor Relations: The Equity Group, Inc.
800 Third Avenue, Between 49th & 50th Streets, 36th Floor
New York, NY 10022
Telephone: (415) 568-2255
Contact: Carlyne Y Sohn
Email: csohn@equityny.com

Item 2 Shares outstanding

Common Stock

	<u>February 28, 2021</u>
Number of Shares Authorized	50,000,000
Number of Shares Outstanding	24,619,501
Total Number of Shareholders of Record	41

The Company has 484 beneficial shareholders of record owning at least 100 shares.

The following table presents the changes in Common Stock shares outstanding over the last two years.

			Share Changes	Shares Outstanding
May 31, 2018 Balance				24,344,122
FY2019	Shape, Ronald	President & CEO	155,948	
FY2019	Berzina, Jeffrey	Director	22,727	
FY2019	Crane, Therese	Director	22,727	
FY2019	Saban, Thomas	Director	22,727	
FY2019	Halbert, Richard	Director	22,727	
FY2019	Rowan, Jim	Director	22,727	
FY2019	Tucker, Robert	Manager	29,210	
FY2019	Woolsey, John	Manager	879	
FY2019	Heflin, David	CFO	957	
FY2019	Castle, David	Manager	625	
FY2019	Priddy, Lynn	Provost	1,250	
FY2019	Sedlacek, Paul	General Counsel	957	
FY2019	Paxton, Robert	Manager	1,250	
FY2019	DeAngelis, Anthony	Manager	1,250	
May 31, 2019 Balance				24,650,083
FY2020	Shape, Ronald	President & CEO	55,514	
FY2020	Woolsey, John	Manager	3,125	
FY2020	Bickart, Thomas	CFO	1,250	
FY2020	Priddy, Lynn	Provost	3,125	
FY2020	Sedlacek, Paul	General Counsel	2,198	
FY2020	Saban, Thomas	Director	(22,727)	
FY2020	Halbert, Richard	Director	(22,727)	
FY2020	Rowan, Jim	Director	(22,727)	
FY2020	Shape, Ronald	President & CEO	(55,514)	
FY2020	Shape, Ronald	President & CEO	1,875	
May 31, 2020 Balance				24,593,475
FY2021	Shape, Ronald	President & CEO	2,500	
FY2021	Bickart, Thomas	CFO	2,500	
FY2021	Sedlacek, Paul	General Counsel	1,759	
FY2021	Priddy, Lynn	Provost	1,875	
FY2021	Mendoza, Mark	Manager	1,435	
FY2021	Parlette, Jared	Manager	957	
FY2021	Bickart, Thomas	CFO	15,000	
February 28, 2021 Balance				24,619,501

Preferred Stock

	<u>February 28, 2021</u>
Number of Shares Authorized	1,000,000
Number of Shares Outstanding	0
Total Number of Shareholders of Record	0

Class A Common Stock

	<u>February 28, 2021</u>
Number of Shares Authorized	100,000
Number of Shares Outstanding	0
Total Number of Shareholders of Record	0

Please refer to Financial Statements Footnote #6 for Stockholders' Equity notes.

Item 3 Interim Financial Statements

The following pages contain National American University Holdings, Inc.'s quarterly consolidated balance sheet, consolidated statement of operations, and consolidated statements of cash flow.

National American University Holdings, Inc. and Subsidiaries Unaudited Consolidated Balance Sheet as of February 28, 2021

(In thousands)

Assets	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 1,183
Student Receivables -- net of allowance of \$82	1,172
Other Receivables	2,938
Prepaid and Other Current Assets	485
Total Current Assets	5,778
Total Property and Equipment -- Net	13,773
<u>Other Assets:</u>	
Restricted Certificates of Deposit	5,130
Land - Minority Interest	414
Course Development -- net of accumulated amortization of \$2,922	652
Goodwill	363
Other Intangibles -- net of accumulated amortization of \$158	71
Other	547
Total Other Assets	7,177
Total Assets	\$ 26,728

Liabilities and Stockholders' Equity

Current Liabilities:

Current portion of Capital Lease Payable	\$ 536
Current portion of Long-Term Debt	4,349
Current portion of Lease Acceleration Payable	884
Accounts Payable	10,554
Deferred Revenue	1,193
Accrued and Other Liabilities	1,719
Total Current Liabilities	19,235
Capital Lease Payable, Net of Current Portion	9,527
Long-Term Debt, Net of Current Portion	7,776
Lease Acceleration Payable, Net of Current Portion	959
Total Liabilities	37,497

Stockholders' Equity:

Common Stock, \$0.0001 par value (50,000,000 authorized; 29,146,606 issued and 24,619,501 outstanding)	3
Additional Paid-in Capital	59,515
Accumulated Deficit	(47,547)
Treasury Stock, at cost (4,527,105 shares)	(22,516)
Total Stockholders' Deficit	(10,545)
Non-Controlling Interest	(224)
Total Liabilities and Stockholders' Deficit	\$ 26,728

The accompanying notes are an integral part of these consolidated financial statements.

