National American University Holdings, Inc.

A Delaware Corporation

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

SIC Code:
822101

Quarterly Report

For Quarter Ended August 31, 2023

The number of shares outstanding of our Common Stock is 24,733,917 as of August 31, 2023.

OTCQB: NAUH

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

Yes: ___ No: _√_

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

Yes: ___ No: _√_

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

Yes: ___ No: _√_

National American University Holdings, Inc.
Annual Information and Disclosure Statement
For the Quarter Ended August 31, 2023

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

Forward-Looking Statements

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

Part A General Company Information

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

Principal Corporate Office:	National American University Holdings, Inc. 5301 Mt. Rushmore Road Rapid City, SD 57701 (605) 721-5200 www.national.edu
Mailing Address:	National American University Holdings, Inc. P.O. Box 677 Rapid City, SD 57709
Investor Relations:	The Equity Group, Inc. 800 Third Avenue, Between 49th & 50th Streets, 36th Floor New York, NY 10022 Telephone: (415) 568-2255 Contact: Carolyne Y Sohn Email: csohn@equityny.com

Item 2 Shares outstanding

Common Stock

	August 31, 2023
Number of Shares Authorized	50,000,000
Number of Shares Outstanding	24,733,917
Total Number of Shareholders of Record	43

The Company has 302 beneficial shareholders of record owning at least 100 shares.

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

			Share Changes	Shares Outstanding
May 31, 2021 Balance				24,619,501
FY2022	Shape, Ronald	President & CEO	15,000	
FY2022	Bickart, Thomas	CFO	10,552	
FY2022	Sedlacek, Paul	General Counsel	10,552	
FY2022	Mathena, Cynthia	Provost	10,552	
FY2022	Mendoza, Mark	Manager	15,000	
May 31, 2022 Balance				24,681,157
FY2023	Shape, Ronald	President - former	10,552	
FY2023	Bickart, Thomas	CFO	10,552	
FY2023	Sedlacek, Paul	Senior Counsel	10,552	
FY2023	Mathena, Cynthia	Interim President	10,552	
FY2023	Oppel, Amanda	COO	10,552	
August 31, 2023 Balance				24,733,917

Preferred Stock

	August 31, 2023
Number of Shares Authorized	1,000,000
Number of Shares Outstanding	0
Total Number of Shareholders of Record	0

Class A Common Stock

	August 31, 2023
Number of Shares Authorized	100,000
Number of Shares Outstanding	0
Total Number of Shareholders of Record	0

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

Item 3 Interim Financial Statements

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

National American University Holdings, Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets as of August 31, 2023
(In thousands)

Assets		
Current Assets:		
Cash and Cash Equivalents	$	-
Student Receivables -- net		1,052
Other Receivables		2,240
Prepaid and Other Current Assets		128
Total Current Assets		3,420
Property and Equipment -- Net		6
Other Assets:		
Restricted Certificates of Deposit		2,410
Course Development -- net of accumulated amortization of $1,545		1
Goodwill		363
Other Intangibles -- net of accumulated amortization of $229		6
Other Assets		465
Right of Use Asset		863
Total Other Assets		4,108
Total Assets	**$**	**7,534**
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Current Portion of Lease Liability	$	279
Current Portion of Debt Due from Related Party		1,678
Accounts Payable		3,708
Current Portion of Deferred Gain on Sale-Leaseback		248
Deferred Revenue		877
Accrued and Other Liabilities		1,485
Total Current Liabilities		8,275
Long-Term Portion of Deferred Gain on Sale-Leaseback		496
Lease Liability, Net of Current Portion		583
Total Liabilities		9,354
Stockholders' Deficit:		
Common Stock, $0.0001 par value (50,000,000 authorized; 29,296,606 issued and 24,733,917 outstanding, respectively)		3
Additional Paid-in Capital		59,533
Accumulated Deficit		(38,836)
Treasury Stock, at cost (4,562,689 and 4,540,449 shares, respectively)		(22,520)
Total Stockholders' Deficit		(1,820)
Total Liabilities and Stockholders' Deficit	**$**	**7,534**

See the accompanying notes to consolidated financial statements.

