National American University Holdings, Inc.
Form 10-K
September 14, 2018

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2018
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 (Address of principal executive offices)	57701 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.0001 par Value	The NASDAQ Stock Market
Title of each class	Name of each exchange on which registered

Securities registered pursuant to section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2018, there were 24,348,425 shares of Common Stock, $0.0001 par value per share outstanding.

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of November 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $16.1 million.

DOCUMENTS INCORPORATED BY REFERENCE
Certain portions of the Registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the Registrant's 2018 fiscal year) are incorporated by reference into Part III of this Report.

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC AND SUBSIDIARIES

FORM 10-K

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We may, in some cases, use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "will" or "
words that convey uncertainty of future events, future financial performance, expectations, regulation or outcomes to identify these forward-looking statements. These forward-looking statements include, without limitation, statements regarding proposed new programs, statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance, and statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications that such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include:

our ability to comply with the extensive and changing regulatory framework applicable to our industry, including Title IV, state laws and regulatory requirements and accrediting agency requirements;

the ability of our students to obtain Title IV funds, state financial aid, and private financing;

the pace of growth of our enrollment;

our conversion of prospective students to enrolled students and our retention of active students;

our ability to update and expand the content of existing programs and the development of new programs in a cost-effective manner or on a timely basis;

the competitive environment in which we operate;

our cash needs and expectations regarding cash flow from operations;

our ability to manage and grow our business and execution of our business and growth strategies;

our ability to maintain and expand existing commercial relationships with various corporations and U.S. Armed Forces and develop new commercial relationships;

our ability to adjust to the changing economic conditions;

our ability to use advances in technology that could enhance the online experience for our students;

our ability to sell the condominium units we own, and the general condition of the real estate market, in Rapid City, South Dakota;

our estimated future financial results or performance;

our actual financial performance generally; and

other factors discussed in this annual report under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and “Regulatory Matters.”

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements after the date of this annual report to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Unless the context otherwise requires, the terms “we”, “us”, “our” and the “Company” used throughout this document refer to National American University Holdings, Inc.; its wholly owned subsidiary, Dlorah, Inc.; and National American University, sometimes referred to as “NAU” or the “university”, which is owned and operated by Dlorah, Inc.

Item 1. Business. Overview

National American University Holdings, Inc. is a provider of professional and technical postsecondary education primarily designed for working adults and other non-traditional students. We own and operate National American University, a regionally accredited, proprietary, multi-campus institution of higher learning founded in 1941. In 1998, the university began offering online degree programs. Through campus-based, blended, and fully online instruction, the university offers diploma, associate, baccalaureate, master’s, and doctoral degrees 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; and in higher education. The mission is to prepare students of diverse interests, cultures, and abilities for careers in our core fields in a caring and supportive environment.

Since 2013, increasing numbers of students have been transitioning from ground-based programs to fully online or blended offerings. Multiple locations are evolving to become online support centers as opposed to locations for ground-based programs. These locations use small physical facilities in strategic geographic areas, allowing students to work with staff online or in person for assistance with their educational choices and related services while completing the majority of their coursework online. Working adults and other non-traditional students remain attracted to the flexibility of online programs and the personal attention provided at our physical facilities. As a result, we are realigning our ground-based resources and distance-learning infrastructure to support the growing percentage of students in blended and online offerings, as well as to support our efforts in serving military students and students from closed institutions through formal teach-out and transfer arrangements. As of May 31, 2018, NAU operated 24 locations across the states of Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota, and Texas. Distance learning operations and central administration offices operate from Rapid City, South Dakota. During the third quarter of fiscal year 2017, we consolidated three campus-based operations in Texas and Minnesota, realigning them to expand administrative and enrollment services support in key locations of our university system. Simultaneously, we opened locations to serve military students and community college graduates.

In addition to the university operations, NAUH 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 Residential Development area of Rapid City, South Dakota. Fairway Hills completed construction on a 24-unit luxury apartment complex in the first quarter of fiscal year 2018.

The university’s enrollment declined from 8,185 students as of May 31, 2016 to 6,703 students as of May 31, 2017, and then decreased to 5,648 students as of May 31, 2018, representing a decrease of approximately 18.1% from 2016 to 2017 and a decrease of 15.7% from 2017 to 2018. Across the system, eight undergraduate locations experienced year-over-year growth; our graduate school achieved 22.7% growth and our doctoral school achieved 13.3% growth in the Spring 2018 Quarter. We believe the decline in student enrollment and revenue is the result of the regulatory

scrutiny of the industry and the current economic environment. Over the past year, the rate of decline has slowed and is comparable or better to institutions across the higher education landscape. Similar to our peers, many working adults have chosen not to attend school.

Notwithstanding the unfavorable economic environment, we believe the opportunity exists to increase profit by controlling costs and further leveraging our online offerings and physical locations. During the same periods, total revenue declined from $96.1 million for the fiscal year ended May 31, 2016, to $86.6 million for fiscal year ended May 31, 2017, and then decreased to $77.2 million for the fiscal year ended May 31, 2018, representing annual decreases of 9.9% and 10.9%, respectively. Income before income taxes for the fiscal year ended May 31, 2016 was a loss of $8.2 million, compared to a loss of $7.8 million for the fiscal year ended May 31, 2017, and a loss of $12.3 million for the fiscal year ended May 31, 2018.

Revenue for the NAU segment declined from $95.0 million in fiscal year 2016 to $85.4 million in fiscal year 2017 and decreased to $74.8 million in fiscal year 2018, representing a decrease of 10.1% between 2016 and 2017 and a decrease of 12.5% from 2017 to 2018. Loss before income taxes for the NAU segment was $8.2 million in fiscal year 2016, decreasing to a loss of $7.8 million in fiscal year 2017 and then increasing to a loss of $12.1 million in fiscal year 2018. Total assets for the NAU segment decreased from $60.6 million in fiscal year 2016 to $44.4 million in fiscal year 2017, and decreased to $35.4 million in fiscal year 2018.

Revenue for the Other segment (primarily Fairway Hills), increased from $1.1 million in fiscal year 2016 to $1.2 million in fiscal year 2017 and increased to $2.4 million in fiscal year 2018, representing an increase of 4.5% between 2016 and 2017, and an increase of 108.1% from 2017 to 2018. Income before taxes for this segment went from a loss of $0.02 million in fiscal year 2016 to a gain of $0.02 million in fiscal year 2017 and then decreased to a loss of $0.2 million in fiscal year 2018. Total assets for the Other segment increased from $7.9 million in fiscal year 2016 to $13.2 million in fiscal year 2017 and then increased to $13.4 million in fiscal year 2018.

University History

Founded in 1941, NAU, then operating under the name National School of Business, offered specialized business training designed for women in western South Dakota wanting to work outside the home. During the late 1960s and early 1970s, the university progressed from a two-year business school to a four-year college of business and embarked on a recruitment of qualified graduates of one- and two-year programs from accredited business schools in the eastern United States. Such programs allowed students to continue their education and receive appropriate transfer credits for their previous academic achievements. In 1974, the university, then known as National College, added its first branch campus in Sioux Falls, SD, followed later that year by branch campuses in Denver and Colorado Springs, CO, and Minneapolis and St. Paul, MN. The university offered conveniently scheduled courses that would lead to a degree appealing to working adults and other non-traditional students. Today, the university continues its mission to provide quality professional and technical education for predominantly underserved working adult students and to ensure that students transferring credits can do so with minimal disruption to degree progression and timeline to completion.

Over the past three years, NAU has particularly focused its academic initiatives on market needs and on educational research that addresses the social, emotional, financial, and academic needs and issues of underserved working adults. Through these initiatives, we have purposefully redesigned the student and student-faculty experience, have expanded research and scholarship, and have revised programs to maximize transfer credit and credit for prior learning options. We have created new math and writing course pathways, launched co-requisite remedial offerings, built incentives for attending full-time, and integrated career services and career development across the curricula. We have addressed high-failure gateway courses and have implemented intrusive advising and support services based on student success analytics to improve learning, make gains in persistence and completion, and reduce time to degree. Simultaneously, we are revitalizing our performance-based, competency-driven curricula as we rework the instructional design of our courses through D2L/BrightSpace and fully embed mobile-first technologies. In this same time period, NAU has engaged with accreditors, state postsecondary agencies, and state boards of nursing to serve students displaced by closed schools, providing those students with pathways to complete their desired educational programs.

The university continues to manage changing needs for educational sites; to add campus-based, blended, and online undergraduate and graduate programs; and to develop new technologies to support student learning, persistence, and degree progression and completion. New offerings launched or in development include cybersecurity, forensics, surgical technology, vocational nursing, health information management, aviation, strategic intelligence, counterterrorism, and strategic security and protection. For many years, the university has sustained affiliations with vocational institutions in Canada, providing consulting in the development and delivery of online programs. In 2016, NAU launched Canada-Online, a subset of online health, paralegal, and business-related associate and baccalaureate degree programs specifically designed to allow transfer and degree-completion options for Canadian students in affiliated institutions graduating with diplomas. In June 2017, the university launched the College of Military Studies, which provides comprehensive military student support services and undergraduate and graduate programs customized for veterans, active military, and their families.

Corporate Information

National American University Holdings, Inc., formerly known as Camden Learning Corporation, was organized under the laws of the State of Delaware on April 10, 2007, as a blank check company to acquire one or more domestic or international assets of an operating business in the education industry. On November 23, 2009, as a result of the merger transaction with Dlorah, Inc., a South Dakota corporation, which owns and operates NAU, Dlorah became our wholly owned subsidiary. For accounting purposes, Dlorah was the acquirer and accounted for the transaction as a recapitalization. Accordingly, the consolidated financial statements included in this annual report on Form 10-K reflect the results of Dlorah. We conduct substantially all of our business and generate substantially all of our revenue through Dlorah. Our primary business is the operation of National American University, which generated 96.9% of our revenue in fiscal year 2018. We also have Fairway Hills, a multi-family residential real estate operation in Rapid City, South Dakota, which generated 3.1% of our revenue in fiscal year 2018. The NAU website is www.national.edu. The information on the website is not incorporated by reference in this Annual Report on Form 10-K. We upload the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act on the website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Our Core Values

Since inception, the following core values have guided the university, which we believe have contributed to our success in obtaining and retaining students and faculty:

offer high quality instructional programs and services;

provide a caring and supportive learning environment; and

offer technical and professional career programs.

These core values have remained our foundation as we expanded from a single education site offering specialized business training to a multi-state, diversified, educational institution with diploma, associate, baccalaureate, master's, and doctoral degrees. We promote understanding and support of our mission and core values through participation of students, faculty, staff administrators and the board of governors in the governance and administrative structures of the university. We have adopted and implemented policies and procedures to ensure adherence to our core values and to operate with integrity as we fulfill our mission.

Our commitment to these core values is evidenced in the daily interactions among our students, faculty, staff, and administrators:

the strong academic and learning support structures, services, and resources for students;

the overall ease of the registration process;

the transferability of credits;

the career-focused professional and technical programs;

the caring and supportive attitude by faculty toward students; and

the opportunity to specialize learning through program emphasis areas.

Approach to Academic Quality

We have identified several academic initiatives to promote a high level of academic quality, including:

Student engagement, learning, academic achievement, persistence to credential, and career success. The urgency of now is to assist working adults in getting the credit they deserve at NAU; to teach, assess, mentor, and support until every student acquires the skills, knowledge, and abilities they need; and to create policies, processes, programs, and

learning experiences that exceed expectations.

Comprehensive overhaul of all NAU course curricula, student educational experience, and learning management system. We are reconceiving the entire student experience online and updating all assignments, assessments, and competency clusters across learning outcomes in ways that allow them to be unbundled into micro-credentials or integrated into new course and program combinations. We design our curricula to address specific career-oriented objectives we believe working adult and other non-traditional students are seeking. We have invested significant human and financial resources in the implementation of this curricula development to support faculty and students in achieving prescribed student learning outcomes. The performance-based curricula are designed and delivered by faculty members who are committed to delivering a high quality, current and relevant education to prepare students for their professions.

Qualified faculty. NAU seeks to hire and retain highly qualified faculty members with relevant practical experience and the necessary skills to provide a high-quality education for its students. More than 90% of our faculty members hold graduate degrees. We seek faculty members who can integrate relevant, practical experiences from their professional careers into the courses they teach. We also invest in the professional development of our faculty members by providing training in campus and online teaching techniques, hosting events and discussion forums that foster sharing of best practices and continually assessing teaching effectiveness through administrative reviews and student evaluations.

Standardized course design. We employ a standardized curriculum development process to promote consistent, authentic learning experiences in our online courses, and implement this curriculum through blended instructional delivery at the campus locations. We continue to review programs in an effort to ensure they remain consistent, up-to-date and effective in producing the desired student learning outcomes. We also regularly review student survey data to identify opportunities for course modifications and enhancements. NAU has completed implementation and upgrade of BrightSpace by D2L. Upgrades include live chat, texting, live tutoring, and other new tools for faculty-student engagement. In addition, the D2L/Brightspace course room prototype for all 450+ undergraduate and graduate courses has been developed and is being tested by NAU staff, faculty, and students. We have defined a curricular model that evaluates the competencies, learning outcomes, and related assignments and assessments across an academic program. By 2019, all programs and courses should have the ability to be unbundled and offered on a pure competency-based and laddered credential model.

Effective student services. We establish teams of academic and administrative personnel who act as the primary support for our students, beginning at the application stage and continuing through graduation. In recent years, we have also concentrated on improving the technology used to support student learning, including enhancing our online learning platform and student services. As a result, many of support services, including academic, administrative, library and career services are accessible online, allowing users to access these services at a time and in a manner convenient to them.

Continual academic oversight. The provost’s office, in conjunction with other academic offices, conducts academic oversight and assessment functions for all programs, and evaluates the content, delivery method, faculty performance and desired student learning outcomes. We continually assess outcomes data to determine whether students graduate with the knowledge and skills necessary to succeed in the workplace. The provost also initiates and manages periodic examinations of the curricula to evaluate and verify academic program quality and workplace applicability. Based on these processes and student feedback, we determine whether to create new programs, modify current programs, or discontinue those that do not meet our standards or market needs.

Board of Governors. We maintain a separate board of governors to oversee the academic mission of the university. Among other things, the board of governors is responsible for determining the mission and purposes of the university, approving educational programs and ensuring the well-being of students, faculty and staff. A majority of the board of governors’ members are independent, experienced in education, administration, business, international business, government, law, communications, and occupational therapy. Board membership has remained stable for many years. The oversight and guidance of the board of governors has been critical to the development and the maintenance of academic standards.

Industry and Outlook

NAU operates in the same market as for-profit and non-profit public and private professional and technical institutions and community colleges. Competition is generally based on location, program offerings, modality, the quality of instruction, placement rates, selectivity of admissions, recruiting, and tuition rates. We compete for enrollments by offering more frequent start dates, more flexible hours, better instructional resources, more hands-on training, shorter

program length and greater assistance with job placement. We also compete with other career schools by focusing on offering high demand, career-oriented programs, providing individual attention to students and focusing on flexible degrees for working adults and other non-traditional students. We believe we can compete effectively in our respective local markets because of the diversity of our program offerings, quality of instruction, strength of our brand, reputation and success in placing students with employers.

Our competition differs in each market depending on the curriculum offered. Because schools can add new programs in a relatively short period of time, typically within six to twelve months, new competitors within an academic program area can emerge quickly.

Certain institutions have competitive advantages over us. Non-profit and public institutions receive substantial government subsidies, government and foundation grants and tax-deductible contributions and have other financial resources generally not available to for-profit schools. In addition, some of our for-profit competitors have a more extended or dense network of schools and campuses, which may enable them to recruit students more efficiently from a wider geographic area. Furthermore, some of our competitors, including both traditional colleges and universities and other for-profit schools, have substantially greater financial resources and name recognition, which may enable them to compete more effectively for potential students. We expect to face continued competition as a result of new entrants to the online education market with similar programmatic offerings.

Competitive Strengths

We believe the following strengths enable us to compete effectively in the postsecondary education market:

Our physical locations and program and delivery mix allow for greater leverage of assets. Our locations provide students face-to-face, blended and online learning as well as a range of student services. In addition, these locations provide an opportunity for students to take certain courses at our educational sites while taking the majority of their classes online. This approach provides students with a more flexible class experience and allows us an opportunity to further leverage our fixed assets.

Our diversified, technical, and professional program mix. Programs target in-demand associate, baccalaureate, master's, and doctoral programs in professional and technical areas, including business, accounting, information technology, legal studies, allied health, and nursing. Program evaluation and development processes allow the university to continually update academic offerings relevant to the field, as well as design new programs to meet current industry needs.

Our Doctorate in Education (Ed.D.) with nationally recognized leadership. The Ed.D. program includes nationally renowned community college leaders and faculty who have served as presidents and chief officers of community colleges for more than 40 years and who have published numerous books and articles on leadership of community colleges in the last several decades. The doctoral program and its recognized faculty bring great visibility to the university and has produced partnerships with community colleges and enrollments comparable to the largest community college leadership programs in the country.

Our multiple accreditations and regulatory approvals. NAU is regionally accredited through the Higher Learning Commission ("HLC"). In addition, many of our programs maintain specialized or professional accreditation and approvals.

Our affiliations with other educational institutions. NAU began offering online academic programs in 1998, and has continually developed expertise in curricula and technology related to online education. We have established a number of affiliations with other educational institutions to provide curriculum development services and technology support services. We also believe NAU provides an appealing opportunity for displaced students of closed schools who seek to continue their education through transfer- and teach-out options.

Our commitment to high demand professional and technical programs. We are committed to offering quality, performance-based educational programs to meet the needs of employers. Our programs are designed to help our students achieve their career objectives in a competitive job market. The entire student experience online is being

re-conceived and all assignments, assessments, and competency clusters across learning outcomes are being updated in ways that allow them to be unbundled into micro-credentials or integrated into new course and program combinations. Qualified faculty members, who often have practical experience in their respective fields, teach our programs and offer students “real-world experience” perspectives. We periodically review and assess our programs and faculty to ensure that our programs are current and meet the changing demands of employers.

Our focus on individual attention to students. We believe in providing individual attention to our students to ensure an excellent educational experience. We provide student support services, including administrative, financial aid, library, career, and technology support, to help maximize their success. We also provide personal guidance to our students during the admissions process, academic advising, financial services, learner support and career services.

Our focus on flexible scheduling. We have designed our program offerings and our online delivery platform with flexible scheduling to meet the needs of working adults and other non-traditional students. We offer on-site day, evening, and weekend classes, as well as online and blended degree and diploma programs. We believe working adults and other non-traditional students are attracted to the convenience and flexibility of our programs because they can study and interact with faculty and classmates during times and at places that suit their needs.

Our focus on improving processes. In collaboration with the IT team, academic leaders have developed and launched or will launch three new cloud-based comprehensive service points for math, writing, career, and library support—as well as 24/7 student support. The results from previous quarters indicate that the successful completion rate in math has risen. Use of the math and writing support systems and tutoring have doubled in the past year. The IT team in collaboration with academics developed ROCKET and TEAMS 3, a cloud-based version of NAU's signature undergraduate persistence and completion system to improve faculty and advisor response time. The cloud-based system allows faculty, advisors, campus directors, and college and associate deans to track student progress, attendance, grades, posted assignments, etc., to intervene proactively if a student becomes in any way at risk. The university has also implemented a new process to ensure that faculty and directors of student success respond to at-risk student alerts within 24 hours and post a resolution within 48 if at all possible.

Our focus on improving faculty-student engagement. Over the course of spring and summer quarters all new and continuing undergraduate faculty complete an orientation on new expectations for weekly synchronous and asynchronous faculty-student engagement in discussion boards, assignments, labs, and other support within every course. Faculty evaluations now include the expectation for substantive and iterative engagement; new expectations for discussions are now in place for students and faculty; and the ongoing overhaul of all courses is embedding new technology tools that enhance engagement and synchronous interaction.

Our focus on faculty development and scholarship. Within the Harold D. Buckingham Graduate School, the graduate and undergraduate faculty worked collaboratively to host the first conference on faculty scholarship and the adult learner. The 2017 iteration will focus on increasing awareness, showcasing graduate faculty and student research and scholarship, and improving publicity and participation. The new process to ensure faculty and student scholarship and research in the master's programs has resulted in 100 percent graduate faculty participation in some form of professional development and/or scholarship each year. Further, all courses and programs are planned to be revised by 2019 to integrate real-world research into student activities.

Our focus on the military. In June 2017, the university launched the College of Military Studies (CMS) to focus and provide informed quality education and a premier customer service platform response to the needs and demands of servicemen and women, their dependents, and veterans. The CMS is also focusing on safeguarding veterans' benefits and ensuring the military student population is well-served.

Our experienced executive management team with strong operating history. NAU's executive management team possesses extensive experience in the management and operation of postsecondary education institutions. The president and chief executive officer, Dr. Ronald Shape, began his career in higher education with us in 1991. He began teaching courses in accounting, auditing and finance in 1995, became the chief fiscal officer in 2002, and the chief executive officer in April 2009. Dr. Lynn Priddy, provost and chief academic officer of the university, joined NAU in 2013. She began her career in education in 1986, serving as English faculty, director, dean, and vice president of several institutions. In 1999, she joined the largest regional accreditor, the Higher Learning Commission, where she

served fourteen years, the last five as vice president. Dr. David Heflin is the chief financial officer and joined NAU in June 2015. Dr. Heflin began his career in education in 2001. From 2001 to 2005, Dr. Heflin served as chief financial officer and chief operating officer at the University of Sioux Falls. From 2005 to 2008, he served Clayton State University as vice president of business and operations. From 2008 to 2014, Dr. Heflin led the Colorado Technical University of Sioux Falls as campus president. Dr. Heflin is a licensed certified public accountant and has been a member of the American Institute of Certified Public Accountants since 1983. Michael Buckingham was appointed president of the real estate operations in November 2009. Mr. Buckingham oversees the maintenance of all the facilities in the NAU system, as well as properties being developed by the real estate operations. Mr. Buckingham served as corporate vice president of Dlorah from 1992, and the president of Dlorah's real estate operations from 1988, until the closing of the Dlorah merger in 2009.

Business Development and Expansion

There has been a fundamental shift in how our student population chooses to engage in their educational pursuits and in response we have expanded our online operations. We will continue to focus on the market for ground based academic programs (such as nursing, surgical technician, medical assistant, etc.) that is delivered in a very focused space. We may continue to consolidate on-ground operations to promote efficiencies and superior service for students. There are several approaches to building the online operations of the university, including integrating online operations in one location, acquiring certain assets of Henley-Putnam University, and expanding our Canadian operations.

NAU has integrated the operations of the Rapid City and Kansas City online operations. This integrated operation is fully functional and is providing stability to the overall online enrollment of the university. We expect this integrated operation will add the necessary capacity to scale and grow our online enrollment population for the foreseeable future.