National American University Holdings, Inc. and Subsidiaries
Unaudited Consolidated Statement of Operations
For the Nine Months Ended February 28, 2021

(In thousands)

<u>Revenue:</u>	
Academic Revenue, net	\$ 10,585
Auxiliary Revenue, net	389
Rental Income -- Apartments	1,044
Other Real Estate Income	165
Total Revenue	12,183
<u>Operating Expenses:</u>	
Cost of Educational Services	5,183
Selling, General, and Administrative	11,130
Auxiliary Expense	257
Total Operating Expenses	16,570
Operating Loss	(4,387)
<u>Other Income (Expense):</u>	
Gain on Disposition of Property and Equipment	894
Gain on Lease Termination and Acceleration	387
Interest Income	76
Interest Expense	(902)
Other Income -- net	610
Total Other Income (Expense)	1,065
Loss before Income Taxes	(3,322)
Income Tax Expense	(16)
Net Loss	(3,338)
Net Income Attributable to Non-Controlling Interest	(756)
Net Loss Attributable to National American University Holdings, Inc. and Subsidiaries	\$ (4,094)

The accompanying notes are an integral part of these consolidated financial statements.

National American University Holdings, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flow
For the Nine Months Ended February 28, 2021

(In thousands)

Cash Flows from Operating Activities:

Net Loss	\$ (3,338)
Adjustments to Reconcile Net Loss to Net Cash Flows used in Operating Activities:	
Depreciation and Amortization	1,085
Gain on Lease Termination	(387)
Gain on Acceleration and Disposition of Property	(894)
Provision for Uncollectable Tuition	155
Noncash Compensation Expense	7
Changes in Assets and Liabilities:	
Student and Other Receivables	1,684
Prepaid and Other Current Assets	126
Accounts Payable	573
Deferred Revenue	(608)
Accrued and Other Liabilities	96
Other Long-Term Liabilities	(1,132)
Net Cash used in Operating Activities	<u>(2,633)</u>

Cash Flows from Investing Activities:

Purchases of Restricted Certificates of Deposit	(414)
Proceeds from the Release of Restricted Certificates of Deposit	200
Purchases of Property and Equipment	(65)
Proceeds from Sale of Property and Equipment	1,941
Other	(193)
Cash Received in Acquisition of Minority Interest	217
Net Cash provided by Investing Activities	<u>1,686</u>

Cash Flows from Financing Activities:

Repayments of Capital Lease Payable	(362)
Repayments of Long-Term Debt	(8,588)
Borrowings of Long-Term Debt	10,297
Issuance of Loan Costs	(87)
Borrowings of Short-Term Debt	125
Repayments of Short-Term Debt	(461)
Net Cash provided by Financing Activities	<u>924</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(23)
Cash and Cash Equivalents - Beginning of Year	1,206
Cash and Cash Equivalents - End of Year	<u>\$ 1,183</u>

Supplemental Disclosure of Cash Flow/Non-Cash Information

Cash received for income taxes	\$ (4,370)
Cash paid for interest	\$ 1,371

The accompanying notes are an integral part of these consolidated financial statements.

National American University Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of and for the Quarter Ended February 28, 2021

1. Statement Presentation and Basis of Consolidation

The accompanying financial statements are presented on a consolidated basis and include the accounts of National American University Holdings, Inc., its wholly owned subsidiary, Dlorah, Inc. ("Dlorah") its division, National American University ("NAU" or the "University"), and its minority interest in Park West LLC.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Throughout the notes to the consolidated financial statements, amounts in tables are in thousands of dollars, except for share and per share data or as otherwise designated. The Company's fiscal year end is May 31. These financial statements include consideration of subsequent events through the date the financial statements were available for issuance. All intercompany transactions and balances have been eliminated in consolidation.

Unless the context otherwise requires, the terms "we", "us", "our" and the "Company" used throughout this document refer to National American University Holdings, Inc. and its wholly owned subsidiary, Dlorah, which operates National American University. In addition, consistent with GAAP, the Company's minority interest in Park West LLC is included in the Company's consolidated financials. Variable Interest Entity relationship exists between National American University and Park West LLC. As such, the Balance Sheet of NAUH includes the assets and liabilities of Park West, LLC for financial reporting purposes.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. On an ongoing basis, the Company evaluates the estimates and assumptions, including those related to bad debts, income taxes and certain accruals. Actual results could differ from those estimates.

Financial Condition and Liquidity

As of February 28, 2021, the Company had approximately \$1.2 million of unrestricted cash and cash equivalents.