National American University Holdings, Inc. and Subsidiaries
Unaudited Consolidated Statements of Income
For the Three Months Ended August 31, 2023

(In thousands)

Revenue:		
Academic Revenue, net	$	2,409
Auxiliary Revenue, net		83
Total Revenue		2,492
Operating Expenses:		
Cost of Educational Services		671
Selling, General, and Administrative		1,861
Auxiliary Expense		124
Total Operating Expenses		2,656
Operating Loss		(164)
Other Income (Expense):		
Gain on Settlement of Liabilities		-
Gain (Loss) on Disposition of Assets		3
Interest Income		58
Interest Expense		(51)
Other Income (Expense)		(41)
Total Other Income		(31)
Loss before Income Taxes		(195)
Income Tax Expense		(3)
Net Income		(198)
Net Income Attributable to Non-Controlling Interest		-
Net Income Attributable to National American University Holdings, Inc. and Subsidiaries	$	(198)

See the accompanying notes to consolidated financial statements.

National American University Holdings, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flow
For the Three Months Ended August 31, 2023
(In thousands)

Cash Flows from Operating Activities:		
Net Income (Loss)	$	(198)
Adjustments to Reconcile Net Loss to Net Cash Flows used in Operating Activities:		
Depreciation and Amortization		1
Gain on Settlement of Liabilities		(2)
Loss (Gain) on Disposition of Assets		(1)
Provision for Uncollectable Tuition		82
Changes in Assets and Liabilities:		
Student Receivables		(148)
Prepaid and Other Current Assets		35
Other Receivables		922
Accounts Payable		(2,222)
Deferred Revenue		62
Accrued and Other Liabilities		(47)
Net Cash used in Operating Activities		(1,516)
Cash Flows from Investing Activities:		
Purchases of Restricted Certificates of Deposit		(19)
Release of Restricted Certificates of Deposit		51
Proceeds from Sale of Property and Equipment		2
Net Cash provided by (used in) Investing Activities		34
Cash Flows from Financing Activities:		
Repayments of Short-Term Debt		(948)
Borrowings of Short-Term Debt		2,300
Net Cash provided by Financing Activities		1,352
Net Decrease in Cash and Cash Equivalents		(130)
Cash and Cash Equivalents - Beginning of Year		130
Cash and Cash Equivalents - End of Year	$	-

See the accompanying notes to consolidated financial statements.

1. Statement Presentation and Basis of Consolidation

The accompanying financial statements are presented on a consolidated basis and include the accounts of National American University Holdings, Inc. ("NAUH"), its wholly-owned subsidiary, Dlorah, Inc. ("Dlorah"), d/b/a National American University ("NAU" or the "University") and Dlorah's interest in Park West, LLC ("Park West"), collectively the "Company". On August 12, 2020, Dlorah acquired a 33% interest in Park West in connection with the sale of its previously held Fairway Hills' assets to Park West. Until August 2021, Park West met the criteria to be classified as a consolidated variable interest entity ("VIE") with Dlorah deemed the primary beneficiary. Accordingly, the assets, liabilities and operations of Park West were included in the consolidated financial statements of the Company from June 1, 2020 until August 31, 2021 as required for entities under common control that are consolidated under the accounting standards applicable to variable interest entities. In August 2021, Park West met the conditions to be deconsolidated as a VIE, and Dlorah's 33% interest is accounted for as an equity investment after that date. As of May 31, 2023, the investment carried a negative balance due to sustained operating losses. Management concluded that the Company was not required to provide financial support to Park West for its negative investment balance. Accordingly, the Company has increased its investment to $0 which resulted in a net $155,000 gain in the 2023 consolidated statement of operations for the year ended May 31, 2023.

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

Unless the context otherwise requires, the terms "we", "us", "our" and the "Company" used throughout this document refer to National American University Holdings, Inc., and its wholly owned subsidiary, Dlorah, which operates National American University.

Use of 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, asset impairment, income taxes, and certain accruals. Actual results could differ from those estimates.