The asset purchase transaction with Henley-Putnam University closed on March 21, 2018, and the university is working on the integration of programs, students, faculty, and staff into NAU. The acquisition of these assets provides additional, high demand, academic programs and certificates that will be offered through NAU's Henley Putnam School of Strategic Security, housed under NAU's College of Military Studies. We will be using traditional marketing networks along with the network that HPU had developed to provide greater exposure to these programs. These programs are offered entirely online.

We also continue to focus on growth in the Canadian operations. The Canadian opportunity allows us the potential to further diversify our holdings and provide a new source of enrollment growth. NAU continues to focus on building the Canadian infrastructure that will support this growth for the foreseeable future. The Canadian operation is provided entirely online.

NAU began offering academic degree and diploma programs online in 1998, through what we refer to as our online campus. We were one of the first regionally accredited universities to be approved by the HLC to offer full degree programs under an Internet-based delivery methodology. We have invested heavily in the creation and evolution of a sophisticated and reliable online delivery system. The online campus has grown as an organizational structure, providing a scope of service consistent with the university's other campuses. Careful consideration was afforded to preserving the student-centered philosophy of the university while capitalizing on the technological advancements in online delivery. Students can now access all support services, tutoring, library, career services, courses, and program information via their smart phones. In addition, IT has implemented electronic forms, replacing paper-based systems, and has launched auto-population of grades from D2L to CampusVue. NAU conducts virtual graduation that allows for live-streaming of graduates, faculty, and testimonials. The organization of the online campus continues to evolve in response to increasing enrollment and the expanding sphere of quality services available to our students.

Recognizing the current and future impact of globalization on higher education, we have worked actively to enroll international students. During the late 1990s, we started developing international affiliations with foreign colleges and universities. Such affiliations provide students from other countries the opportunity to study at universities in the United States to complete their studies. Many academically capable and motivated students from foreign countries desire to take coursework at American colleges or universities but are not able to do so for various reasons, including inadequate financial resources, family and work obligations in their home countries and immigration restrictions.

Growth Strategies

Expand academic program offerings. NAU continues to focus on offering a variety of in-demand degree programs in multiple locations and delivery formats. On all levels, we consider changes in student demographics, demand for degree programs and employment outlook in our business development decision-making processes. The planning process includes long-range planning, feasibility studies, market research and a variety of other research projects involving changing job markets. In that regard, we continue to address current societal and economic trends and engage in appropriate analysis and planning for the programs and markets we seek to develop. New program offerings typically build on existing programs and incorporate additional specialized courses, which offer students the opportunity to pursue programs that address their specific educational objectives while allowing us to expand our program offerings with modest incremental investment.

Increase enrollment in existing academic programs. We focus on increasing enrollment in our core academic programs by refining our marketing and recruiting efforts to identify, and enroll students seeking degrees or diplomas in the academic programs we offer. We also focus on retaining students so they may achieve their educational goals. We believe that the depth and quality of our existing core programs will provide opportunity for additional growth. The business-related master's programs continue to increase in enrollment, benefitting from the dual credit at the bachelor's level and other solid changes and improvements made at the graduate school.

Expand relationships with private sector and government employers. We seek additional relationships with healthcare systems, businesses, and other employers, including governmental and military employers, through which we can market our program offerings to their employees. These relationships provide enrollment opportunities for the university's programs, build recognition among employers in our core disciplines, and enable us to identify new degree and diploma programs that are in demand by students and employers.

Leverage infrastructure. We intend to continue investing in our people, processes, and technology infrastructure. As we overhaul the learning management system, the goal is to create the NAU experience that refreshes and engages working adult learners, solidifying NAU as the place for our students to achieve a better life and more fulfilling work. NAU also offers an innovative hybrid teaching and learning experience not bound by geography. Through Mondo Synchronous Learning (Mondo SL), we can offer real-time learning experiences through the 70-inch Mondo Pads to NAU students that bridge campuses, build diverse communities of learners, showcase our best instructors, and provide access to the traditional campus experience. We believe these investments have prepared us to deliver our academic programs to a larger student population with only modest incremental investment. We intend to leverage these investments as we seek to grow enrollment, which we believe will allow us to increase our operating margins over time.

Continue to expand affiliations with other educational institutions. NAU provides online course hosting and technical assistance to approximately 2,500 students through affiliated institutions. We will continue to seek to expand the number of affiliations with other educational institutions to provide online program services. These services can meet the needs of other institutions while providing us with additional sources of revenue.

Pursue strategic acquisitions. We will consider acquisitions of educational institutions with the potential for program replication, new areas of study, new markets with attractive growth opportunities, further expansion of our online delivery capability and advanced degree programs.

Accreditation and Program Approvals

The quality of our academic programs is evidenced by institutional and program-specific accreditations and approvals. We received initial accreditation from the HLC in 1985. Since then, we have continued to grow and expand, and have obtained HLC approval for new geographic sites and graduate degree programs. In addition to institution-wide accreditation, numerous specialized commissions accredit or approve specific programs or schools, particularly in healthcare and professional fields. Accreditation or approval of specific programs by one of these specialized commissions signifies that those programs have met the additional standards of those agencies. For a list of our institutional and specialized or professional accreditation see "Regulatory Matters — Accreditation."

We are approved for veterans training and for administering various educational programs sponsored by federal and state agencies, such as the Bureau of Indian Affairs, the Social Security Administration and various state rehabilitation services.

Programs and Areas of Study

NAU offers the Doctor of Education, a Master of Business Administration, Master of Management, Master of Science in Nursing, Bachelor of Science, Associate of Applied Science and Associate of Science degrees, with a variety of program options leading to each of these degrees. Many of the degree programs offer emphasis areas. We also offer diploma programs consisting of a series of courses focused on particular areas of study for students seeking to enhance their skills and knowledge in the areas of information technology and allied health.

As of May 31, 2018, we offered the following degree, diploma and certificate programs:

Graduate Degrees	Associate Degrees
Ed. D Community College Leadership	Accounting
Master of Business Administration	Business Administration
Master of Business Administration with:	Business Logistics
Emphasis in Accounting	Computer Support Specialist
Emphasis in Aviation Management	Construction Management
Emphasis in E-Marketing	Criminal Justice
Emphasis in Health Care Administration	Emergency Medical Services
Emphasis in Human Resource Management	Health and Beauty Management
Emphasis in Information Technology Management	Health Information Technology
Emphasis in International Business	Information Technology
Emphasis in Management	Management
Emphasis in Operations and Configuration Management	Medical Administrative Assistant
Emphasis in Project and Process Management	Medical Assisting
Executive Master of Business Administration	Medical Laboratory Technician
	Medical Staff Services Management
Master of Management	Occupational Therapy Assistant
Master of Management with:	Associate of Science in Nursing
Emphasis in Aviation Management	Paralegal Studies
Emphasis in Criminal Justice Management	Professional Legal Studies
Emphasis in E-Marketing	Small Business Management
Emphasis in Health Care Administration	Surgical Technology
Emphasis in Higher Education	
Emphasis in Human Resource Management	
Emphasis in Information Technology Management	
Emphasis in Operations and Configuration Management	Diplomas
Emphasis in Project and Process Management	Accounting and Bookkeeping
	Computer Support Specialist
Master of Science in Nursing	Healthcare Coding
Master of Science in Nursing with:	Medical Assisting
Emphasis in Care Coordination	Medical Billing and Coding
Emphasis in Education	Network and Server Administrator
Emphasis in Nursing Administration	Office Applications and Software Support
Emphasis in Nursing Informatics	Vocational Nursing

Master of Science in Nursing
Master of Science in Nursing with:
- Emphasis in Care Coordination
- Emphasis in Education
- Emphasis in Nursing Administration
- Emphasis in Nursing Informatics

Bachelor's Degrees
Accounting
Aviation Management
Business Administration
Business Administration with:
- Emphasis in Accounting
- Emphasis in Entrepreneurship
- Emphasis in Financial Management
- Emphasis in Human Resource Management
- Emphasis in Management
- Emphasis in Management Information Systems
- Emphasis in Marketing
- Emphasis in Supply Chain Management
- Emphasis in Tourism and Hospitality Management

Construction Management
Criminal Justice
Emergency Medical Services Management
Energy Management
Health Information Management
Healthcare Management
Information Technology
Information Technology with:
- Emphasis in Applications Development
- Emphasis in Cybersecurity and Forensics
- Emphasis in Database Administration/Microsoft
- Emphasis in Management Information Systems
- Emphasis in Network Management/Microsoft
- Emphasis in Web Development

Bachelor of Science in Nursing

Organizational Leadership
Paralegal Studies
Professional Legal Studies

Henley-Putnam School of Strategic Studies

B.S. Intelligence Management
B.S. Strategic Security and Protection Management
B.S. Intelligence Management
B.S. Terrorism and Counterterrorism Studies
M.S. Intelligence Management
M.S. Strategic Security and Protection Management
M.S. Terrorism and Counterterrorism Studies
D.S.S. Strategic Security
Mid-Level Certificate in Counterterrorism
Senior-Level Certificate in Counterterrorism
Certificate in Intelligence and Terrorism Profiling
Advanced Certificate in Intelligence Collection and Analysis
Certificate in Strategic Intelligence
Mid-Level Certificate in Intelligence Analysis
Senior-Level Certificate in Intelligence Analysis
Advanced Certificate in Physical Security and Risk Assessment
Mid-Level Certificate in Executive Protection
Senior-Level Certificate in Executive Protection
Certificate in Cybersecurity
Certificate in Homeland Security
Advanced Certificate in Security Management
Certificate in Strategic Security Management
Entry-Level Certificate in Counterterrorism
Certificate in Intelligence Collection
Certificate in Intelligence Collection and Analysis
Entry-Level Certificate in Intelligence Analysis
Arabic Certificate
Dari Certificate
Farsi Certificate
French Certificate
Hindi Certificate
Mandarin Chinese Certificate
Portuguese Certificate
Russian Certificate
Spanish Certificate
Urdu Certificate
Certificate in Physical Security and Risk Assessment
Entry-Level Certificate in Executive Protection
Certificate in Security
Certificate in Security Management

Third-Party Relationships

Collaborations

We work with local businesses and corporations where our educational sites are located to offer a variety of courses and schedule formats to assist busy professionals. For certain programs, we offer customized courses and schedules and on-site classes. For example, we have relationships with hospitals and healthcare centers so students in the nursing and allied health programs can complete their clinical and practicum experiences on-site.

We also collaborate with local and national entities to provide educational programs that they desire. Examples of these collaborations include military memoranda of understanding and governmental and educational alliances. Among these alliances is our affiliation with the Serviceman's Opportunity College, which was developed in response to the special needs of adult continuing education for people in the armed forces.

Affiliations

NAU began offering online academic programs in 1998, and has continually developed expertise in curricula and technology related to online education. We have established a number of affiliations with other educational institutions to provide curriculum development services and technology support services. We also believe NAU provides an appealing opportunity for displaced students of closed schools who seek to continue their education through transfer- and teach-out options.

Associate to Bachelor's Degree Completion Program

Our associate to bachelor's degree completion programs, also called the 2 + 2 degree completion programs, are based on strategic affiliations with various higher education institutions in the United States. These programs allow students with an associates degree to transfer into a bachelor's degree.

Educational and Administrative Sites

The central administration is in Rapid City, South Dakota. We lease our educational, administrative and student services sites from third parties. As of May 31, 2018, we provided educational offerings and support services in the following locations:

State	Address	Approximate Size
Colorado:	8242 S. University Blvd., Suite 100 Centennial, CO 80122-3178	4,600 sq. ft.
	1079 Space Center Dr. Colorado Springs, CO 80915-3612	5,500 sq. ft.
	1915 Jamboree Dr., Suite 185 Colorado Springs, CO 80920-5378	9,300 sq. ft.
Indiana:	3600 Woodview Trace, Suite 200 Indianapolis, IN 46268-3167	16,375 sq. ft.
Kansas:	10310 Mastin St. Overland Park, KS 66212-5451	25,500 sq. ft.
	7309 E. 21st St. North, Suite G40 Wichita, KS 67206-1179	10,100 sq. ft.
	801 Campus Drive Garden City, KS 67206-1179	1,300 sq. ft.
Minnesota:	7801 Metro Parkway, Suite 200 Bloomington, MN 55425-1536	20,400 sq. ft.
	6200 Shingle Creek Parkway, Suite 130 Brooklyn Center, MN 55430-2131	14,300 sq. ft.
	1550 W. Highway 36 Roseville, MN 55113-4035	14,800 sq. ft.
	3906 E Frontage Highway 52 Rd. NW Rochester, MN 55901-0108	7,150 sq. ft.
	10901 Red Circle Dr., Suite 150 Minnetonka, MN 55343-4545	5,200 sq. ft.
	513 W. Travelers Trail Burnsville, MN 55337-2548	6,000 sq. ft.

Missouri:	3620 Arrowhead Ave. Independence, MO 64057-1791	18,300 sq. ft.
	7490 NW 87th St. Kansas City, MO 64153-1934	16,700 sq. ft.
	401 NW Murray Rd. Lee's Summit, MO 64081-1425	7,000 sq. ft.
Nebraska:	3604 Summit Plaza Dr. Bellevue, NE 68123-1065	9,500 sq. ft.
New Mexico:	4775 Indian School Rd. NE, Suite 200 Albuquerque, NM 87110-3976	24,400 sq. ft.
	10131 Coors Blvd., NW Suite I-01 Albuquerque, NM 87114-4045	6,200 sq. ft.
Oklahoma:	8040 S. Sheridan Rd. Tulsa, OK 74133-8945	8,600 sq. ft.
South Dakota:	5301 Mount Rushmore Rd. * Rapid City, SD 57701-8931	99,600 sq. ft.
	1000 Ellsworth St., Suite 2400B Ellsworth AFB, SD 57706-4943	6,700 sq. ft.
	5801 S. Corporate Sioux Falls, SD 57108-5027	22,400q. ft.
	925 29th St. SE Watertown, SD 57201-9123	4,700 sq. ft.
Texas:	13801 Burnet Rd., Suite 300 Austin, TX 78727-1281	20,400 sq. ft.
	6836 Austin Center Blvd, Suite 270 Austin, TX 78731-3188	10,300 sq. ft.
	4522 Fredericksburg Rd., Suite A100 San Antonio, TX 78201	37,343 sq. ft.
	1015 West University Ave. Suite 700 Georgetown, TX 78628-5355	7,170 sq. ft.
	203 West Jasper, Suite 200 Killeen, TX 78752	2,021 sq. ft.
	300 N. Coit Road, Suite 225	4,700 sq. ft.

Richardson, TX 75080-5400

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475 State Highway 121 S. By-pass, Suite 150 Lewisville, TX 75067-8193	5,500 sq. ft.
18600 LBJ Freeway Mesquite, TX 75150-5628	16,800 sq. ft.
11511 Katy Freeway, Suite 200 Houston, TX 77079-1744	3,007 sq. ft.

* Rapid City Campus, Distance Learning Operations & Central Administration

The university periodically offers credit and non-credit offerings in other locations. Our on-site programs not only offer students, faculty, and staff an opportunity to participate in a more traditional college experience, but also provide online students, faculty, and staff with a sense of connection to the university.

Faculty and Other Employees

NAU's faculty includes full-time and part-time campus-based and online faculty members. Approximately 61% of our current faculty members hold a master's degree in their respective field and approximately 26% hold a doctoral degree or first professional degree. During fiscal year 2018, the university employed approximately 73 full-time and 666 part-time faculty members; more than 550 faculty members are active each quarter. These numbers reflect an effort by the institution to effectively manage redundant course offerings and to maintain academically sound class sizes. Average class size ranges from less than 8 students on ground to 17 students online depending on the academic program. The average class size system wide is about 13 students per class.

We follow a specific process for hiring faculty in accordance with published standards for faculty members based on state regulations, HLC requirements, and specialized standards.

NAU recruits qualified faculty through postings on the university's website, as well as placement of advertisements in local and national media. We review official transcripts to validate academic qualifications and faculty vitae to verify academic preparation consistent with the university's qualification guidelines, as well as engagement in relevant professional activities.

Training, evaluating and recognizing faculty members originates with the college dean and associate academic deans. All faculty members complete an online faculty orientation, coordinated by the system academics office, which consists of seven modules addressing the university's mission and core values, the instructor's role at the university, learning concepts and theories, good practices in teaching and assessment, classroom management, and accreditation standards and regulatory requirements related to academics. Regularly scheduled webinars are also available for faculty development each quarter. In addition, the campus directors and full-time faculty are responsible for local orientation and in-service programs for faculty, schedules for faculty appraisal, promotions, and merit increase recommendations, as well as formal and informal efforts to retain faculty members. Central academics establishes and upholds the university's policies and practices for faculty appraisal. We provide ongoing and meaningful feedback on individual performance to our faculty members for their professional growth and for the continued advancement of the university. Retention of quality adjunct faculty is a priority.

Faculty and staff are encouraged to actively participate in a variety of academic and non-academic organizations. Faculty members participate in a wide variety of professional associations and activities at the local, state and regional level. We encourage our faculty and staff to stay current on changes and trends within higher education, as well as their respective industries. Participation in professional organizations by faculty and staff bring current information

relevant to the university's mission and programming to students and the workplace.

In addition to our faculty, as of May 31, 2018, we employed approximately 500 staff and administrative personnel in university services, academic advising and support, enrollment services, university administration, financial aid, information technology, human resources, corporate accounting, finance, and other administrative functions. None of our employees is a party to any collective bargaining or similar agreement with the university.

Marketing, Recruitment, and Retention

Marketing. We engage in a range of activities designed to generate awareness among prospective students, such as building brand awareness via internet platforms, television and radio advertising, direct mail, email, and print. The marketing department's goal is to distribute relevant content to our target audiences in order to gain brand awareness, create a desire to attend NAU by engaging our audiences, and support admissions in enrollment growth. NAU's audience is primarily adult learners choosing to advance their education for personal and career-related goals.

Recruitment. Once a prospective student has indicated an interest in enrolling, the university's lead management system identifies and directs an admissions representative to initiate prompt communication. The enrollment and completion advisor serves as the primary, direct contact for the prospective student, and the advisor's goal is to help the student gain sufficient knowledge and understanding of the university's programs so the prospective student can assess whether the university's offerings satisfy his or her goals.

Retention. We utilize our enrollment and completion advisors and a director of student success at each location to support students in advancing from matriculation through attainment of educational goals. Team members monitor various risk factors, such as the failure to buy books for a registered course, lack of attendance or failure to participate in online orientation exercises. Upon identifying an at-risk student, the university can interact with the student to assist him or her in continuing his or her program of study.

Student Support Services

Encouraging students to complete their degree programs is critical to our success. We invest great effort in developing and providing resources that simplify the student enrollment process, acclimate students to our programs and online environment, and support the student educational experience. Many of our support services, including academic, administrative and library services, are accessible online, allowing users to access these services at a time and in a manner convenient for them.

The student support services we provide include:

Academic and learner support services. We provide students with a variety of services designed to support their academic studies. We offer students entrance orientation, academic advising, technical support, research services, writing services, ADA accommodations, access to counseling, and tutoring. New faculty-student high-touch, high-engagement strategies continue to improve both persistence rates and academic achievement at the graduate level.

Administrative services. We provide students access to a variety of administrative services in person as well as telephonically and via the Internet. For example, students can review class schedules, apply for financial aid, pay tuition, and access their unofficial transcripts online. The university's financial service representatives provide personalized online and telephonic support to the students.

Library services. We provide a mix of online and on-campus library resources, services, and instruction to support the educational and research endeavors of our students, faculty and staff, including physical and online libraries and online library resources available 24/7. We plan to launch new cloud-based service points for library support in the future.

Career services. For those students seeking to change careers or explore new career opportunities, we offer career services support, including resume review and evaluation, career planning workshops and access to career services information for advice and support. We plan to launch new cloud-based service points for career services support in

the future.

Technology support services. We provide online technical support to help students remedy technology-related issues. We also provide online tutorials and “Frequently Asked Questions” for students who are new to online coursework.

Admissions

Prospective students complete an application to enroll in our programs. Once the application has been submitted, an admissions representative and student services personnel assist the applicant through the admissions process, course registration and matriculation. Financial services representatives, if needed, assist with financial aid. Prospective students complete placement tests to determine any missing skills, which enables the university to best serve students by enrolling them in classes to build those skills, thereby increasing their chances of success.

Applicants to the university’s Doctor of Education (Ed.D.) in Community College Leadership Program (CCLP) requires a master’s degree or higher from a regionally accredited institution of higher education in the United States or, an international higher education institution recognized by the ministry of education or other appropriate government agency and a transcript evaluation from an organization approved by the National Association of Credential Evaluation Services (NACES); a minimum cumulative grade point average of 3.00 (of a possible 4.00 GPA) achieved for all previous graduate coursework; three years of related professional experience; and a willingness to matriculate through the program of study as a member of a cohort.

International applicants to the university's doctoral program must provide evidence of completion of a graduate degree in the form of official transcripts from (i) a regionally accredited institution of higher education in the United States; or (ii) an international higher education institution recognized by the ministry of education or other appropriate government agency and a transcript evaluation from an organization approved by NACES; must complete and submit the International Financial Certification form and attach an original bank statement. International students are required, as part of the application process, to show evidence of sufficient funding during their studies. The amount and source of funds are also shown on the Certificate of Eligibility (I-20) needed to apply for an F-1 visa. In addition, students planning to bring a spouse and/or children are required to show additional funds for those individuals. Applicants must demonstrate proficiency in English through satisfaction of one of the following requirements:

a. Provide an official Test of English as a Foreign Language (TOEFL) score report indicating a minimum score of 550 for a paper-based, 213 for a computer-based or 80 for an Internet-based exam (The TOEFL must have been taken within the past two calendar years. Official test scores must be sent from the testing agency to National American University. When ordering TOEFL test results, include the university's school code of 6464.).

b. Provide an official International English Language Testing System (IELTS) score report with an overall minimum score of 6.0. (The IELTS must have been taken within the past two calendar years. Official test scores must be sent from the testing agency to National American University.)

c. Provide evidence of completion of two trimesters (or equivalent) of college-level English (excluding ESL courses) with a grade of C or higher at a college or university whose language of instruction is English.

d. Provide evidence of English language proficiency as deemed appropriate by National American University.

Applicants to the MBA and MM programs must have a minimum of a baccalaureate degree or equivalent from an institution recognized or accredited by an appropriate government or third-party agency.

Applicants to the university's Executive MBA program must have a minimum of a baccalaureate degree or equivalent from an institution recognized or accredited by an appropriate government or third-party agency, and a minimum of seven years of acceptable management experience.

Applicants to the university's MSN program must have graduated from a baccalaureate degree program in nursing from an accredited institution; have a current active unencumbered registered nurse (RN) license from any state within the United States; and have a minimum cumulative grade point average (CGPA) of 3.0 or above on a 4.0 scale during the baccalaureate degree completion.