During the quarter ended February 21, 2021, the Company continued to implement an operational plan that focuses on online academic programs, as well as growing the undergraduate enrollment as a result of reducing tuition. Company management has also continued its efforts to reduce expenses, with the intention of reducing the working capital deficit and improving cash flows from operations.

2. Nature of Operations

National American University Holdings, Inc., formerly known as Camden Learning Corporation, was incorporated in the State of Delaware on April 10, 2007. On November 23, 2009, Dlorah became a wholly-owned subsidiary of the Company pursuant to an Agreement and Plan of Reorganization between the Company and Dlorah.

The Company's common stock was listed as NAUH on Nasdaq Global Market through January 17, 2019, at which time it voluntarily delisted and transferred its listing to the Over the Counter Quotation Bureau ("OTCQB") Market. As of June 5, 2019, the Company ceased being a reporting company under the Securities and Exchange Act of 1934, as amended, and now reports under the OTCQB Market's Alternative Reporting Standards.

NAU is a regionally accredited, proprietary institution of higher learning, offering associate, bachelors, masters, and doctoral degree programs in many disciplines of study. Since June 2020, courses are offered through online instruction only. NAU consists of a group of educators dedicated to serving its students to achieve success in attaining their educational goals to advance their career opportunities. A substantial portion of NAU's academic income is dependent upon federal student financial aid programs, employer tuition assistance, and contracts to provide online course development, hosting and technical assistance to other educational institutions. To maintain eligibility for financial aid programs, NAU must comply with U.S. Department of Education requirements, including the maintenance of certain financial ratios.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash is held in bank accounts that periodically exceed insured limits; however, no losses have occurred, and the Company does not believe the risk of loss is significant.

Student Receivables - Student receivables are recorded at estimated net realizable value and are revised periodically based on estimated future collections. Interest and service charges are applied to all past due student receivables; however, collections are first applied to principal balances until such time that the entire principal balance has been received. Student accounts are charged off and sent to collections after being outstanding for 90 days. Bad debt expense is included in selling, general and administrative expenses on the consolidated statement of operations.

Other Receivables - Other receivables consist primarily of financial aid amounts due from the federal government, and the current portion of institutional receivables, which are amounts due from students and are stated at net realizable value. Long-term portion of these institutional receivables are included in other assets.

Property and Equipment - Property and equipment are stated at cost. Renewals and improvements exceeding one thousand dollars with an expected life of greater than one year are capitalized, while repairs and maintenance are expensed when incurred. Upon the retirement, sale or disposition of assets, costs and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the consolidated statement of operations. Depreciation is computed using the straight-line method over the following estimated useful lives:

For tax purposes, depreciation is computed using the straight-line and accelerated methods.

Capitalized Course Development Costs - The University internally develops curriculum and electronic instructional materials for certain courses. The curriculum is primarily developed by employees and contractors. The curriculum is integral to the learning system. Customers do not acquire the curriculum or future rights to it.

Goodwill and Intangible Assets - Goodwill represents the excess of the acquisition cost over the fair value of the net assets acquired and is not subject to amortization. Other identified intangible assets are amortized over their estimated useful lives of four to five years. Goodwill and other intangible assets are evaluated annually for impairment or when events or circumstances indicate potential impairment.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, impairment exists when the estimated undiscounted cash flows associated with the asset or group of assets is less than carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying and fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable.

Deferred Income Taxes - Deferred income taxes are provided using the asset and liability method whereby deferred tax assets and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recognizes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

Non-Controlling Interest - The non-controlling interest presented on the consolidated statements of operations and comprehensive loss represents the owners' share of the Park West, LLC's income or loss. The consolidated balance sheet amount "Non-controlling interest" represents the owners' share of the Park West, LLC obligations in excess of Park West, LLC assets or vice versa. A Variable Interest Entity relationship exists between National American University and Park West LLC. As such, the Balance Sheet of NAUH includes the assets and liabilities of Park West, LLC for financial reporting purposes.

Leases - Leases are evaluated and classified as either operating or capital leases. Leased property and equipment meeting certain criteria would be capitalized, and the present value of the related lease payments is recognized as a liability on the consolidated balance sheet. Amortization of capitalized leased assets is computed on the straight-line method over the term of the lease or the life of the related assets, whichever is shorter. Leasehold improvements are depreciated over the depreciable lives of the corresponding fixed asset or the related lease term, whichever is shorter.

Advertising - The University follows the policy of expensing the cost of advertising as incurred. Advertising costs are included in selling, general, and administrative expenses on the consolidated statements of operations and comprehensive loss.