Financial Condition and Liquidity

For the quarter ended August 31, 2023, cash used in operating activities was approximately $1.5 million and unrestricted cash and cash equivalents decreased by approximately $0.1 million from May 31, 2023. As of August 31, 2023, the Company had approximately $0.0 million of unrestricted cash and cash equivalents, a working capital deficit of approximately $4.8 million, and a deficit in stockholders' equity of approximately $1.8 million.

During the quarter ended August 31, 2023, the Company continued to implement an operational plan that focuses on offering online postsecondary academic programs and re-enrolling students who have completed college work and earned credits but have not completed their degree program. In response to higher operating costs partially due to inflation, a moderate tuition and fees price increase was approved by NAU's Board of Governors during the fourth quarter of fiscal year 2022. Company management has also continued its efforts to reduce expenses, as possible, and to negotiate other obligations with the intention of reducing the working capital deficit and improving cash flows from operations; however, the Company's management is unable to provide assurance that these efforts will be successful.

2. Nature of Operations

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

The Company's common stock was listed as NAUH on Nasdaq Global Market through January 17, 2019, at which time it voluntarily delisted and transferred its listing to the Over the Counter Quotation Bureau ("OTCQB") Market. The delisting and transfer were the result of the Company's market value of publicly held shares no longer meeting the requirement to maintain a minimum Market Value of Publicly Held Shares of $5,000, as set forth in Nasdaq Listing Rule 5450(b)(1)(C), as well as consideration of the probability of regaining compliance, the common stock's current trading volume and price, and the costs of maintaining eligibility to list the Company's common stock on the Nasdaq Global Market. As of June 5, 2019, the Company ceased being a reporting company under the Securities and Exchange Act of 1934, as amended, and now reports under the OTCQB Market's Alternative Reporting Standards.

NAU is an institutionally accredited, proprietary institution of higher learning, offering diploma, associate, bachelor's, master's, and doctoral degree programs in many disciplines of study. NAU consists of a group of educators dedicated to serving its students to achieve success in attaining their educational goals to advance their career opportunities. A substantial portion of NAU's income is dependent upon federal student financial aid programs. To maintain eligibility for financial aid programs, NAU must comply with United States Department of Education requirements, including the maintenance of certain financial ratios.

In addition to the University operations, the Company had owned and operated a real estate business known as Fairway Hills Developments, or Fairway Hills. The real estate business rented apartment units and developed and sold condominium units in the Fairway Hills Planned Development area of Rapid City, South Dakota. In August 2020, the Company completed the sale of Fairway Hills and its assets to Park West.

3. Summary of Significant Accounting Policies

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

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

Other Receivables - Other receivables consist primarily of financial aid amounts due from the federal government, and the current portion of institutional receivables, which are amounts due from students and are stated at net realizable value. The long-term portion of these institutional receivables is included in other assets. During the year ended May 31, 2023, the Company recorded an Other Receivable and Other Income of $2.98 million related to Employee Retention Tax Credits ("ERTCs"), under the Cares Act. Approximately 1/3 of this amount was received in July 2023 and the remainder of this amount is believed to be collectible. ERTCs require certain conditions to be met and claims for such credits are subject to review by the Internal Revenue Service. The Company believes it has fully met the conditions to be eligible to receive the remaining payments for these credits; however, it is possible that the remaining credits could be denied or partially denied after review.

Property and Equipment - Property and equipment are stated at cost. Renewals and improvements exceeding one thousand dollars with an expected life of greater than one year are capitalized, while repairs and maintenance are expensed when incurred. Upon the retirement, sale or disposition of assets, costs and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the consolidated statement of income.

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

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

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

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

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

Leases - Management determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. Such assets are classified as right-of-use (ROU) assets with a corresponding lease liability.

Operating lease ROU assets and liabilities are recorded at commencement at the present value of future minimum lease payments over the expected lease term. As a practical expedient, management uses the risk-free rate as the discount rate in its lease calculations.

Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease term. Leases with an expected term of 12 months or less are not accounted for on the consolidated balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term. Fixed non-lease costs, for example common-area maintenance costs, taxes, insurance, and maintenance, are excluded from the measurement of the right-of-use asset and lease liability as the Company separates lease and non-lease components.

Advertising - The University follows the policy of expensing the cost of advertising as incurred. Advertising costs of approximately $0.4 million are included in selling, general, and administrative expenses in the consolidated statements of income for the quarter ended August 31, 2023.

4. Letter of Credit and Long-Term Debt

A letter of credit (“LOC”) was issued on May 10, 2019 by Black Hills Community Bank N.A. for the benefit of the United States Department of Education (the “Department”) in the amount of $7.331 million. It was secured by a restricted certificate of deposit totaling $7.375 million. An update to the letter of credit was received from the Department on April 9, 2020. The LOC requirement was reduced to approximately $4.8 million, thus allowing for a reduction in the certificate of deposit that is collateralizing the LOC. In January 2022, the Department reduced the LOC requirement to approximately $1.992 million, thus reducing the collateralized CD that secures the LOC. This LOC was renewed in June 2023 for $1.992 million.

In April 2020, the Company obtained a Paycheck Protection Program Loan (“PPP”) loan from the Small Business Administration (“SBA”), as an eligible business under the CARES Act. The amount received in funding was $3.0 million. The Company repaid $0.5 million of that loan on May 15, 2020. During fiscal year 2022, the Company received notification from the SBA that the entire $3.0 million loan qualified for loan forgiveness, and thus, was forgiven by the SBA. The Company received a second PPP loan on February 23, 2021, of $1.6 million. During the second quarter of fiscal year 2023, the Company received notification from the SBA that the entire $1.6 million loan qualified for loan forgiveness, and thus, was forgiven by the SBA.

As of August 31, 2023, the restricted certificates of deposit on the balance sheet include $0.15 million held as a certificate of deposit by First Interstate Bank, formerly Great Western Bank, to collateralize the Company’s purchasing card, and $2.05 million held as a certificate of deposit for the Black Hills Community Bank N.A. letters of credit. In addition, the following collateralized items are also included in certificates of deposit: $0.05 million State of Alabama, $0.10 million State of Missouri, and $0.06 million State of New Mexico.

In January 2023, the Company entered into a commercial line of credit with a related party. The line of credit has a borrowing capacity of $0.46 million. Outstanding principal amounts accrue interest at an annual rate of 8%. As of May 31, 2023, the line of credit carries a balance of $0.283 million of principal and interest and expires on the earlier of the maturity date of May 31, 2024, or the Company’s receipt of the anticipated ERTCs disclosed in footnote 3; at which point, the total amount of outstanding principal and accrued interest are due. The line of credit is secured by the Company’s right to the anticipated ERTCs.

5. Lease

Effective November 1, 2011, the Company entered into a 20-year capital lease arrangement for additional space that houses the corporate headquarters, distance learning operations, and the Rapid City campus operations. Effective September 1, 2021, the Company entered into an amendment to the lease, which resulted in a gain on the sale of approximately $4.4 million, approximately $3.2 million of which was recognized immediately in fiscal year 2022 and the remaining approximately $1.2 million was deferred and is being recognized over the remaining term of the amended lease agreement, which expires May 31, 2026.

6. Stockholders’ Equity

The authorized capital stock for the Company is 51,100,000 shares, consisting of (a) 50,000,000 shares of common stock, par value $0.0001 (b) 1,000,000 shares of preferred stock, par value $0.0001, and (c) 100,000 shares of class A common stock, par value $0.0001. Of the authorized shares, 24,733,917 shares of common stock were outstanding as of August 31, 2023. No shares of preferred stock or Class A common stock were outstanding at August 31, 2023.

Stock-Based Compensation
At August 31, 2023, the Company had 1,429,514 shares available for future grants under its 2018 Stock Option and Compensation Plan (the "2018 Plan"). The Company may grant restricted stock awards, restricted stock units and stock options to aid in recruiting and retaining employees, officers, directors, and other consultants under the 2018 Plan.