International applicants to the university's master's programs must provide evidence of completion of a baccalaureate degree in the form of official transcripts from (i) an international higher education institution recognized by the ministry of education or other appropriate government agency and a transcript evaluation from an organization approved by NACES or (ii) a U.S. higher education institution; must complete and submit the International Financial Certification form and attach an original bank statement. International students are required, as part of the application process, to show evidence of sufficient funding during their studies. The amount and source of funds are also shown on the Certificate of Eligibility (I-20) needed to apply for an F-1 visa. In addition, students planning to bring a spouse and/or children are required to show additional funds for those individuals. Applicants must demonstrate proficiency in English through satisfaction of one of the following requirements:

a. Provide an official TOEFL score report indicating a minimum score of 550 for a paper-based, 213 for a computer-based or 80 for an Internet-based exam (The TOEFL must have been taken within the past two calendar years. Official test scores must be sent from the testing agency to National American University. When ordering

TOEFL test results, include the university's school code of 6464.).

b. Provide an official IELTS score report with an overall minimum score of 6.0. (The IELTS must have been taken within the past two calendar years. Official test scores must be sent from the testing agency to National American University.)

c. Provide evidence of completion of two trimesters (or equivalent) of college-level English (excluding ESL courses) with a grade of C or higher at a college or university whose language of instruction is English.

d. Provide evidence of English language proficiency as deemed appropriate by National American University.

Undergraduate applicants must have graduated from a recognized high school (or the Department of Education or state-required accepted equivalent) or submit an official transcript from an accredited higher education institution in the United States indicating completion of a postsecondary education program of at least two years that is acceptable for full credit toward a bachelor's degree, with a minimum cumulative grade point average of 2.0. Non-native English speaking applicants must provide an official TOEFL score report indicating a minimum score of 520 for a paper-based, 190 for a computer-based, or 68 for an Internet-based exam; or provide an official Test of English for International Communication (TOEIC) score report indicating a minimum score of 750 (not applicable to student enrolled in the nursing program); or provide an official IELTS score report with an overall minimum score of 5.; or provide evidence of completion of two semesters (or the equivalent) of college-level English (excluding ESL courses) with a grade of "C" or higher at an accredited college or university whose language of instruction is English; or provide evidence of English language proficiency by completing the Accuplacer ESL English assessment exam with minimum scores or 102 or higher in reading, 100 or higher in sentence meaning, 95 or higher in language usage and 5 or higher in writing sample.

Enrollment

Enrollments have decreased from 6,703 students as of May 31, 2017 to 5,648 students as of May 31, 2018, representing an annual decrease of approximately 15.7% mainly as a result of a decrease in undergraduate and diploma students. As of May 31, 2018, we had 4,342 students enrolled in our online programs, 724 students enrolled on-campus, and 582 students enrolled through our hybrid learning centers. The average age of our students is approximately 36 years.

The following is a summary of our student enrollment at May 31, 2018, and May 31, 2017, by degree type and by instructional delivery method:

	May 31, 2018 (Spring '18 Qtr)		May 31, 2017 (Spring '17 Qtr)		
	Number of Students	% of Total	Number of Students	% of Total	% Change for same quarter over prior year
Continuing Ed	59	1.0%	170	2.5%	-65.3%
Doctoral	111	2.0%	98	1.5%	13.3%
Graduate	449	8.0%	366	5.4%	22.7%
Undergraduate and Diploma	5,029	89.0%	6,069	90.5%	-17.1%
Total	5,648	100.0%	6,703	100.0%	-15.7%
On-Campus	724	12.8%	1,309	19.5%	-44.7%
Online	4,342	76.9%	4,691	70.0%	-7.4%
Hybrid	582	10.3%	703	10.5%	-17.2%
Total	5,648	100.0%	6,703	100.0%	-15.7%
Continuing Ed, Doctoral, Grad	619		634		-2.4%

Tuition and Fees

Our tuition rates vary by educational site. Total tuition varies based upon several factors, including the number of credit hours for each program, the degree level of the program, and geographic location.

Our students finance their education through a variety of sources, including government sponsored financial aid, private and NAU provided scholarships, employer provided tuition assistance, veteran’s benefits, private loans, and cash payments. A substantial portion of our students rely on funds received under various government sponsored student financial aid programs, predominately Title IV programs. In the fiscal years ended May 31, 2018, 2017, and 2016, approximately 82.1%, 82.6%, and 86.8%, respectively, of our revenues (calculated on a cash basis) were attributable to funds derived from Title IV programs. In the future, we expect to continue the current initiatives to

increase revenue from sources other than Title IV programs, such as continuing education programming that is not eligible for Title IV program funding.

We have a refund policy for tuition and fees based upon quarterly start dates. If a student drops or withdraws from a course during the first week of classes, 100% of the charges for tuition and fees are refunded. After the first week but during the first 60% of scheduled classes the percentage of tuition charges refunded for a student who totally withdraws from NAU is based on a daily proration based on a percent of the term completed thru the last day of attendance. If the last day of attendance is beyond 60% of the scheduled classes, tuition and fees are not refunded. A $75 administrative fee is assessed against each prorated refund. A refund minus a $75 administrative fee is made within 45 days of the day the student’s withdrawal is determined. If the student was a financial aid recipient, federal regulations establish a methodology for determining the amount of Title IV funds that must be returned to the financial aid programs for students not completing 60% of the enrollment period.

Technology Systems

We remain focused on leveraging the use of technology to increase efficiencies in our academic programs and our general administrative operations. This commitment requires not only institutional budget expenditures, but also orientation and training in the use of this technology.

To service our online teaching, we utilize Desire2Learn TM, or D2L, an Internet-based learning management system. The features of this product include content display and organization, synchronous and asynchronous chat, private messaging, quizzing, student surveys and assignment submission and student tracking and grading. The system is used to present online courses to both domestic and international students. In collaboration with the IT team, academic leaders have developed and launched or will launch three new cloud-based comprehensive service points for math, writing, career, and library support—as well as student support 24/7.

Together with the IT team, academics has developed ROCKET and TEAMS 3, the online, cloud-based version of NAU's signature undergraduate persistence and completion system. The cloud-based system allows faculty, advisors, campus directors, and college deans and associate deans to track student progress, attendance, grades, posted assignments, etc., so as to intervene proactively if a student becomes in any way at risk.

Recognizing the need to manage content used in the D2L learning management system, we implemented the Desire2Learn Learning Object Repository™ application to input, organize, manage and display course materials. This application provides an Internet-based, content entry and editing interface that allows content experts to create and edit course content. Additionally, it organizes text, images, documents and multimedia resources in a relational database, allowing the university to more easily identify and re-task existing content for new projects and courses through the use of Meta data. Finally, the application is integrated with the learning management system and is used to display and deliver content seamlessly through D2L to students.

Intellectual Property

We rely on a combination of copyrights, trademarks, service marks, trade secrets, domain names and agreements with third parties to protect proprietary rights. Through the extensive development of electronic instructional materials, on-campus and online courseware and related processes, we continue to accumulate intellectual property that has provided the basis for improving quality of instruction, programs and services to our students.

We rely on trademark and service mark protections in the United States and other countries for our name and distinctive logos, along with various other trademarks and service marks related to specific offerings. We own federal registrations for the principal trademarks, National American University® and NAU® in the United States. These marks are important symbols for us and are used on our educational services and educational materials and a range of other items, including clothing and other memorabilia. These brands appear in advertising and are seen by members of the public as well as direct constituents. We own domain name rights to "national.edu" as well as its derivatives, and a number of "nau" related domain names.

NAU publishes intellectual property policies in both the faculty and employee handbooks that outline the ownership of creative works and inventions produced by employees within the scope of their employment, compliance with copyright law, and the use of copyrighted materials. When content experts are hired to develop curriculum, they are required to execute a standard agreement to confirm that all materials created under the scope of their work becomes NAU's exclusive intellectual property. These agreements also require the content experts to comply with all laws related to copyright and the use of copyrighted materials.

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Real Estate Operations

Fairway Hills, the real estate operations, conducts business through various projects and associations, including Fairway Hills I and II, Park West, Vista Park, Fairway Hills Park and Recreational Association, the Vista Park Homeowners' Association and the Park West Homeowners' Association. Fairway Hills I and Fairway Hills II are apartment buildings consisting of a total of 52 rental units, referred to as Doral Apartments, of which 98% were leased as of May 31, 2018. Park West originally consisted of 48 apartment units and is owned by a partnership that is 50% owned by the Company and 50% owned by members of the Buckingham family (including Robert Buckingham, chairman of our board of directors, and his siblings and the spouses and estates of his siblings). Two of the original Park West apartments were combined into one large unit and later sold. Four additional apartments were sold, resulting in 42 rental apartments. Park West is 98% leased as of May 31, 2018. Vista Park consists of 24 total condominium units of which a total of 21 had been sold as of May 31, 2018. Prices for Vista Park condominium units start at approximately $215,000. Early in the fiscal year ended May 31, 2018, Fairway Hills completed construction on a 24-unit luxury apartment complex referred to as Arrowhead View, of which all 24 units were under lease as of May 31, 2018.

In connection with the development of Vista Park and the Park West apartments, Fairway Hills has created two homeowners' associations, the Vista Park Homeowner's Association and the Park West Homeowner's Association, each of which is a non-profit corporation, to manage and sell the condominiums. In addition, the Fairway Hills Park and Recreational Association, which is also a non-profit corporation, was created to operate as a homeowner's association covering substantially all of the Fairway Hills development.

Environmental

Our facilities and operations are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. If we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur costs for clean-up, damages, and fines or penalties.

Compliance with Applicable Laws

We strive to comply with applicable federal, state, and local laws and regulations. We have a designated university compliance officer and maintain an institutional compliance program that:

monitors compliance and, when gaps or violations occur, develops responses to correct deficiencies in a timely manner;

communicates institutional principles designed to deter wrongdoing and to promote ethical conduct. Further, audits are periodically conducted to ensure compliance with applicable laws;

ensures that federally required Title IV student financial assistance program compliance attestation examinations are conducted annually to determine compliance and to identify any deficiencies requiring correction;

ensures an audit of 401(k) retirement plans is conducted annually for compliance with applicable laws and fiduciary duties; and

engages an independent auditing firm to audit the annual financial statements.

REGULATORY MATTERS

NAU is subject to extensive regulation by state education agencies, accrediting commissions, and the United States federal government through the U.S. Department of Education (the "Department of Education") under the Higher Education Act of 1965, as amended (the "Higher Education Act"). The regulations, standards and policies of these agencies cover substantially all our operations, including the educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, finances, results of operations and financial condition.

As an institution of higher education that grants degrees and diplomas, we are required to comply with the requirements of state education authorities. To participate in federal programs of student financial assistance, we are required to be accredited by an accrediting commission recognized by the Department of Education. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting commission and the stated aims and purposes of the institution. The Higher Education Act requires accrediting commissions recognized by the Department of Education to review and monitor many aspects of an institution's operations and to take appropriate action if the institution fails to meet the accrediting commission's standards.

NAU's operations are also subject to regulation by the Department of Education due to our participation in Title IV programs. To participate in Title IV programs, a school must receive and maintain authorization by the appropriate state education agency or agencies, be accredited by an accrediting commission recognized by the Department of Education and be certified as an eligible institution by the Department of Education. Prior to July 1, 2010, Title IV programs included educational loans provided directly by the federal government, grant programs for students with demonstrated financial need, and educational loans issued by private banks with below-market interest rates that were guaranteed by the federal government in the event of a student's default on repayment of the loan. As of July 1, 2010, the federal government provides all educational loans under Title IV.

We plan and implement our business activities to comply with the standards of these regulatory agencies. Our chief executive officer and chief financial officer, also provide oversight designed to ensure that we meet the requirements of this regulatory environment.

State Authorization and Regulation

NAU is subject to extensive regulations by the states in which we are authorized or licensed to operate. State laws and regulations typically establish standards in areas such as instruction, qualifications of faculty, administrative procedures, marketing, recruiting, financial operations and other operational matters, which can be different than and conflict with the requirements of the Department of Education and other applicable regulatory bodies. State laws and regulations may limit our ability to offer educational programs and offer certain degrees. 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.

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In addition, several states have jurisdiction over educational institutions offering online degree programs although there is no physical location or other presence in the state. The institution may be enrolling or offering educational services to students who reside in the state, conducting practicums or sponsoring internships in the state, employing faculty who reside in the state or advertising or recruiting prospective students in the state. State regulatory requirements for online education vary, are not well developed in many states, are imprecise or unclear in some states and can change frequently.

We have determined that our activities in certain states constitute a presence requiring licensure or authorization under the current requirements of the state education agency, and in other states we have approvals in connection with our marketing and recruiting activities. We review the state licensure requirements to determine whether our activities constitute a presence or otherwise require licensure or authorization by the state education agency. When necessary we submit additional applications for licensure or authorization.

We are required by the Higher Education Act to be authorized by applicable state educational agencies in South Dakota and other states where we are physically located to participate in Title IV programs. 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 federal student aid 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. The Department of Education would recognize authorization through participation in a state authorization reciprocity agreement, if the agreement does not prevent a state from enforcing its own laws. The final regulations also require that foreign additional locations and branch campuses be authorized by the appropriate foreign government agency and, if at least 50% of a program can be completed at the location/branch, be approved by the institution's accrediting agency and be reported to the state where the main campus is located. The final regulations also require institutions to: document the state process for resolving complaints from students enrolled in programs offered through distance education or correspondence courses; and make certain public and individualized disclosures to enrolled and prospective students about their distance education programs. The final regulations regarding state authorization for foreign locations of domestic institutions became effective July 1, 2018. On June 29, 2018, the Department of Education delayed the effective date of these final regulations with respect to distance education from July 1, 2018, to July 1, 2020. See "Regulatory Matters – Regulation of Federal Student Financial Aid Programs – State Authorization."

In addition, in recent years several states have voluntarily entered into State Authorization Reciprocity Agreements ("SARA") that establish standards for interstate offering of postsecondary 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 is approved to participate in SARA, through the SARA Coordinator of the South Dakota Board of Regents as a state portal agency with its most recent approval effective from April 20, 2018 through April 19, 2019.

We do not believe that any of the states in which we are currently licensed or authorized, other than South Dakota, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma and Texas, are individually material to our operations. 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, or in a state where we are required to maintain authorization for online education activities, we would also lose Title IV eligibility in that state. If we are found not to be in compliance with state requirements for online learning, and a state seeks to restrict one or

more of our business activities within its boundaries, we may not be able to recruit students from that state and may have to cease providing educational programs to students in that state or may be subject to other sanctions, including fines or penalties. Compliance with these new and changing laws, regulations or interpretations related to state authorization and offering programs via online delivery could increase our cost of doing business and affect our ability to recruit students in particular states, which could, in turn, adversely affect enrollments, revenues and our business.

State Professional Licensure

Many states have specific licensure requirements that an individual must satisfy to be licensed as a professional in specified fields, including fields such as education and healthcare. These requirements vary by state and by field. A student’s success in obtaining licensure following graduation typically depends on several factors, including the background and qualifications of the individual graduate, as well as the following factors, among others:

whether the institution and the program were approved by the state in which the graduate seeks licensure, or by a professional association;

whether the program from which the student graduated meets all requirements for professional licensure in that state;

whether the institution and the program are accredited and, if so, by what accrediting commissions; and

whether the institution's degrees are recognized by other states in which a student may seek to work.

Many states also require that graduates pass a state test or examination as a prerequisite to becoming certified in certain fields, such as nursing. Many states also may require a criminal background clearance before granting certain professional licensures or certifications. The catalog informs students that it is incumbent upon the student to verify whether a specific criminal background clearance is required in their field of study prior to beginning course work.

Accreditation

We have been institutionally accredited since 1985 by the Higher Learning Commission (HLC), a regional accrediting commission recognized by the Department of Education. Our accreditation by the HLC was most recently affirmed in January 2015. Accreditation is a private, non-governmental process for evaluating the quality of educational institutions and their programs in areas, including student performance, governance, integrity, educational quality, faculty, physical resources, administrative capability and resources and financial stability. To be recognized by the Department of Education, accrediting commissions must comply with Department of Education regulations, which require, among other things, that accrediting agencies adopt specific criteria for their review of educational institutions, conduct peer review evaluations of institutions, and publicly designate those institutions that meet their criteria. An accredited institution is subject to periodic review by its accrediting commissions to determine whether it continues to meet the performance, integrity and quality required for accreditation.

There are six regional accrediting commissions recognized by the Department of Education, each with a specified geographic scope of coverage, which together cover the entire United States. Most traditional, public and private non-profit, degree-granting colleges and universities are accredited by one of these six regional accrediting commissions. The HLC, which accredits NAU, accredits other degree-granting public and private colleges and universities in the states of Arizona, Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, West Virginia, Wisconsin and Wyoming.

Accreditation by the HLC is important for several reasons, one being that it enables students to receive Title IV financial aid. Other colleges and universities depend, in part, on an institution's accreditation in evaluating transfers of credit and applications to graduate schools. Employers rely on the accredited status of institutions when evaluating candidates' credentials, and students and corporate and government sponsors under tuition reimbursement programs consider accreditation as assurance that an institution maintains quality educational standards. If we fail to satisfy the criteria of the HLC, we could lose our accreditation by that commission, which would cause us to lose our eligibility to participate in Title IV programs.

The reauthorization of the Higher Education Act in 2008, and Department of Education regulations that became effective July 1, 2010, require accrediting commissions to monitor the growth of institutions that they accredit. The HLC requires all affiliated institutions, including NAU, to complete an annual data report. If the non-financial data, enrollment information, or any other information submitted by the institution indicate problems, rapid change or significant growth, the HLC staff may require that the institution address any concerns arising from the data report in the next comprehensive evaluation or may recommend additional monitoring. In addition, the Department of Education regulations that became effective July 1, 2010 require the HLC to notify the Department of Education if an institution accredited by the HLC that offers distance learning programs, such as NAU, experiences an increase in its headcount enrollment of 50% or more in any fiscal year. The Department of Education may consider that information

in connection with its own regulatory oversight activities.

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In addition to institution-wide accreditation, there are numerous specialized accrediting commissions that accredit specific programs or schools within their jurisdiction, many of which are in healthcare and professional fields. Accreditation of specific programs by one of these specialized accrediting commissions signifies that those programs have met the additional standards of those agencies. In addition to being accredited by the HLC at the institutional level, we also had the following specialized accreditations as of May 31, 2018:

Specialized or Programmatic Accreditation or Approval	Accrediting or Approving Body
Selected Business Degree Programs (Associate of Applied Science, Bachelor of Science, Master of Management, Master of Business Administration degrees)	International Assembly for Collegiate Business Education
Medical Laboratory Technician (Kansas City [Zona Rosa], Missouri campus)	National Accrediting Agency for Clinical Laboratory Sciences
Health Information Technology (online program) Management	Commission on Accreditation for Health Informatics and Information
Invasive Cardiovascular Technology (Austin, Texas campus)	Commission on Accreditation of Allied Health Education Programs on the recommendation of the Joint Review Committee on Education in Cardiovascular Technology
Medical Assisting (Albuquerque, New Mexico;Georgetown and Mesquite, Texas; Bellevue, Nebraska;Rochester and Roseville, Minnesota; Colorado Springs, and Centennial, Colorado; Independence, Kansas City [Zona Rosa], Missouri; Overland Park, and Wichita, Kansas; Sioux Falls, South Dakota; Tulsa, Oklahoma, campuses)	Commission on Accreditation of Allied Health Education Programs on the recommendation of the Medical Assisting Education Review Board
Occupational Therapy Assistant (Centennial, Colorado. and Independence, Missouri. campuses)	Accreditation Council for Occupational Therapy Education
Paralegal Studies (Rapid City and Sioux Falls, South Dakota; Roseville, Minnesota, campuses)	American Bar Association
Pharmacy Technician (Roseville, Minnesota;Independence, Missouri. campuses)	American Society of Health-System Pharmacists
Surgical Technology (Overland Park and Wichita, Kansas; Tulsa, Oklahoma, campuses)	Accrediting Bureau of Health Education Schools
Veterinary Technology (Rapid City, South Dakota campus)	

	Committee on Veterinary Technician Education and Activities
Associate of Science Nursing Program (Kansas City [Zona Rosa], Missouri campus	Missouri Board of Nursing Full Approval
Bachelor of Science in Nursing Program (Albuquerque, New Mexico campus)	New Mexico Board of Nursing Full Approval
Bachelor of Science in Nursing Program (Rapid City, and Sioux Falls, South Dakota. campuses)	South Dakota Board of Nursing Interim Approval
Bachelor of Science in Nursing Program (Austin, Texas campus)	Texas Board of Nursing Initial Approval
Bachelor of Science in Nursing and Licensed Practical Nurse Bridge to Bachelor of Science in Nursing Program (Overland Park, and Wichita, Kansas. campuses)	Kansas State Board of Nursing Approval
Bachelor of Science and Master of Science in Nursing Programs	Commission on Collegiate Nursing Education Initial Accreditation
Online Registered Nurse to Bachelor of Science in Nursing Program (Distance Learning)	South Dakota Board of Nursing Approval
Pre- and Post-licensure baccalaureate degree programs in nursing (Distance Learning) (all states except Tennessee)	Commission on Collegiate Nursing Education Initial Accreditation

If we fail to satisfy the standards of any of these specialized accrediting commissions, we could lose the specialized accreditation for the affected programs, which could result in materially reduced student enrollments in those programs.

Regulation of Federal Student Financial Aid Programs

To be eligible to participate in Title IV programs, an institution must comply with specific requirements contained in the Higher Education Act and the regulations issued thereunder by the Department of Education. An institution must, among other things, be licensed or authorized to offer its educational programs by the state or states in which it is physically located (in our case, South Dakota, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, and Texas) and maintain institutional accreditation by an accrediting commission recognized by the Department of Education.

The substantial amount of federal funds disbursed to schools through Title IV programs, the large number of students and institutions participating in these programs and allegations of fraud and abuse by certain for-profit educational institutions have caused Congress to require the Department of Education to exercise considerable regulatory oversight over for-profit educational institutions. As a result, for-profit educational institutions, including ours, are subject to extensive oversight and review. Because the Department of Education periodically revises its regulations and changes its interpretations of existing laws and regulations, we cannot predict with certainty how the Title IV program requirements will be applied in all circumstances.

Significant factors relating to Title IV programs that could adversely affect us include the following:

Congressional Action. Congress must reauthorize the Higher Education Act on a periodic basis, usually every five to six years. The most recent reauthorization of the Higher Education Act occurred in August 2008, which means that the next reauthorization was due in 2013. Congress failed to pass a one-time reauthorization bill; therefore, an automatic one-year extension to December 2014 was established. In late 2014, Congress passed an extension to further delay reauthorization. Congress has taken actions required to continue to extend Title IV programs while a Higher Education Act reauthorization remains pending and the Title IV programs remain authorized and functioning. Congress must continue to pass legislation to extend the Act until a reauthorization can occur. We cannot predict when or whether Congress may reauthorize the Higher Education Act, but it is possible that Congress may work to either reauthorize the Higher Education Act in its entirety or pass a series of smaller bills that focus on individual parts of the Higher Education Act, primarily Title IV programs.