4. Letter of Credit and Long-Term Debt

On May 10, 2019, Dlorah entered into a long-term loan agreement with Center for Excellence in Higher Education, Inc. for \$8.5 million. The loan was secured by a mortgage granted by Dlorah on certain real property located in Pennington County, South Dakota, pursuant to a real estate mortgage entered into between the parties on the same date as the loan agreement, along with security agreements covering two aircraft and an assignment of leases and rents. The Company paid a non-refundable loan origination fee of \$250,000 upon entering into the agreement. Monthly payments of accrued and unpaid interest were required beginning July 1, 2019, with a final payment of all outstanding principal and interest due on October 15, 2020. The outstanding balance of this loan, net of the loan origination fee, was approximately \$5.249 million, which was paid off on August 13, 2020. The primary purpose of the loan was to provide a source of cash collateral to secure a letter of credit issued by Black Hills Community Bank N.A. for the benefit of the United States Department of Education (USDOE) in the amount of \$7.331 million. The letter of credit was issued on May 10, 2019. It was secured by a restricted certificate of deposit totaling \$7.375 million. An update to the letter of credit was received from the USDOE on April 9, 2020. The letter of credit requirement was reduced to approximately \$4.8 million, thus allowing for a reduction in the certificate of deposit that is collateralizing the letter of credit.

At February 28, 2021, the restricted certificates of deposit on the balance sheet include \$0.15 million held as a certificate of deposit by Great Western Bank to collateralize the Company's purchasing card; and \$4.770 million held as a certificate of deposit by Black Hills Community Bank N.A. for a letter of credit. In addition, the following collateralized items are also included in certificates of deposit: \$0.05 million State of Alabama, \$0.1 million State of Missouri, and \$0.06 million State of New Mexico.

5. Leases

Effective November 1, 2011, the Company entered into a 20-year capital lease arrangement for additional space that houses the corporate headquarters, distance learning operations, and the Rapid City campus operations. The Company is obligated to make future payments under the capital lease obligation, which totaled \$15.0 million as of February 28, 2021 and had a net present value of \$9.9 million as of February 28, 2021.

The following is a schedule of future minimum commitments under the capital lease obligation as of February 28, 2021:

FY 2021	\$ 310
FY 2022	1,255
FY 2023	1,280
FY 2024	1,306
FY 2025	1,332
FY 2026	1,358
Thereafter (through October 2031)	7,840
Total future minimum lease obligation	\$ 14,681
Less: Imputed interest on capital leases	(4,802)
Net present value of lease obligations	\$ 9,879

6. Stockholders' Equity

The authorized capital stock for the Company is 51,100,000 shares, consisting of (a) 50,000,000 shares of common stock, par value \$0.0001 (b) 1,000,000 shares of preferred stock, par value \$0.0001, and (c) 100,000 shares of class A common stock, par value \$0.0001. Of the authorized shares, 24,619,501 shares of common stock were outstanding as of February 28, 2021. No shares of preferred stock or Class A common stock were outstanding at February 28, 2021.

Stock-Based Compensation

At February 28, 2021, the Company had 1,477,014 shares available for future grants under its 2018 Stock Option and Compensation Plan (the "2018 Plan"). The Company may grant restricted stock awards, restricted stock units and stock options to aid in recruiting and retaining employees, officers, directors, and other consultants under the 2018 Plan.

Stock options

The Company recorded compensation expense for stock options of \$1.3 and \$2.4 for the three months and six months, respectively, ended February 28, 2021 in the consolidated statement of operations and comprehensive loss. Unamortized compensation associated with stock options at February 28, 2021 was \$3.6 with a remaining amortization of 1.2 years.

Expected volatilities are based on historic volatilities from the Company's traded shares. The expected term of options granted follows the plain vanilla method. The risk-free interest rate for periods matching the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend is based on the historic dividends of the Company.

A summary of option activity under the Plan as of February 28, 2021, and changes during the quarter then ended is presented below:

Stock Options	Shares	Weighted Average Exercise Price	Average Life (years)	Intrinsic Value (thousands)
Outstanding at May 31, 2020	195,954	\$ 2.01	6.8	\$ 25.70
Granted	10,625	\$ 0.44		
Exercised	(15,000)	\$ 0.06		
Forfeited	(41,125)	\$ 4.27		
Outstanding at February 28, 2021	150,454	\$ 1.47	6.6	\$ 9.80
Exercisable at February 28, 2021	116,703	\$ 1.85	6.2	\$ 5.90

Dividends

No dividends have been declared or paid since October 6, 2017.

7. Income Taxes

The effective tax rate varies from the statutory federal income tax rate for the following reasons:

Statutory	-21.0%
State income taxes - net of federal benefit	-3.7%
Permanent differences and other	-0.4%
Effective income tax rate	<u>-25.1%</u>

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

As of May 31, 2020, the Company had net operating loss ("NOL") carryforwards of approximately \$19 million federal, and \$20 million state. The federal NOL carryforwards have no expiration.