Restricted stock
The Company had no restricted stock awards outstanding at August 31, 2023.

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 income as operating expense based on their fair value over the requisite service period.

During the quarter ended August 31, 2023, no shares of stock options were issued, and no options were exercised. For the quarter ended August 31, 2023, there was no stock option expense. At May 31, 2023, all stock options expense was fully amortized.

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

A summary of option activity under the Plan as of August 31, 2023, and changes during the year to date then ended is presented below:

Stock Options	Shares	Weighted Average Exercise Price		Average Life (years)	Intrinsic Value (thousands)	
Outstanding at June 1, 2023	127,329	$	1.72	4.2	$	1.8
Granted	-		-			
Exercised	-		-			
Forfeited or Cancelled	(73,954)		2.63	(2.7)		-
Outstanding at August 31, 2023	53,375	$	0.46	5.7	$	0.6
Exercisable at August 31, 2023	53,375	$	0.46	5.7	$	0.6

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

7. Income Taxes

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

Statutory	-21.00%
State income taxes - net of federal benefit	-4.03%
Discrete - Stock Compensation	7.02%
Deferred tax asset valuation	16.44%
Non-Taxable PPP Loan	0.00%
Permanent differences and other	0.10%
Effective income tax rate	-1.47%

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

As of May 31, 2023, the Company had net operating loss ("NOL") carryforwards of approximately $23.3 million federal and $22.2 million state. The federal NOL carryforwards have no expiration.

The change in the valuation allowance for deferred tax assets for the year ended May 31, 2023, was approximately $0.8 million. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not, that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not, that the net deferred tax assets would not be realized as of May 31, 2023 and recorded a valuation allowance accordingly.

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

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is generally no longer subject to U.S. federal income tax or state and local tax examinations for fiscal years before 2020.

8. Regulatory Matters

The University extends unsecured credit to a portion of the students for tuition and other educational costs. A substantial portion of credit extended to students is repaid through the students' participation in various federal financial aid programs authorized by Title IV Higher Education Act of 1965, as amended (the "Higher Education Act" or "HEA"). The University is required under 34 CFR 600.5(d) to maintain at least 10% of its revenues (calculated on a cash basis) from non-Title IV program funds, commonly referred to as the "90/10 Rule". An institution is subject to loss of eligibility to participate in Title IV programs if it fails to meet the 10% threshold for two consecutive fiscal years. If the University were to violate the 90/10 Rule, it would become ineligible to participate in Title IV programs as of the first day of the fiscal year following the second consecutive fiscal year in which we exceeded the 90% Title IV program funds threshold and would be unable to regain eligibility for two fiscal years thereafter. The University believes it is in compliance with this requirement for the years ended May 31, 2023 and August 31, 2023. The University's audited 90/10 ratio for the year ended May 31, 2023 was 70.38%. This ratio was included with the annual report sent to the United States Department of Education.

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by the U.S. Department of Education (the "Department"), and be certified as an eligible institution by the Department. For this reason, educational institutions are subject to extensive regulatory requirements imposed by all of these entities. After an educational institution receives the required certifications by the appropriate entities, the educational institution must demonstrate compliance with the Department's regulations pertaining to Title IV Programs on an ongoing basis. Included in these regulations is the requirement that the Company must satisfy specific standards of financial responsibility.