In addition, Congress must determine funding levels for Title IV programs on an annual basis and can change the laws governing Title IV programs at any time. Apart from Title IV programs, eligible veterans and military personnel may receive educational benefits for the pursuit of higher education. A reduction in federal funding levels for Title IV programs, or for programs providing educational benefits to veterans and military personnel, could reduce the ability of some students to finance their education. Any action by Congress that significantly reduces Title IV program funding or the ability of our students to participate in Title IV programs could have a material effect on our enrollments, business, financial condition and results of operations. Congressional action also may require us to modify our practices in ways that could increase administrative costs and reduce profit margins, which could have a material effect on our business, financial condition and results of operations.

Various Congressional hearings and roundtable discussions have been held, beginning in 2010, by the U.S. Senate Committee on Health, Education, Labor and Pensions (“HELP Committee”) and other Congressional members and committees regarding various aspects of the education industry, including student debt, student recruiting, student outcomes and accreditation matters. In July 2012, the majority staff of the HELP Committee released a report analyzing information requested from 30 companies operating proprietary institutions (including us and other publicly traded companies providing proprietary postsecondary education services). While stating that proprietary colleges and universities have an important role to play in higher education and should be well-equipped to meet the needs of non-traditional students who now constitute the majority of the postsecondary educational population, the report was highly critical of these institutions. Further, in July 2014, the majority staff of the HELP Committee released a report claiming that eight of the ten top recipients of post-9/11 GI Bill funds are for-profit companies.

In recent years, various pieces of legislation have been proposed in Congress that, if adopted, would affect our business. For example, from time to time, legislation is introduced to make a proprietary institution ineligible to participate in Title IV programs if it derives more than 85% of its revenues from federal funds, including Title IV programs, revenues from the GI Bill and Department of Defense Tuition Assistance funds. Some legislation would also prohibit proprietary institutions, including us, from using federally-derived funds for marketing, advertising and recruiting expenses. This and similar proposals could be used as a basis of discussion during the reauthorization of the Higher Education Act.

On December 13, 2017, the U.S. House of Representatives Committee on Education and the Workforce approved legislation to reauthorize the Higher Education Act. If enacted in its current form, this legislation would substantially amend the HEA, including changes to Title IV programs and provisions governing institutional participation therein. We cannot predict when or whether the full House of Representatives will vote on the legislation, nor when or whether similar legislation will be considered by the U.S. Senate. Any actions that change the requirements for our participation in Title IV programs or the amount of student financial aid for which our students are eligible could negatively impact our business.

Government-wide Focus on Proprietary Educational Institutions. In October 2014, the Department of Education announced an interagency task force composed of the Department of Education, the U.S. Federal Trade Commission (the "FTC"), the U.S. Departments of Justice, Treasury and Veterans Affairs, the Consumer Financial Protection Bureau (the "CFPB"), the SEC, and numerous state attorneys general. Attorneys general in several states have become more active in enforcing consumer protection laws, especially related to recruiting practices and the financing of education at proprietary educational institutions. In addition, several state attorneys general have recently partnered with the CFPB to review industry practices. The FTC has also recently issued civil investigative demands to several other U.S. proprietary educational institutions, which require the institutions to provide documents and information related to the advertising, marketing, or sale of secondary or postsecondary educational products or services, or educational accreditation products or services. If our past or current business practices are found to violate applicable consumer protection laws, or if we are found to have made misrepresentations to our current or prospective students about our educational programs, we could be subject to monetary fines or penalties and possible limitations on the manner in which we conduct our business, which could materially and adversely affect our business, financial condition, results of operations and cash flows. To the extent that more states or government agencies commence investigations, act in concert, or direct their focus on us, the cost of responding to these inquiries and investigations could increase significantly, and the potential impact on our business would be substantially greater.

U.S. Military Tuition Assistance. Service members of the United States Armed Forces are eligible to receive tuition assistance from their branch of service through the Uniform Tuition Assistance Program (the "tuition assistance program") of the Department of Defense. Service members may use this tuition assistance to pursue postsecondary degrees at postsecondary institutions that are accredited by accrediting agencies that are recognized by the Department of Education. Each branch of the armed forces has established its own rules for the tuition assistance programs of the Department of Defense. Institutions cannot enroll service members under tuition assistance program unless they have signed a Memorandum of Understanding, which, among other things, requires an institution to agree to support Department of Defense regulatory guidance, adhere to a bill of rights that is specified in the regulations, and participate in the proposed Military Voluntary Education Review program. In addition, institutions must also agree to adhere to the principles and criteria established by the Service Members Opportunity Colleges Degree Network System regarding the transferability of credit and the awarding of credit for military training and experience.

In 2010, Congress and the Department of Defense increased their focus on Department of Defense tuition assistance that is used for distance education and programs at proprietary institutions. In 2012, President Obama issued an Executive Order regarding the establishment of "Principles of Excellence" for educational institutions receiving funding from the tuition assistance programs administered by the Department of Defense and veterans educational benefits programs administered by the Department of Veterans Affairs. The goals of the Principles of Excellence are broadly stated and relate to disclosures on costs and amounts of costs covered by federal educational benefits, marketing standards, state authorization, accreditation approvals, standard institutional refund policies, educational plans and academic and financial advising. In August 2013, the Department of Defense began incorporating the Principles of Excellence outlined in the President's 2012 Executive Order into their current Memorandum of Understanding.

We cannot predict whether further focus on military tuition assistance will result in legislation or further rulemaking affecting our participation in Title IV programs. To the extent that any laws or regulations are adopted that limit our participation in Title IV programs or the amount of student financial aid for which our students are eligible, our enrollments, revenues and results of operation could be materially affected.

Changes in Department of Education Regulations. As part of its negotiated rulemaking process, 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 formally proposing 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.

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 ("Borrower Defense") 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 and 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 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. 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 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. The Court further ordered additional oral argument on the matter of remedies, and thus has not yet entered or finalized a remedial order in connection with its decision. The Department of Education may appeal the court's decision and any subsequent remedial order. We therefore cannot predict with any certainty the final outcome or impact of this litigation.

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. Following a 30-day public comment period, the Department of Education is expected to issue a final rule by November 1, 2018, taking effect July 1, 2019. We cannot predict the extent to which that final rule may differ from the 2018 Borrower Defense Proposed Rule, or may differ from the previously promulgated 2016 Borrower Defense Final Rule, or the impact that any such revised rule might have on our business.

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 federal student aid 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. The Department of Education would recognize authorization through participation in a state authorization reciprocity agreement, if the agreement does not prevent a state from enforcing its own laws. The final regulations also require that foreign additional locations and branch campuses be authorized by the appropriate foreign government agency and, if at least 50% of a program can be completed at the location/branch, be approved by the institution's accrediting agency and be reported to the state where the main campus is located. The final regulations would also require institutions to: document the state process for resolving complaints from students enrolled in programs offered through distance education or correspondence courses; and make certain public and individualized disclosures to enrolled and prospective students about their distance education programs. The final regulations regarding state authorization for foreign locations of domestic institutions became effective July 1, 2018. On June 29, 2018, the Department of Education delayed the effective date of these final regulations with respect to distance education from July 1, 2018, to July 1, 2020. We cannot predict with certainty the impact that such regulations might have on our business.

On June 22, 2017, the Department of Education announced that in accordance with Executive Order 13777, "Enforcing the Regulatory Reform Agenda," it is seeking public comment on regulations that may be "appropriate for repeal, replacement, or modification." 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.

Gainful Employment. Under the Higher Education Act, proprietary schools generally are eligible to participate in Title IV programs in respect of educational programs that lead to "gainful employment in a recognized occupation."

On October 31, 2014, the Department of Education published final regulations to define "gainful employment" which became effective on July 1, 2015. Historically, the concept of "gainful employment" has not been defined in detail. The gainful employment regulations require each educational program offered by a proprietary institution to achieve threshold rates in two debt measure categories: an annual debt-to-annual earnings ("DTE") ratio and an annual debt-to-discretionary income ("DTI") ratio.

The ratios are calculated under complex methodologies and definitions outlined in the final regulations and, in some cases, are based on data that may not be readily accessible to us. The DTE ratio is calculated by comparing (i) the annual loan payment required on the median student loan debt incurred by students receiving Title IV Program funds who completed a particular program and (ii) the higher of the mean or median of those students' annual earnings approximately two to four years after they graduate. The DTI ratio is calculated by comparing (x) the annual loan payment required on the median student loan debt incurred by students receiving Title IV Program funds who completed a particular program and (y) the higher of the mean or median of those students' discretionary income approximately two to four years after they graduate.

An educational program must achieve a DTE ratio at or below 8%, or a DTI ratio at or below 20%, to be considered "passing." An educational program with a DTE ratio greater than 8% but less than or equal to 12%, or a DTI ratio greater than 20% but less than or equal to 30%, is considered to be "in the zone." An educational program with a DTE ratio greater than 12% and a DTI ratio greater than 30% is considered "failing." An educational program will cease to be eligible for students to receive Title IV Program funds if its DTE and DTI ratios are failing in two out of any three consecutive award years or if both of those rates are failing or in the zone for four consecutive award.

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The gainful employment regulations also require an institution to provide warnings to current and prospective students in programs which may lose Title IV eligibility at the end of an award or fiscal year. If an educational program could become ineligible based on its ratios for the next award year, the institution must: (1) deliver a warning to current and prospective students in the program and (2) not enroll, register or enter into a financial commitment with a prospective student until three business days after the warning is provided or a subsequent warning is provided if more than thirty days have passed since the first warning. If a program becomes ineligible for students to receive Title IV program funds, the institution cannot seek to reestablish eligibility of that program, or establish the eligibility of a similar program having the same classification of instructional program ("CIP") code with the same first four digits of the CIP code of the ineligible program for three years.

Additionally, the gainful employment regulations require an institution to certify to the Department of Education that its educational programs subject to the regulations, which include all programs offered by NAU, meet the applicable requirements for graduates to be professionally or occupationally licensed or certified in the state in which the institution is located. If we are unable to certify that our programs meet the applicable state requirements for graduates to be professionally or occupationally certified in that state, then we may need to cease offering certain programs in certain states or to students who are residents in certain states.

In January 2017, the Department of Education issued to institutions final debt-to-earnings rates for the first gainful employment debt measurement year. Two of our programs, both of which are no longer enrolling students, were determined to be failing programs under those debt-to-earnings rates. Five of our programs, one of which is no longer enrolling students, were determined to be "zone" programs under those rates. We continue to evaluate making changes to our educational program offerings as a result of gainful employment regulations. Effective September 6, 2017, we have suspended enrollment in the Associates of Applied Science in Veterinary Technology program and plan to phase out the program by August 31, 2018. Effective June 6, 2017, we also suspended enrollments in the Associates in Medical Assisting and plan to phase out the program by August 31, 2019.

The failure of any program or programs offered by NAU to satisfy any gainful employment regulations could render that program or programs ineligible for Title IV program funds. If a particular educational program ceased to become eligible for Title IV program funds, either because it fails to prepare students for gainful employment in a recognized occupation or due to other factors, we may choose to cease offering that program. We also could be required to make changes to certain programs or to increase student loan repayment efforts in order to comply with the rule or to avoid the uncertainty associated with such compliance.

On June 16, 2017, the Department of Education published a notice of intent to establish a negotiated rulemaking committee to develop proposed revisions to the gainful employment regulations. 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 announced that this committee would meet for three sessions. The sessions occurred in December 2017, February 2018, and March 2018. The Department of Education and negotiators failed to reach consensus on a revised rule, and on August 14, 2018, the Department of Education published in the Federal Register a proposed rule (the "Gainful Employment Proposed Rule") which, if enacted as a final rule, would rescind the current gainful employment regulations applicable to all of our educational programs. Among other things, the Gainful Employment Proposed Rule would remove from the Department of Education's regulations the debt-to-earnings metric calculations for our programs, and sanctions and alternate earnings appeals related to those calculations, and related reporting, disclosure, and certification requirements. In the Gainful Employment Proposed Rule, the Department of Education also seeks comment on whether all institutions participating in the federal student financial aid programs should be required to disclose net price, completion rates, withdrawal rates, program size, graduate eligibility for state licensure, or any other items currently required under the gainful employment regulations. Following a 30-day public comment period, the Department of Education is expected to issue a final rule by November 1, 2018, taking effect July 1, 2019. We cannot predict the extent to which that final rule may differ from the Gainful Employment Proposed

Rule, or may differ from the current gainful employment regulations, or the impact that any such revised rule might have on our business.

On July 5, 2017, the Department of Education announced that it would allow additional time, until July 1, 2018, for institutions to comply with certain disclosure requirements in the gainful employment regulations. On June 15, 2018, the Department of Education further announced that it would allow additional time, until July 1, 2019, for institutions to comply with those disclosure requirements. Continued compliance with the gainful employment regulations could increase our cost of doing business, reduce our enrollments and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Incentive Compensation. Under the Higher Education Act, an educational institution that participates in Title IV programs may not make any commission, bonus or other incentive payments to any persons or entities involved in recruitment or admissions activities or in the awarding of financial aid. The statutory prohibition against incentive compensation applies to any person engaged in student recruitment or admissions activities or in making financial aid award decisions, and any higher level employees with responsibility for such activities. Since July 1, 2011 the Department of Education's implementing regulations have effectively deemed any commission, bonus, or other incentive compensation based in any part, directly or indirectly, on securing enrollment or awarding financial aid to be inconsistent with the statutory prohibition against incentive compensation payments The Department of Education also issued a "Dear Colleague" letter in March 2011 providing additional guidance regarding the scope of the prohibition on incentive compensation and to what employees and types of activities the prohibition applies. The July 1, 2011 revisions to the Department of Education's regulations required us to change our compensation practices and has had and will continue to have a significant impact on the rate at which students enroll in our programs and on our business, financial condition and results of operations.

Whistleblower Claims. In recent years, several for-profit education companies have been faced with whistleblower lawsuits under the Federal False Claims Act, known as "qui tam" cases, by current or former employees alleging violations of the prohibition against incentive compensation. In such cases, the whistleblower's claims are reviewed under seal by the Department of Justice for potential intervention. If the Department of Justice elects to intervene, it assumes primary control over the litigation. These types of claims against for-profit educational companies, and the Department of Justice's interest in intervention, are expected to increase in the future. If the Department of Education were to determine that we violated any requirement of Title IV programs, or if we were to be found liable in a False Claims action, or if any third parties we have engaged were to violate this law, we could be fined or sanctioned by the Department of Education or subjected to other monetary liability or penalties that could be substantial, including the possibility of treble damages under a False Claims action, any of which could harm our reputation, impose significant costs and have a material effect on our business, financial condition and 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 alleged misrepresentations to a programmatic accrediting agency, alleged miscalculating its percentage of revenues derived from Title IV program funds under the 90/10 Rule, and 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., 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, deny 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.

State Authorization. To be eligible to participate in Title IV programs, an institution must be licensed or authorized to offer its educational programs by the states in which it is physically located, in accordance with the Department of Education's regulations. The Department of Education's regulations require that institutions demonstrate specific state authorization to operate educational programs beyond secondary education and clarify what is required for an institution to be considered "legally authorized" in a state for purpose of participation in Title IV programs. Specifically, the Department of Education considers an institution to be legally authorized by a state if the state has a process, applicable to all institutions except tribal and federal institutions, to review and appropriately act on complaints concerning the institution and to enforce applicable state laws, and the institution further satisfies one of the following requirements:

the state establishes the institution by name as an educational institution by charter, statute, constitutional provision or other action issued by an appropriate state agency or state entity, and the institution is authorized to operate educational programs beyond secondary education, including programs leading to a certificate or degree;

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the institution complies with applicable state approval or licensure requirements, except that a state may exempt an institution from any such requirement based on (1) the institution's accreditation by one or more accrediting agencies recognized by the Department of Education or (2) the institution being in operation for at least 20 years; and

the state has a process, applicable to all institutions except federal and tribal institutions, to review and appropriately act on complaints concerning the institution and applicable state laws.

We operate physical facilities offering educational programs in South Dakota, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, and Texas. In each of these states, we maintain the required authorizations to offer our educational programs under state law.

Where required under applicable law, these authorizations from state educational agencies are very important to us. To maintain requisite state authorizations, we are required to 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. Failure to comply with applicable requirements of the state educational agencies in South Dakota, Colorado, Kansas, Indiana, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, and Texas could result in us losing our authorization to offer educational programs in those states. If that were to occur, the applicable state educational agency could force us to cease operations in that state. Even if the applicable state educational agency does not require the university to cease operations on an immediate basis, the loss of authorization by the state educational agency in such state would then cause our campuses in such state to lose eligibility to participate in Title IV programs, and such loss of Title IV program eligibility could force us to cease operations in such state. Alternatively, the state educational licensing agencies could restrict our ability to offer certain degree programs. Additionally, if the Department of Education were to determine that our authorizations in South Dakota, Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, and Texas did not satisfy the Department of Education's state authorization requirements, the campuses in the relevant states could lose their eligibility to participate in Title IV programs, and such loss of Title IV program eligibility could force us to cease operations in such state.

As described above under "Changes in Department of Education Regulations," the Department of Education published final regulations regarding state authorization for programs offered through distance education and state authorization for foreign locations of institutions. The final regulations regarding state authorization for foreign locations of domestic institutions became effective July 1, 2018. On June 29, 2018, the Department of Education delayed the effective date of these final regulations with respect to distance education from July 1, 2018, to July 1, 2020. Among other provisions, these final regulations require that an institution participating in the Title IV federal student aid 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 state. Independent of this matter of federal regulation, several states have jurisdiction over educational institutions offering online programs that have no physical location or other presence in the state. The institution may be enrolling or offering educational services to students who reside in the state, conducting practica or sponsoring internships in the state, employing faculty who reside in the state or advertising or recruiting prospective students in the state. Thus, our activities in certain states constitute a presence requiring licensure or authorization under requirements of state educational agency law, regulation, or policy, 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 or are currently in the process of obtaining approvals or exemptions that we believe are necessary because they may constitute a presence requiring state licensure or authorization 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 is approved to participate in SARA, through the SARA Coordinator of the South Dakota Board of Regents as a state portal agency with its most recent approval effective April 20, 2018 through April 19, 2019.

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.

Misrepresentation. An institution participating in Title IV programs is prohibited from making misrepresentations regarding the nature of its educational programs, the nature of financial charges and availability of financial assistance, or the employability of graduates. A misrepresentation is defined in the regulations as any false, erroneous, or misleading statement to any student or prospective student, any member of the public, an accrediting agency, a state agency or the Department of Education. If we – or any entity, organization, or person with whom we have an agreement to provide educational programs or to provide marketing, advertising, recruiting, or admissions services – commit a misrepresentation for which a person could reasonably be expected to rely, or has reasonably relied, to that person's detriment, the Department of Education could initiate proceedings to revoke our institutions' Title IV eligibility, deny applications made by our institutions, impose fines, or initiate a limitation, suspension or termination proceeding against us. Further, although the Department of Education claims not to have created any private right of action, the misrepresentation regulations could increase risk of qui tam actions under the False Claims Act.

Clery Act. On October 20, 2014, the Department of Education published final regulations implementing changes to the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (20 U.S.C. § 1092(f)), or the Clery Act, required by March 2013 amendments to the Violence Against Women Act, or VAWA. The final regulations became effective July 1, 2015. Among other things, VAWA and the revised Clery Act regulations require institutions to compile statistics on additional categories of crimes reported to campus security authorities or local police agencies, to implement ongoing crime awareness and prevention programs for students and employees, and to ensure that institutional disciplinary proceedings for certain enumerated crimes meet specific standards.

Eligibility and certification procedures. Each institution must apply periodically to the Department of Education for continued certification to participate in Title IV programs. Such recertification generally is required every six years, but may be required earlier, including when an institution undergoes a change in control. An institution may also come under the Department of Education's review when it expands its activities in certain ways, such as opening an additional location, adding a new educational program, or modifying the academic credentials it offers. The Department of Education may place an institution on provisional certification status if it finds that the institution does not fully satisfy all eligibility and certification standards and in certain other circumstances, such as when an institution is certified for the first time or undergoes a change in control. During the period of provisional certification, the institution must comply with any additional conditions included in the school's program participation agreement with the Department of Education. In addition, the Department of Education may more closely review an institution that is provisionally certified if it applies for recertification or approval to open a new location, add an educational program, acquire another school, or make any other significant change. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs without advance notice or opportunity for the institution to challenge the action. Students attending provisionally certified institutions remain eligible to receive Title IV program funds. Our current certification to participate in the Title IV programs, which is not provisional, became effective in June 2013 and extends through March 31, 2019.

Administrative capability. Department of Education regulations specify extensive criteria by which an institution must establish that it has the requisite "administrative capability" to participate in Title IV programs. To meet the administrative capability standards, an institution must, among other things:

comply with all applicable Title IV program requirements;

have an adequate number of qualified personnel to administer Title IV programs;

have acceptable standards for measuring the satisfactory academic progress of its students;

not have student loan cohort default rates above specified levels;

have various procedures in place for awarding, disbursing and safeguarding Title IV program funds and for maintaining required records;

administer Title IV programs with adequate checks and balances in its system of internal controls;

not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;

provide financial aid counseling to its students;

refer to the Department of Education’s Office of Inspector General any credible information indicating that any student, parent, employee, third- party servicer or other agent of the institution has engaged in any fraud or other illegal conduct involving Title IV programs;

submit all required reports and financial statements in a timely manner; and

not otherwise appear to lack administrative capability.

If an institution fails to satisfy any of these criteria, the Department of Education may:

require the institution to repay Title IV funds its students previously received;

transfer the institution from the advance method of payment of Title IV funds to heightened cash monitoring status or the reimbursement method of payment;

place the institution on provisional certification status; or

commence a proceeding to impose a fine or to limit, suspend or terminate the institution's participation in Title IV programs.

If the Department of Education determines that we failed to satisfy its administrative capability requirements, then our students could lose, or be limited in their access to, Title IV program funding.

Financial responsibility. The Higher Education Act and Department of Education regulations establish extensive standards of financial responsibility that institutions such as us must satisfy to participate in Title IV programs. The Department of Education evaluates institutions for compliance with these standards on an annual basis based on the institution's annual audited financial statements as well as when the institution applies to the Department of Education to have its eligibility to participate in Title IV programs recertified. The most significant financial responsibility standard is the institution's composite score, which is derived from a formula established by the Department of Education based on three financial ratios:

equity ratio, which measures the institution's capital resources, financial viability and ability to borrow;

primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and

net income ratio, which measures the institution's ability to operate at a profit or within its means.

