UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2019

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 001-34751

National American University Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**83-0479936**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5301 Mt. Rushmore Road Rapid City, SD	**57701**
(Address of principal executive offices)	*(Zip Code)*

(605) 721-5200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
		Emerging growth company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of April 5, 2019, 24,650,083 shares of common stock, $0.0001 par value were outstanding.

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES INDEX

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NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AS OF FEBRUARY 28, 2019
AND CONDENSED CONSOLIDATED BALANCE SHEET AS OF MAY 31, 2018
(In thousands, except share and per share amounts)

	February 28, 2019	May 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 425	$ 5,324
Student receivables — net of allowance of $384 and $587 at February 28, 2019 and May 31, 2018, respectively	1,477	2,893
Other receivables	401	563
Income taxes receivable	10	105
Prepaid and other current assets	1,509	1,552
Total current assets	3,822	10,437
Total property and equipment - net	16,464	25,228
OTHER ASSETS:		
Restricted certificates of deposit	8,150	9,250
Condominium inventory	-	512
Land held for future development	414	414
Course development — net of accumulated amortization of $3,878 and $3,577 at February 28, 2019 and May 31, 2018, respectively	1,557	1,841
Goodwill	363	363
Other intangibles — net of accumulated amortization of $51 and $22 at February 28, 2019 and May 31, 2018, respectively	178	207
Other	1,241	555
Total other assets	11,903	13,142
TOTAL	$ 32,189	$ 48,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of capital lease payable	$ 419	$ 380
Current portion of long-term debt	800	800
Current portion of lease acceleration payable	1,914	-
Accounts payable	4,052	1,991
Income taxes payable	79	70
Deferred income	3,169	3,758
Accrued and other liabilities	3,364	4,090
Total current liabilities	13,797	11,089
OTHER LONG-TERM LIABILITIES	1,296	2,688
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	10,538	10,857
LONG-TERM DEBT, NET OF CURRENT PORTION	7,200	7,200
LONG-TERM LEASE ACCELERATION PAYABLE, NET OF CURRENT PORTION	3,285	-
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.0001 par value (50,000,000 authorized; 29,053,894 issued and 24,650,083 outstanding as of February 28, 2019; 28,685,195 issued and 24,344,122 outstanding as of May 31, 2018)	3	3
Additional paid-in capital	59,445	59,305
Accumulated deficit	(40,942)	(19,873)
Treasury stock, at cost (4,403,811 shares at February 28, 2019, and 4,341,073 shares at May 31, 2018)	(22,509)	(22,496)
Total National American University Holdings, Inc. stockholders' equity	(4,003)	16,939
Non-controlling interest	76	34
Total stockholders' equity	(3,927)	16,973
TOTAL	$ 32,189	$ 48,807

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018
(In thousands, except share and per share amounts)

	Nine Months Ended February 28,		Three Months Ended February 28,	
	2019	2018	2019	2018
REVENUE:				
Academic revenue	$ 39,060	$ 53,607	$ 10,501	$ 16,923
Auxiliary revenue	1,926	2,930	521	955
Rental income — apartments	1,042	1,049	345	349
Condominium sales	646	455	207	-
Other real estate income	152	-	49	-
Total revenue	42,826	58,041	11,623	18,227
OPERATING EXPENSES:				
Cost of educational services	16,754	19,545	4,987	6,234
Selling, general and administrative	33,257	44,633	9,052	13,817
Auxiliary expense	1,324	2,079	352	686
Cost of condominium sales	507	427	153	-
Loss on lease termination and acceleration	4,215	362	1,116	-
Loss on impairment and disposition of property and equipment	6,692	2,071	254	1,076
Total operating expenses	62,749	69,117	15,914	21,813
OPERATING LOSS	(19,923)	(11,076)	(4,291)	(3,586)
OTHER INCOME (EXPENSE):				
Interest income	100	63	37	14
Interest expense	(998)	(628)	(433)	(211)
Other (expense) income — net	48	95	130	8
Total other expense	(850)	(470)	(266)	(189)
LOSS BEFORE INCOME TAXES	(20,773)	(11,546)	(4,557)	(3,775)
INCOME TAX (EXPENSE) BENEFIT	(11)	268	7	83
NET LOSS	(20,784)	(11,278)	(4,550)	(3,692)
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(42)	(34)	(15)	(15)
NET LOSS ATTRIBUTABLE TO NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES	(20,826)	(11,312)	(4,565)	(3,707)
OTHER COMPREHENSIVE LOSS, NET OF TAX				
Unrealized losses on investments, net of tax benefit	-	4	-	11
COMPREHENSIVE LOSS ATTRIBUTABLE TO NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC.	$ (20,826)	$ (11,308)	$ (4,565)	$ (3,696)
Basic net loss attributable to National American University Holdings, Inc.	$ (0.85)	$ (0.47)	$ (0.19)	$ (0.15)
Diluted net loss attributable to National American University Holdings, Inc.	$ (0.85)	$ (0.47)	$ (0.19)	$ (0.15)
Basic weighted average shares outstanding	24,369,869	24,222,864	24,465,124	24,269,158
Diluted weighted average shares outstanding	24,369,869	24,222,864	24,465,124	24,269,158

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018
(In thousands)

	Nine Months Ended February 28, 2019	Nine Months Ended February 28, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (20,784)	$ (11,278)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	2,707	3,577
Loss on lease termination	4,215	362
Loss on impairment and disposition of property	6,692	2,071
Realized loss on sales of available for sale investments	-	16
Provision for uncollectable tuition	1,441	1,775
Noncash compensation expense	140	198
Deferred income taxes	-	(194)
Changes in assets and liabilities:		
Student and other receivables	137	(2,732)
Prepaid and other current assets	43	11
Condominium inventory	512	431
Other assets	(686)	96
Income taxes receivable/payable	104	(104)
Accounts payable	1,872	17
Deferred income	(832)	1,621
Accrued and other liabilities	(726)	(737)
Other long-term liabilities	(409)	(1,431)
Net cash flows used in operating activities	(5,574)	(6,301)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale investments	-	(1,747)
Proceeds from sale of available for sale investments	-	4,668
Proceeds from the release of restricted certificates of deposit	1,100	-
Purchases of property and equipment	(607)	(1,695)
Proceeds from sale of property and equipment	545	210
Course development	(70)	(186)
Payments received on contract for deed	-	133
Other	-	23
Net cash flows provided by investing activities	968	1,406
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease payable	(280)	(244)
Purchase of treasury stock	(13)	(13)
Dividends paid	-	(2,184)
Net cash flows used in financing activities	(293)	(2,441)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,899)	(7,336)
CASH AND CASH EQUIVALENTS — Beginning of year	5,324	11,974
CASH AND CASH EQUIVALENTS — End of period	$ 425	$ 4,638
BALANCE SHEET RECONCILIATION		
CASH AND CASH EQUIVALENTS	$ 425	$ 4,638
RESTRICTED CASH	$ 8,150	$ -
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	$ 8,575	$ 4,638
SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND NON-CASH INFORMATION:		
Cash received (paid) for income taxes	$ (93)	$ 30

Cash paid for interest	$ 1,000	$ 630
Property and equipment purchases included in accounts payable	$ 189	$ -

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018
(In thousands, except share and per share amounts)

	Common stock	Additional paid-in capital	Accumulated Deficit	Treasury stock	Accumulated other comprehensive loss	Non-controlling interest	Total stockholders' equity
Balance - May 31, 2017	$ 3	$ 59,060	$ (6,622)	$ (22,481)	$ (4)	$ (16)	$ 29,940
Purchase of 6,137 shares common stock for the treasury	-	-	-	(13)	-	-	(13)
Share based compensation expense	-	198	-	-	-	-	198
Dividends declared ($0.045 per share)	-	-	(1,090)	-	-	-	(1,090)
Net (loss) income	-	-	(11,312)	-	-	34	(11,278)
Other comprehensive loss, net of tax	-	-	-	-	4	-	4
Balance - February 28, 2018	$ 3	$ 59,258	$ (19,024)	$ (22,494)	$ -	$ 18	$ 17,761
Balance - May 31, 2018	$ 3	$ 59,305	$ (19,873)	$ (22,496)	$ -	$ 34	$ 16,973
Impact of adoption of new accounting standard	-	-	(243)	-	-	-	(243)
Purchase of 13,713 shares common stock for the treasury		-		(13)			(13)
Share based compensation expense	-	140	-	-	-	-	140
Net (loss) income	-	-	(20,826)	-	-	42	(20,784)
Balance - February 28, 2019	$ 3	$ 59,445	$ (40,942)	$ (22,509)	$ -	$ 76	$ (3,927)

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)

1. STATEMENT PRESENTATION AND BASIS OF CONSOLIDATION

The accompanying unaudited condensed financial statements are presented on a consolidated basis and include the accounts of National American University Holdings, Inc., its subsidiary, Dlorah, Inc. ("Dlorah"), and its divisions, National American University ("NAU" or the "University"), Fairway Hills, the Fairway Hills Park and Recreational Association, the Park West Owners' Association, the Vista Park Owners' Association ("Fairway Hills"), and the Company's interest in Fairway Hills Section III Partnership (the "Partnership"), collectively the "Company."

The accompanying unaudited consolidated financial statements have been prepared on a basis substantially consistent with the Company's audited financial statements and in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim financial reporting. As permitted under these rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States of America ("U.S. GAAP") can be condensed or omitted. The information in the condensed consolidated balance sheet as of May 31, 2018 was derived from the audited consolidated financial statements of the Company for the year then ended. Accordingly, these financial statements should be read in conjunction with the Company's annual financial statements, which were included in the Company's Annual Report on Form 10-K for the year ended May 31, 2018, filed on September 14, 2018. Furthermore, the results of operations and cash flows for the nine month periods ended February 28, 2019 and 2018 are not necessarily indicative of the results that may be expected for the full year. These financial statements include consideration of subsequent events through issuance.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary for a fair presentation as prescribed by U.S. GAAP.

Throughout the notes to the condensed consolidated financial statements, amounts in tables are in thousands of dollars, except for per share data or otherwise designated. The Company's fiscal year end is May 31. 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, Inc., which owns and operates National American University and Fairway Hills.

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 — For the nine months ended February 28, 2019, cash used in operating activities was $5.6 million and unrestricted cash and cash equivalents decreased by $4.9 million from May 31, 2018. As of February 28, 2019, the Company had $0.4 million of unrestricted cash and cash equivalent, working capital deficiency of $10 million, and a negative total stockholder's equity of $4 million.

On March 8, 2019, the Company received a letter from the Department of Education, in which it determined that NAU did not meet its financial responsibility standards for institutions that participate in Title IV programs. As a result, the letter required, among other things, NAU to either (1) post a letter of credit to the Department of Education in the amount of $36,652,785, representing 50% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, or (2) post a letter of credit to the Department of Education in the amount of $10,995,835, representing 15% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, to be accompanied by the provisional form of certification to participate in Title IV programs. On March 22, 2019, NAU submitted a request to the Department of Education for reconsideration of the letter of credit requirement, as well as the amount and timing for any required letter of credit. The result of the Company's request was unknown as of the issuance date of these financial statements.

Considering the Company's financial position as of February 28, 2019 and the requirement to post a letter of credit to the Department of Education as described above, if such requirement if not subsequently reconsidered or amended by the Department of Education, the Company believes that there is substantial doubt about its ability to continue as a going concern for at least twelve months following the issuance of these financial statements.

During the quarter ended February 28, 2019, the Company continued to implement actions to address its liquidity needs as follows:

- During the quarter ended February 28, 2019, the Company continued to implement an operational plan that focuses on online academic programs and expanding its programming and services related to strategic security, counter-terrorism, and intelligence for the public and private sectors. In alignment with this new operational change, NAU suspended new student enrollment in 34 of its 128 programs and is in the process of closing its ground-based locations. This operational change may put additional pressure on the Company's revenue in the immediate future. However, the Company expects a significant decrease in expenses with a lesser impact on revenue in the long run. See note 7 for further details on the Company's operational change.