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

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

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

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

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

Additionally, as part of the 2016 Borrower Defense Final Rule, the Department of Education revised its general standards of financial responsibility to include various actions and events that would require institutions to provide the Department of Education with irrevocable letters of credit. On March 8, 2019, NAU received a letter from the Department of Education which noted several financial matters described in the notes to the Company's audited financial statements for the fiscal year ended May 31, 2018 and its Form 10- Q filed with the Securities and Exchange Commission on January 22, 2019, and the Company's delisting from Nasdaq Global Market and transfer of shares to the OTCQB Market, and determined that NAU did not meet its financial responsibility standards for institutions that participate in Title IV programs. As a result, the Department of Education's letter of March 8, 2019 imposed additional reporting requirements on NAU with respect to its financial condition including bi-weekly cash balance submissions and monthly submissions of actual and projected cash flow statements, and notification requirements regarding certain enumerated events should they occur in the future; required NAU to process Title IV program funds under the Heightened Cash Monitoring Type 1 method of payment; and informed NAU that it could continue to participate in Title IV programs by either (1) posting a letter of credit to the Department of Education in the amount of $36.6 million representing 50% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, or (2) posting a letter of credit to the Department of Education in the amount of $10.9 million, representing 15% of the Title IV program funds awarded during the Company's fiscal year ended May 31, 2018, accompanied by the provisional form of certification to participate in the Title IV programs. On March 22, 2019, the Company submitted a request to the Department of Education for reconsideration of its imposition of the letter of credit, as well as the amount and timing for any required letter of credit. In response to the request, the Department of Education provided two additional options for a letter of credit accompanied by provisional certification: (1) posting of an irrevocable letter of credit in the amount of $7.3 million, representing 10% of Title IV program funds for its fiscal year ended May 31, 2018, or (2) placement on the Heightened Cash Monitoring Type 2 payment method, with a percentage of each payment withheld until an account equal to the required letter of credit amount can be funded. On April 30, 2019, the Company responded to the Department's letter and selected the posting of an irrevocable letter of credit in the amount of $7.3 million for the benefit of the Department. The letter of credit was issued on May 10, 2019 and in May 2020, reduced by the Department of Education to approximately $4.8 million. In January 2022, the Department reduced the letter of credit to $1.992 million.

The audited financial statements for the fiscal years ended May 31, 2023 and 2022 resulted in financial responsibility composite scores of 0.2 and 0.2, respectively.

Finally, to remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. An educational institution loses eligibility to participate in Title IV programs if its cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years. The official cohort default rates for federal fiscal years 2018 was 14.1%. Due to COVID-19, repayment of student loans was suspended. As a result, the 2019 official cohort default rate was 3.9% and the 2020 official cohort default rate was 0.1%.

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

9. Commitments and Contingencies

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

In December 2018, NAU was served with a lawsuit (Summons and Petition) commenced by two former students of NAU, Shayanne Bowman and Jackquelynn Mortenson, 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 was pending in Jackson County Circuit Court (MO). Three individual defendants were also included in the lawsuit, all former employees of NAU: Stacy J. Wilton, Tyree Smith, and Robin D. Cook. The Plaintiffs served an Amended Petition on August 8, 2019, adding six additional

Plaintiffs to the lawsuit: Heather Morris, Jessica Smith, Melissa Hopper, Zaimah Muhammad, Melissa Stewart, and Gabrielle Nelson. Additional plaintiffs were subsequently added to the lawsuit. In April 2020, after the deadline for adding additional parties to the above-referenced lawsuit had passed, a separate lawsuit alleging similar claims was commenced by twelve other former students against NAU and former NAU employees. That case, styled as Donelson, et al. v. Dlorah, Inc., d/b/a National American University, et al., Case No. 016-cv10526, was filed in the same court and was subsequently consolidated with the Bowman/Mortenson lawsuit, with the addition of other former students as plaintiffs and other former employees as defendants. The case was scheduled to be tried in four sub-groups of plaintiffs beginning the week of June 6, 2022; however on September 17, 2021, plaintiffs, by and through counsel, filed a Notice of Dismissal Without Prejudice notifying the Court and all counsel of record that plaintiffs voluntarily dismiss their claims against the defendants in this action without prejudice.

On September 15, 2022, plaintiffs' counsel refiled the lawsuit against NAU and other defendants in the same Court with essentially the same claims, but with a reduced number of plaintiffs (35 plaintiffs). The University denies all allegations and is vigorously contesting this case. 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 University previously leased building facilities for branch operations under operating leases with various terms and conditions. As the University implemented the strategic and operational shift from ground locations to online programs, it discontinued operations at all of these leased facilities, with the exception of the building located in Rapid City, South Dakota. The Company's lease obligations at its discontinued facilities have been resolved, with one exception. The liabilities and losses for the locations vacated have been recognized in NAUH's statements of income and balance sheets.