The Department of Education assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The Department of Education then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further Department of Education oversight. In addition to having an acceptable composite score, an institution must, among other things, provide the administrative resources necessary to comply with Title IV program requirements, meet all of its financial obligations including required refunds to students and any Title IV liabilities and debts, be current in its debt payments and not receive an adverse, qualified or disclaimed opinion by its accountants in its audited financial statements.

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 in the Title IV programs as a financially responsible institution for up to three years under the Department of Education's "zone" alternative. Under the zone alternative, the Department of Education may subject the institution to various operating or other requirements, which may include complying with additional Department of Education monitoring requirements, agreeing 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 complying with or accepting 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 of Education a letter of credit in an amount equal to at least ten percent, and at the Department of Education'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 of Education approval before implementing new locations or educational programs and comply with other restrictions, including reduced due process rights in subsequent proceedings before the Department of Education.

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 of Education 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 year ended May 31, 2017 indicated our composite scores was 1.8, 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. This score is subject to a final determination by the Department of Education once it receives and reviews our consolidated audited financial statements for the 2018 fiscal year, but we believe it is likely that the Department of Education will determine that our institutions are "in the zone" and that we will be required to operate under the "zone alternative" requirements as well as any other requirements that the Department of Education might impose in its discretion. If we are unable to meet the minimum composite score or to comply with the other standards of financial responsibility, and could not post a required letter of credit or comply with the alternative bases for establishing financial responsibility, then our students could lose their access to Title IV program funding.

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. Similarly, the 2018 Borrower Defense Proposed Rule includes various actions and events that would require institutions to provide additional surety, including irrevocable letters of credit. For additional information regarding this proposed rule, see "Item 1 – Business – Regulatory Matters –Changes in Department of Education Regulations."

Return of Title IV funds for students who withdraw. When a student who has received Title IV funds withdraws from school, the institution must determine the amount of Title IV program funds the student has "earned." If the student withdraws during the first 60% of any period of enrollment or payment period, the amount of Title IV program funds that the student has earned is equal to a pro rata portion of the funds the student received or for which the student would otherwise be eligible. If the student withdraws after the 60% threshold, then the student is deemed to have earned 100% of the Title IV program funds he or she received. The institution must then return the unearned Title IV program funds to the appropriate lender or the Department of Education in a timely manner, which is generally no later than 45 days after the date the institution determined that the student withdrew. If such payments are not timely made, the institution will be required to submit a letter of credit to the Department of Education equal to 25% of the Title IV funds that the institution should have returned for withdrawn students in its most recently completed fiscal year. Under Department of Education regulations, late returns of Title IV program funds for 5% or more of the withdrawn students in the audit sample in the institution's annual Title IV compliance audit for either of the institution's two most recent fiscal years or in a Department of Education program review triggers this letter of credit requirement. NAU did not exceed this 5% threshold in our annual Title IV compliance audit for either of our two most recent fiscal years.

The "90/10" Rule. A requirement of the Higher Education Act, commonly referred to as the "90/10 Rule," provides that an institution will be placed on provisional certification and may be subject to other conditions from the Department of Education if, under a complex regulatory formula that requires cash basis accounting and other adjustments to the calculation of revenue, the institution derives more than 90% of its revenues for any fiscal year from Title IV program funds, and, further, the institution is subject to loss of eligibility to participate in Title IV programs if it exceeds the 90% threshold for two consecutive fiscal years. This rule applies only to for-profit postsecondary educational institutions, including NAU.

Using the Department of Education's formula under the 90/10 Rule, for the 2018, 2017 and 2016 fiscal years, we derived approximately 82.1%, 82.6% and 86.8%, respectively, of our revenues (calculated on a cash basis) from Title IV program funds. Recent changes in federal law that increased Title IV grant and loan limits, and any additional increases in the future, may result in an increase in the revenues NAU receives from Title IV programs, which could make it more difficult for us to satisfy the 90/10 Rule. In addition, economic downturns that adversely affect students' employment circumstances could also increase their reliance on Title IV programs. Furthermore, from time to time, legislation is introduced that would make a proprietary institution ineligible to participate in Title IV programs if it

derives more than 85% of its revenues from federal funds, including Title IV programs, revenues from the GI Bill and Department of Defense Tuition Assistance funds. We are exploring the feasibility of various potential measures that would be intended to reduce the percentage of NAU's cash basis revenue attributable under the 90/10 Rule to Title IV Program funds. Among other things, we expect to expand our non-Title IV education programming.

Student loan defaults. Under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all Title IV programs if defaults by its students on the repayment of loans received through either the Federal Family Education Loan ("FFEL") Program or the Federal Direct Loan programs exceed certain levels. For each federal fiscal year, the Department of Education calculates a rate of student defaults on such loans for each institution, known as a "cohort default rate." An institution's cohort default rate for a federal fiscal year is calculated by determining the rate at which borrowers that became subject to their repayment obligation in that federal fiscal year defaulted by the end of the following federal fiscal year. Before July 1, 2010, we participated in both the FFEL and Federal Direct Loan programs. As of July 1, 2010, following the elimination of the FFEL program under federal law, we participate only in the Federal Direct Loan program. Defaults by students on the repayment of loans received through the FFEL program still will be counted; however, in the calculation to determine our eligibility to participate in the Federal Direct Loan program.

If the Department of Education notifies an institution that its cohort default rates for each of the three most recent federal fiscal years are 30% or greater, the institution's participation in the Federal Direct Loan and Pell Grant programs ends 30 days after that notification, unless the institution appeals the determination in a timely manner on specified grounds and according to specified procedures. In addition, an institution's participation in the Federal Direct Loan programs ends 30 days after notification by the Department of Education that the institution's most recent cohort default rate is greater than 40%, unless the institution timely appeals that determination on specified grounds and according to specified procedures. An institution whose participation ends under either of these provisions may not participate in the Federal Direct Loan and Pell Grant programs, as applicable, for the remainder of the fiscal year in which the institution receives the notification and for the next two federal fiscal years.

If an institution's cohort default rate equals or exceeds 30% in any single federal fiscal year or any subsequent fiscal year, the institution may be placed on provisional certification status. Provisional certification does not limit an institution's access to Title IV program funds, but it does subject an institution to closer review by the Department of Education if the institution applies for recertification or approval to open a new location, add an educational program, acquire another school or make any other significant change. Additionally, the Department of Education may revoke the certification of a provisionally-certified institution without advance notice if the Department of Education determines that the institution is not fulfilling material Title IV program requirements. We were approved to participate in the FFEL program before its expiration on July 1, 2010, and we currently are approved to participate in the Federal Direct Loan program. The potential sanctions discussed in this section are based on the combined cohort default rate for loans issued to students under both the FFEL program and the Federal Direct Loan program.

The Department of Education generally publishes draft cohort default rates in February of each year for the repayment period that ended the prior September 30. Draft cohort default rates do not result in sanctions, are subject to subsequent data corrections and appeals by an institution, and can change between their issuance to institutions and the Department of Education's release of official cohort default rates, which are typically issued annually in September. Our official cohort default rates for federal fiscal years 2014 and 2013 are 24.1% and 23.4%, respectively. The draft cohort rate for federal fiscal year 2015 is 23.7%.

Compliance reviews. We are subject to announced and unannounced compliance reviews and audits by various external agencies, including the Department of Education, its Office of Inspector General, institutional and programmatic accreditors, state licensing agencies, agencies that have previously guaranteed FFEL loans, various state approving agencies for financial assistance to veterans and accrediting commissions. As part of the Department of Education's ongoing monitoring of institutions' administration of Title IV programs, the Higher Education Act also requires institutions to annually submit to the Department of Education a Title IV compliance audit conducted by an independent certified public accountant in accordance with applicable federal and Department of Education audit standards. In addition, to enable the Department of Education to make a determination of an institution's financial responsibility, each institution must annually submit audited financial statements prepared in accordance with Department of Education regulations.

Data privacy and protection of personal information. The Family Educational Rights and Privacy Act of 1974, or FERPA, and the Department of Education's FERPA regulations require educational institutions to protect the privacy of students' educational records by limiting an institution's disclosure of a student's personally identifiable information without the student's prior written consent. FERPA also requires institutions to allow students to review and request changes to their educational records maintained by the institution, to notify students at least annually of this inspection right and to maintain records in each student's file listing requests for access to and disclosures of personally identifiable information and the interest of such party in that information. If an institution fails to comply with FERPA, the Department of Education may require corrective actions by the institution or may terminate an institution's receipt of further federal funds. In addition, educational institutions are obligated to safeguard student information pursuant to the Gramm-Leach-Bliley Act, or GLBA, a federal law designed to protect consumers' personal financial information held by financial institutions and other entities that provide financial services to consumers. GLBA and the applicable GLBA regulations require an institution to, among other things, develop and maintain a comprehensive, written information security program designed to protect against the unauthorized disclosure of personally identifiable financial information of students, parents or other individuals with whom such institution has a customer relationship. If an institution fails to comply with the applicable GLBA requirements, it may be required to take corrective actions, be subject to monitoring and oversight by the Federal Trade Commission, or FTC, and be subject to fines or penalties imposed by the FTC. For-profit educational institutions are also subject to the general deceptive practices jurisdiction of the FTC with respect to their collection, use and disclosure of student information. The institution must also comply with the FTC Red Flags Rule, a section of the federal Fair Credit Reporting Act, that requires the establishment of guidelines and policies regarding identity theft related to student credit accounts. Possession and use of personal information in our operations also subjects us to various U.S. state regulatory requirements with respect to such information. Moreover, certain of our operations may involve the collection of personal information from individuals outside the U.S., which may render us subject to global privacy and data security laws. For example, the European Union General Data Protection Regulation ("GDPR"), which became enforceable May 25, 2018, contains a number of requirements that are different from or exceed those in U.S. federal and state privacy and data security laws. The GDPR may apply to certain of our operations. Were it to apply and if we were out of compliance, there is the potential for administrative, civil, or criminal liability with significant monetary penalties as well as reputational harm to us and our employees.

Potential effect of regulatory violations. If we fail to comply with the regulatory standards governing Title IV programs, the Department of Education could impose one or more sanctions, including transferring NAU to the reimbursement or cash monitoring method of payment, requiring us to repay Title IV program funds, requiring us to post a letter of credit in favor of the Department of Education as a condition for continued Title IV certification, taking emergency action against us, initiating proceedings to impose a fine or to limit, suspend or terminate our participation in Title IV programs or referring the matter for civil or criminal prosecution. If such sanctions or proceedings were imposed against us and resulted in a substantial curtailment or termination of our participation in Title IV programs, our enrollments, revenues and results of operations could be materially affected.

In addition to the actions that may be brought against us as a result of our participation in Title IV programs, we are also subject to complaints and lawsuits relating to regulatory compliance brought not only by regulatory agencies, but also by other government agencies and third parties, such as current or former students or employees and other members of the public.

Regulatory Standards that May Restrict Institutional Expansion or Other Changes

Many actions that we may wish to take in connection with expanding our operations or other changes are subject to review or approval by the applicable regulatory agencies.

Adding teaching locations, implementing new educational programs and increasing enrollment. The requirements and standards of state education agencies, accrediting commissions and the Department of Education limit our ability in certain instances to establish additional teaching locations, implement new educational programs or increase enrollment in certain programs. Many states require review and approval before institutions can add new locations or programs. The state educational agencies, the HLC and the specialized accrediting commissions that authorize or accredit us and our programs generally require institutions to notify them in advance of adding new locations or implementing new programs, and upon notification may undertake a review of the quality of the facility or the program and the financial, academic, and other qualifications of the institution.

As a condition for an institution to participate in Title IV programs on a provisional basis, the Department of Education can require prior approval of such programs or otherwise restrict the number of programs an institution may add or the extent to which an institution can modify existing educational programs. If an institution that is required to obtain the Department of Education’s advance approval for the addition of a new program or new location fails to do so, the institution may be liable for repayment of the Title IV program funds received by the institution or students in connection with that program or enrolled at that location. Additionally, any delay in obtaining a required Department of Education approval could delay the introduction of the program, which could negatively impact our enrollment growth.

Provisional certification. Each institution must apply to the Department of Education for continued certification to participate in Title IV programs at least every six years and when it undergoes a change in control. An institution may also come under the Department of Education’s review when it expands its activities in certain ways, such as opening an additional location, adding an educational program or modifying the academic credentials that it offers.

The Department of Education may place an institution on provisional certification status if it finds that the institution does not fully satisfy all of the eligibility and certification standards. In addition, if a company acquires a school from another entity, the acquired school will automatically be placed on provisional certification when the Department of Education approves the transaction. During the period of provisional certification, the institution must comply with any additional conditions or restrictions included in its program participation agreement with the Department of Education. Students attending provisionally certified institutions remain eligible to receive Title IV program funds, but if the Department of Education finds that a provisionally certified institution is unable to meet its responsibilities

under its program participation agreement, it may seek to revoke the institution's certification to participate in Title IV programs without advance notice or advance opportunity for the institution to challenge that action. In addition, the Department of Education may more closely review an institution that is provisionally certified if it applies for recertification or approval to open a new location, add an educational program, acquire another school or make any other significant change.

Acquiring other schools. The Department of Education and virtually all state education agencies and accrediting commissions require a company to obtain their approval if it wishes to acquire another school. The level of review varies by individual state and accrediting commission, with some requiring approval of such an acquisition before it occurs while others only consider approval after the acquisition has occurred. The approval of the applicable state education agencies and accrediting commissions is a necessary prerequisite to the Department of Education certifying the acquired school to participate in Title IV programs. The restrictions imposed by any of the applicable regulatory agencies could delay or prevent our acquisition of other schools in some circumstances.

On July 21, 2017, we entered into an agreement to acquire substantially all of the assets of Henley-Putnam University ("H-PU"), a for profit, postsecondary educational institution that offers 100% online programs focused in the field of strategic security. The transaction, which closed on March 21, 2018, did not contemplate the continued operation of HPU as a stand-alone postsecondary institution following the closing of the transaction. Rather, upon the closing of the transaction, HPU's educational programs became part of NAU's degree and certificate program offerings. Subsequent to the transaction closing date, we were granted approval from the Department of Education in order to disburse Title IV program funds to students in the acquired programs.

Change in ownership resulting in a change in control. Many states and accrediting commissions require institutions of higher education to report or obtain approval of certain changes in control and changes in other aspects of institutional organization or control. The types of and thresholds for such reporting and approval vary among the states and accrediting commissions. The HLC provides that an institution must obtain its approval in advance of a change in control, structure, or organization for the institution to retain its accredited status. In addition, in the event of a change in control, structure, or organization, the HLC requires a post-transaction focused visit or other evaluation to review the appropriateness of its approval of the change and whether the institution has met the commitment it made to the HLC prior to the approval. Other specialized accrediting commissions also require an institution to obtain similar approval before or after the event that constitutes a change in control under their standards.

Many states include the transfer of a controlling interest of common stock in the definition of a change in control requiring approval, but their thresholds for determining a change in control vary widely. A change in control under the definition of one state educational agency that regulates us might require us to obtain approval of the change in control to maintain authorization to operate in that state, and in some cases such states could require us to obtain advance approval of the change in control.

Under Department of Education regulations, an institution that undergoes a change in control loses its eligibility to participate in Title IV programs and must apply to the Department of Education to reestablish such eligibility. If an institution files the required application and follows other procedures, the Department of Education may temporarily certify the institution on a provisional basis following the change in control, so that the institution's students retain access to Title IV program funds until the Department of Education completes its full review. In addition, the Department of Education will extend such temporary provisional certification if the institution timely files other required materials, including the approval of the change in control by its state authorizing agency and accrediting commission and an audited balance sheet showing the financial condition of the institution or its parent corporation as of the date of the change in control. If the institution fails to meet any of these applications and other deadlines, its certification will expire and its students will not be eligible to receive Title IV program funds until the Department of Education completes its full review, which commonly takes several months and may take longer. If the Department of Education approves the application after a change in control, it will certify the institution on a provisional basis for a period of up to approximately three years.

Any failure by us to comply with the requirements of the Department of Education, the HLC or the state educational agencies from which we have a license or authorization, or a failure to obtain their approval of the change in control, could result in loss of authorization, accreditation, or eligibility to participate in Title IV programs and cause a significant decline in our student enrollments.

A change in control also could occur as a result of future transactions in which we are involved. Some corporate reorganizations and some changes in the board of directors are examples of such transactions. In addition, Department of Education regulations provide that a change in control occurs for a publicly traded corporation if either: (a) there is an event that would obligate the corporation to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing a change in control, or (b) the corporation has a stockholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest stockholder of the corporation, and that stockholder ceases to own at least 25% of such stock or ceases to be the largest stockholder. These standards are subject to interpretation by the Department of Education. A significant purchase or disposition of our voting stock in the future, including a disposition of our voting stock by Robert Buckingham's partnership or living trust, could be determined by the Department of Education to be a change in control under this standard. The potential adverse effects of a change in control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of stock. In addition, the adverse regulatory effect of a change in control also could discourage bids for our common stock and could have an adverse effect on the market price of our common stock.

Item 1A. Risk Factors.

The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are not material may also adversely affect our business, financial condition, operating results, cash flows and prospects.

Risks Related to the Extensive Regulation of our Business

If we fail to comply with the extensive regulatory requirements governing our university, we could incur significant monetary liabilities, fines and penalties, including loss of access to federal student loans and grants for our students, on which we are substantially dependent.

For our fiscal year ended May 31, 2018, we derived approximately 82.1% of our revenues (calculated on a cash basis) from federal student financial aid programs, known as Title IV programs, administered by the United States Department of Education, or the Department of Education. A significant percentage of our students rely on the availability of Title IV program funds to finance their cost of attending NAU. To participate in Title IV programs, a postsecondary institution must be authorized by the appropriate state education agency or agencies, be accredited by an accrediting commission recognized by the Department of Education, and be certified as an eligible institution by the Department of Education. In addition, NAU's operations and programs are regulated by other state education agencies and additional accrediting commissions. We are subject to extensive regulation by the education agencies of multiple states, the HLC, which is our institutional accrediting commission, various specialized accrediting commissions, and the Department of Education. These regulatory requirements cover the vast majority of our operations, including our educational programs, instructional and administrative staff, administrative procedures, marketing, student recruiting and admissions, and financial operations. These regulatory requirements also affect our ability to open additional schools and locations, add new educational programs, change existing educational programs and change our ownership structure.

The agencies and commissions that regulate our operations periodically revise their requirements and modify their interpretations of existing requirements. Regulatory requirements are not always precise and clear, and regulatory

agencies may sometimes disagree with the way we interpret or apply these requirements. Any misinterpretation by us of regulatory requirements could adversely affect our business, financial condition and results of operations. If we fail to comply with any of these regulatory requirements, we could suffer financial penalties, limitations on our operations, loss of accreditation, termination of or limitations on our ability to grant degrees and certificates, or limitations on or termination of our eligibility to participate in Title IV programs, each of which could materially affect our business, financial condition and results of operations. In addition, if we are charged with regulatory violations, our reputation could be damaged, which could have a negative impact on our enrollments and materially affect our business, financial condition and results of operations. We cannot predict with certainty how all of these regulatory requirements will be applied, or whether we will be able to comply with all of the applicable requirements in the future.

If we lose our eligibility to participate in Title IV programs for any reason, we would experience a dramatic and adverse decline in revenue, financial condition, results of operations and future growth prospects. Furthermore, we would be unable to continue our business as it currently is conducted, which would be expected to have a material effect on our ability to continue as a going concern.

Congress may revise the laws governing Title IV programs or reduce funding for those programs which could reduce our enrollment and revenue and increase costs of operations.

Political and budgetary concerns significantly affect Title IV programs. The Higher Education Act of 1965, as amended (the "HEA"), which is a federal law that governs Title IV programs, must be periodically reauthorized by Congress and was most recently reauthorized in August 2008. Congress also must determine funding levels for Title IV programs on an annual basis and can change the laws governing Title IV programs at any time. Apart from Title IV programs, eligible veterans and military personnel may receive educational benefits for the pursuit of higher education. A reduction in federal funding levels for Title IV programs, or for programs providing educational benefits to veterans and military personnel, could reduce the ability of some students to finance their education. We cannot predict with certainty the nature of any new regulatory requirements, other future revisions to the law or funding levels for Title IV programs. Because a significant percentage of our revenue is and is expected to be derived from Title IV programs, any action by Congress that significantly reduces Title IV program funding or the ability of us or our students to participate in Title IV programs could have a material effect on our enrollments, business, financial condition and results of operations. Congressional action also may require us to modify our practices in ways that could increase administrative costs and reduce profit margins, which could have a material effect on our business, financial condition, and results of operations.

If Congress significantly reduced the amount of available Title IV program funding, we would attempt to arrange for alternative sources of financial aid for our students, such as private sources. We cannot provide assurance that one or more private organizations would be willing or able to provide sufficient loans to students attending one of our schools or programs, or that the interest rate and other terms of such loans would be as favorable as Title IV program loans or acceptable to our students or that such private sources would be adequate to replace the full amount of the reduction in Title IV program funding. Therefore, even if some form of private financing sources becomes available, our enrollment could be materially affected. In addition, private organizations could require us to guarantee all or part of this assistance resulting in additional costs to us. If we were to provide more direct financial assistance to our students, we would assume increased credit risks and incur additional costs, which could have a material effect on our business, financial condition, and results of operations.

On December 13, 2017, the Committee on Education and the Workforce of the U.S. House of Representatives approved legislation to reauthorize the HEA. If enacted in its current form, this legislation would substantially amend the HEA, including changes to Title IV programs and provisions governing institutional participation therein. We cannot predict when or whether the full House of Representatives will vote on the legislation, nor when or whether similar legislation will be considered by the U.S. Senate. Furthermore, we cannot predict with any certainty the outcome of the HEA reauthorization process nor the extent to which any legislation, if adopted, could materially affect our business, financial condition, and results of operations.

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.”

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.

The recently increased focus by Congress on the for-profit education sector could result in legislation or further Department of Education rulemaking restricting Title IV program participation by proprietary schools in a manner that could materially affect our business.

In recent years, Congress has placed increased focus on the role that for-profit educational institutions play in higher education, which is described further in "Item 1 – Business – Regulatory Matters – Changes in Department of Education Regulations." As described above, the HELP Committee and other Congressional members and committees have scrutinized various aspects of the education industry, including student debt, student recruiting, student outcomes and accreditation matters. The HELP Committee held a series of hearings on the proprietary education sector and released a report in July 2012, which could lead to further investigations of proprietary schools and additional regulations promulgated by the Department of Education. The executive branch and the Department of Defense have also increased their focus on the provision of educational benefits for military personnel and veterans.