- The Company sold one out of two aircrafts for proceeds of $0.6 million on January 25, 2019. The estimated proceeds from the other aircraft, as well as the savings from the related maintenance and operating costs, are approximately $0.9 million. The Company has been actively marketing and advertising to sell the second aircraft, which management expects will be completed within the next few quarters.

- Management is actively pursuing mortgage financing of approximately $5 million with a portion of the company's real estate serving as collateral. Also, the company is considering the sale of its real estate condominium holdings for approximately $4 million.

2. NATURE OF OPERATIONS

NAU is regionally accredited, proprietary institution of higher learning, offering associates, bachelors and master's degrees in many disciplines of study. Beginning June 2019, courses will be 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.

In addition to the university operations, the Company owns and operates a real estate business known as Fairway Hills Developments, or Fairway Hills. The real estate business rents apartment units and develops and sells condominium units in the Fairway Hills Planned Development area of Rapid City, South Dakota.

3. RECENTLY ADOPTED AND NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of the consolidated financial statements through improved disclosure requirements, and simplifies the preparation of the consolidated financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. This standard is effective for the Company's fiscal year 2019, and was implemented in the first quarter ended August 31, 2018, using the modified retrospective method of adoption. The adoption of this guidance did not have a material impact on the Company's financial statements during the nine months ended February 28, 2019. The primary impact of adopting the new standard has been modifications to the timing of revenue recognition for certain revenue streams. A net cumulative increase to accumulated deficit and a corresponding increase to deferred revenue in the amount of $0.2 million as of June 1, 2018 was recorded as a result of the adoption of this guidance. The Company has provided expanded disclosures pertaining to revenue recognition in *Note 4 – Revenues*.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively financed or purchased by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard will be effective for the Company's fiscal year 2020 and will be implemented in the first quarter ending August 31, 2019. The Company is currently evaluating and has not yet determined the impact implementation will have on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, which is intended to reduce diversity in practice and the complexity in applying existing guidance related to changing terms or conditions of share-based payment awards. The standard clarifies that modification accounting is required unless the fair value, vesting conditions, and classification as an equity or liability instrument of the modified award are the same as that of the original award immediately prior to the modification. The new standard is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted this standard for the fiscal year beginning June 1, 2018, and it did not have an effect on the consolidated financial statements. ASU 2017-09 will be applied prospectively to any awards modified on or after the adoption date.

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company has not evaluated the impact this standard will have on the Company's consolidated financial statements.

4. REVENUES

Impact of Adoption of ASC 606 – Revenue from Contracts with Customers

On June 1, 2018, the Company adopted Accounting Standards Codification ("ASC") *Topic 606, Revenue from Contracts with Customers ("ASC Topic 606")*, which supersedes the revenue recognition requirements in *ASC Topic 605, Revenue Recognition ("ASC Topic 605")*. The Company elected to follow the modified retrospective adoption method. The new guidance was applied to all contracts that were not completed as of the adoption date. Revenues and operating results for the reporting period beginning June 1, 2018 have been presented under the accounting guidance included within *ASC Topic 606*, while prior period amounts have not been restated to conform to the new guidance as permitted by the modified retrospective method of adoption.

As a result of the adoption of *ASC Topic 606*, the Company recorded a net cumulative increase to accumulated deficit of $0.2 million and a corresponding increase to deferred income within the Consolidated Balance Sheet as of June 1, 2018. The impact of adoption was primarily related to the estimated adjustment for students who withdraw from classes for terms that were not complete at May 31, 2018. Prior to the adoption of *ASC Topic 606*, these revenue adjustments were recognized when the student actually withdrew from classes. Compared to the amounts under *ASC Topic 605*, for the nine months ended February 28, 2019, the net impact to revenues under *ASC Topic 606* was a reduction of revenues of $0.2 million, with a corresponding increase to deferred income.

The Company does not have any unsatisfied performance obligations for contracts with customers that have an expected duration of more than one year.

Revenue Recognition

The following table presents the Company's revenues from contracts with customers disaggregated by material revenue category:

	Nine months ended February 28, 2019	Three months ended February 28, 2019
Academic revenue	$ 39,060	$ 10,501
Auxilary revenue	1,926	521
Real estate revenue	1,840	601
Consolidated revenue	$ 42,826	$ 11,623

Revenues are recognized when control of the promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods and services. The Company applies the five-step revenue model under *ASC Topic 606* to determine when revenue is earned and recognized. The Company had no capitalizable costs associated with obtaining and fulfilling a revenue contract.

Academic Revenue: Academic revenue consists of tuition revenue, other fee revenue and the revenue generated through NAU's teaching relationships with other non-related party institutions. The Company's academic programs are typically offered on a three-month term basis that, starting in November 2017, commence on a monthly basis. As a result, each of the Company's financial reporting quarters include the revenue of three months of the first term, two months of the second term, and one month of the third term.

Tuition revenue represents amounts charged for course instruction. For tuition revenue, the Company performs an assessment at the beginning of each student contract and, subsequently thereafter, if new information indicates there has been a significant change in facts and circumstances. Each student contract contains a single performance obligation that is the Company's promise to the student to provide knowledge and skills through course instruction, which may include any combination of classroom instruction, on-demand tutoring or on-line instruction.

Tuition revenue is reported net of adjustments for discounts, refunds and scholarships. Tuition rates per student vary by educational site, the number of credit hours the student is enrolled in for the term, the program, and the degree level of the program. The portion of tuition and registration fees received but not earned, less estimated student withdrawals, is recorded as deferred income and reflected as a current liability in the Company's consolidated balance sheets, as such amount represents revenue the Company expects to earn from terms that are not complete as of the date of the financial statements.

Tuition revenue is deferred and recognized as revenue ratably over the term of instruction (typically three months). Tuition revenue is recognized over time as the students obtain control of the educational services provided by the Company subsequent to enrollment and on a ratable basis over the term of the course beginning on the course start date through the last day of classes.

If a student withdraws prior to the completion of the academic term, the respective portion of tuition and registration fees the Company already received and is not entitled to retain are refunded back to the students and the Department of Education. Students are no longer entitled to a refund once 60% of the term has been completed. For students that have withdrawn from all classes during an academic term, the Company estimates the expected receivable balance due from such students and records a provision to reduce academic revenue for that amount, less estimated collections calculated based on historical collection trends and adjusted for known current factors.

Auxiliary Revenue: Auxiliary revenue primarily consists of revenues from the Company's bookstore operations for the sale of books and other class materials. Revenue is recognized when control of the books or class materials are transferred to the student. Auxiliary revenue is recorded net of any applicable sales tax. There are no identified changes to revenue recognition from *ASC Topic 605* to *ASC Topic 606*.

Real Estate Revenue: Real estate revenue includes monthly rental income, fees paid by members of owners' associations managed by the Company and condominium sales. Rental income and owners' association fees are received from tenants or members. Significant amounts paid in advance are included in deferred income on the Company's consolidated balance sheets. Revenue related to the sales of the condominiums is recognized at the closing of the transaction at the negotiated contract price. There are no identified changes to revenue recognition from *ASC Topic 605* to *ASC Topic 606*.

The following presents the Company's net revenue disaggregated based on the timing of revenue recognition:

	Nine months ended February 28, 2019	Three months ended February 28, 2019
Services transferred over time:		
Tuition revenue, net of adjustments (transferred over the term of instruction)	$ 39,060	$ 10,501
Rental income (transferred over the rental period)	1,042	345
Total	40,102	10,846
Goods or services transferred at a point in time:		
Auxiliary revenue	1,926	521
Other real estate income	152	49
Condominium sales	646	207
Total	2,724	777
Total revenue	$ 42,826	$ 11,623

5. STUDENT RECEIVABLES, NET

Student accounts receivable is composed primarily of amounts due related to tuition and educational services. Student receivables, net consist of the following as of the respective period ends.

	February 28, 2019	May 31, 2018
Student accounts receivable	$ 1,861	$ 3,480
Less allowance for doubtful accounts	(384)	(587)
Student receivables, net	$ 1,477	$ 2,893

The following summarizes the activity in the allowance for doubtful accounts for the respective periods:

	Nine months ended February 28, 2019	Nine months ended February 28, 2018
Beginning allowance for doubtful accounts	$ 587	$ 1,195
Provision for uncollectible accounts receivable	1,441	1,775
Write offs, net of Recoveries	(1,644)	(2,284)
Ending allowance for doubtful accounts	$ 384	$ 686

6. 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. Assets to be held for sale are carried at the lower of carrying value or fair value, less cost to sell. All impairment charges are included in loss on impairment and disposition of property and equipment, within the NAU segment, in the consolidated financial statements.

During the quarter ended November 30, 2017, upon our review of our assets for impairment, we determined the estimated future undiscounted cash flows associated with the assets of the Houston, Minnetonka, Bloomington, Brooklyn Center and Burnsville campuses were not sufficient to recover their carrying value. Accordingly, the carrying values of the assets, primarily leasehold improvements, were reduced to their fair value, which the Company believes to be minimal. An impairment charge of $1,009 related to these five locations was recorded. The impairment charge is included in loss on impairment and disposition of property, within the NAU segment, in the condensed consolidated financial statements.

During the quarter ended August 31, 2018, the Company signed an early lease termination agreement without penalty for the Albuquerque East and Colorado Springs North locations. The Company consolidated the students from these two locations to other local campuses during the second quarter. The leases at the closed locations were terminated prior to the end of their terms. As a result of the early termination of the leases at these two locations, the carrying values of their assets, primarily classroom and office equipment and leasehold improvements, were reduced to their fair value, which the Company estimates to be minimal. An impairment charge of $555 related to the assets at these locations was recorded during the three months ended August 31, 2018.

During the quarter ended November 30, 2018, the Company incurred additional asset impairment as the result of the Board-Approved Operational Change to Online Operations. See Note 7 below.

There were no asset impairment charges recorded for the three months ended February 28, 2019.

7. BOARD-APPROVED OPERATIONAL CHANGE TO ONLINE OPERATIONS

On October 29, 2018, the Company's Board of Directors approved a strategic plan that focuses NAU's growth strategies on online academic programs and expanding its programming and services related to strategic security, counter-terrorism, and intelligence for the public and private sectors. The Company remains committed to offering many of its current programs and maintaining its longstanding mission to assist students in achieving their educational goals and preparing them for employment in a rapidly evolving and increasingly competitive employment market.

In alignment with its new strategic plan, NAU suspended new student enrollment in 34 of its 128 programs effective November 1, 2018. NAU continues to serve active students currently enrolled in these programs. To accelerate its operational change to online academic programs and to gain greater efficiencies through the centralization of its student-facing services, the Company is implementing appropriate staff reductions and other personnel actions. In addition, on March 22, 2019, the Company entered into both a Teach-Out and Transfer Agreement and an Asset Transfer Agreement with Brookline College with respect to the students, programs and certain assets of the Albuquerque West campus. The Company will continue to work with students to provide for completion of their programs with NAU or another institution.

As a result, the Company determined that the carrying value of all assets for the ground locations that were not previously impaired, should be impaired as of November 1, 2018. The Company incurred a charge of $5.9 million to account for these fixed asset impairments. In addition, future lease obligations at the ground locations that were closed as of November 30, 2018, were accelerated, and a non-cash charge of $3.1 million was incurred to recognize the acceleration of these lease obligations. This non-cash lease acceleration was calculated using the present value of future payments and offset with estimated sublease income.

During the three months ended February 28, 2019, the Company recorded an additional $1.1 million of accelerated lease acceleration related to the ground locations that were closed during quarter. This non-cash lease acceleration was calculated using the present value of future payments and offset with estimated sublease income.

8. STOCKHOLDERS' EQUITY

The authorized capital stock for the Company is 51,100,000 shares, consisting of (i) 50,000,000 shares of common stock, par value $0.0001 and (ii) 1,000,000 shares of preferred stock, par value $0.0001, and (iii) 100,000 shares of class A common stock, par value $0.0001. Of the authorized shares, 24,650,083 and 24,344,122 shares of common stock were outstanding as of February 28, 2019 and May 31, 2018, respectively. No shares of preferred stock or Class A common stock were outstanding at February 28, 2019 and May 31, 2018.