The change in the valuation allowance for deferred tax assets for the year ended May 31, 2020 was approximately \$1.9 million. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not, that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not, that the net deferred tax asset would not be realized as of May 31, 2020 and recorded a full valuation allowance.

The Company follows the guidance of ASC Topic 740, *Income Taxes, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which requires that income tax positions must be more likely than not to be sustained based solely on their technical merits in order to be recognized. The Company has recorded no liability for uncertain tax positions. In the event the Company had uncertain tax positions, the Company would elect to record interest and penalties from unrecognized tax benefits in the tax provision.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is generally no longer subject to U.S. federal income tax or state and local tax examinations for years before 2016.

8. Regulatory Matters

The University extends unsecured credit to a portion of the students for tuition and other educational costs. A substantial portion of credit extended to students is repaid through the students' participation in various federal financial aid programs authorized by Title IV Higher Education Act of 1965, as amended (the "Higher Education Act" or "HEA"). The University is required under 34 CFR 600.5(d) to maintain at least 10% of its revenues (calculated on a cash basis) from non-Title IV program funds, commonly referred to as the "90/10 Rule". An institution is subject to loss of eligibility to participate in Title IV programs if it fails to meet the 10% threshold for two consecutive fiscal years. If the University were to violate the 90/10 Rule, it would become ineligible to participate in Title IV programs as of the first day of the fiscal year following the second consecutive fiscal year in which we exceeded the 90% Title IV program funds threshold and would be unable to regain eligibility for two fiscal years thereafter. The University believes it is in compliance with this requirement for the year ended May 31, 2020 and the quarter ending February 28, 2021.

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by the U.S. Department of Education (the "Department"), and be certified as an eligible institution by the Department. For this reason, educational institutions are subject to extensive regulatory requirements imposed by these entities. After an educational institution receives the required certifications by the appropriate entities, the

educational institution must demonstrate compliance with the Department's regulations pertaining to Title IV Programs on an ongoing basis. Included in these regulations is the requirement that the Company must satisfy specific standards of financial responsibility.

Financial Responsibility Composite Score

The Department of Education evaluates educational institutions for compliance with these standards each year, based upon an educational institution's annual audited financial statements, as well as following any changes in ownership. Department regulations specify that an eligible institution of higher education must satisfy specific measures of financial responsibility prescribed by the Department, or post a letter of credit in favor of the Department and accept other conditions on its participation in Title IV programs. Pursuant to the Title IV program regulations, each eligible institution must satisfy a measure of financial responsibility that is based on a weighted average of the following three annual ratios, which assess the financial condition of the institution:

- Primary Reserve Ratio – measure of an institution's financial viability and liquidity;
- Equity Ratio – measure of an institution's capital resources and its ability to borrow; and
- Net Income Ratio – measure of an institution's profitability.

These ratios provide three individual scores, which are converted into a single composite score. The maximum composite score is 3.0. If an institution's composite score is at least 1.5, it is considered financially responsible. If an institution's composite score is less than 1.5 but is 1.0 or higher, it is still considered financially responsible, and the institution may continue to participate as a financially responsible institution for up to three years under the Department's "zone" alternative. Under the zone alternative, the Department may require an institution to comply with various additional operating, monitoring or other requirements, agree to receive Title IV program funds under an arrangement other than the Department of Education's standard advance funding arrangement, such as the reimbursement method of payment or heightened cash monitoring, or comply with or accept other limitations on the institution's ability to increase the number of programs it offers or the number of students it enrolls.

If an institution does not achieve a composite score of at least 1.0, it is subject to additional requirements in order to continue its participation in the Title IV programs, including submitting to the Department a letter of credit in an amount equal to at least ten percent, and at the Department's discretion up to 50%, of the Title IV funds received by the institution during its most recently completed fiscal year, and being placed on provisional certification status, under which the institution must receive Department approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department.

In addition, under regulations that took effect on July 1, 2016, institutions placed on either the heightened cash monitoring payment method or the reimbursement payment method must pay Title IV credit balances to students or parents before requesting Title IV funds from the Department and may not hold Title IV credit balances on behalf of students or parents, even if such balances are expected to be applied to future tuition payments.