We cannot predict whether, or the extent to which, these hearings, reports and review will result in legislation or further rulemaking affecting our participation in Title IV programs. To the extent that any laws or regulations are adopted that limit our participation in Title IV programs or the amount of student financial aid for which the students at our institutions are eligible, our enrollments, revenues and results of operation could be materially affected. Any actions that change the requirements for our participation in Title IV Programs or the amount of student financial aid for which our students are eligible would negatively impact our business.

Recent statutory and regulatory changes substantially increased reporting and other requirements that could impair our reputation and adversely affect our enrollments. Our failure to comply with or accurately interpret pertinent disclosure requirements may subject us to penalties and other sanctions.

The most recent reauthorization of the Higher Education Act, in August 2008, contains numerous revisions to the requirements governing Title IV programs. Among other things, institutions participating in Title IV programs are subject to extensive additional reporting and disclosure requirements. Additionally, the Department of Education's gainful employment regulations require a number of specific disclosures to students and prospective students regarding our educational programs. Such disclosures include the occupations that NAU's educational programs prepare students to enter upon completing their program, total program costs and median student debt incurred for our programs, along with program completion and placement rates for our programs. Any failure by us to properly interpret these new requirements could subject us to limitation, suspension or termination of our eligibility to participate in Title IV programs, the imposition of conditions on our participation in Title IV programs, monetary liabilities, fines and penalties or other sanctions imposed by the Department of Education, which could have a material effect on our business, financial condition and results of operations. The prospect of such sanctions may cause us to conservatively interpret the new reporting requirements of Title IV programs by the Department of Education, which may limit our flexibility in operating our business.

If any of the education regulatory agencies or commissions that regulate us do not approve or delay any required approvals of transactions involving a change of control, our ability to operate or participate in Title IV programs may be impaired.

If we experience a change in control under the standards of the Department of Education, the HLC, any applicable state educational licensing agency, or any specialized accrediting agency commission, we must notify or seek the approval of each such agency. These agencies do not have uniform criteria for what constitutes a change in control. Transactions or events that typically constitute a change in control include significant acquisitions or dispositions of the voting stock of an institution or its parent company, and significant changes in the composition of the board of directors of an institution or its parent company. Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in receiving, approval of any change in control from the Department of Education, the HLC or applicable state educational licensing agencies could impair our ability to operate or participate in Title IV programs, which could have a material effect on our business, financial condition and results of operations. Failure to obtain, or a delay in receiving, approval of any change in control from any state in which we are currently licensed or authorized, or from any of our specialized accrediting commissions, could require us to suspend our activities in that state or suspend offering the applicable programs until we receive the required approval, or could otherwise impair our operations. The potential adverse effects of a change in control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock, which could discourage bids for outstanding shares of the stock and could have an adverse effect on the market price of our shares.

We cannot offer new programs, expand our operations into certain states or acquire additional schools if such actions are not approved by the applicable regulatory and accrediting agencies, and we may have to repay Title IV funds disbursed to students enrolled in any such programs, schools or states if we do not obtain prior approval.

Our expansion plans include offering new educational programs, expanding operations in additional states and potentially acquiring existing schools from other companies. If we are unable to obtain the necessary approvals for such new programs, operations or acquisitions from the Department of Education, the HLC or any applicable state educational licensing agency or accrediting commission, or if we are unable to obtain such approvals in a timely manner, our ability to consummate the planned actions and provide Title IV program funds to any affected students would be impaired, which could have a material effect on our expansion plans and growth. If we were to determine erroneously that any such action did not need approval or that we had obtained all required approvals, including all required approvals for each of our current programs and locations, we could be liable for repayment of Title IV program funds provided to students in that program or at that location.

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. 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 Department of 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.

We would lose our ability to participate in Title IV programs if we fail to maintain our institutional accreditation, and our student enrollments could decline if we fail to maintain any of our accreditations or approvals.

An institution must be accredited by a postsecondary accrediting commission recognized by the Department of Education to participate in Title IV programs. We have been granted institutional accreditation by the HLC, which is a regional accrediting agency recognized by the Department of Education. To remain accredited, we must continuously meet accreditation standards relating to, among other things, performance, governance, institutional integrity, educational quality, faculty, administrative capability, resources and financial stability. Our accreditation by the HLC was most recently continued in January 2015. In addition, many of our individual educational programs are also accredited by specialized accrediting commissions or approved by specialized state agencies. If we fail to satisfy the standards of any of those specialized accrediting commissions or state agencies, we could lose the specialized accreditation or approval for the affected programs, which could result in materially reduced student enrollments in those programs and have a material effect on 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 federal student aid 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 See “Item 1 – Business – Regulation of Federal Financial Aid Programs – State Authorization.” 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 is approved to participate in SARA, through the SARA Coordinator of the South Dakota Board of Regents as a state portal agency with its most recent approval effective from April 20, 2018 through April 19, 2019.

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.

If we do not comply with the Department of Education's "administrative capability" standards, we could suffer financial penalties, be required to accept other limitations to continue participating in Title IV programs or lose our eligibility to participate in Title IV programs.

Department of Education regulations specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV programs. These criteria require, among other things, that we:

comply with all applicable Title IV program regulations;

have capable and sufficient personnel to administer the federal student financial aid programs;

not have student loan cohort default rates in excess of specified levels;

have acceptable methods of defining and measuring the satisfactory academic progress of our students;

have various procedures in place for safeguarding federal funds;

not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;

provide financial aid counseling to our students;

refer to the Department of Education's Office of Inspector General any credible information indicating that any applicant, student, employee or agent of the institution has been engaged in any fraud or other illegal conduct involving Title IV programs;

submit in a timely manner all reports and financial statements required by Title IV regulations; and

not otherwise appear to lack administrative capability.

If an institution fails to satisfy any of these criteria or comply with any other Department of Education regulations, the Department of Education may:

require the institution to repay Title IV program funds;

transfer the institution from the “advance” system of payment of Title IV program funds to cash monitoring status or to the “reimbursement” system of payment;

place the institution on provisional certification status; or

commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV programs.

If we were found not to have satisfied the Department of Education’s “administrative capability” requirements, we could be limited in our access to, or lose, Title IV program funding, which could significantly reduce our enrollments and have a material effect on our business, financial condition and results of operations.

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-describeddelay of the 2016 Borrower Defense Final Rule was improper. The Court further

ordered additional oral argument on the matter of remedies, and thus has not yet entered or finalized a remedial order in connection with its decision. The Department of Education may appeal the court's decision and any subsequent remedial order. We therefore cannot predict with any certainty the final outcome or impact of this litigation.

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. Following a 30-day public comment period, the Department of Education is expected to issue a final rule by November 1, 2018, taking effect July 1, 2019. We cannot predict the extent to which that final rule may differ from the 2018 Borrower Defense Proposed Rule, or may differ 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," 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. This score is subject to a final determination by the Department of Education once it receives and reviews our consolidated audited financial statements for the 2018 fiscal year, but we believe it is likely that the Department of Education will determine that we are "in the zone" and that we will be required to operate under the "zone alternative" requirements as well as any other requirements that the Department of Education might impose in its discretion. If we are unable to meet the minimum composite score or to comply with the other standards of financial responsibility, and could not post a required letter of credit or comply with the alternative bases for establishing financial responsibility, then our students could lose their access to Title IV program funding.

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. The Court further ordered additional oral argument on the matter of remedies, and thus has not yet entered or finalized a remedial order in connection with its decision. The Department of Education may appeal the court's decision and any subsequent remedial order. We therefore cannot predict with any certainty the final outcome or impact of this litigation. 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." 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 the federal student financial aid programs if the percentage of our revenues derived from Title IV programs is too high.

A provision of the Higher Education Act commonly referred to as the 90/10 Rule, as amended in August 2008, provides that a for-profit educational institution loses its eligibility to participate in Title IV programs if, under a complex regulatory formula that requires cash basis accounting and other adjustments to the calculation of revenue, the institution derives more than 90% of its revenues from Title IV program funds for any two consecutive fiscal years. An institution that derives more than 90% of its revenue (on a cash basis) from Title IV programs for any single fiscal year will be placed on provisional certification for at least two fiscal years and may be subject to additional conditions or sanctions imposed by the Department of Education. During the period of provisional certification, the institution must comply with any additional conditions included in the institution's program participation agreement with the Department of Education. In addition, the Department of Education may more closely review an institution that is provisionally certified if it applies for recertification or approval to open a new location, add an educational program, acquire another school or make any other significant change. If the Department of Education determines that a provisionally certified institution is unable to meet its responsibilities under its program participation agreement, the Department of Education may seek to revoke the institution's certification to participate in Title IV programs without advance notice or opportunity for the institution to challenge the action. If we were to violate the 90/10 Rule, we 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% threshold and would be unable to regain eligibility for two fiscal years thereafter. Under regulations that were published by the Department of Education in October 2009, a proprietary institution must disclose in a footnote to its annual audited financial statements its 90/10 calculation and the amounts of the federal and non-federal revenues, by source, included in its 90/10 calculation. The certified public accountant that prepares the institution's audited financial statements is required to review that information and test the institution's calculation. For our 2018, 2017 and 2016 fiscal years, we derived approximately 82.1%, 82.6% and 86.8%, respectively, of our revenues (calculated on a cash basis) from Title IV program funds. If we violate the 90/10 Rule and continue to disburse Title IV program funds to students after the effective date of our loss of eligibility to participate in Title IV programs, we would be required to return those funds to the Department of Education. We are exploring the feasibility of various potential measures that would be intended to reduce the percentage of NAU's cash basis revenue attributable under the 90/10 Rule to Title IV Program funds. Among other things, we expect to expand our non-Title IV continuing education programming. If we were to violate the 90/10 Rule, we 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.

Increases in Title IV grant and loan limits currently or in the future may result in an increase in the revenues we receive from Title IV programs. Further, a significant number of states in which we operate have faced budget constraints, which have caused or may cause them to reduce state appropriations in a number of areas, including with respect to the amount of financial assistance provided to postsecondary students, which could further increase our percentage of revenues derived from Title IV program funds. Also, the employment circumstances of our students or their parents could also increase reliance on Title IV program funds. Furthermore, from time to time, legislation is introduced that would make a proprietary institution ineligible to participate in Title IV programs if it derives more than 85% of its revenues from federal funds, including Title IV programs, revenues from the GI Bill and Department of Defense Tuition Assistance funds. We are exploring the feasibility of various potential measures that would be intended to reduce the percentage of NAU's cash basis revenue attributable under the 90/10 Rule to Title IV Program funds. Certain measures that could be taken to maintain compliance with the 90/10 Rule may reduce our revenues, increase our operating expenses, or both, perhaps significantly. If we become ineligible to participate in Title IV programs as a result of noncompliance with the 90/10 Rule, it can be expected to have a material effect on our business, financial condition and results of operations.

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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.

The Department of Education generally publishes draft cohort default rates in February of each year for the prepayment period that ended the prior September. Draft cohort default rates do not result in sanctions, are subject to subsequent data corrections and appeals by an institution, and can change between their issuance to institutions and the Department of Education's release of official cohort default rates, which are typically issued annually in September. Our official cohort default rates for federal fiscal years 2014 and 2013 are 24.1% and 23.4%, respectively. The draft cohort rate for federal fiscal year 2015 is 23.7%. Any increase in interest rates or reliance on "self-pay" students, as well as declines in income or 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.

We would be subject to sanctions if we were to pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admission or financial aid activities.

The Higher Education Act prohibits an educational institution that participates in Title IV programs from making any commission, bonus or other incentive payments based directly or indirectly on securing enrollments or financial aid to any persons or entities involved in student recruiting or admissions activities, or in making decisions about the award of student financial assistance. The statutory prohibition against incentive compensation applies to any person engaged in student recruitment or admissions activities or in making financial aid award decisions, and any higher level employees with responsibility for such activities. Since July 1, 2011, the Department of Education's implementing regulations have effectively deemed any commission, bonus or other incentive compensation based in any part, directly or indirectly, on securing enrollment or awarding financial aid to be inconsistent with the statutory prohibition against incentive compensation payments. The Department of Education also issued a "Dear Colleague" letter in March 2011, providing additional guidance regarding the scope of the prohibition on incentive compensation and to what employees and types of activities the prohibition applies. The July 1, 2011 revisions to the Department of Education's regulations required us to change our compensation practices and has had and will continue to have a significant impact on the rate at which students enroll in our programs and on our business, financial condition and results of operations.

In addition, in recent years, other postsecondary educational institutions have been named as defendants to whistleblower lawsuits, known as “qui tam” cases, brought by current or former employees pursuant to the Federal False Claims Act, alleging that their institution’s compensation practices did not comply with the incentive compensation rule. A qui tam case is a civil lawsuit brought by one or more individuals, referred to as a relator, on behalf of the federal government for an alleged submission to the government of a false claim for payment. The relator, often a current or former employee, is entitled to a share of the government’s recovery in the case, including the possibility of treble damages. A qui tam action is always filed under seal and remains under seal until the government decides whether to intervene in the case. If the government intervenes, it takes over primary control of the litigation. If the government declines to intervene in the case, the relator may nonetheless elect to continue to pursue the litigation at his or her own expense on behalf of the government. Any such litigation could be costly and could divert management’s time and attention away from the business, regardless of whether a claim has merit.

We are subject to sanctions if we fail to correctly calculate and timely return Title IV program funds for students who withdraw before completing their educational program.

An institution participating in Title IV programs must calculate the amount of unearned Title IV program funds that it has disbursed to students who withdraw from their educational programs before completing such programs and must return those unearned funds to the appropriate lender or the Department of Education in a timely manner, generally within 45 days of the date the institution determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned for a sufficient percentage of students, we may have to post a letter of credit in favor of the Department of Education equal to 25% of Title IV program funds that should have been returned for such students in the prior fiscal year, and we could be fined or otherwise sanctioned by the Department of Education. If we do not correctly calculate and timely return unearned Title IV program funds, we may have to post letters of credit in favor of the Department of Education, may be liable for repayment of Title IV funds and related interest and may otherwise be subject to adverse actions by the Department of Education, including termination of our participation in Title IV programs, any of which could increase our cost of regulatory compliance and have a material effect on our business, financial condition and results of operations.

If any of our educational programs fail to qualify as programs that lead to gainful employment in a recognized occupation, it could reduce our enrollment and revenue, increase costs of operations, and adversely affect our business.

Under the Higher Education Act, proprietary schools generally are eligible to participate in Title IV programs in respect of educational programs that lead to "gainful employment in a recognized occupation." Historically, the concept of "gainful employment" has not been defined in detail. On October 31, 2014, the Department of Education published final regulations to define "gainful employment" which became effective on July 1, 2015. The gainful employment regulations define this concept using ratios, one based on annual DTE and another based on DTI ratio. Under the gainful employment regulations, an educational program with a DTE ratio at or below 8% or a DTI ratio at or below 20% is considered "passing." An educational program with a DTE ratio greater than 8% but less than or equal to 12% or a DTI ratio greater than 20% but less than or equal to 30% is considered to be "in the zone." An educational program with a DTE ratio greater than 12% and a DTI ratio greater than 30% is considered "failing." An educational program will cease to be eligible for students to receive Title IV program funds if its DTE and DTI ratios are failing in to out of any three consecutive award years or if both of these rates are failing or in the zone for four consecutive award years. On January 9, 2017, the Department of Education issued final debt-to-earnings rates to institutions for the first gainful employment debt measurement year. For a discussion of the performance of our current educational programs against the required debt measures, see "Item 1. Business – Regulatory Matters – Regulation of Federal Student Financial Aid Programs."

Additionally, the gainful employment regulations require an institution to certify to the Department of Education that its educational programs subject to the regulations, which include all programs offered by us, meet the applicable requirements for graduates to be professionally or occupationally licensed or certified in the state in which the institution is located. If we are unable to certify that our programs meet the applicable state requirements for graduates to be professionally or occupationally certified in that state, then we may need to cease offering certain programs in certain states or to students who are residents in certain states. The gainful employment regulations further include requirements for the reporting of student and program data by institutions to the Department of Education and expand the disclosure requirements that have been in effect since July 1, 2011.

On June 16, 2017, the Department of Education published a notice of intent to establish a negotiated rulemaking committee to develop proposed revisions to the gainful employment regulations. 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 announced that this committee would meet for three sessions. The sessions occurred in December 2017, February 2018, and March 2018. The Department of Education and negotiators failed to reach consensus on a revised rule, and on August 14, 2018, the Department of Education published in the Federal Register a proposed rule (the "Gainful Employment Proposed Rule") which, if enacted as a final rule, would rescind the current gainful employment regulations applicable to all of our educational programs. Among other things, the Gainful Employment Proposed Rule would remove from the Department of Education's regulations the debt-to-earnings metric calculations for our programs, and sanctions and alternate earnings appeals related to those calculations, and related reporting, disclosure, and certification requirements. In the Gainful Employment Proposed Rule, the Department of Education also seeks comment on whether all institutions participating in the federal student financial aid programs should be required to disclose net price, completion rates, withdrawal rates, program size, graduate eligibility for state licensure, or any other items currently required under the gainful employment regulations. Following a 30-day public comment period, the Department of Education is expected to issue a final rule by November 1, 2018, taking effect July 1, 2019. We cannot predict the extent to which that final rule may differ from the Gainful Employment Proposed Rule, or may differ from the current gainful employment regulations, or the impact that any such revised rule might have on our business.

On July 5, 2017, the Department of Education announced that it would allow additional time, until July 1, 2018, for institutions to comply with certain disclosure requirements in the gainful employment regulations. On June 15, 2018, the Department of Education further announced that it would allow more additional time, until July 1, 2019, for institutions to comply with those disclosure requirements. Continued compliance with the gainful employment regulations could increase our cost of doing business, reduce our enrollments and have a material adverse effect on our business, financial condition, results of operations and cash flows.

The failure of any program or programs offered by NAU to satisfy any gainful employment regulations could render that program or programs ineligible for Title IV program funds. Additionally, any gainful employment data released by the Department of Education about our programs or warnings provided to students under the regulations could influence current students not to continue their studies, discourage prospective students from enrolling in our programs or negatively impact our reputation. If a particular educational program ceased to become eligible for Title IV program funds, either because it fails to prepare students for gainful employment in a recognized occupation or due to other factors, we may choose to cease offering the program. We could also be required to make changes to certain programs in the future in order to comply with the regulations or to avoid the uncertainty associated with such compliance. Any of these factors could materially affect our business, financial condition and results of operations.

We could be held liable for any misrepresentation regarding the nature of our educational programs, financial charges and financial assistance or the employability of our graduates.

An institution participating in Title IV programs is prohibited from making misrepresentations regarding the nature of its educational programs, the nature of financial charges and availability of financial assistance, or the employability of graduates. A misrepresentation is defined in the regulations as any false, erroneous or misleading statement to any student or prospective student, any member of the public, an accrediting agency, a state agency or the Department of Education. If we – or any entity, organization, or person with whom we have an agreement to provide educational programs or to provide marketing, advertising, recruiting, or admissions services – commit a misrepresentation for which a person could reasonably be expected to rely, or has reasonably relied, to that person's detriment, the Department of Education could initiate proceedings to revoke our Title IV eligibility, deny applications made by us, impose fines, or initiate a limitation, suspension or termination proceeding against us. Further, although the Department of Education claims not to have created any private right of action, the Department of Education's recent modifications to its misrepresentation regulations could increase risk of qui tam actions under the False Claims Act.

If we fail to maintain adequate systems and processes to detect and prevent fraudulent activity in student enrollment and financial aid, our business could be materially adversely affected.

Institutions of higher education are susceptible to an increased risk of fraudulent activity by outside parties with respect to student enrollment and student financial aid programs. The Department of Education's regulations require institutions that participate in Title IV programs to refer to the Office of Inspector General credible information indicating that any applicant, employee, third-party servicer or agent of the institution that acts in a capacity that involves administration of the Title IV programs has been engaged in any fraud or other illegal conduct involving Title IV programs. We cannot be certain that our systems and processes will always be adequate in the face of increasingly sophisticated and ever-changing fraud schemes. The potential for outside parties to perpetrate fraud in connection with the award and disbursement of Title IV program funds, including as a result of identity theft, may be heightened due to our offering various educational programs via distance education. Any significant failure by NAU to adequately detect fraudulent activity related to student enrollment and financial aid could result in loss of accreditation, which would result in the institution losing eligibility for Title IV programs, or in direct action by the Department of Education to limit or terminate NAU's Title IV program participation. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

If our students experience a loss or reduction of state financial aid, we could be materially affected.

Some of our students rely on state financial aid to fund a portion of their education. Many states in which we operate have faced budget constraints, which have caused or may cause them to reduce or eliminate state appropriations, including with respect to the amount of financial assistance provided to postsecondary students, and additional states may reduce or eliminate such appropriations in the future. In addition, state financial aid programs generally are subject to annual appropriation by the state legislatures, which may eliminate or significantly decrease the amount of state financial aid available to students. We cannot predict whether future reductions in state financial aid programs will occur or how long such reductions will persist. For fiscal year ended May 31, 2018, we derived less than 1% of our total revenue from state financial aid programs, although the percentage derived by each of our campus locations may vary on an individual basis. The loss or reduction of state financial aid could decrease our student enrollment and could have a material effect on our business.

A substantial decrease in private student financing options or a significant increase in financing costs for our students could have a material effect on us.

Some of our eligible students have used private (i.e., non-Title IV) loan programs to fund a portion of their education costs not covered by Title IV program funds or state financial aid sources. Recent adverse market conditions for consumer and federally guaranteed student loans (including lenders' increasing difficulties in reselling or syndicating student loan portfolios) have resulted, and could continue to result, in providers of private loans reducing the availability of or increasing the costs associated with providing private loans to postsecondary students. In particular, loans to students with low credit scores who would not otherwise be eligible for credit-based private loans have become increasingly difficult to obtain. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in postsecondary education programs. If our students are unable to finance their education our student population could decrease, which would have a material effect on our business, financial condition and results of operations.

Government and regulatory agencies and third parties may conduct compliance reviews, bring claims or initiate litigation against us.

Because we operate in a highly regulated industry, we may be subject to compliance reviews and claims of non-compliance and lawsuits by government agencies, regulatory agencies and third parties, including claims brought by third parties on behalf of the federal government. If the results of these reviews or proceedings are unfavorable to us, or if we are unable to defend successfully against lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations, loss of eligibility for Title IV funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or to defend against those lawsuits or claims. Additionally, we may experience adverse collateral consequences as a result of any negative publicity associated with such claims, including declines in student enrollments and lessened willingness of third parties to do business with us. Claims and lawsuits brought against us may damage our reputation or cost us to incur expenses, even if such claims and lawsuits are without merit.

Our regulatory environment and our reputation may be negatively influenced by the actions of other postsecondary institutions.

In recent years, regulatory investigations and civil litigation have been commenced against several postsecondary educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with Department of Education regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall postsecondary sector may negatively impact public perceptions of postsecondary educational institutions, including us. Such allegations could result in increased scrutiny and regulation by the Department of Education, U.S. Congress, accrediting bodies, state legislatures or other governmental authorities on all postsecondary institutions.