Stock-Based Compensation
Under the 2009 Stock Option and Compensation Plan (the "2009 Plan") and the 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. The Company has settled an advisor services contract and management compensation in stock that totaled 176,455 shares valued at $19 for the quarter ended February 28, 2019 and 255,064 shares valued at $63 for the year to date period ended February 28, 2019. These issuances of stock reduce the shares available for future grants. At February 28, 2019 the Company had 11,050 shares and 1,623,545 available for future grants under its 2009 Plan and 2018 Plan, respectively.

In 2013, the Company adopted the 2013 Restricted Stock Unit Plan (the “2013 Plan”) authorizing the issuance of up to 750,000 shares of the Company’s stock to participants in the 2013 Plan. Termination of the 2013 Plan was approved by the stockholders of National American University Holdings, Inc. at the 2018 Annual Meeting of Stockholders held October 9, 2018.

At the 2018 Annual Meeting of National American University Holdings, Inc., the stockholders also approved the 2018 Stock Option and Compensation Plan (the “2018 Plan”). The Plan authorizes 1,800,000 shares to aid the Company in recruiting and retaining employees and to align the interests of employees, officers and directors with those of the Company’s stockholders. The Company may grant restricted stock awards, restricted stock units, stock options, stock appreciation rights, stock awards and other stock-based awards. The Plan expires ten years from its inception date.

Restricted stock
During the quarter ended November 30, 2018, 47,615 restricted stock shares with a weighted average grant date fair value of $2.10 per share vested. The Company has 113,635 non-vested restricted stock shares with a weighted average grant date fair value of $0.88 per share that were granted during the quarter ended November 30, 2018 and remain outstanding at February 28, 2019. These shares vest one year from the issuance date. Unrecognized compensation expense associated with these shares total $61 with a remaining amortization period of 0.6 year. Stock compensation expense totaling $25 and $73, respectively, was recorded in the condensed consolidated statements of operations and comprehensive loss during the quarter and year to date periods ended February 28, 2019.

Stock options

The Company accounts for stock option-based compensation by estimating the fair value of options granted using a Black-Scholes option valuation model. The Company recognizes the expense for grants of stock options on a straight-line basis in the consolidated statements of operations and comprehensive income as operating expense based on their fair value over the requisite service period.

During the quarter ended November 30, 2018, the Company granted stock options to purchase 50,000 shares of stock at a weighted average exercise price of $0.44 per share. The granted stock options vest over a one to two-year period from the date issued. No stock options were issued during the quarters ended August 31, 2018 and February 28, 2019. The following assumptions were used to determine the fair value of the stock options awarded:

Assumptions used:	**For the three months ended February 28, 2019**
Expected term (in years)	5.75
Weighted average expected volatility	66.6%
Range of expected volatility	57.1% to 69.0%
Weighted average risk-free interest rate	3.11%
Range of risk-free interest rates	2.93% to 3.84%
Weighted average expected dividend	0.00%
Weighted average fair value per share	$0.27

Stock options for 35,959 shares of common stock with a weighted average exercise price of $3.56 were forfeited during the year to date period ended February 28, 2019. At February 28, 2019, stock options for 207,391 shares are outstanding with a weighted exercise price of $2.79 and a weighted average remaining useful life of 5.9 years. Of the outstanding shares, 163,327 are exercisable with a weighted average exercise price of $3.43 and a weighted average remaining useful life of 4.8 years. No intrinsic value was associated with the stock options at February 28, 2019. The Company recorded compensation expense for stock options of $1 and $4, respectively, for the three and nine months ended February 28, 2019 in the consolidated statements of operations and comprehensive loss. Unamortized compensation associated with stock options at February 28, 2019 is $11 with a remaining amortization term of 1.4 years.

Dividends
To reduce cash requirements, no dividends have been declared or paid since October 6, 2017. The following table summarizes the Company's fiscal 2018 dividend payments:

Date declared	Record date	Payment date	Per share
April 13, 2017	June 30, 2017	July 7, 2017	$0.0450
August 4, 2017	September 30, 2017	October 6, 2017	$0.0450

9. INCOME TAXES

As of February 28, 2019, the Company had net operating loss ("NOL") carryforwards of approximately $29,000, adjusted for certain other non-deductible items available to reduce future taxable income, if any. The NOL carryforward has no expiration. 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. Because management is unable to determine that it is more likely than not that the Company will realize the tax benefit related to the NOL carryforward, by having taxable income, a full valuation allowance has been established to reduce the net tax benefit asset value to zero.

The loss before income taxes for the nine months ended February 28, 2019, created a net tax benefit of approximately $4,609. As realization of this net tax benefit is not assured, a full valuation allowance was recorded for this amount. As such, a full valuation allowance totaling $8,511 is recorded at February 28, 2019, and is included in net deferred income taxes liability in the accompanying condensed consolidated balance sheet.

The Company's effective tax rate was expense of 0.05% for the nine months ended February 28, 2019, as compared to expense of 2.3% for the corresponding period in 2018. The effective tax rate varies from the statutory rate of 21% primarily due to the deferred tax asset valuation allowance, fluctuations in state income taxes as a result of the Company's net loss position, and nondeductible meals expense.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%. The accounting for these changes was completed as of May 31, 2018.

10. LOSS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income attributable to the Company by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share reflect the potential dilution that could occur assuming vesting, conversion or exercise of all dilutive unexercised options and restricted stock.

The following is a reconciliation of the numerator and denominator for the basic and diluted EPS computations:

	Nine months ended February 28,		Three months ended February 28,	
	2019	2018	2019	2018
Numerator:				
Net loss attributable to National American University Holdings, Inc.	$ (20,826)	$ (11,312)	$ (4,565)	$ (3,707)
Denominator:				
Weighted average shares outstanding used to compute basic net income per common share	24,369,869	24,222,864	24,465,124	24,269,158
Incremental shares issuable upon the assumed exercise of stock options	-	-	-	-
Incremental shares issuable upon the assumed vesting of restricted shares	-	-	-	-
Common shares used to compute diluted net income per share	24,369,869	24,222,864	24,465,124	24,269,158
Basic net loss per common share	$ (0.85)	$ (0.47)	$ (0.19)	$ (0.15)
Diluted net loss per common share	$ (0.85)	$ (0.47)	$ (0.19)	$ (0.15)

A total of 207,391 and 200,600 shares of common stock subject to issuance upon exercise of stock options for the nine and three months ended February 28, 2019 and 2018, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

A total of 113,635 and 47,615 shares of common stock subject to issuance upon vesting of restricted shares for the nine and three months ended February 28, 2019 and 2018, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

11. 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 April 2017, a former NAU employee filed a *qui tam* suit against NAU, NAUH, and Dlorah, Inc., alleging certain violations of the Higher Education Act and Title IV program requirements, including (1) alleged misrepresentations to a programmatic accrediting agency, (2) alleged miscalculation of percentage of revenues derived from Title IV program funds under the 90/10 Rule, and (3) alleged noncompliance with the incentive compensation prohibition. The U.S. government decided to not intervene in the lawsuit at that time, and the complaint was then unsealed by the court in January 2018, with an amended complaint being filed on April 24, 2018. The U.S. government reserved the right to intervene at a later time. The case is styled *U.S. ex rel. Brian Gravely v. National American University, et al., Case No. 5:17-cv-05032-JLV*, and remains pending in the U.S. District Court for the District of South Dakota. NAU, NAUH, and Dlorah, Inc., have filed an answer to the amended complaint, denying any legal wrongdoing or liability. 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 determined and, accordingly, no liability has been accrued for this matter.

In December 2018, NAU was served with a lawsuit (Summons and Petition) commenced by two former students of NAU, Shayanne Bowman and Jackquelynn Mortenson (Plaintiffs), 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 styled Shayanne 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 individual defendants, also included in the lawsuit, were all former employees of NAU. The Company served and filed, on January 2, 2019, a formal response to the Petition in the form of a motion to dismiss the Petition. The Company simultaneously filed papers seeking to remove the lawsuit to federal court. The Company's response to the lawsuit denied any legal wrongdoing or liability. The Company intends to vigorously defend the lawsuit. 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 determined at this time and, accordingly, no liability has been accrued for this matter.

On December 1, 2016, KLE Construction, LLC ("KLE") filed a mechanic's lien against Dlorah, Inc., in connection with the construction of a retaining wall and associated work at the Arrowhead View Addition project of Fairway Hills in Rapid City, SD, in the amount of $9 million. KLE subsequently commenced an action to foreclose the mechanic's lien. In a separate proceeding involving this dispute, on July 17, 2017, the District Court for South Dakota, Western Division, issued an Order staying Dlorah, lnc.'s action against KLE and referring the matter to arbitration. On March 12, 2019, the arbitratorissued a Final Award in favor of KLE and against Dlorah, Inc., in the amount of $.8 million, which includes principal, prejudgment interest, attorneys' fees, and costs through March 1, 2019. The parties subsequently entered into a Post-Arbitration Agreement, in which they agreed, among other things, that KLE would take no collection efforts before June 1, 2019. If payment is not made by that date, then KLE may file a Confession of Judgment signed by Dlorah, Inc. and a Judgment of Foreclosure would be entered against the real estate subject to KLE's mechanic's lien.

12. FAIR VALUE MEASUREMENTS

The following table summarizes certain information for assets and liabilities measured at fair value on a recurring basis:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
February 28, 2019				
Investments:				
Restricted certificates of deposit	$ -	$ 8,150	$ -	$ 8,150
Total assets at fair value	$ -	$ 8,150	$ -	$ 8,150
May 31, 2018				
Investments:				
Restricted certificates of deposit	$ -	$ 9,250	$ -	$ 9,250
Total assets at fair value	$ -	$ 9,250	$ -	$ 9,250

Following is a summary of the valuation techniques for assets and liabilities recorded in the consolidated balance sheets at fair value on a recurring basis:

Certificates of deposit ("CD's"): Market prices for certain CD's are obtained from quoted prices for similar assets. The Company classifies these investments as level 2. The certificates at February 28, 2019 and May 31, 2018 are restricted by an $8,000 promissory note with Black Hills Community Bank, N.A. and the balance represents a $150 restricted certificate of deposit held as collateral for the Great Western Bank purchasing card. See Note 14 to these Notes to Consolidated Financial Statements for additional information regarding these certificates of deposit.

Fair value of financial instruments: The Company's financial instruments include cash and cash equivalents, CD's, receivables and payables. The carrying values approximated fair values for cash and cash equivalents, receivables, and payables because of the short term nature of these instruments. CD's are recorded at fair values as indicated in the preceding disclosures.

13. SEGMENT REPORTING

Operating segments are defined as business areas or lines of an enterprise about which financial information is available and evaluated on a regular basis by the chief operating decision maker, or decision-making groups, in deciding how to allocate capital and other resources to such lines of business.