Certain vendors are claiming past due amounts under their vendor agreements. NAU has accrued liabilities that are believed to satisfy any successful claims by these vendors.

In October 2021, Minnesota Office Plaza, LLC, the lessor of NAU's leased facility in Roseville, MN, commenced a lawsuit against Dlorah, Inc., and others to satisfy its judgment of $2.8 million previously entered against Dlorah, Inc., in Ramsey County, Minnesota, District Court No. 62-CV-19-6949. The complaint alleges that certain asset transfers should be set aside pursuant to SDCL 54-8A-4 and further attempts to "pierce the corporate veil" between Dlorah, Inc. and Park West, LLC. The case is styled Minnesota Office Plaza LLC v. Dlorah, Inc., a South Dakota corporation, d/b/a National American University; Park West, LLC, a South Dakota limited liability company; Ronald Shape; and Robert Buckingham, Trustee of the Robert D. Buckingham Living Trust, No. 5:21-CV-5061-KES, in the U.S. District Court for the District of South Dakota. Dlorah, Inc., filed an answer denying the allegations in the complaint and requesting that the action be dismissed with prejudice. Black Hills Community Bank, N.A., and Esmeralda, Inc., were subsequently added as defendants in the action. The matters have been resolved to the parties' mutual satisfaction. It is anticipated that the actions will be dismissed and full satisfaction of the underlying judgment acknowledged in the coming days. The liability for the above-referenced judgment has been recognized in NAUH's consolidated statements of income and balance sheets, respectively.

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

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

Background

National American University, or NAU, is an institutionally accredited, for-profit institution of higher learning offering diploma, associate, bachelor's, master's, and doctoral degree programs in business-related disciplines, such as accounting, applied management, business administration and information technology; legal-related disciplines, such as paralegal, criminal justice; in healthcare-related disciplines; and higher education. Courses are predominantly offered online via the internet. As of August 31, 2023, NAU operated two locations: one in Rapid City, South Dakota and one near Ellsworth Air Force Base, South Dakota.

Key Financial Results Metrics

Revenue. Revenue is derived mostly from NAU's operations. Tuition revenue is reported net of adjustments for refunds and scholarships and is recognized on a daily basis over the length of the term. During the second quarter of fiscal year 2018, we began allowing students to take classes in the second and third 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 60% or more of the term. Auxiliary revenue is recognized as items are sold and services are performed and is net of any applicable sales tax.

Factors affecting revenue include:

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

The Company records unearned tuition for academic services to be provided in future periods. Similarly, we record a tuition receivable for the portion of the tuition that has not been paid. Tuition receivable at the end of any calendar quarter largely represents student tuition due for the prior academic quarter. Based upon past experience and judgment, we establish an allowance for doubtful accounts to recognize those receivables we anticipate will not be paid. Any uncollected account more than 90 days past due on students who have left NAU is charged against the allowance.

The Company defines 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.

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

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

Expenses. Operating expenses consist of cost of educational services, selling, general and administrative, and auxiliary expenses. Cost of educational services expenses contain expenditures attributable to the educational activity of NAU. This expense category includes salaries and benefits of faculty and academic administrators, costs of educational supplies, faculty reference and support material and related academic costs, and facility costs. Selling, general and administrative expenses include the salaries of the learner services positions (and other expenses related to support of students), salaries and benefits of admissions staff, marketing expenditures, salaries of other support and leadership services (including finance, human resources, compliance and other corporate functions), as well as depreciation and amortization, bad debt expenses and other related costs associated with student support functions. Auxiliary expenses include expenses for the cost of goods sold, including costs associated with books.

Critical Accounting Policies and Estimates

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

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of the students to make required payments. We determine the adequacy of the allowance for doubtful accounts based on an analysis of aging of the accounts receivable and with regard to historical bad debt experience. Bad debt expense is recorded as a selling, general and administrative expense.