Risks Related to Our Business

If we continue to decline in revenue and profitability, we may not have adequate liquidity and capital resources to execute our business plan.

The Company has experienced a decrease in revenue since 2013 due to enrollment declines at National American University, and this long-term decline in revenue has resulted in increasing net losses and decreases in our liquidity and capital resources. To counter the decrease in net losses, the Company consolidated students at thirteen locations into locations in the same market since the third quarter of 2017. Ten locations were consolidated in the third quarter of fiscal year 2018. The reduction of overhead as the result of these campus consolidations, while maintaining student services, has positively impacted operating cash flow and cash balances. The recent formation of the College of Military Studies and the acquisition of academic programs in strategic security and related fields from Henley Putnam University also have positive impact on our enrollment.

For the year ended May 31, 2018, our cash used in operating activities was $3.7 million. As of May 31, 2018, the Company had $5.3 million of unrestricted cash and cash equivalents and negative working capital of $652 thousand, which may not be sufficient to fund our forecasted operating and cash requirements without additional financing or other actions by management. The following management actions occurred after May 31, 2018, the results of which management believes are probable of occurring and will be sufficient to meet its forecasted liquidity needs for the next twelve months from the issuance of the Company’s financial statements:

The Company has identified certain, non-revenue producing assets, specifically two aircraft that it will divest in order to further reduce operating expenses and support its liquidity needs. The estimated proceeds from the sale of the assets as well as the savings from the related maintenance and operating costs are approximately $2.3 million.

The Company estimates a $3 million decrease in payroll expenses by eliminating positions through the reorganization of our enrollment function, which is now under one leadership team to provide transparency and accountability.

We operate in a highly competitive industry, and competitors with greater resources could harm our business, decrease market share and put downward pressure on our tuition rates.

The postsecondary education market is highly fragmented and competitive. We compete for students with traditional public and private two-year and four- year colleges and universities, and other for-profit schools, including those that offer online learning programs, and alternatives to higher education, such as employment and military service. Many public and private schools, colleges and universities, including most major colleges and universities, offer online programs. We expect to experience additional competition in the future as more colleges, universities and for-profit schools offer an increasing number of online programs. Public institutions receive substantial government subsidies, and public and private non-profit institutions have access to government and foundation grants, tax-deductible contributions and other financial resources generally not available to for-profit schools. Accordingly, public and private nonprofit institutions may have instructional and support resources superior to those in the for-profit sector, and public institutions can offer substantially lower tuition prices. Some of our competitors in both the public and private sectors also have substantially greater financial and other resources than us. We may not be able to compete successfully against current or future competitors and may face competitive pressures that could have a material effect on our business, financial condition and results of operations.

Our online and distance learning programs operate in a highly competitive market with rapid technological changes.

Online education is a highly fragmented and competitive market subject to rapid technological change. Competitors vary in size and organization from traditional colleges and universities, many of which offer some form of online education programs, to for-profit schools and software companies providing online education and training software. We expect the online education and training market to be subject to rapid changes in delivery, interaction and other future innovation and advancement. Our success will depend, in part, on our ability to adapt to changing technologies in online and distance learning and offer an attractive online/distance education option while maintaining competitive pricing. Furthermore, the expansion of our online programs and the development of new programs may not be accepted by the online education market. In addition, a general decline in Internet use for any reason, including due to security or privacy concerns, the cost of Internet service or changes in government regulation of Internet use, may result in less demand for online educational services, in which case we may not be able to recruit and retain students and grow our online programs as planned. Accordingly, if we are unable to keep pace with changes in technology or maintain technological relevance, or if the use of the Internet changes, our business, financial condition and results of operations may be adversely affected.

If our graduates are unable to obtain professional licenses or certifications in their chosen field of study, we may face declining enrollments and revenues or be subject to student litigation.

Certain students, particularly in the healthcare programs, require or desire professional licenses or certifications after graduation to obtain employment in their chosen fields. Their success in obtaining such licensure depends on several factors, including the individual merits of the student, whether the institution and the program were approved by the state or by a professional association, whether the program from which the student graduated meets all state requirements and whether the institution is accredited. If one or more states refuses to recognize our graduates for professional licensure in the future based on factors relating to us or our programs, the potential growth of our programs would be negatively impacted, which could have a material effect on our business, financial condition and results of operations. In addition, we could be exposed to litigation that would force us to incur legal and other expenses that could have a material effect on our business, financial condition and results of operations.

The payment and amount of future dividends is subject to Board of Director discretion and to various risks and uncertainties.

The payment and amount of future quarterly dividends is within the discretion of the Board of Directors and will depend on factors the Board deems relevant at the time declaration of a dividend is considered. These factors include, but are not limited to: available cash; management's expectations regarding future performance and free cash flow; and the effect of various risks and uncertainties described in this "Risk Factors" section.

Our financial performance depends on our ability to continue to develop awareness among, and attract and retain, new students.

Building awareness of NAU and the programs and services we offer is critical to our ability to attract prospective students. If we are unable to successfully market and advertise our educational programs, our ability to attract and enroll students could be adversely affected, and, consequently, our ability to increase revenue or generate profitability could be impaired. It is also critical to our success that we convert prospective students to enrolled students in a cost-effective manner and that these enrolled students remain active in our programs. Some of the factors that could prevent us from successfully enrolling and retaining students include:

the reduced availability of, or higher interest rates and other costs associated with, Title IV loan funds or other sources of financial aid;

the emergence of more successful competitors;

factors related to our marketing, including the costs and effectiveness of Internet advertising and broad-based branding campaigns and recruiting efforts;

performance problems with our online systems;

failure to maintain institutional and specialized accreditations;

failure to obtain and maintain required state authorizations;

the requirements of the education agencies that regulate us that restrict the initiation of new locations, new programs and modification of existing programs;

the requirements of the education agencies that regulate us that restrict the ways schools can compensate their recruitment personnel;

increased regulation of online education, including in states in which we do not have a physical presence;

restrictions that may be imposed on graduates of online programs that seek certification or licensure in certain states;

student dissatisfaction with our services and programs;

adverse publicity regarding us, our competitors, or online or for-profit education generally;

price reductions by competitors that we are unwilling or unable to match;

a decline in the acceptance of online education;

an adverse economic or other development that affects job prospects in our core disciplines;

a decrease in the perceived or actual economic benefits that students derive from our programs;

litigation or regulatory investigations that may damage our reputation; and

changes in the general economy, including employment.

If, for any reason or reasons, including those presented above, we are unable to maintain and increase our awareness among prospective students, recruit students and convert prospective students into enrolled students, our business, financial condition and results of operations could be adversely affected.

Our growth may place a strain on our resources that could adversely affect our systems, controls and operating efficiency.

We believe that future growth will be based upon an expansion of our current programs, the addition of new programs, an increase in our online presence, affiliation agreements and increasing enrollments. The growth and expansion of our domestic and international operations may place a significant strain on our resources and increase demands on our management information and reporting systems, financial management controls and personnel. Any failure to effectively manage or maintain growth could have a material effect on our business, financial condition and results of operations.

If we cannot maintain student enrollments, our results of operations may be adversely affected.

Our strategy for growth and profitability depends, in part, upon the retention of our students. While we provide certain services to our students (e.g., tutoring) in an effort to retain students and lower attrition rates, many of our students face financial, personal or family constraints that require them to withdraw within a term or at the end of a given term. Additionally, some students may decide to continue their education at a different institution. If for any reason, we are unable to predict and manage student attrition, our overall enrollment levels would likely decline, which could have a material effect on our business, financial condition and results of operations.

If the proportion of students who are enrolled in our Associate degree programs increases, we may experience increased costs and reduced margins.

If increases in Associate degree programs take effect, we may experience additional consequences, such as higher costs per start, lower retention rates, higher student services costs, an increase in the percentage of our revenue derived from Title IV programs under the 90/10 Rule, more limited ability to implement tuition price increases and other effects that could have a material effect on our business, financial condition and results of operations.

An increase in interest rates could adversely affect our ability to attract and retain students.

For the fiscal years ended May 31, 2018, 2017, and 2016, NAU derived cash receipts equal to approximately 82.1%, 82.6%, and 86.8%, respectively, of its net revenue from tuition financed under Title IV programs, which include student loans with interest rates subsidized by the federal government. Additionally, some students finance their education through private loans that are not subsidized. If our students' employment circumstances are adversely affected by regional or national economic downturns, they may be more heavily dependent on student loans. Interest rates have reached relatively low levels in recent years, creating a favorable borrowing environment for students. However, if interest rates increase or Congress decreases the amount available for Title IV funding, our students may have to pay higher interest rates on their loans. Any future increase in interest rates will result in a corresponding increase in educational costs to our existing and prospective students, which could result in a significant reduction in our student population and revenues. Higher interest rates could also contribute to higher default rates with respect to

our students' repayment of their education loans. Higher default rates may in turn adversely impact our eligibility to participate in some or all of the Title IV programs, which could result in a material effect on our enrollments and future growth prospects and our business, financial condition and results of operations.

Our reputation and the value of our stock may be negatively affected by the actions of other postsecondary educational institutions.

In recent years, regulatory proceedings and litigation have been commenced against various postsecondary educational institutions relating to, among other things, deceptive trade practices, false claims against the government and non-compliance with Department of Education requirements, state education laws and state consumer protection laws. These proceedings have been brought by students, the Department of Education, the United States Department of Justice, the United States Securities and Exchange Commission and state governmental agencies, among others. These allegations have attracted adverse media coverage and have been the subject of legislative hearings and regulatory actions at both the federal and state levels, focusing not only on the individual schools but in some cases on the larger for-profit postsecondary education sector as a whole. Adverse media coverage regarding other for-profit education companies or other educational institutions could damage our reputation, result in lower enrollments, revenues and results of operations and have a negative impact on the value of our stock. Such coverage could also result in increased scrutiny and regulation by the Department of Education, Congress, accrediting commissions, state legislatures, state attorneys general, state education agencies or other governmental authorities of all educational institutions, including us.

Our expansion into new markets outside the United States will subject us to risks inherent in international operations, are subject to significant start- up costs and will place strain on our management.

As part of our growth strategy, we intend to continue to establish markets outside the United States, subject to approvals from the HLC and other appropriate accrediting or regulatory agencies. Our operations in each of the foreign jurisdictions may subject us to additional educational and other regulations of foreign jurisdictions, which may differ materially from the regulations applicable to our domestic operations. Such international expansion is expected to require a significant amount of start-up costs. Additionally, our management does not have significant experience in operating a business at the international level. As a result, we may be unsuccessful in carrying out our plans for international expansion, obtaining the necessary licensing, permits or market saturation, or in successfully navigating other challenges posed by operating an international business.

If we do not maintain existing and develop additional relationships with employers, our future growth may be impaired.

Currently, we have relationships with certain employers to provide their employees with an opportunity to enroll in classes and obtain degrees through us while maintaining their employment. These relationships are an important part of our strategy because they provide us with a steady source of potential working adult students for particular programs and increase our reputation among employers. If we are unable to develop new relationships or maintain our existing relationships, this source of potential students may be impaired and enrollments and revenue may decrease, any of which could have a material effect on our business, financial condition and results of operations.

If students fail to pay their outstanding balances, our business may be harmed.

From time to time, students may carry balances on portions of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed. Furthermore, disruptive economic events could adversely affect the ability or willingness of our former students to repay student loans, which may increase our student loan cohort default rate and require the devotion of increased time, attention and resources to manage these defaults. As a result, losses related to unpaid student balances in excess of the amounts we have reserved for bad debts, or the failure of students to repay their debt obligations, could have a material effect on our business, financial condition and results of operations.

Government regulations relating to the Internet could increase our cost of doing business and affect our ability to grow.

The increasing popularity and use of the Internet and other online services has led and may lead to the adoption of new laws and regulatory practices in the United States or foreign countries and to new interpretations of existing laws and regulations. These new laws and interpretations may relate to issues such as online privacy, copyrights, trademarks and service marks, sales taxes, fair business practices and the requirement that online education institutions qualify to do business as foreign corporations or be licensed in one or more jurisdictions where they have no physical location. As the proportion of our students who take online courses increases, new laws, regulations or interpretations related to doing business over the Internet could increase our costs of compliance or doing business and materially affect our ability to offer online courses, which would have a material effect on our business, financial condition and results of operations.

Our financial performance depends, in part, on our ability to keep pace with changing market needs.

Increasingly, prospective employers of NAU students require their new employees to possess appropriate technological skills and interpersonal skills, such as communication, critical thinking and teamwork skills. These skills evolve rapidly in a changing economic and technological environment. Accordingly, it is important for our programs to evolve in response to those economic and technological changes. The expansion of existing programs and the development of new programs may not be accepted by current or prospective students or the employers of our graduates. Even if NAU is able to develop acceptable new programs, we may not be able to begin offering those new programs as quickly as required by prospective employers or as quickly as our competitors offer similar programs. In addition, we may be unable to obtain specialized accreditations or licensures that may make certain programs desirable to students. To offer a new academic program, NAU may be required to obtain appropriate federal, state and accrediting agency approvals that may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible for Title IV programs, a new academic program may need to be approved by the Department of Education, the HLC and state educational agencies. If we are unable to adequately respond to changes in market requirements due to regulatory or financial constraints, unusually rapid technological changes or other factors, our ability to attract and retain students could be impaired, the rates at which our graduates obtain jobs involving their fields of study could suffer and our reputation among students, prospective students and employers may be impaired, which could have a material effect on our business, financial condition and results of operations.

Establishing new academic programs or modifying existing programs requires us to invest in management and business development, incur marketing expenses and reallocate other resources. We may have limited experience with any courses in new academic areas and may need to modify our systems, strategy and delivery platform or enter into arrangements with other educational institutions to provide such programs effectively and profitably. If we are unable to offer new courses and programs in a cost-effective manner, or are otherwise unable to effectively manage the operations of newly established academic programs, it could have a material effect on our business, financial condition and results of operations.

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Capacity constraints of our computer networks and changes to the acceptance and regulation of online programs could have a material effect on student retention and growth.

If we are successful in increasing student enrollments, additional resources in the forms of human, intellectual and financial capital, as well as information technology resources, will be necessary. We have invested and continue to invest significant resources in information technology when such technology systems and tools have become impaired or obsolete. In an attempt to utilize recent technology, we could install new information technology systems without accurately assessing its costs or benefits or experience delayed or ineffective implementation of new information technology systems. Similarly, we could fail to respond in a timely or sufficiently competitive way to future technological developments in our industry. As a result, this growth may place a significant strain on our operational resources, including our computer networks and information technology infrastructure, thereby restricting our ability to enroll and retain students and grow our online programs.

System disruptions and security threats to our computer networks could have a material effect on our ability to attract and retain students.

The performance and reliability of our computer network infrastructure is critical to our reputation and ability to attract and retain students. Any computer system error or failure, or a sudden and significant increase in traffic on our computer networks, including those that host our online programs, may cause network outages and disrupt our online and on-ground operations that may damage our reputation.

Additionally, we face a number of threats to our computer systems, including unauthorized access, computer hackers, computer viruses and other security problems and system disruptions. We have devoted and will continue to devote significant resources to the security of our computer systems, but they are still vulnerable to security threats. A user or hacker who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. As a result, we expend significant resources to protect against the threat of these system disruptions and security breaches and may have to spend more to alleviate problems caused by these disruptions and breaches, which could have a material effect on our reputation, ability to retain and store data and our business, financial condition and results of operations.

A failure of our information systems to store, process and report relevant data may reduce management’s effectiveness, interfere with regulatory compliance and increase operating expenses.

We are heavily dependent on the integrity of our data management systems. If these systems do not effectively collect, store, process and report relevant data for the operation of our business, whether due to equipment malfunction or constraints, software deficiencies or human error, our ability to plan, forecast and execute our business plan and comply with applicable laws and regulations, including the Higher Education Act, will be impaired. Any such impairment of our information systems could materially affect our reputation and our ability to provide student services or accurately budget or forecast operating activity, thereby adversely affecting our financial condition and results of operations.

The personal information that we collect may be vulnerable to breach, theft or loss, and could subject us to liability or adversely affect our reputation and operations.

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business and reputation. We collect, use and retain large amounts of personal information regarding our students and their families, including social security numbers, tax return information, personal and family financial data and credit card numbers. We also collect and maintain personal information of our employees in the ordinary course of business. Some of this personal information is held and managed by certain of our vendors. Although we use security and

business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of student or employee privacy. In addition, errors in the storage, use or transmission of personal information could result in a breach of student or employee privacy. Possession and use of personal information in our operations also subjects us to U.S. federal and state legislative and regulatory burdens that could require us to implement certain policies and procedures, such as the procedures we adopted to comply with the Red Flags Rule that was promulgated by the Federal Trade Commission under the federal Fair Credit Reporting Act, which requires the establishment of guidelines and policies regarding identity theft related to student credit accounts, and could require us to make certain notifications of data breaches and restrict our use of personal information. The risk of hacking and cyber-attacks has increased, as has the sophistication of such attacks, including email phishing schemes targeting employees to give up their credentials. We cannot provide any assurances that a breach, loss, or theft of personal information will not occur. A breach, theft, or loss of personal information regarding our students and their families or our employees that is held by us or our vendors could have a material adverse effect on our reputation and results of operations and result in liability under U.S. federal and state privacy statutes and legal actions by state authorities and private litigants, any of which could have a material adverse effect on our business. Moreover, certain of our operations may involve the collection of personal information from individuals outside the U.S., which may render us subject to global privacy and data security laws. For example, the European Union General Data Protection Regulation (“GDPR”), which became enforceable May 25, 2018, contains a number of requirements that are different from or exceed those in U.S. federal and state privacy and data security laws. The GDPR may apply to certain of our operations. Were it to apply and if we were out of compliance, there is the potential for administrative, civil, or criminal liability with significant monetary penalties as well as reputational harm to us and our employees.

We may incur liability for the unauthorized duplication or distribution of class materials posted online for class discussions.

In some instances, our faculty members or students may distribute to students in class or post various articles or other third-party content on class discussion boards. We may incur liability for the unauthorized duplication or distribution of this material distributed in class or posted online for class discussions. As a for-profit organization, we may be subject to a greater risk of liability for the unauthorized duplication of materials under the Copyright Act than a non-profit institution of higher education. Third parties may raise claims against us for the unauthorized duplication of this material. Any such claims could subject us to costly litigation and impose a significant strain on financial resources and management personnel, regardless of whether the claims have merit. Our general liability insurance may not cover potential claims of this type adequately or at all, and we may be required to alter the content of our courses or pay monetary damages, which could have a material effect on our business, financial condition and results of operations.

We rely on exclusive proprietary rights and intellectual property that may not be adequately protected under current laws.

Our success depends, in part, on our ability to protect our proprietary rights and intellectual property. We rely on a combination of copyrights, trademarks, trade secrets, domain names and contractual agreements to protect our proprietary rights. We rely on trademark protection in both the United States and certain foreign jurisdictions to protect our rights to various marks, as well as distinctive logos and other marks associated with them. We also rely on agreements under which we obtain intellectual property or license rights to own or use content developed by faculty members, content experts and other third-parties. We cannot assure that these measures are adequate, that we have secured, or will be able to secure, appropriate protections for all of our proprietary rights in the United States or any foreign jurisdictions, or that third parties will not terminate license rights or infringe upon or otherwise violate our proprietary rights. Despite our efforts to protect these rights, unauthorized third parties may attempt to infringe our trademarks, use, duplicate or copy the proprietary aspects of our student recruitment and educational delivery methods, curricula, online resource material and other content. Our management’s attention may be diverted by these attempts and we have in the past, and may in the future, need to use funds in litigation to protect our proprietary rights against any infringement or violation, which could have a material effect on our business, financial condition and results of operations.

We may be involved in disputes from time to time relating to our intellectual property and the intellectual property of third parties.

We have in the past, and may in the future, become parties to disputes from time to time over rights and obligations concerning intellectual property, and we may not always prevail in these disputes. Third parties may allege that we have not obtained sufficient rights in the content of a course or other intellectual property. Third parties may also raise claims against us alleging infringement or violation of the intellectual property of that third party. Some third party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid violating those intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit. Our general liability and cyber liability insurance, if any, may not cover potential claims of this type adequately or at all, and we may be required to alter the content of our courses or pay monetary damages or license fees to third parties, which could have a material effect on our business, financial condition and results of operations.

We may not be able to retain key personnel or hire and retain the personnel we need to sustain and grow our business.

Our success depends largely on the skills, efforts and motivations of our executive officers, who have significant experience with our business and within the education industry. Due to the nature of the education industry, we face significant competition in attracting and retaining personnel who possess the skills necessary to sustain and grow our business. The loss of the services of any of our key personnel, or failure to attract and retain other qualified and experienced faculty members and staff members on acceptable terms, could impair our ability to sustain and grow our business.

Our business may be affected by changing economic conditions.

The United States economy and the economies of other key industrialized countries currently have recessionary characteristics, including reduced economic activity, increased unemployment and substantial uncertainty about the financial markets. In addition, homeowners in the United States have experienced an unprecedented reduction in wealth due to the decline in residential real estate values across much of the country. The reduction in wealth, unavailability of credit and unwillingness of employers to sponsor non-traditional educational opportunities for their employees could have a material effect on our business, financial condition and results of operations.

Terrorist attacks and other acts of violence or war, natural disasters or breaches of security could have an adverse effect on our operations.

Terrorist attacks and other acts of violence or war, hurricanes, earthquakes, floods, tornadoes and other natural disasters or breaches of security at our educational sites could disrupt our operations. Terrorist attacks and other acts of violence or war, natural disasters or breaches of security that directly impact our physical facilities, online offerings or ability to recruit and retain students and employees could adversely affect our ability to deliver our programs to our students and, thereby, adversely affect our business, financial condition and results of operations. Furthermore, terrorist attacks and other acts of violence or war, natural disasters or breaches of security could adversely affect the economy and demographics of the affected region, which could cause significant declines in the number of our students in that region and could have a material effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease all of our educational sites and administrative facilities (including those that are pending regulatory approval) located in Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota, and Texas. Our corporate headquarters is located in Rapid City, South Dakota, as set forth under the heading "Educational and Administrative Sites" under Item 1. As of July 31, 2018, we operate in 33 educational sites, distance learning service centers, and administrative facilities.

We evaluate current utilization of our facilities and projected enrollment growth to determine facility needs. We believe our existing facilities are adequate for current requirements and that additional space can be obtained on commercially reasonable terms to meet future requirements.

Our real estate business, Fairway Hills, rents apartment units and develops and sells condominium units in Rapid City, South Dakota, a further description of which is set forth under "Real Estate Operations" in Item 1.

Item 3. Legal Proceedings.