The Company has two reportable segments: NAU and Other. The NAU segment contains the revenues and expenses associated with the University operations. The Company considers each location to be an operating segment, and they are aggregated into the NAU segment for financial reporting purposes, as the locations have similar economic and other conditions. The Other segment contains primarily real estate. General administrative costs of the Company are allocated to specific divisions of the Company. The following table presents the reportable segment financial information, in thousands:

	Nine months ended February 28, 2019			Nine months ended February 28, 2018		
	NAU	Other	Consolidated	NAU	Other	Consolidated
Revenue:						
Academic	$ 39,060	$ -	$ 39,060	$ 53,607	$ -	$ 53,607
Auxiliary	1,926	-	1,926	2,930	-	2,930
Rental income apartments	-	1,042	1,042	-	1,049	1,049
Condominium sales	-	646	646	-	455	455
Other real estate income	-	152	152	-	-	-
Total revenue	40,986	1,840	42,826	56,537	1,504	58,041
Operating expenses:						
Cost of educational services	16,754	-	16,754	19,545	-	19,545
Selling, general & administrative	31,668	1,589	33,257	43,166	1,467	44,633
Auxiliary	1,324	-	1,324	2,079	-	2,079
Cost of condominium sales	-	507	507	-	427	427
Loss on lease termination	4,215	-	4,215	2,112	-	2,112
Loss (gain) on disp/impairment of property	6,406	286	6,692	362	(41)	321
Total operating expenses	60,367	2,382	62,749	67,264	1,853	69,117
Loss from operations	(19,381)	(542)	(19,923)	(10,727)	(349)	(11,076)
Other income (expense):						
Interest income	25	75	100	58	5	63
Interest expense	(604)	(394)	(998)	(628)	-	(628)
Other income (loss) - net	48	-	48	(49)	144	95
Total other (expense)income	(531)	(319)	(850)	(619)	149	(470)
Loss before taxes	$ (19,912)	$ (861)	$ (20,773)	$ (11,346)	$ (200)	$ (11,546)

	As of February 28, 2019			As of February 28, 2018		
	NAU	Other	Consolidated	NAU	Other	Consolidated
Total assets	$ 20,058	$ 12,131	$ 32,189	$ 31,851	$ 11,404	$ 43,255

	Three months ended February 28, 2019			Three months ended February 28, 2018		
	NAU	Other	Consolidated	NAU	Other	Consolidated
Revenue:						
Academic	$ 10,501	$ -	$ 10,501	$ 16,923	$ -	$ 16,923
Auxiliary	521	-	521	955	-	955
Rental income apartments	-	345	345	-	349	349
Condominium sales	-	207	207	-	-	-
Other real estate income	-	49	49	-	-	-
Total revenue	11,022	601	11,623	17,878	349	18,227
Operating expenses:						
Cost of educational services	4,987	-	4,987	6,234	-	6,234
Selling, general & administrative	8,510	542	9,052	13,386	431	13,817
Auxiliary	352	-	352	686	-	686
Cost of condominium sales	-	153	153	-	-	-
Loss on lease termination	1,116	-	1,116	-	-	-
Loss (gain) on disp/impairment of property	(32)	286	254	1,076	-	1,076
Total operating expenses	14,933	981	15,914	21,382	431	21,813
Loss from operations	(3,911)	(380)	(4,291)	(3,504)	(82)	(3,586)
Other income (expense):						
Interest income	13	24	37	14	-	14
Interest expense	(200)	(233)	(433)	(211)	-	(211)
Other income (loss) - net	130	-	130	(40)	48	8
Total other (expense)income	(57)	(209)	(266)	(237)	48	(189)
Loss before taxes	$ (3,968)	$ (589)	$ (4,557)	$ (3,741)	$ (34)	$ (3,775)

14. LETTER OF CREDIT AND LONG-TERM DEBT

During the year ended May 31, 2018, the Company entered into an irrevocable letter of credit with Great Western Bank for $1,000. The letter of credit was required by the state of New Mexico in an amount set by the New Mexico Department of Higher Education. The agreement expired December 19, 2018. This $1,000 letter of credit and the Company's purchasing card account were secured by a restricted certificate of deposit totaling $1,250. The certificate of deposit matured on December 19, 2018. Great Western Bank had restricted the $1,250 certificate of deposit as collateral for the $1,000 letter of credit and the Company's purchasing card account that carried a credit limit of $250.

The Company replaced the $1,000 letter of credit required by the State of New Mexico by submitting an acceptable bond in place of the letter of credit. The bond has no collateral requirements and, as a result, the restriction was released by the bank and the Company restored $1,100 of this restricted cash to unrestricted operating cash effective December 19, 2018. A $150 newly-created restricted certificate of deposit secures the Company's purchasing card account that currently carries a reduced credit limit of $150.

On May 17, 2018, Dlorah and the Company jointly and severally issued to Black Hills Community Bank, N.A. ("Bank") a promissory note in the principal amount of $8,000 (the "Note"), which is secured by a mortgage granted by Dlorah to the Bank on certain real property located in Pennington County, South Dakota, pursuant to a collateral real estate mortgage (the "Mortgage," and together with the Note, the "Loan Agreements") entered into between Dlorah and the Bank on the same date as the Note, and certain related rents, as well as a security interest in certain deposit accounts, to include restricted certificates of deposit totaling $8,000. These certificates of deposit are also restricted by the Bank and are not available for spending.

The Loan Agreements provide for an $8,000 five-year term loan (the “Loan”). The Loan carries a fixed interest rate of 4% (the “Interest Rate”) and is payable as follows: beginning June 17, 2018, 59 consecutive monthly interest-only payments based on the unpaid principal balance of the Loan at the Interest Rate; beginning May 17, 2019, four consecutive annual principal payments of $800 each, during which interest will continue to accrue on the unpaid principal balance of the Loan at the Interest Rate; and on May 17, 2023, one payment of the remaining principal balance and one month of accrued interest of the Loan in the amount of $4,816. The Company and Dlorah may prepay the Loan at any time without penalty unless the Note is refinanced with proceeds derived from another lender, in which case the Bank will be entitled to a prepayment penalty of 1%. The Loan Agreements also contain various affirmative and negative covenants, including financial covenants and events of default. As of February 28, 2019, the Company is in compliance with the covenants included in the Loan Agreements.

The restricted cash balance on the balance sheet includes the $8,000 cash held as restricted certificates of deposit for the promissory note, and $150 held as a certificate of deposit by Great Western Bank to collateralize the company’s purchasing card.

15. REGULATORY MATTERS

Financial Responsibility Composite Score

To participate in Title IV programs, the U.S. Department of Education (the “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 subject the institution to various operating or other requirements. These requirements may include (1) being transferred from the “advance” method of payment of Title IV program funds to the heightened cash monitoring payment method under which the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds from the Department for the amount of those disbursements, or (2) being transferred to the more onerous reimbursement payment method under which an institution must submit to the Department documentation demonstrating the eligibility for each Title IV disbursement and wait for the Department’s approval before drawing down Title IV funds.

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. This includes (1) 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 (2) 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.

Our audited financial statements for the fiscal years ended May 31, 2017 and 2016 indicated our composite scores for such fiscal years were 1.8 and 1.8, respectively, which are sufficient to be deemed financially responsible under the Department of Education's requirements. Our audited financial statements for the fiscal year ended May 31, 2018 indicate our composite score is 1.3; however, on March 8, 2019, NAU received a letter from the Department of Education indicating that it determined our composite score for the fiscal year ended May 31, 2018 to be 1.1. The Department of Education letter of March 8, 2019 also noted several financial matters described in the footnotes to the Company's audited financial statements for the fiscal year ended May 31, 2018 and the Company's Form 10-Q filed with the SEC on January 22, 2019, and the Company's delisting from the Nasdaq and relisting on the OTCQB, 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 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 $36,652,785, 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 $10,995,835, 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 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain of the statements included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as elsewhere in this quarterly report on Form 10-Q are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995 ("Reform Act"). These statements are based on the Company's current expectations and are subject to a number of assumptions, risks and uncertainties. In accordance with the Safe Harbor provisions of the Reform Act, the Company has identified important factors that could cause its actual results to differ materially from those expressed in or implied by such statements. The assumptions, uncertainties and risks include the pace of growth of student enrollment, our continued compliance with Title IV of the Higher Education Act, and the regulations thereunder, as well as regional accreditation standards and state regulatory requirements, competitive factors, risks associated with the offering of new educational programs and adapting to other changes, risks associated with accepting students from closed educational institutions, risks relating to the timing of regulatory approvals, our ability to continue to implement our growth strategy, risks associated with the ability of our students to finance their education in a timely manner, and general economic and market conditions. Further information about these and other relevant risks and uncertainties may be found in the Company's Annual Report on Form 10-K filed on September 14, 2018 and its other filings with the SEC. The Company undertakes no obligation to update or revise any forward looking statement, except as may be required by law.

Background

The Company owns and operates National American University. NAU is a regionally accredited, proprietary, multi-location institution of higher learning, offering associate, baccalaureate, master's and doctoral degree programs in business-related disciplines, such as accounting, management, business administration, and information technology; in healthcare-related disciplines, such as occupational therapy, medical assisting, nursing, surgical technology, and healthcare information and management; in legal-related disciplines, such as paralegal, criminal justice, and professional legal studies; strategic security; and in higher education.

As of February 28, 2019, NAU had 258 students enrolled at its physical locations, 3,140 students for its online programs and 422 students that attended physical hybrid learning locations and also took classes online. NAU supports the instruction of approximately 2,750 additional students at affiliated institutions for which NAU provides online course hosting and technical assistance. NAU provides courseware development, technical support and online class hosting services to various colleges, technical schools and training institutions in the United States and Canada that do not have the capacity to develop and operate their own in-house online curriculum for their students. NAU does not share revenues with these institutions, but rather charges a fee for its services, enabling it to generate additional revenue by leveraging its current online program infrastructure.

The real estate operations, Fairway Hills, consist of apartment facilities and other real estate holdings in Rapid City, South Dakota. The real estate operations generated approximately 4% of our revenues for the quarter ended February 28, 2019. The final condominium that was held in inventory at the previous quarter close was sold during the third quarter of this fiscal year.

On October 29, 2018, the Company's Board of Directors approved a strategic plan that focuses National American University's growth strategies on online academic programs and expanding its programming and services related to strategic security, counter-terrorism, and intelligence for the public and private sectors. National American University remains committed to offering many of its current programs and maintaining its longstanding mission to assist students in achieving their educational goals and preparing them for employment in a rapidly evolving and increasingly competitive employment market.

In alignment with its new strategic plan, National American University suspended new student enrollment in 34 of its 128 programs effective November 1, 2018. National American University will continue to serve active students currently enrolled in these programs. To accelerate its strategic shift to online academic programs and to gain greater efficiencies through the centralization of its student-facing services, the Company is implementing appropriate staff reductions and other personnel actions.

The additional locations that are closed and are no longer servicing students include: Albuquerque East, NM; Austin, TX; Colorado Springs North, CO; Killeen TX; Lees Summit, MO; Lewisville, TX; Mesquite, TX; Minnetonka, MN; Rochester, MN; San Antonio, TX; Watertown, SD; Weldon Springs, MO; Wichita West KS; and Zona Rosa, MO.

The locations that will continue to serve students to teach out their program of study include: Albuquerque West, NM; Bellevue, NE; Centennial, CO; Colorado Springs South, CO; Georgetown, TX; Indianapolis, IN; Overland Park, KS; Rapid City, SD; Richardson, TX; Roseville, MN; Sioux Falls, SD; Tulsa, OK; and Wichita East, KS. In addition, on March 22, 2019, the Company entered into a Teach-Out and Transfer Agreement as well as an Asset Transfer Agreement with Brookline College with respect to the students, programs and certain assets of the Albuquerque West campus.

In alignment with the board-approved strategic plan, the following ground-based programs will no longer accept new students and will be taught out: Diploma in Medical Assisting, AAS in Invasive Cardiovascular Technology, Medical Assisting, Medical Laboratory Technician, Paralegal Studies, Occupational Therapy Assistant, and Surgical Technology; BS in Nursing and Paralegal Studies.

Online programs that will be suspended, taught out, or will serve students via other programs are: Diploma in Accounting and Bookkeeping, Computer Support Specialist, and Computer and Network Server Administrator; AAS in Computer Support Specialist, Construction Management, Electronic Health Record Support Specialist, Emergency Medical Services, Professional Legal Studies, and Retail Management; BS in Professional Legal Studies, Emergency Medical Services Management, Energy and Manufacturing Management, Energy Management, and Organizational Leadership; BS IT emphasis areas in Applications Development, Database Administration, Game Software Development, Internet Systems Development, Management Information Systems, Network Management, and Web Development; RN-BSN; Executive MBA; MS in Global Supply Chain Management, Human Resource Management, and Nursing; and the EdD in Community College Leadership.

Key Financial Results Metrics

Revenue. Revenue is derived mostly from NAU's operations. For the three months ended February 28, 2019, approximately 90% of our revenue was generated from NAU's academic revenue, which consists of tuition and fees assessed at the start of each term. The remainder of our revenue comes from NAU's auxiliary revenue from sources such as NAU's book sales and the real estate operations' rental income. Tuition revenue is reported net of adjustments for refunds, scholarships and estimated dropped students and is recognized on a daily basis over the length of the term (typically three months). During the quarter ended November 30, 2017, we began allowing students to take classes on the 2nd or 3rd month within a term rather than waiting to enroll the following term. Upon withdrawal, students generally are refunded tuition based on the uncompleted portion of the term, unless they have already finished sixty percent or more of the term. Auxiliary revenue is recognized as items are sold and is recorded net of any applicable sales tax.