Accounting for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted. We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

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

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

Regulation and Oversight

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

Any regulations that reduce or eliminate our students’ access to Title IV program funds that require us to change or eliminate programs or that increase our costs of compliance could have an adverse effect on NAU’s student enrollment.

Item 5 Legal proceedings

In December 2018, NAU was served with a lawsuit (Summons and Petition) commenced by two former students of NAU, Shayanne Bowman and Jackquelynn Mortenson, 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 was pending in Jackson County Circuit Court (MO). Three individual defendants are also included in the lawsuit, all former employees of NAU: Stacy J. Wilton, Tyree Smith, and Robin D. Cook. The Plaintiffs served an Amended Petition on August 8, 2019, adding six additional Plaintiffs to the lawsuit: Heather Morris, Jessica Smith, Melissa Hopper, Zaimah Muhammad, Melissa Stewart, and Gabrielle Nelson. Additional plaintiffs were subsequently added to the lawsuit. In April 2020, after the deadline for adding additional parties to the above-referenced lawsuit had passed, a separate lawsuit alleging similar claims was commenced by twelve other former students against NAU and former NAU employees. That case, styled as Donelson, et al. v. Dlorah, Inc., d/b/a National American University, et al., Case No. 016-cv10526, was filed in the same court and was subsequently consolidated with the Bowman/Mortenson lawsuit, with the addition of other former students as plaintiffs and other former employees as defendants. The case was scheduled to be tried in four sub-groups of plaintiffs beginning the week of June 6, 2022; however, on September 17, 2021, plaintiffs, by and through counsel, filed a Notice of Dismissal Without Prejudice notifying the Court and all counsel of record that plaintiffs voluntarily dismiss their claims against the defendants in this action without prejudice.

On September 15, 2022, plaintiffs’ counsel refiled the lawsuit against NAU and other defendants in the same Court with essentially the same claims, but with a reduced number of plaintiffs (35 plaintiffs). The University denies all allegations and is vigorously contesting this case. 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.

In October 2021, Minnesota Office Plaza, LLC, the lessor of NAU's leased facility in Roseville, MN, commenced a lawsuit against Dlorah, Inc., and others seeking to avoid the real estate transactions referenced in Part C: Item 8 A. above, "to the extent necessary" to satisfy its judgment of $2.8 million previously entered against Dlorah, Inc., in Ramsey County, Minnesota, District Court No. 62-CV-19-6949. The complaint alleges that such transfers should be set aside pursuant to SDCL 54-8A-4 and further attempts to "pierce the corporate veil" between Dlorah, Inc. and Park West, LLC. The case is styled Minnesota Office Plaza LLC v. Dlorah, Inc., a South Dakota corporation, d/b/a National American University; Park West, LLC, a South Dakota limited liability company; Ronald Shape; and Robert Buckingham, Trustee of the Robert D. Buckingham Living Trust, No. 5:21-CV-5061-KES, in the U.S. District Court for the District of South Dakota. Dlorah, Inc., filed an answer denying the allegations in the complaint and requesting that the action be dismissed with prejudice. Black Hills Community Bank, N.A., and Esmeralda, Inc., were subsequently added as defendants in the action. The matters have been resolved to the parties' mutual satisfaction. It is anticipated that the actions will be dismissed and full satisfaction of the underlying judgment acknowledged in the coming days. The liability for the above-referenced judgment has been recognized in NAUH's consolidated statements of income and balance sheets, respectively.

Item 6 Defaults upon senior securities

There are currently no defaults upon senior securities.

Item 7 Other information

None.

Item 8 Exhibits

None.

Item 9 Certifications

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

I, Cynthia Mathena, certify that:

1. I have reviewed this quarterly disclosure statement of National American University Holdings, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: October 12, 2023

/s/ Cynthia Mathena

Dr. Cynthia Mathena

Interim President

National American University Holdings, Inc.

I, Thomas Bickart, certify that:

1. I have reviewed this annual disclosure statement of National American University Holdings, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: October 12, 2023

/s/ Thomas Bickart

Thomas Bickart

Chief Financial Officer

National American University Holdings, Inc