Additionally, as part of the 2016 Borrower Defense Final Rule, the Department of Education revised its general standards of financial responsibility to include various actions and events that would require institutions to provide the Department of Education with irrevocable letters of credit. On March 8, 2019, NAU received a letter from the Department of Education which noted several financial matters described in the notes to the Company's audited financial statements for the fiscal year ended May 31, 2018 and its Form 10-Q filed with the Securities and Exchange Commission on January 22, 2019, and the Company's delisting from Nasdaq Global Market and transfer of shares to the OTCQB Market, and determined that NAU did not meet its financial responsibility standards for institutions that participate in Title IV programs. As a result, the Department of Education's letter of March 8, 2019 imposed additional reporting requirements on NAU with respect to its financial condition including bi-weekly cash balance submissions and monthly submissions of

actual and projected cash flow statements, and notification requirements regarding certain enumerated events should they occur in the future; required NAU to process Title IV program funds under the Heightened Cash Monitoring Type 1 method of payment; and informed NAU that it could continue to participate in Title IV programs by either (1) posting a letter of credit to the Department of Education in the amount of \$36.6 million representing 50% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, or (2) posting a letter of credit to the Department of Education in the amount of \$10.9 million, representing 15% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, accompanied by the provisional form of certification to participate in the Title IV programs. On March 22, 2019, the Company submitted a request to the Department of Education for reconsideration of its imposition of the letter of credit, as well as the amount and timing for any required letter of credit. In response to the request, the Department of Education provided two additional options for a letter of credit accompanied by provisional certification: (1) posting of an irrevocable letter of credit in the amount of \$7.3 million, representing 10% of Title IV program funds for its fiscal year ended May 31, 2018, or (2) placement on the Heightened Cash Monitoring Type 2 payment method, with a percentage of each payment withheld until an account equal to the required letter of credit amount can be funded. On April 30, 2019, the Company responded to the Department's letter and selected the posting of an irrevocable letter of credit in the amount of \$7.3 million for the benefit of the Department. The letter of credit was issued on May 10, 2019 and in May 2020 subsequently reduced to approximately \$4.8 million.

The audited financial statements for the fiscal year ended May 31, 2020 indicate the most recent composite score to be (1.0). For the fiscal year ended May 31, 2019, the Company received notification from the U.S. Department of Education (USDOE) that they calculated the score as (1.0). Upon review of the FY19 financial statements by the U.S. Department of Education, they have concluded the Losses from Discontinued Operations incurred by the Company during fiscal year 2019, cannot be excluded from the calculation.

Finally, to remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. An educational institution loses eligibility to participate in Title IV programs if its cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years. The official cohort default rates for federal fiscal years 2015 and 2014 were 23.7% and 24.1%, respectively. The official cohort rate for federal fiscal year 2016 was 20.1%. The draft cohort rate for fiscal year 2017 is 19.3%.

NC-SARA (National Council of State Authorization Reciprocity Agreements)

The Company is a former participant of NC-SARA, commonly known as SARA, which allows NAU to enroll online students from participating states. With the USDOE's determination of a May 31, 2019 composite score of (1.0), the Company was notified in April 2020 that it will become ineligible in July 2020 to participate in SARA. As a result, NAU has sought individual state authorization and approval to operate in each individual state. NAU is currently approved to accept students to enroll in all but nine states and the District of Columbia.

9. Commitments and Contingencies

From time to time, the Company is a party to various claims, lawsuits or other proceedings relating to the conduct of its business. Although the outcome of litigation cannot be predicted with certainty and some claims, lawsuits or other proceedings may be disposed of unfavorably, management believes, based on facts presently known, that the outcome of such legal proceedings and claims, lawsuits or other proceedings will not have a material effect on the Company's consolidated financial position, cash flows or future results of operations.

In December 2018, NAU was served with a lawsuit (Summons and Petition) commenced by two former students of NAU in Missouri state court alleging claims of fraud and misrepresentations as to the quality and value of the educational degrees that were being pursued by the two plaintiffs, and also a claim under the Missouri Merchandising Practices Act. The petition (complaint) does not specify the damages being sought by plaintiffs in the lawsuit. The case is named Shyanne Bowman and Jackquelynn Mortenson v.

Dlorah, Inc., d/b/a National American University, et al., Case No. 1816- cv30104, and is pending in Jackson County Circuit Court (MO). Three former NAU employees are named as individual defendants in the lawsuit. Additional former students were subsequently added to the lawsuit as plaintiffs. After the deadline for adding additional parties to the above-referenced lawsuit had passed, a separate lawsuit alleging similar claims was commenced by other former students against NAU and former NAU employees. That case, named as Donelson, et al. v. Dlorah, Inc., d/b/a National American University, et al., Case No. 016-cv10526, was filed in the same court and was subsequently consolidated with the original case with all parties now joined in one lawsuit in the fourth amended petition filed January 20, 2021. Forty-three former students are named as plaintiffs. Several former employees of NAU are also named as individual defendants. We have responded to the allegations denying any legal wrongdoing or liability. The case is scheduled to be tried in three sub-groups of plaintiffs beginning the week of March 7, 2022. We cannot predict the outcome of this litigation, nor its ability to harm our reputation, impose litigation costs, or materially adversely affect our business, financial condition, and results of operations. The amount or range of reasonably possible losses cannot be reasonably estimated and, accordingly, no liability has been accrued for this matter.