Factors affecting net 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 deferred income for prepaid 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.

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.

The following chart is a summary of our student enrollment on February 28, 2019 and 2018, by degree type and by instructional delivery method.

	February 28, 2019 (Winter 2018 Term)		**February 28, 2018 (Winter 2017 Term)**		
	Number of Students	**% of Total**	**Number of Students**	**% of Total**	**YOY Percent Change**
Doctoral	174	4.6%	111	1.9%	56.8%
Graduate	376	9.8%	393	6.6%	-4.3%
Undergraduate & Diploma	3,270	85.6%	5,477	91.5%	-40.3%
Total	3,820	100.0%	5,981	100.0%	-36.1%
All Campus	258	6.8%	617	10.3%	-58.2%
All Online	3,140	82.2%	4,617	77.2%	-32.0%
Mixed	422	11.0%	747	12.5%	-43.5%
Total	3,820	100.0%	5,981	100.0%	-36.1%

The combined enrollment in the doctoral and graduate programs increased 9.1% in the winter term 2019 as compared to the winter term 2018. However, the continuing education programs for students who enroll in one-off courses were eliminated pursuant to our plans to phase out those programs. The undergraduate and diploma programs decreased 40.3% due to lower market demand among our targeted student demographic. The overall 36.1% decline in enrollment was across all course delivery methods. We believe our investment to expand academic programming and our growth strategies will be critical in growing all segments.

Expenses. Expenses consist of cost of educational services; selling, general and administrative; auxiliary expense; cost of condominium sales; loss on impairment and disposition of property and equipment; and loss on lease termination and acceleration. Cost of educational services contains 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 include the salaries of the student service positions, salaries and benefits of admissions staff, marketing expenditures, salaries of other support and leadership services (including finance, human resources, compliance and other corporate functions), legal expenses, as well as depreciation and amortization, bad debt expenses and other related costs associated with student support functions. Auxiliary expenses include primarily costs associated with book sales. Cost of condominium sales is the expense related to condominiums that are sold during the reporting period. The gain or loss on disposition of property and equipment represents the income received and the cost incurred in the disposal of assets that are no longer used by us. The loss on impairment represents the charges associated the determination that the carrying value of fixed assets at the ground locations should be removed from the balance sheet. The loss on lease termination and acceleration represents acceleration of future lease obligations at ground locations that have closed and present no future economic benefit.

Factors affecting comparability

Set forth below are selected factors we believe have had, or which we expect to have, a significant effect on the comparability of our recent or future results of operations:

Introduction of new programs and specializations. We plan to develop additional degree and diploma programs and specializations over the next several years. When introducing new programs and specializations, we invest in curriculum development, support infrastructure and marketing research. Revenues associated with these new programs are dependent upon enrollments, which are lower during the periods of introduction. During this period of introduction and development, the rate of growth in revenues and operating income has been, and may be, adversely affected, in part, due to these factors. Historically, as the new programs and specializations mature, increases in enrollment are realized, cost-effective delivery of instructional and support services are achieved, economies of scale are recognized and more efficient marketing and promotional processes are gained.

Seasonality. Our operations are generally subject to seasonal trends. While we enroll students throughout the year, summer and winter quarter new enrollments and revenue are generally lower than enrollments and revenue in other quarters due to the traditional custom of summer breaks and the holiday break in December and January. In addition, we generally experience an increase in enrollments in the fall of each year when most students seek to begin their post-secondary education.

Results of Operations — Nine Months Ended February 28, 2019 Compared to the Nine Months Ended February 28, 2018

National American University Holdings, Inc.

The following table sets forth the consolidated statements of operations data as a percentage of total revenue for each of the periods indicated:

	Nine Months Ended February 28,	
	2019	2018
TOTAL REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Cost of educational services	39.1%	33.7%
Selling, general and administrative	77.7%	76.9%
Auxiliary expense	3.1%	3.6%
Cost of condominium sales	1.2%	0.7%
Loss on lease termination and acceleration	9.8%	0.6%
Loss on impairment and disposition of property and equipment	15.6%	3.6%
TOTAL OPERATING EXPENSES	146.5%	119.1%
OPERATING LOSS	-46.5%	-19.1%
OTHER INCOME (EXPENSE):		
Interest income	0.2%	0.1%
Interest expense	-2.3%	-1.1%
Other income — net	0.1%	0.2%
LOSS BEFORE INCOME TAXES	-48.5%	-19.9%

For the nine months ended February 28, 2019, our total revenue was $42.8 million, a decrease of $15.2 million or 26.2%, as compared to total revenue of $58 million for the same period in fiscal 2018. The change was primarily due to a decrease in enrollment. The decrease in enrollment is due to lower market demand among our targeted student demographic. Our revenue for the nine months ended February 28, 2019 consisted of $41 million from our NAU operations and $1.8 million from our other operations.

Total operating expenses were $62.7 million for the nine months ended February 28, 2019, which is a decrease of $6.4 million compared to $69.1 million in the same period in 2018. This overall decrease in expense is the result of cost savings associated with the closure and teach out of ground locations. In the first three quarters of the current fiscal year, the Company incurred fixed asset impairment and lease acceleration charges of $10.9 million resulting from the closure and teach out of ground locations, compared to $2.5 million in the same period last year. Cost of educational services is down $2.8 million, or 14.3%, compared to the same period last year. Selling, general, and administrative expenses are down $11.4 million, or 25.5%, compared to the same period last year. These expenses are lower due to the closure and teach out of ground locations and lower enrollment. The number of administrators and teachers at the ground locations is lower for the nine months ended February 28, 2019, compared to the nine-month period ended February 28, 2018.

The operating loss was $19.9 million for the nine months ended February 28, 2019, compared to $11.1 million for the same period in 2018. Net loss attributable to the Company was $20.8 million for the nine months ended February 28, 2019 as compared to a net loss attributable to the Company of $11.3 million for the nine months ended February 28, 2018. The primary reason for the increase in net loss is the fixed asset impairments and lease acceleration charges of $10.9 million resulting from the closure and teach out of ground locations in the first three quarters of the fiscal year.

NAU

The following table sets forth statements of operations data as a percentage of total revenue for NAU only for each of the periods indicated:

	Nine Months Ended February 28,	
	2019	**2018**
TOTAL REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Cost of educational services	40.9%	34.6%
Selling, general and administrative	77.3%	76.4%
Auxiliary services	3.2%	3.7%
Cost of condominium sales	0.0%	0.0%
Loss on lease termination and acceleration	10.3%	0.6%
Loss on impairment and disposition of property and equipment	15.6%	3.7%
TOTAL OPERATING EXPENSES	147.3%	119.0%
OPERATING LOSS	-47.3%	-19.0%
OTHER INCOME (EXPENSE):		
Interest Income	0.1%	0.1%
Interest Expense	-1.5%	-1.1%
Other Income - net	0.1%	-0.1%
LOSS BEFORE INCOME TAXES	-48.6%	-20.1%

Total revenue. The total revenue for NAU for the nine months ended February 28, 2019 was $41 million, a decrease of $15.6 million or 27.5% as compared to total revenue of $56.5 million for the same period in 2018. The decrease was primarily due to an enrollment decrease. The enrollment decrease is due to lower market demand among our targeted student demographic due in part to the current improving economic climate, in which many working adults have chosen not to attend school.

The academic revenue for the nine months ended February 28, 2019 was $39.1 million, a decrease of $14.5 million or 27.1%, as compared to academic revenue of $53.6 million for the same period in 2018. The decrease was primarily due to lower enrollments over the prior year. The auxiliary revenue for the nine months ended February 28, 2019 was $1.9 million, a decrease of $1.0 million or 34.3%, as compared to auxiliary revenue of $2.9 million for the same period in 2018. This decrease in auxiliary revenue was primarily driven by decreased enrollments and lower book sales.

Cost of educational services. The educational services expense for the nine months ended February 28, 2019 decreased $2.8 million, to $16.8 million, as compared to $19.5 million for the same period in 2018. This decrease was due to reduced instruction and instructional support staff due to lower enrollments in certain locations and programs. The cost of educational services as a percentage of total revenue for the nine months ended February 28, 2019, was 40.9%, as compared to 34.6% for the same period in 2018 primarily due to fixed costs, such as facility expenses, together with a decreasing revenue base.

Selling, general and administrative expenses. The selling, general and administrative expenses as a percentage of net revenue for the nine months ended February 28, 2019 was 77.3%, as compared to 76.4% for the same period in 2018. The selling, general and administrative expenses for the nine months ended February 28, 2019 were $31.7 million, a decrease of $11.5 million or 26.6%, as compared to selling, general and administrative expenses of $43.2 million for the same period in 2018. The decreases were primarily due to lower bad debt expense as a result of reduced revenue, improved account collections and a reduction in labor costs as we continue to close and teach out ground locations.

Loss on impairment of property and equipment and acceleration of lease expense. The loss on impairment of property and equipment was $6.4 million during the nine months ended February 28, 2019. During the second quarter 2019, management determined that the estimated future undiscounted cash flows associated with the assets of all ground locations were not sufficient to recover their carrying value. Accordingly, the carrying values of the assets, primarily classroom and office equipment and leasehold improvements, were reduced to zero. The charge for acceleration of leases at the closed ground locations totaled $4.2 million in the nine months ended February 28, 2019.

Results of Operations — Three Months Ended February 28, 2019 Compared to the Three Months Ended February 28, 2018

National American University Holdings, Inc.

The following table sets forth the consolidated statements of operations data as a percentage of total revenue for each of the periods indicated:

NAUH

	Three Months Ended February 28,	
	2019	2018
TOTAL REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Cost of educational services	42.9%	34.2%
Selling, general and administrative	77.9%	75.8%
Auxiliary expense	3.0%	3.8%
Cost of condominium sales	1.3%	0.0%
Loss on lease termination and acceleration	9.6%	0.0%
Loss on impairment and disposition of property and equipment	2.2%	5.9%
TOTAL OPERATING EXPENSES	136.9%	119.7%
OPERATING LOSS	-36.9%	-19.7%
OTHER INCOME (EXPENSE):		
Interest income	0.3%	0.1%
Interest expense	-3.7%	-1.2%
Other income — net	1.1%	0.0%
LOSS BEFORE INCOME TAXES	-39.2%	-20.8%

For the three months ended February 28, 2019, our total revenue was $11.6 million, a decrease of $6.6 million or 36.2%, as compared to total revenue of $18.2 million for the same period in fiscal 2018. The change was primarily due to a decrease in average enrollments of 36.1% for the three months ended February 28, 2019 over the prior year. The decrease in average enrollments is due to lower market demand among our targeted student demographic. Our revenue for the three months ended February 28, 2019 consisted of $11 million from our NAU operations and $0.6 million from our other operations.

Total operating expenses were $15.9 million for the three months ended February 28, 2019, which is a decrease of $5.9 million compared to $21.8 million in the same period in 2018. This overall decrease in expense is the result of the closure and teach out of ground locations. Cost of educational services is down $1.2 million, or 20%, compared to the same quarter last year. Selling, general, and administrative expenses are down $4.8 million, or 34.5%, compared to the same quarter last year. These expenses are lower due to a reduction in labor costs as we continue to close and teach out ground locations.

The operating loss was $4.3 million for the three months ended February 28, 2019, compared to $3.6 million for the same period in 2018. The primary reason for the increase in net loss is the fixed asset impairments and lease acceleration charges of $1.4 million resulting from the closure and teach out of ground locations.

NAU

The following table sets forth statements of operations data as a percentage of total revenue for NAU only for each of the periods indicated:

	Three Months Ended February 28,	
	2019	**2018**
TOTAL REVENUE	100.0%	100.0%
OPERATING EXPENSES:		
Cost of educational services	45.2%	34.9%
Selling, general and administrative	77.2%	74.9%
Auxiliary services	3.2%	3.8%
Cost of condominium sales	0.0%	0.0%
Loss on lease termination and acceleration	10.1%	0.0%
Loss on impairment and disposition of property and equipment	-0.3%	6.0%
TOTAL OPERATING EXPENSES	135.4%	119.6%
OPERATING LOSS	-35.4%	-19.6%
OTHER INCOME (EXPENSE):		
Interest Income	0.1%	0.1%
Interest Expense	-1.8%	-1.2%
Other Income - net	1.2%	-0.2%
LOSS BEFORE INCOME TAXES	-35.9%	-20.9%

Total revenue. The total revenue for NAU for the three months ended February 28, 2019 was $11 million, a decrease of $6.9 million or 38.3% as compared to total revenue of $17.9 million for the same period in 2018. The decrease was primarily due to an enrollment decrease for the three months ended February 28, 2019 over the same period in 2018. The enrollment decrease is due to lower market demand among our targeted student demographic due in part to the current improving economic climate, in which many working adults have chosen not to attend school.

The academic revenue for the three months ended February 28, 2019 was $10.5 million, a decrease of $6.4 million or 37.9%, as compared to academic revenue of $16.9 million for the same period in 2018. The decrease was primarily due to lower enrollments over the prior year. The auxiliary revenue for the three months ended February 28, 2019 was $0.5 million, a decrease of $0.4 million or 45%, as compared to auxiliary revenue of $1.0 million for the same period in 2018. This decrease in auxiliary revenue was primarily driven by decreased enrollments and lower book sales.

Cost of educational services. The educational services expense for the three months ended February 28, 2019 decreased $1.2 million, to $5.0 million, as compared to $6.2 million for the same period in 2018. This decrease was due to reduced instruction and instructional support staff due to lower enrollments in certain locations and programs. The cost of educational services as a percentage of total revenue for the three months ended February 28, 2019, was 45.2%, as compared to 34.9% for the same period in 2018 primarily due to fixed costs, such as facility expenses, together with a decreasing revenue base.

Selling, general and administrative expenses. The selling, general and administrative expenses as a percentage of net revenue for the three months ended February 28, 2019 was 77.2%, as compared to 74.9% for the same period in 2018. The selling, general and administrative expenses for the three months ended February 28, 2019 were $8.5 million, a decrease of $4.9 million or 36.4%, as compared to selling, general and administrative expenses of $13.4 million for the same period in 2018. The decreases were primarily due to a reduction in labor costs as we continue to close and teach out ground locations.

Loss on impairment of property and equipment and acceleration of lease expense. The gain on impairment and disposition of property and equipment was $0.3 million during the three months ended February 28, 2019. The charge for acceleration of leases at the closed ground locations totaled $1.1 million in the three months ended February 28, 2019.

Liquidity and Capital Resources

For the nine months ended February 28, 2019, cash used in operating activities was $5.6 million and unrestricted cash and cash equivalents decreased by $4.9 million from May 31, 2018. As of February 28, 2019, the Company had $0.4 million of unrestricted cash and cash equivalent, working capital deficiency of $10 million, and a negative total stockholder's equity of $4 million.

On March 8, 2019, the Company received a letter from the Department of Education, in which it determined that NAU did not meet its financial responsibility standards for institutions that participate in Title IV programs. As a result, the letter required, among other things, NAU to either (1) post a letter of credit to the Department of Education in the amount of $36,652,785, representing 50% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, or (2) post a letter of credit to the Department of Education in the amount of $10,995,835, representing 15% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, to be accompanied by the provisional form of certification to participate in Title IV programs. On March 22, 2019, NAU submitted a request to the Department of Education for reconsideration of the letter of credit requirement, as well as the amount and timing for any required letter of credit. The result of the Company's request was unknown as of the issuance date of these financial statements.

Considering the Company's financial position as of February 28, 2019 and the requirement to post a letter of credit to the Department of Education as described above, if such requirement if not subsequently reconsidered or amended by the Department of Education, the Company believes that there is substantial doubt about its ability to continue as a going concern for at least twelve months following the issuance of these financial statements.

During the quarter ended February 28, 2019, the Company continued to implement actions to address its liquidity needs as follows:

- During the quarter ended February 28, 2019, the Company continued to implement an operational plan that focuses on online academic programs and expanding its programming and services related to strategic security, counter-terrorism, and intelligence for the public and private sectors. In alignment with this new operational change, NAU suspended new student enrollment in 34 of its 128 programs and is in the process of closing its ground-based locations. This operational change may put additional pressure on the Company's revenue in the immediate future. However, the Company expects a significant decrease in expenses with a lesser impact on revenue in the long run. See note 7 for further details on the Company's operational change.

- The Company sold one out of two aircrafts for proceeds of $0.6 million on January 25, 2019. The estimated proceeds from the other aircraft, as well as the savings from the related maintenance and operating costs, are approximately $0.9 million. The Company has been actively marketing and advertising to sell the second aircraft, which management expects will be completed within the next few quarters.

- Management is actively pursuing mortgage financing of approximately $5 million with a portion of the company's real estate serving as collateral. Also, the company is considering the sale of its real estate condominium holdings for approximately $4 million.

Operating Activities. Net cash used in operating activities for the nine months ended February 28, 2019 was $5.6 million, as compared to $6.3 million for the nine months ended February 28, 2018. This increase in cash used in operating activities is primarily due to a $9.5 million increase in net loss, partially offset by an increase in non-cash impairment charges and an increase in Accounts Payable..

Investing Activities. Net cash provided by investing activities was $1.0 million for the nine months ended February 28, 2019, as compared to $1.4 million of net cash provided by investing activities for the nine months ended February 28, 2018. For the current year results, the cash provided by investing activities was generated by the maturation of the restricted certificate of deposit held by Great Western Bank and sale of the aircraft. The reduction in cash provided by investing activities was due to a decrease in proceeds from sale of certificates of deposit, offset by a decrease in purchases of available for sale investments and property and equipment.

Financing Activities. Net cash used in financing activities was $0.3 million and $2.4 million for the nine months ended February 28, 2019 and 2018, respectively. The reduction in cash used in financing activities was due to a $2.2 million reduction in dividends paid.

Contractual Obligations. A summary of future obligations under our various contractual obligations and commitments as of May 31, 2018 was disclosed in our fiscal year 2018 Annual Report on Form 10-K. During the three months ended February 28, 2018, there were no material changes to this previously disclosed information.

LBITDA

LBITDA consists of loss attributable to the Company plus income from non-controlling interest, minus interest income, plus interest expense, plus income taxes, plus depreciation and amortization. We use LBITDA as a measure of operating performance. However, LBITDA is not a recognized measurement under U.S. GAAP, and when analyzing our operating performance, investors should use LBITDA in addition to, and not as an alternative for, the results of operations as determined in accordance with U.S. GAAP. Because not all companies use identical calculations, our presentation of LBITDA may not be comparable to similarly titled measures of other companies and is therefore limited as a comparative measure. Furthermore, as an analytical tool, LBITDA has additional limitations, including that (a) it is not intended to be a measure of free cash flow, as it does not consider certain cash requirements such as tax payments; (b) it does not reflect changes in, or cash requirements for, our working capital needs; and (c) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and LBITDA does not reflect any cash requirements for such replacements, or future requirements for capital expenditures or contractual commitments. To compensate for these limitations, we evaluate our results of operations by considering the economic effect of the excluded expense items independently as well as in connection with our analysis of cash flows from operations and through the use of other financial measures.

We believe LBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's operating performance without regard to certain non-cash expenses (such as depreciation and amortization) and expenses that are not reflective of our core operating results over time. We believe LBITDA presents a meaningful measure of corporate performance exclusive of our capital structure, the method by which assets were acquired and non-cash charges, and provides us with additional useful information to measure our performance on a consistent basis, particularly with respect to changes in performance from period to period.

The following table provides a reconciliation of net loss attributable to the Company to LBITDA (In thousands):

	Nine Months Ended February 28,		Three Months Ended February 28,	
	2019	2018	2019	2018
Net Loss Attributable to the Company	(20,826)	(11,312)	(4,565)	(3,707)
Income Attributable to Non-Controlling Interest	42	34	15	15
Interest Income	(100)	(63)	(37)	(14)
Interest Expense	998	628	433	211
Income Taxes	11	(268)	(7)	(83)
Depreciation and Amortization	2,707	3,577	666	1,137
LBITDA	(17,168)	(7,404)	(3,495)	(2,441)

Off-Balance Sheet Arrangements

Other than operating leases, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Impact of Inflation

We increase tuition (usually once a year) to assist in offsetting inflationary impacts without creating a hardship for students. Consistent with our operating plan, a yearly salary increase in December (supported by evaluations and recommendations from supervisors) is considered to help alleviate the inflationary effects on staff. There can be no assurance that future inflation will not have an impact on operating results and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

None

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as this term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation,our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of that date, due to a material weakness in our internal control environment over financial reporting as we did not have personnel with sufficient accounting experience to ensure that more complex accounting analyses are properly prepared and reviewed. Specifically, our controls were not properly designed to provide reasonable assurance that we (1) adequately prepare and review the forecast assumptions incorporated into our acquired asset valuation model used for purchase accounting purposes, (2) properly assess and conclude on long-lived asset impairments at the end of each reporting period, and (3) adequately prepare and review forecast assumptions used in our preparation of forecasted financial information used to assess our ability to continue as a going concern. The material weakness is principally the result of insufficient accounting resources and insufficient technical competence of its financial personnel to appropriately perform and to monitor the performance of control activities. The material weakness was disclosed in Item 9A of the Company's May 31, 2018 Form 10-K filed on September 14, 2018.

Based on its evaluation of the effectiveness of the design and operation of our internal control over financial reporting as of February 28, 2018, management has identified no new material weaknesses other than those described in the Form 10-K. Although progress has been made to address such material weaknesses, management has concluded that the material weakness due to insufficient accounting resources and insufficient technical competence of its financial personnel continues to exist as of February 28, 2019, and therefore, has also concluded that our disclosure controls and procedures were not effective as of February 28, 2019 for the same reasons disclosed in the Form 10-K.

(b) Changes in Internal Control Over Financial Reporting

In light of the material weaknesses in internal control over financial reporting that continued to exist as of February 28, 2019, management performed additional analysis and procedures to ensure the unaudited consolidated financial statements were prepared in accordance with U.S. GAAP. Accordingly, management believes that the unaudited consolidated financial statements and schedules included in this Form 10-Q fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

Management, with oversight from the Audit Committee, is working to fully remediate the material weaknesses in internal control over financial reporting disclosed in the Form 10-K. No additional changes in our internal control over financial reporting were identified during the quarter ended February 28, 2019 that materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be a party to various claims, lawsuits or other proceedings that arise in the ordinary course of our business. We are not at this time, a party, as plaintiff or defendant, to any legal proceedings, which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation.

Item 1A. Risk Factors.

New rulemaking by the Department of Education could result in regulatory changes that could reduce our enrollment and revenue, increase costs of operations, and adversely affect our business.

Negotiated rulemaking is a process whereby the Department of Education consults with members of the postsecondary education community to identify issues of concern and attempts to agree on proposed regulatory revisions to address those issues before the Department of Education formally proposes any regulations. If the Department of Education and negotiators cannot reach consensus on the entire package of draft regulations, the Department of Education is authorized to propose regulations without being bound by any agreements made in the negotiation process. In recent years, the Department of Education has held negotiated rulemaking sessions and published regulations on various topics, as described further in "Item 1 – Business – Regulatory Matters – Changes in Department of Education Regulations." in our most recent Form 10-K.

On October 15, 2018, the Department of Education announced that it would establish a new negotiated rulemaking committee to develop proposed regulations relating to, among other things, accreditation, distance learning and educational innovation, TEACH grants, and participation in the Title IV programs by faith-based educational entities. The negotiated rulemaking committee and three related subcommittees have held meetings in January, February, March and April of 2019. We are unable to predict when the Department of Education may ultimately issue regulations on these topics, the result of any other current or future rulemakings, or the impact of such rulemakings on our business.