The University leased building facilities for branch operations under operating leases with various terms and conditions. While the University is communicating with the lessors of these vacated facilities, certain lessors have commenced litigation related to the lease agreements. We cannot predict the outcome of this litigation, nor whether these actions will materially adversely affect our business or financial condition. The amount or range of reasonably possible losses cannot be reasonably estimated and, accordingly, no liability has been accrued for these matters.

Item 4 Management's discussion and analysis or plan of operation

The following discussion and analysis of our financial condition and results of operations should be read together with, and is qualified in its entirety by reference to, our audited financial statements and related notes included elsewhere in this Annual Report, which have been prepared in accordance with U.S. GAAP. The following discussion may contain forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" or in other sections of this Annual Report.

Background

National American University, or NAU, is a regionally accredited, for-profit institution of higher learning offering diploma, associates, bachelor's, master's, and doctoral degree programs in business-related disciplines, such as accounting, applied management, business administration and information technology; legal-related disciplines, such as paralegal, criminal justice; in healthcare-related disciplines; and higher education. Courses are offered online via the internet. As of February 28, 2021, NAU operated out of its central administration location in Rapid City, South Dakota and also conducted educational programs at Ellsworth Air Force Base, South Dakota, Joint Base Charleston, South Carolina, and Naval Submarine Base Kings Bay, Georgia.

Key Financial Results Metrics

Revenue. Revenue is derived mostly from NAU's operations. For the quarter ended February 28, 2021, the majority of revenue was generated from NAU's academic revenue, which consists of tuition and fees. The remainder of our revenue comes from NAU's auxiliary revenue from sources such as NAU's book sales. Tuition revenue is reported net of adjustments for refunds and scholarships and is recognized on a daily basis over the length of the term.

Factors affecting revenue include:

- the number of students who are enrolled and who remain enrolled in courses throughout the term;
- the number of credit hours per student;
- the student's degree and program mix;
- changes in tuition rates;
- the affiliates with which NAU is working as well as the number of students at the affiliates; and
- the amount of scholarships for which students qualify.

We record unearned tuition for academic services to be provided in future periods. Similarly, we record a tuition receivable for the portion of the tuition that has not been paid. Tuition receivable at the end of any calendar quarter largely represents student tuition due for the prior academic quarter. Based upon past experience and judgment, we establish an allowance for doubtful accounts to recognize those receivables we anticipate will not be paid. Any uncollected account more than six months past due on students who have left NAU is charged against the allowance.

We define enrollments for a particular reporting period as the number of students registered in a course on the last day of the reporting period. Enrollments are a function of the number of continuing students registered and the number of new enrollments registered during the specified period. Enrollment numbers are offset by inactive students, graduations and withdrawals occurring during the period. Inactive students for a particular period are students who are not registered in a class and, therefore, are not generating net revenue for that period.

We believe the principal factors affecting NAU's enrollments and net revenue are the number and breadth of the programs being offered; the effectiveness of our marketing, recruiting and retention efforts; the quality of our academic programs and student services; the convenience and flexibility of our online delivery platform; the availability and amount of federal and other funding sources for student financial assistance; and general economic conditions.

Our ability to maintain or increase enrollment will depend on how economic factors are perceived by our target student market in relation to the advantages of pursuing higher education. If current market conditions continue, we believe that the extent to which we are able to maintain or increase enrollment will be correlated with the effectiveness of the online student service platform and the delivery of online academic programming.

Expenses. Expenses consist of cost of educational services, selling, general and administrative, auxiliary expenses, loss on course development impairment, loss on lease termination and acceleration, and the loss on impairment and disposition of property and equipment. Cost of educational services expenses contain expenditures attributable to the educational activity of NAU. This expense category includes salaries and benefits of faculty and academic administrators, costs of educational supplies, faculty reference and support material and related academic costs, and facility costs. Selling, general and administrative expenses include the salaries of the learner services positions (and other expenses related to support of students), salaries and benefits of admissions staff, marketing expenditures, salaries of other support and leadership services (including finance, human resources, compliance and other corporate functions), as well as depreciation and amortization, bad debt expenses and other related costs associated with student support functions. Auxiliary expenses include expenses for the cost of goods sold, including costs associated with books. The gain or loss on disposition of property and equipment, loss on courseware impairment, and gain or loss on lease acceleration, represent the cost incurred or income received in the disposal of assets that are no longer used by us.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. Management evaluates its estimates and judgments, including those discussed below, on an ongoing basis. These estimates are based on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to the consolidated financial statements. We believe the following critical accounting policies involve more significant judgments and estimates than others used in the preparation of our consolidated financial statements:

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of the students to make required payments. We determine the adequacy of the allowance for doubtful accounts based on an analysis of aging of the accounts receivable and with regard to historical bad debt experience. Accounts receivable balances are generally written off when deemed uncollectible at the time the account is returned by an outside collection agency. Bad debt expense is recorded as a selling, general and administrative expense.