We cannot predict with certainty when or whether the Department of Education will propose or finalize regulations on topics that may impact us, or the impact of any regulations resulting from the Department of Education's current or future rulemaking activities. In addition, Congress may promulgate legislation, and the executive branch may issue executive orders which would impact us. Any such actions could reduce our enrollments, increase our cost of doing business, and have a material effect on our business. In addition, 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.

If the Department of Education does not recertify us to continue participating in Title IV programs, our students would lose their access to Title IV program funds, or we could be recertified but required to accept significant limitations as a condition of our continued participation in Title IV programs.

The Department of Education certification to participate in Title IV programs lasts a maximum of six years, and institutions are required to seek recertification from the Department of Education on a regular basis to continue their participation in Title IV programs. An institution must also apply for recertification by the Department of Education if it undergoes a change in control, as defined by Department of Education regulations, and may be subject to similar review if it expands its operations or educational programs in certain ways. Generally, the recertification process includes a review by the Department of Education of the institution's educational programs and locations, administrative capability, financial responsibility and other oversight categories. The Department of Education could limit, suspend or terminate an institution's participation in Title IV programs for violations of the Higher Education Act or Title IV regulations. Our current certification to participate in the Title IV programs became effective in June 2013 and extends through March 31, 2019. Because NAU timely submitted an application for recertification to the Department of Education, its existing certification to participate in the Title IV programs continues on a month-to-month basis until the Department of Education issues a decision on the application for recertification.There can be no assurance that the Department of Education will recertify us after our current period of certification or that it would not impose restrictions in connection with any such recertification. In addition, the Department of Education may take emergency action to suspend our certification without advance notice if it receives reliable information that we are violating Title IV requirements and it determines that immediate action is necessary to prevent misuse of Title IV funds. If the Departmentof Education does not renew or withdraws our certification to participate in Title IV programs at any time, our students would no longer be able to receive Title IV program funds. Similarly, the Department of Education could renew our certification, but restrict or delay our students' receipt of Title IV funds, limit the number of students to whom it could disburse such funds or impose other restrictions. Any of these outcomes could have a material effect on NAU's enrollments and our business, financial condition and results of operations.

If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and for campuses in the state to participate in Title IV programs.

We operate physical facilities offering educational programs in South Dakota, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma and Texas. To maintain our state authorizations, we must continuously meet standards relating to, among other things, educational programs, facilities, instructional and administrative staff, marketing and recruitment, financial operations, addition of new locations and educational programs and various operational and administrative procedures. We may need to apply for additional authorization in these or other states in which we are authorized in order to comply with the Department of Education's state authorization requirements, and the authorization process could result in unexpected delays or other setbacks that could jeopardize our Title IV eligibility. If we fail to satisfy any of these standards, we could lose our authorization from the applicable state educational agency to offer educational programs and could be forced to cease operations in such state. Such a loss of authorization would also cause our physical campus in the state to lose eligibility to participate in Title IV programs. Some states may also prescribe financial regulations that are different from those of the Department of Education and many require the posting of surety bonds. If we fail to comply with state licensing requirements, we may lose our state licensure or authorizations. If we lose state licensure in a state in which we have a physical location, we would also lose Title IV eligibility in that state. Any such event could have a material effect on our business, financial condition and results of operations.

On December 19, 2016, the Department of Education published final regulations regarding state authorization for programs offered through distance education and state authorization for foreign locations of institutions. Among other provisions, these final regulations require that an institution participating in the Title IV programs and offering postsecondary education through distance education be authorized by each state in which the institution enrolls students, if such authorization is required by the state. These final regulations, which became effective July 1, 2018, are further described in "Item 1 – Business – Regulation of Federal Financial Aid Programs – State Authorization" of our most recently filed Form 10-K. Independent of this matter of federal regulation, several states have asserted jurisdiction over educational institutions offering online programs that have no physical location or other presence in the state, but that have some activity in the state, such as enrolling or offering educational services to students who reside in the state, conducting practice or sponsoring internships in the state, employing faculty who reside in the state or advertising to or recruiting prospective students in the state. Thus, our activities in certain states constitute a presence requiring licensure or authorization under requirements of state law, regulation or policy of the state educational agency, even though we do not have a physical facility in such states. Therefore, in addition to the states where we maintain physical facilities, we have either obtained approvals or exemptions, or are currently in the process of obtaining such approvals or exemptions, that we believe are necessary in connection with our activities that may constitute a presence in such states requiring licensure or authorization by the state educational agency based on the laws, rules or regulations of that state. Notwithstanding our efforts to obtain approvals or exemptions, state regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and can change frequently. Because we enroll students in online programs in all 50 states and the District of Columbia, we expect that regulatory authorities in other states where we are not currently licensed or authorized may request that we seek additional licenses or authorizations for these institutions in their states in the future. In recent years several states have voluntarily entered into State Authorization Reciprocity Agreements ("SARA") that establish standards for interstate offering of post-secondary distance education courses and programs. If an institution's home state participates in SARA and authorizes the institution to provide distance education in accordance with SARA standards, then the institution need not obtain additional authorizations for distance education from any other SARA member state. The SARA participation requirements and process are administered by the four regional higher education compacts in the United States (the Midwestern Higher Education Compact, the New England Board of Higher Education, the Southern Regional Education Board and the Western Interstate Commission for Higher Education) and are overseen by the National Council for State Authorization Reciprocity Agreements. NAU was most recently approved to participate in SARA, through the SARA Coordinator of the South Dakota Board of Regents ("SDBOR") as a state portal agency, for the period April 20, 2018 through April 19, 2019. On April 1, 2019, SDBOR informed NAU that, based on our most recent financial responsibility composite score as determined by the Department of Education and a review by SDBOR of additional financial information provided by us, SDBOR extended NAU's participation in SARA on a provisional basis effective April 1, 2019 through March 31, 2020. In connection with that provisional status, we must submit quarterly reports to SDBOR, including any updates to, and specifically noting deviations from, the financial information previously provided to SDBOR. The April 1, 2019 letter from SDBOR also informed NAU of the conditions under which its provisional participation in SARA may be extended beyond March 31, 2020. If NAU is unable to satisfy the conditions set forth in the April 1, 2019 letter for extension of its SARA participation beyond March 31, 2020, we may be required to obtain state licensure or authorization in states beyond those where we operate physical facilities.

If we fail to comply with state licensing or authorization requirements for a state, or fail to obtain licenses or authorizations when required, we could lose state licensure or authorization by that state, which could prohibit us from recruiting prospective students or offering services to current students in that state. We could also be subject to other sanctions, including restrictions on activities in that state, fines and penalties. We review the licensure requirements of other states when we believe that it is appropriate to determine whether our activities in those states may constitute a presence or otherwise may require licensure or authorization by the respective state education agencies. New laws, regulations or interpretations related to offering educational programs online could increase our cost of doing business and affect our ability to recruit students in particular states, which could, in turn, adversely affect our enrollments and revenues and have a material effect on our business.

The Department of Education may adopt regulations governing federal student loan debt forgiveness that could result in liability for amounts based on borrower defenses or affect the Department of Education's assessment of our institutional capability.

On November 1, 2016, the Department of Education published final regulations that among other provisions, establish new standards and processes for determining whether a Direct Loan Program borrower has a defense to repayment on a loan due to acts or omissions by the institution at which the loan was used by the borrower for educational expenses. These final regulations (the "2016 Borrower Defense Final Rule") were published with an effective date of July 1, 2017. Among other topics, the 2016 Borrower Defense Final Rule establishes permissible borrower defense claims for discharge, procedural rules under which claims will be adjudicated, time limits for borrowers' claims, and guidelines for recoupment by the Department of Education of discharged loan amounts from institutions of higher education. The 2016 Borrower Defense Final Rule also prohibits schools from using any pre-dispute arbitration agreements, prohibits schools from prohibiting relief in the form of class actions by student borrowers, and invalidates clauses imposing requirements that students pursue an internal dispute resolution process before contacting authorities regarding concerns about an institution. For proprietary institutions, the 2016 Borrower Defense Final Rule describes the threshold for loan repayment rates that will require specific disclosures to current and prospective students and the applicable loan repayment rate methodology. The 2016 Borrower Defense Final Rule also establishes important new financial responsibility and administrative capacity requirements for both not-for-profit and for-profit institutions participating in the Title IV programs. For example, certain events would automatically trigger the need for a school to obtain a letter of credit, including for publicly traded institutions, if the SEC warns the school that it may suspend trading on the school's stock, the school failed to timely file a required annual or quarterly report with the SEC, or the exchange on which the stock is traded notifies the school that it is not in compliance with exchange requirements or the stock is delisted.

Other events would will require a recalculation of an institution's composite score of financial responsibility, including, for a proprietary institution whose score is less than 1.5, any withdrawal of an owner's equity by any means, including by declaring a dividend, unless the equity is transferred within the affiliated entity group on whose basis the composite score was calculated. The 2016 Borrower Defense Final Rule also sets forth events that are discretionary triggers for letters of credit, meaning that if any of them occur, the Department of Education may choose to require a letter of credit, increase an existing letter of credit requirement or demand some other form of surety from the institution. The 2016 Borrower Defense Final Rule provides that if an institution fails to meet the composite score requirement for longer than three years under provisional certification, the Department of Education may mandate additional financial protection from the institution or any party with "substantial control" over the institution. Such parties with "substantial control" must agree to jointly and severally guarantee the Title IV program liabilities of the institution at the end of the three-year provisional certification period. Under current regulations, a party may be deemed to have "substantial control" over an institution if, among other factors, the party directly or indirectly holds an ownership interest of 25% or more of an institution, or is a member of the board of directors, a general partner, the chief executive officer or other executive officer of the institution.

On June 15, 2017, the Department of Education announced an indefinite delay to its implementation of the 2016 Borrower Defense Final Rule, and on June 16, 2017 published a notice of intent to establish a negotiated rulemaking committee to develop proposed revisions to the rule. On August 30, 2017, the Department of Education published a Federal Register notice requesting nominations for individuals to serve on this negotiated rulemaking committee, and on October 24, 2017, the Department of Education promulgated an interim final rule under which the effective date of most substantive provisions of the 2016 Borrower Defense Final Rule were delayed until July 1, 2019. The negotiated rulemaking committee sessions occurred in November 2017, January 2018, and February 2018, during which the Department of Education and negotiators failed to reach consensus on a revised regulation. Additionally, on July 6, 2017, the attorneys general of 18 states and the District of Columbia filed suit against the Department of Education claiming that its delay of the 2016 Borrower Defense Final Rule violated applicable law, including the Administrative Procedure Act. On September 12, 2018, the U.S. District Court for the District of Columbia issued a decision concluding that the above-described delay of the 2016 Borrower Defense Final Rule was improper. In a series of opinions and orders on September 17 and October 12, 2018, the Court reinstated the 2016 Borrower Defense Final Rule and it is now in effect. As described above, under the 2016 Borrower Defense Final Rule, certain events would automatically trigger the need for a school to obtain a letter of credit, including for publicly traded institutions, if the SEC warns the school that it may suspend trading on the school's stock, the school failed to timely file a required annual or quarterly report with the SEC, or the exchange on which the stock is traded notifies the school that it is not in compliance with exchange requirements or the stock is delisted. On September 28, 2018, the Company received written notice from The Nasdaq Stock Market ("Nasdaq") that the closing bid price for its common stock was not in compliance with the minimum bid price requirement for continued inclusion on Nasdaq. On December 26, 2018, the Company also received a written deficiency notice from Nasdaq indicating that the Company no longer meets the requirement to maintain a minimum market value of publicly held shares. On December 31, 2018, the Company notified Nasdaq of its intention to voluntarily delist from Nasdaq and to transfer the listing of its common stock to the OTCQB Market (the "OTCQB"), a centralized electronic quotation service for over-the-counter securities.

On March 8, 2019, NAU received a letter from the Department of Education that cited, among other factors, the September 28, 2018 and December 26, 2018 notices from Nasdaq of noncompliance with listing requirements, in its determination that NAU does not meet 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 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 $36,652,785, 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 $10,995,835, 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 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. We cannot predict either the timing or the substance of a response from the Department of Education. If the Department of Education does not reconsider or amend the letter of credit requirement as set forth in its March 8, 2019 letter, and we are unable to provide the letter of credit both before the required date and in the required amount, the Department of Education may initiate an action to terminate NAU's participation in Title IV programs. Such an action by the Department of Education could have a material effect on our business, financial condition and results of operations.

On July 31, 2018, the Department of Education published in the Federal Register a proposed rule (the "2018 Borrower Defense Proposed Rule") which would replace most substantive provisions of the 2016 Borrower Defense Final Rule. The 2018 Borrower Defense Proposed Rule would establish a federal standard for individual borrowers to raise as a defense to repaying loans disbursed on or after July 1, 2019. This proposed regulation would permit borrowers to challenge repayment of loans based on misrepresentation, defined to include acts or omissions by an institution which are false, misleading or deceptive, and which are made with knowledge of their falsity, deception, or misleading nature, or with reckless disregard for the truth. The 2018 Borrower Defense Proposed Rule seeks comment as to whether such a defense may be raised affirmatively or may only arise defensively, out of a collection action. The proposed regulation also would establish a five-year window following a final decision on borrower defense for the Department of Education to seek recoupment from an institution. The 2018 Borrower Defense Proposed Rule would permit schools to use class-action waivers and pre-dispute arbitration agreements, but would require schools to provide additional disclosures and borrower counseling when including such provisions in enrollment agreements. The 2018 Borrower Defense Proposed rule also sets forth automatic and discretionary triggers under which the Department of Education may require the school to provide a letter of credit, cash, or other form of surety, or may agree to provide surety through an offset of future Title IV funds for a six-to-twelve month period. For example, certain events would automatically trigger the need for a school to obtain a letter of credit or other surety, including for publicly traded institutions, if the SEC warns the school that it may suspend trading on the school's stock, the school failed to timely file a required annual or quarterly report with the SEC, or the exchange on which the stock is traded notifies the school that it is not in compliance with exchange requirements or the stock is delisted. Other events would require a recalculation of an institution's composite score of financial responsibility including, for a proprietary institution whose score is less than 1.5, any withdrawal of an owner's equity by any means, including by declaring a dividend, unless the equity is transferred within the affiliated group on whose basis the composite score was calculated; or for any institution, the incursion of a borrower defense liability which reduces the institution's composite score to under 1.0. The 2018 Borrower Defense Proposed Rule also sets forth events that are discretionary triggers for letters of credit or other forms of surety, meaning that if any of them occur, the Department of Education may choose to require a letter of credit, increase an existing letter of credit requirement or demand some other form of surety from the institution. The 2018 Borrower Defense Proposed Rule also includes provisions regarding the treatment of operating leases in the financial responsibility composite score methodology, would more specifically define and require disclosures concerning the composite score's inclusion of debt obtained for long-term purposes, and would revise limited aspects of the composite score formula to account for changes in accounting terminology. We cannot predict when the Department of Education will publish a final rule, the extent to which that final rule may differ from the 2018 Borrower Defense Proposed Rule, its differences from the previously promulgated 2016 Borrower Defense Final Rule, or the impact that any such revised rule might have on our business. Any regulation that increases potential borrower defense liabilities or affects the Department of Education's assessment of our institutional capability could have a material effect on our business, financial condition and results of operations.

If we do not meet specific financial responsibility standards established by the Department of Education, we may be required to post a letter of credit or accept other limitations to continue participating in Title IV programs, or we could lose our eligibility to participate in Title IV programs.

To participate in Title IV programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the Department of Education, or post a letter of credit in favor of the Department of Education and possibly accept other conditions on its participation in Title IV programs. These financial responsibility tests are applied to each institution on an annual basis based on the institution's audited financial statements, and may be applied at other times, such as if the institution undergoes a change in control. The Department of Education may also apply such measures of financial responsibility to the operating company and ownership entities of an eligible institution and, if such measures are not satisfied by the operating company or ownership entities, require the institution to post a letter of credit in favor of the Department of Education and possibly accept other conditions on its participation in Title IV programs. The operating restrictions that may be placed on an institution that does not meet the quantitative standards of financial responsibility include being transferred from the "advance payment" method of receiving Title IV program funds to either the "reimbursement" or the "heightened cash monitoring" system, which could result in a significant delay in the institution's receipt of those funds. Limitations on, or termination of, our participation in Title IV programs as a result of our failure to demonstrate financial responsibility would limit our students' access to Title IV program funds, which could significantly reduce enrollments and have a material effect on our business, financial condition and results of operations.

As described in more detail under "Item 1 – Business - Regulatory Matters — Regulation of Federal Student Aid Programs — Financial Responsibility," in our most recent Form 10-K, the Department of Education annually assesses our financial responsibility through a composite score determination. Our audited financial statements for the fiscal year ended May 31, 2017 indicated our composite score was 1.8, respectively, which is sufficient to be deemed financially responsible under the Department of Education's requirements. Our audited financial statements for the fiscal year ended May 31, 2018 indicate our composite score is 1.3; however, on March 8, 2019, NAU received a letter from the Department of Education indicating that it determined our composite score for the fiscal year ended May 31, 2018 to be 1.1.

On November 1, 2016, as part of the 2016 Borrower Defense Final Rule, the Department of Education adopted final regulations that revise 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 June 15, 2017, the Department of Education announced an indefinite delay to its implementation of the 2016 Borrower Defense Final Rule, and on June 16, 2017 published a notice of intent to establish a negotiated rulemaking committee to develop proposed revisions to the rule. Additionally, on July 6, 2017, the attorneys general of 18 states and the District of Columbia filed suit against the Department of Education claiming that its delay of the 2016 Borrower Defense Final Rule violated applicable law, including the Administrative Procedure Act. On September 12, 2018, the U.S. District Court for the District of Columbia issued a decision concluding that the above-described delay of the 2016 Borrower Defense Final Rule was improper. In a series of opinions and orders on September 17 and October 12, 2018, the Court reinstated the 2016 Borrower Defense Final Rule and it is now in effect. Under the 2016 Borrower Defense Final Rule, certain events would automatically trigger the need for a school to obtain a letter of credit, including for publicly traded institutions, if the SEC warns the school that it may suspend trading on the school's stock, the school failed to timely file a required annual or quarterly report with the SEC, or the exchange on which the stock is traded notifies the school that it is not in compliance with exchange requirements or the stock is delisted.

On September 28, 2018, the Company received written notice from The Nasdaq Stock Market ("Nasdaq") that the closing bid price for its common stock was not in compliance with the minimum bid price requirement for continued inclusion on Nasdaq. On December 26, 2018, the Company also received a written deficiency notice from Nasdaq indicating that the Company no longer meets the requirement to maintain a minimum market value of publicly held shares. On December 31, 2018, the Company notified Nasdaq of its intention to voluntarily delist from Nasdaq and to transfer the listing of its common stock to the OTCQB Market (the "OTCQB"), a centralized electronic quotation service for over-the-counter securities. On March 8, 2019, NAU received a letter from the Department of Education that cited, among other factors, the September 28, 2018 and December 26, 2018 notices from Nasdaq of noncompliance with listing requirements, in its determination that NAU does not meet 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 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 $36,652,785, 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 $10,995,835, 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 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. We cannot predict either the timing or the substance of a response from the Department of Education. If the Department of Education does not reconsider or amend the letter of credit requirement as set forth in its March 8, 2019 letter, and we are unable to provide the letter of credit both before the required date and in the required amount, the Department of Education may initiate an action to terminate NAU's participation in Title IV programs. Such an action by the Department of Education could have a material effect on our business, financial condition and results of operations.

In addition, on August 30, 2017, the Department of Education published a Federal Register notice requesting nominations for individuals to serve on this negotiated rulemaking committee, and on October 24, 2017, the Department of Education promulgated an interim final rule under which the effective date of most substantive provisions of the 2016 Borrower Defense Final Rule were delayed until July 1, 2019. The rulemaking committee sessions occurred in November 2017, January 2018, and February 2018, during which the Department of Education and negotiators failed to reach consensus on a revised regulation. On July 31, 2018, the Department of Education published in the Federal Register the 2018 Borrower Defense Proposed Rule, which would replace most substantive provisions of the 2016 Borrower Defense Final Rule. For additional information regarding the 2016 Borrower Defense Final Rule and the 2018 Borrower Defense Proposed Rule, see "— The Department of Education may adopt regulations governing federal student loan debt forgiveness that could result in liability for amounts based on borrower defenses or affect the Department of Education's assessment of our institutional capability" in our most recent Form 10-K. We cannot predict with certainty the timing or substance of any future regulations concerning financial responsibility standards for Title IV program participation, nor the impact that such regulations might have on our business. Any Department of Education regulations that require NAU to post letters of credit or accept other limitations to continue participating in Title IV programs could materially affect our business, financial condition and results of operations.

We may lose our eligibility to participate in Title IV programs if our student loan default rates are too high.

An educational institution may lose its eligibility to participate in Title IV programs if, for three consecutive years, 30% or more of its students who were required to begin repayment on their student loans in the relevant fiscal year default on their payment by the end of the next federal fiscal year or the subsequent fiscal year. In addition, an institution may lose its eligibility to participate in Title IV programs if the default rate of its students exceeds 40% for any single year.

On February 25, 2019, we received notice from the Department of Education that our draft cohort default rate for federal fiscal year 2016 was 20.1%. Our official cohort default rates for federal fiscal years 2015, 2014 and 2013 were 23.7%, 24.1% and 23.4%, respectively.

Any increase in interest rates or reliance on “self-pay” students, as well as declines in income or increases in job losses for our students, could contribute to higher default rates on student loans. Exceeding the student loan default rate thresholds and losing eligibility to participate in Title IV programs would have a material effect on our business, financial condition and results of operations. Any future changes in the formula for calculating student loan default rates, economic conditions or other factors that cause our default rates to increase, could place us in danger of losing our eligibility to participate in Title IV programs, which would have a material effect on our business, financial condition and results of operations.

If we close campus locations and affected students do not complete their educational programs at another location or online, or through transfer or teach-out with other postsecondary institutions, we may be subject to repayment liabilities to the U.S. Department of Education for discharged federal student loans.

Department of Education regulations provide that upon the closure of an institution participating in the Title IV programs, including any location thereof, certain students who had attended such an institution or location may be eligible to obtain a “closed school discharge” of their federal student loans related to attendance at that institution or location, if they do not complete their educational programs at another location or online, or through transfer or teach-out with other postsecondary institutions. In order to obtain a closed school discharge, a student generally must have been enrolled or on an approved leave of absence when the institution or location closed. Department of Education regulations historically also provide that students who withdraw from an institution or location within 120 days prior to the closure may receive a closed school discharge; this time period was expanded to 180 days under the 2016 Borrower Defense Final Rule. Additionally, under the 2016 Borrower Defense Final Rule, the Department of Education may grant automatic closed school discharges to students who do not re-enroll in another Title IV-participating institution within three years after becoming unable to complete their educational program due to a closure of their institution or institutional location. In the event that the Department of Education grants closed school discharges to any students affected by closures of our campus locations, it may require NAU to repay those discharged amounts to it. We therefore cannot predict the effect of such closures on our business, financial condition, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National American University Holdings, Inc.

Dated: April 15, 2019

By: /s/ Ronald L. Shape
Ronald L. Shape
President and Chief Executive Officer

Dated: April 15, 2019

By: /s/ Thomas Bickart
Thomas Bickart
Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ronald L. Shape, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National American University Holdings, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or person performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2019

By: /s/ Ronald L. Shape
Ronald L. Shape, Ed. D.
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas Bickart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National American University Holdings, Inc.;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or person performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2019

By: /s/ Thomas Bickart
Thomas Bickart
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO RULE 13b – 14(b) OF THE SECURITIES EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National American University Holdings, Inc. (the "Company") on Form 10-Q for the period ended February 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald L. Shape, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 15, 2019

By: /s/ Ronald L. Shape, Ed. D.
Ronald L. Shape, Ed. D.
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO RULE 13b – 14(b) OF THE SECURITIES EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of National American University Holdings, Inc. (the "Company") on Form 10-Q for the period ended February 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Bickart, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 15, 2019

By: /s/ Thomas Bickart
Thomas Bickart
Chief Financial Officer