Accounting for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a

change in tax rates is recognized in earnings in the period when the new rate is enacted. We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

We evaluate and account for uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. De-recognition of a tax position that was previously recognized would occur when we subsequently determine that a tax position no longer meets the more-likely-than-not threshold of being sustained.

Impairment of Long-Lived Assets. Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, impairment exists when the estimated undiscounted cash flows associated with the asset or group of assets is less than carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying and fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable. All impairment charges are recorded within loss on impairment and disposition of property and equipment and as a component of net loss from discontinued operations, in the consolidated financial statements.

Regulation and Oversight

We are subject to extensive regulation by state education agencies, accrediting commissions and federal government agencies, particularly by the Department of Education under the Higher Education Act and the regulations promulgated thereunder by the Department of Education. The regulations, standards and policies of these agencies cover substantially all of our operations.

Any regulations that reduce or eliminate our students' access to Title IV program funds, that require us to change or eliminate programs or that increase our costs of compliance could have an adverse effect on our business.

External Factors

In March 2020, the World Health Organization categorized the novel coronavirus (COVID-19) as a pandemic, and it continues to spread throughout the United States with different geographical locations impacted more than others. The outbreak of COVID-19 and public and private sector measures to reduce its transmission, such as the imposition of social distancing, and orders to work-from-home, stay-at-home and shelter-in-place, have had a minimal impact on our day to day operations and to our employees. However, this could impact our efforts to work with other businesses and organizations as they have had to adjust their operations. COVID-19 may also have an impact on the lives of our students. The extent of the impact will vary depending on the duration and severity of the economic and operational impacts of COVID-19. At this time, the Company is unable to predict the ultimate impact.

Item 5 Legal proceedings

In December 2018, NAU was served with a lawsuit (Summons and Petition) commenced by two former students of NAU in Missouri state court alleging claims of fraud and misrepresentations as to the quality and value of the educational degrees that were being pursued by the two plaintiffs, and also a claim under the Missouri Merchandising Practices Act. The petition (complaint) does not specify the damages being sought by plaintiffs in the lawsuit. The case is named Shyanne Bowman and Jackquelynn Mortenson v. Dlorah, Inc., d/b/a National American University, et al., Case No. 1816- cv30104, and is pending in Jackson County Circuit Court (MO). Three former NAU employees are named as individual defendants in the lawsuit. Additional formers students were subsequently added to the lawsuit as plaintiffs. After the deadline for adding additional parties to the above-referenced lawsuit had passed, a separate lawsuit alleging similar claims was commenced by other former students against NAU and former NAU employees. That case, named as Donelson, et al. v. Dlorah, Inc., d/b/a National American University, et al., Case No. 016-cv10526, was filed in the same court and was subsequently consolidated with the original case with all parties now joined in the lawsuit in the fourth amended petition filed January 20, 2021. Forty-three former students are named as plaintiffs. Several former employees of NAU are also named as individual defendants. We have responded to the allegations denying any legal wrongdoing or liability. The case is scheduled to be tried in three sub-groups of plaintiffs beginning the week of March 7, 2022. We cannot predict the outcome of this litigation, nor its ability to harm our reputation, impose litigation costs, or materially adversely affect our business, financial condition, and results of operations. The amount or range of reasonably possible losses cannot be reasonably estimated and, accordingly, no liability has been accrued for this matter.

The University leased building facilities for branch operations under operating leases with various terms and conditions. As it implements the strategic and operational shift from ground locations to online programs, it has discontinued operations at several of these leased facilities. While the University is communicating with the lessors of these facilities, certain lessors have commenced litigation related to the lease agreements. We cannot predict the outcome of this litigation, nor whether these actions will materially adversely affect our business or financial condition. However, the rental expense and related liabilities for the locations vacated, have been recognized in NAUH's Statement of Operations and Balance Sheet, respectively.

Item 6 Defaults upon senior securities

There are currently no defaults upon senior securities.

Item 7 Other information

None.

Item 8 Exhibits

None.

Item 9 Certifications

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities).

I, Ronald Shape, certify that:

1. I have reviewed this quarterly disclosure statement of National American University Holdings, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: February 14, 2021

/s/ Ronald L. Shape

Dr. Ronald Shape

President and Chief Executive Officer

National American University Holdings, Inc.

I, Thomas Bickart, certify that:

1. I have reviewed this annual disclosure statement of National American University Holdings, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: February 14, 2021

/s/ Thomas Bickart

Thomas Bickart

Chief Financial Officer

National American University Holdings, Inc