From time to time, we are a party to various lawsuits, claims and other legal 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 that, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. Market Information

Our common stock is traded on the Nasdaq Global Market under the symbol "NAUH".

The following table sets forth the high and low sales price, and dividends declared and paid per share of our common stock by quarter for our two most recent fiscal years.

	Fiscal 2018			Fiscal 2017		
	Cash Dividends Declared	High	Low	Cash Dividends Declared	High	Low
First Quarter	$0.045	$2.77	$1.91	$0.045	$2.30	$1.80
Second Quarter	$0.000	$2.32	$1.00	$0.045	$2.18	$1.78
Third Quarter	$0.000	$1.70	$1.00	$0.045	$2.67	$1.90
Fourth Quarter	$0.000	$1.38	$0.76	$0.045	$2.72	$2.29

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Stockholders

As of July 31, 2018, there were approximately 37 holders of record of our common stock, including The Depository Trust Company, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners.

Dividends

During our fiscal year 2017 our board of directors declared quarterly cash dividends on our common stock. During fiscal year 2018, our board of directors declared a dividend only in the first quarter. The payment of any dividends in the future will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board of directors.

Item 6. Selected Financial Data.

The following table shows our selected consolidated financial and operating data for each of the fiscal years ended May 31, 2018, 2017, 2016, 2015 and 2014. The selected consolidated statements of financial data for the fiscal years ended May 31, 2018, 2017, 2016, 2015 and 2014 are derived from the Company's audited consolidated financial statements included in this document and those documents filed in prior years, prepared in accordance with accounting standards generally accepted in the United States. Our historical results are not necessarily indicative of our results for any future period.

This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes.

	Year Ended May 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands, except per share data)				
Income Statement					
Total revenues	$77,184	$86,587	$96,113	$117,891	$127,753
Operating expenses:					
Cost of educational services	26,146	27,657	26,093	28,551	29,478
Selling, general and administrative	56,183	61,639	72,211	73,301	85,286
Auxiliary expense	2,741	3,477	4,667	5,629	6,236
Cost of condominium sales	709	0	0	368	386
Loss on course development impairment	286	0	0	0	0
Loss on lease termination and acceleration	362	285	0	0	0
Loss (gain) on disposition of property and equipment	2,258	767	735	(1,710)	114
Total operating expenses	88,685	93,825	103,706	106,139	121,500
Operating (loss) income	(11,501)	(7,238)	(7,593)	11,752	6,253
Other (expense) income	(842)	(539)	(605)	(565)	(479)
(Loss) income before income taxes	(12,343)	(7,777)	(8,198)	11,187	5,774
Income tax benefit (expense)	232	1,550	2,894	(4,433)	(2,306)
Net (loss) income	(12,111)	(6,227)	(5,304)	6,754	3,468
Net loss (income) attributable to non-controlling interest	(50)	(48)	(44)	(38)	17
Net (loss) income attributable to National American University Holdings, Inc. and subsidiaries	$(12,161)	$(6,275)	$(5,348)	$6,716	$3,485

(Loss) income from operations per Common Share					
Basic	(0.50)	(0.26)	(0.22)	0.27	0.14
Diluted	(0.50)	(0.26)	(0.22)	0.27	0.14
Balance Sheet					
Total assets	$48,807	$57,592	$68,526	$86,544	$88,457
Long-term obligations	$20,745	$15,441	$16,253	$21,183	$22,696
Cash Dividends declared per Common Share	$0.045	$0.18	$0.18	$0.18	$0.18
Weighted Average Shares					
Basic EPS Common	24,239,888	24,154,541	24,651,521	25,160,729	25,093,096
Diluted EPS Common	24,239,888	24,154,541	24,651,521	25,165,732	25,094,361
Other Data (Unaudited)					

We believe EBITDA 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 EBITDA 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 income attributable to the Company to EBITDA:

	Year Ended May 31,				
	2018	2017	2016	2015	2014
Net (loss) income attributable to the Company	$(12,161)	$(6,275)	$(5,348)	$6,716	$3,485
Income (loss) attributable to non-controlling interest	50	48	44	38	(17)
Interest income	(76)	(102)	(87)	(148)	(142)
Interest expense	846	850	870	891	770
Income taxes	(232)	(1,550)	(2,894)	4,433	2,306
Depreciation and amortization	4,642	5,086	5,596	6,127	6,356
EBITDA	$(6,931)	$(1,943)	$(1,819)	$18,057	$12,758

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Consists of income attributable to the Company plus income (loss) from non-controlling interest, minus interest income, plus interest expense, plus income taxes, plus depreciation and amortization. We use EBITDA as a measure of operating performance. However, EBITDA is not a recognized measurement under U.S. generally accepted accounting principles, or GAAP, and when analyzing our operating performance, investors should use EBITDA in addition to, and not as an alternative for, income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies and is therefore limited as a comparative measure. Furthermore, as an analytical tool, EBITDA 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 EBITDA 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 profitability 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion together with the financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations, and involves risks and uncertainties. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors," "Special Note Regarding Forward-Looking Statements" and elsewhere in this annual report.

Background

National American University, or NAU, is a regionally accredited, for-profit, multi-campus institution of higher learning offering diploma, associates, bachelor's, master's and doctoral degree programs in business-related disciplines, such as accounting, applied management, business administration and information technology; legal-related disciplines, such as paralegal, criminal justice; and in healthcare-related disciplines, such as nursing, medical assisting, surgical technology and healthcare management; and higher education. Courses are offered through physical educational sites as well as online via the internet. As of May 31, 2018, our operations had 33 locations, including educational sites located in Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota and Texas, and distance learning operations and central administration offices in Rapid City, South Dakota.

During the third quarter of the 2018 fiscal year, the Company consolidated its operations of the Albuquerque West, Bloomington, Brooklyn Center, Burnsville, Colorado Springs South, Houston, Lewisville, Richardson and Watertown locations. In addition, the Wichita West location was closed down as the result of a fire and its ground students transferred to the Wichita location. During the term prior to the consolidation, nearly 100% of the students at the consolidated locations participated in classes exclusively through online delivery. Therefore, the Company expects a reduction of expenses with little impact on revenues as a result of the consolidation.

We continue to assist students impacted by schools that have closed or have announced that they are discontinuing enrollments. Over the past year, NAU has enrolled students from other institutions where students have been unable to complete their education. We have worked closely with these institutions and new enrollees to highlight our academic programs and the commitment we have to our students' success. We have entered into agreements with these institutions to facilitate degree completion for their students. These institutions vary in size, programmatic offerings and geographic locations. These agreements are unique by institution and include teach-out and transfer agreements. In summary, these agreements stipulate how students will be admitted to NAU's academic programs if they choose, how their credits will transfer, what services will be available to these students, and at what location(s) the degree programs will be offered.

In June 2017, the university launched the College of Military Studies (CMS) to focus and provide informed quality education and a premier customer service platform response to the needs and demands of servicemen and women, their dependents, and veterans. The CMS is also focusing on safeguarding veterans' benefits and ensuring the military student population is well-served. We are strengthening relationships with key organizations.

In addition, we have made progress in executing our plans to enroll Canadian students in NAU courses and programs. We continue to build the infrastructure that will allow us to scale our efforts while maintaining the compliance requirements of various Canadian regulatory authorities.

As of May 31, 2018, NAU had 724 students enrolled at its physical locations, 4,342 students for its online programs, and 582 students that attend hybrid learning locations. As of May 31, 2018, NAU supports the instruction of

approximately 3,735 additional students at affiliated institutions for whom 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 who 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, condominiums and other real estate holdings in Rapid City, South Dakota. The real estate operations generated approximately 3.1% of our revenues for the fiscal year ended May 31, 2018. Arrowhead View Apartments, a 24-unit luxury apartment building, began leasing to tenants on June 1, 2017.

Key Financial Results Metrics

Revenue. Revenue is derived mostly from NAU's operations. For fiscal year ended May 31, 2018, approximately 91.8% of our revenue was generated from NAU's academic revenue, which consists of tuition and fees. The remainder of our revenue comes from NAU's auxiliary revenue from sources such as NAU's book sales and the real estate operations' rental income and condominium sales. Tuition revenue is reported net of adjustments for refunds and scholarships and is recognized on a daily basis over the length of the term. During the second quarter of fiscal year 2018, we began allowing students to take classes in 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 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.

We record unearned tuition for academic services to be provided in future periods. Similarly, we record a tuition receivable for the portion of the tuition that has not been paid. Tuition receivable at the end of any calendar quarter largely represents student tuition due for the prior academic quarter. Based upon past experience and judgment, we establish an allowance for doubtful accounts to recognize those receivables we anticipate will not be paid. Any uncollected account more than six months past due on students who have left NAU is charged against the allowance. Bad debt expense as a percentage of academic revenue for the fiscal years ended May 31, 2018, 2017, and 2016 was 3.0%, 4.6% and 6.1%, respectively.

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 May 31, 2018, and May 31, 2017, by degree type and by instructional delivery method.

	May 31, 2018 (Spring '18 Qtr)		May 31, 2017 (Spring '17 Qtr)		
	Number of Students	% of Total	Number of Students	% of Total	% Change for same quarter over prior year
Continuing Ed	59	1.0%	170	2.5%	-65.3%
Doctoral	111	2.0%	98	1.5%	13.3%
Graduate	449	8.0%	366	5.5%	22.7%
Undergraduate and Diploma	5,029	89.0%	6,069	90.5%	-17.1%
Total	5,648	100.0%	6,703	100.0%	-15.7%
On-Campus	724	12.8%	1,309	19.5%	-44.7%
Online	4,342	76.9%	4,691	70.0%	-7.4%
Hybrid	582	10.3%	703	10.5%	-17.2%
Total	5,648	100.0%	6,703	100.0%	-15.7%

We experienced a 15.7% decline in enrollment in spring term 2018 from spring term 2017. The undergraduate and diploma degree education programs had a 17.1% decline while the continuing education students who enroll in one-off courses had a 65.3% decline. The doctoral and master’s programs had 13.3%, and 22.7% increases, respectively. The on-campus, online and hybrid delivery methods saw a 44.7%, 7.4% and 17.2% decrease, respectively. We believe our investment to expand academic programming and our growth strategies detailed earlier in this document will be critical in growing all segments.

We plan to continue expanding and developing our academic programming focusing on growth at our approximately two dozen existing locations and potentially making acquisitions of other schools or programs. This growth will be subject to applicable regulatory requirements and market conditions. With these efforts, we anticipate positive enrollment trends. 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 increase enrollment will be correlated with the creation of new delivery mechanisms, the number of academic programs that are developed, the number of programs that are expanded to other locations, and, potentially, the number of locations and programs added through acquisitions. If market conditions decline or if we are unable to open new physical locations, develop or expand academic programming or make acquisitions, whether as a result of regulatory limitations or other factors, our enrollment rate will likely decline.

Expenses. Expenses consist of cost of educational services, selling, general and administrative, auxiliary expenses, the cost of condominium sales, loss on course development impairment, loss on lease termination and acceleration, and the loss on impairment and disposition of property and equipment. Cost of educational services expenses 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 expenses include the salaries of the learner services positions (and other expenses related to support of students), salaries and benefits of admissions staff, marketing expenditures, salaries of other support and leadership services (including finance, human resources, compliance and other corporate functions), as well as depreciation and amortization, bad debt expenses and other related costs associated with student support functions. Auxiliary expenses include expenses for the cost of goods sold, including costs associated with books. The 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 expense records the cost incurred or income received in the disposal of assets that are no longer used by us.

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, non-credit, and diploma programs 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 postsecondary education. We cannot predict at this time the effect on seasonality due to the monthly start program that began in the second quarter of fiscal year 2018.

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

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability, failure or refusal of the students to make required payments. We determine the adequacy of the allowance for doubtful accounts based on an analysis of aging of the accounts receivable and with regard to historical bad debt experience. Accounts receivable balances are generally written off when deemed uncollectible at the time the account is returned by an outside collection agency. Bad debt expense is recorded as a selling, general and administrative expense. As of May 31, 2018, and 2017, the allowance for doubtful accounts was approximately $0.6 million and $1.2 million, respectively.During the fiscal years ended May 31, 2018, 2017, and 2016, bad debt expense was $2.2 million, $3.7 million, and $5.4 million, respectively. The bad debt expense was 3.0%, 4.6%, and 6.1% of academic revenue for the fiscal years ended May 31, 2018, 2017 and 2016, respectively.

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. During the quarter ended February 28, 2017, the Company determined that it is more likely than not that it will not realize its deferred tax asset. As such, a valuation allowance totaling $1,035 was recorded at February 28, 2017. A primary factor in the assessment of this non-cash charge is that the Company is in a cumulative loss position over the three-year period ended February 28, 2017. During fiscal year 2018, a full valuation allowance was booked against the Company’s deferred tax assets as the result of the fact that the Company’s net operating losses could no longer be carried back.

The Company’s effective tax rate was 1.9% for the twelve months ended May 31, 2018 as compared to 19.9% for the corresponding period in 2017. The effective rate varies from the statutory rate primarily due to the deferred tax asset valuation allowance. In addition, there is a fluctuation in state income taxes as a result of the Company’s net loss position, as well as nondeductible meals.

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.

Share-Based Compensation. We measure and recognize compensation expense for all share-based awards issued to employees and directors based on estimated fair values of the share awards on the date of grant. We record compensation expense for all share-based awards over the vesting period. Annually, we make predictive assumptions regarding future stock price volatility, employee exercise behavior, dividend yield, and the forfeiture rate. For more information on these assumptions, please refer to Note 10 to the consolidated financial statements in Item 8 of this report.

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 to be held and used, an impairment loss is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded for the difference between the carrying value 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.

Regulation and Oversight

We are subject to extensive regulation by state education agencies, accrediting commissions and federal government agencies, particularly by the Department of Education under the Higher Education Act and the regulations promulgated thereunder by the Department of Education. The regulations, standards and policies of these agencies cover substantially all of our operations. For a more complete description of this regulation and oversight, see “Item I – Business – Regulatory Matters.”

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.

Results of Operations — For the Year Ended May 31, 2018 Compared to the Year Ended May 31, 2017

National American University Holdings, Inc.

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

	Percent of Revenue	
	2018	2017
Total revenue	100.0%	100.0%
Operating expenses:		
Cost of educational services	33.9	31.9
Selling, general and administrative	72.8	71.2
Auxiliary expense	3.6	4.0
Cost of condominium sales	0.9	-
Loss on course development impairment	0.4	-
Loss on lease termination and acceleration	0.5	0.3
Loss on impairment and disposition of property	2.9	0.9
Total operating expenses	114.9	108.4
Operating loss	(14.9)	(8.4)
Other income (expense)		
Interest income	0.1	0.1
Interest expense	(1.1)	(1.0)
Other income — net	(0.1)	0.2
Total other expense	(1.1)	(0.6)
Loss before income taxes	(16.0)	(9.0)
Income tax benefit	0.3	1.8
Net loss	(15.7)	(7.2)
Net income attributable to non-controlling interest	(0.1)	(0.1)
Net loss attributable to the company	(15.8)%	(7.2)%

For the year ended May 31, 2018, we generated $77.2 million in revenue, a decrease of 10.9% compared to the same period in 2017. This decrease was attributable to a decline in enrollment that was partially offset by a new tuition plan effective March 1, 2017. Our revenue for the year ended May 31, 2018 consisted of $74.8 million from our NAU operations and $2.4 million from our other operations. Total operating expenses were $88.7 million or 114.9% of total

revenue for the year ended May 31, 2018, an increase of 6.5% compared to the same period in 2017. Loss before income taxes was $12.3 million or 16% of total revenue for the year ended May 31, 2018, an increase of $4.6 million compared to the same period in 2017. Net loss attributable to the Company was $12.2 million or 15.8% of total revenue for the year ended May 31, 2018, an increase of $5.9 million compared to the same period in 2017. The additional details regarding these variances are described in greater detail below.

NAU

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

	Percent of Revenue	
	2018	2017
Total revenue	100.0%	100.0%
Operating expenses:		
Cost of educational services	35.0	32.4
Selling, general and administrative	72.6	70.4
Auxiliary expense	3.7	4.1
Loss on course development impairment	0.4	-
Loss on lease termination and acceleration	0.5	0.3
Loss on impairment and disposition of property	3.0	1.0
Total operating expenses	115.1	108.2
Operating loss	(15.1)	(8.2)
Other income (expense)		
Interest income	0.1	0.1
Interest expense	(1.1)	(1.0)
Other income — net	(0.1)	-
Total other expense	(1.1)	(0.9)
Loss before income taxes and non-controlling interest	(16.2)%	(9.1)%

Total revenue. The total revenue for NAU for the year ended May 31, 2018 was $74.8 million, a decrease of $10.7 million or 12.5%, as compared to total revenue of $85.4 million for the year ended May 31, 2017. The decrease was primarily due to decreased enrollments, partially offset by a new tuition plan that was approved by NAU's board of governors in November 2016 and became effective in March 2017.

The academic revenue for the year ended May 31, 2018 was $70.9 million, a decrease of $9.7 million or 12.0%, as compared to $80.6 million for the year ended May 31, 2017. The decrease was primarily due to the decreased enrollments compared to the prior year, as discussed above. The auxiliary revenue was $3.9 million, a decrease of $0.9 million or 19.6%, as compared to $4.8 million for the year ended May 31, 2017. The decrease in auxiliary revenue was primarily driven by decreased enrollments that translated into decreased book sales in addition to many students purchasing books from other online alternatives.

Cost of educational services. The educational services expense increased as a percentage of revenue from 32.4% for the year ended May 31, 2017 to 35.0% for the year ended May 31, 2018. The expense decreased $1.5 million primarily due to a $1.3 million decrease in salary expense for faculty and other staff reductions. The remaining decrease is primarily related to $0.2 million for professional services and $0.1 million for depreciation.

Selling, general and administrative expenses. These expenses as a percentage of total revenue, increased from 70.4% for the year ended May 31, 2017 to 72.6%, for the year ended May 31, 2018. Selling, general and administrative expenses for the year ended May 31, 2018 decreased $5.9 million as compared to the year ended May 31, 2017. The dollar decrease is primarily due to a $2.7 million reduction in labor expenses due to staff reductions, a $1.6 million reduction in bad debt expense due to lower revenue and improved collection efforts, a $0.5 million reduction in depreciation expense primarily due to impairments, and $0.3 million related to advertising.

Auxiliary expenses. Auxiliary expenses for the year ended May 31, 2018 were $2.7 million, a decrease of $0.7 million or 21.2%, as compared to $3.5 million for the year ended May 31, 2017. This decrease was primarily due to lower enrollments that translated into lower book sales and cost of books sold.

Loss before non-controlling interest and taxes. The loss before non-controlling interest and taxes for the year ended May 31, 2018, was $12.1 million, an increase of $4.4 million, compared to a $7.8 million loss for the year ended May 31, 2017. The impact is due to factors as explained above.

Results of Operations — For the Year Ended May 31, 2017 Compared to the Year Ended May 31, 2016

National American University Holdings, Inc.

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

	Percent of Revenue	
	2017	2016
Total revenue	100.0%	100.0%
Operating expenses:		
Cost of educational services	31.9	27.1
Selling, general and administrative	71.2	75.1
Auxiliary expense	4.0	4.9
Cost of condominium sales	-	-
Loss on course development impairment	-	-
Loss on lease termination and acceleration	0.3	-
Loss on impairment and disposition of property	0.9	0.8
Total operating expenses	108.4	107.9
Operating loss	(8.4)	(7.9)
Other income (expense)		
Interest income	0.1	0.1
Interest expense	(1.0)	(0.9)
Other income — net	0.2	0.2
Total other expense	(0.6)	(0.6)
Loss before income taxes	(9.0)	(8.5)
Income tax benefit	1.8	3.0
Net loss	(7.2)	(5.5)

Net income attributable to non-controlling interest	(0.1)	(0.0)
Net loss attributable to the company	(7.2)%	(5.6)%

For the year ended May 31, 2017, we generated $86.6 million in revenue, a decrease of 9.9% compared to the same period in 2016. This decrease was attributable to a decline in enrollment that was partially offset by a new tuition plan effective March 1, 2017, fees billed to affiliated institutions for our courseware development, technical support and online class hosting services, and programmatic expansion. Our revenue for the year ended May 31, 2017 consisted of $85.4 million from our NAU operations and $1.2 million from our other operations. Total operating expenses were $93.8 million or 108.3% of total revenue for the year ended May 31, 2017, a decrease of 9.5% compared to the same period in 2016. Loss before income taxes was $7.8 million or 9.0% of total revenue for the year ended May 31, 2017, a decrease of $0.4 million compared to the same period in 2016. Net loss attributable to the Company was $6.3 million or 7.3% of total revenue for the year ended May 31, 2017, an increase of $0.9 million compared to the same period in 2016. The additional details regarding these variances are described in greater detail below.

NAU

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

	Percent of Revenue	
	2017	2016
Total revenue	100.0%	100.0%
Operating expenses:		
Cost of educational services	32.4	27.5
Selling, general and administrative	70.4	74.5
Auxiliary expense	4.1	4.9
Loss on course development impairment	-	-
Loss on lease termination and acceleration	0.3	-
Loss on impairment and disposition of property	1.0	0.9
Total operating expenses	108.2	107.8
Operating loss	(8.2)	(7.8)
Other income (expense)		
Interest income	0.1	0.1
Interest expense	(1.0)	(0.9)
Other income — net	-	-
Total other expense	(0.9)	(0.8)
Loss before income taxes and non-controlling interest	(9.1)%	(8.6)%

Total revenue. The total revenue for NAU for the year ended May 31, 2017 was $85.4 million, a decrease of $9.6 million or 10.1%, as compared to total revenue of $95.0 million for the year ended May 31, 2016. The decrease was primarily due to decreased enrollments which can be attributed, in part, to the current improving economic climate, in which many working adults have chosen not to attend school. The decreased enrollment rates were offset by a new tuition plan that was approved by NAU’s board of governors in November 2016 and became effective in March 2017, and fees billed to affiliated institutions for our courseware development, technical support and online class hosting services.

The academic revenue for the year ended May 31, 2017 was $80.6 million, a decrease of $8.1 million or 9.1%, as compared to $88.7 million for the year ended May 31, 2016. The decrease was primarily due to the decreased enrollments compared to the prior year, as discussed above. The auxiliary revenue was $4.8 million, a decrease of $1.5 million or 23.4%, as compared to $6.3 million for the year ended May 31, 2016. The decrease in auxiliary revenue was primarily driven by decreased enrollments that translated into decreased book sales in addition to many students purchasing books from other on-line alternatives.

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Cost of educational services. The educational services expense increased as a percentage of revenue from 27.5% for the year ended May 31, 2016 to 32.4% for the year ended May 31, 2017. The expense increased $1.6 million primarily due to $1.2 million for full-time faculty and other staff that were hired to support new academic programs. This remaining increase was a result of other expenses necessary to maintain minimum class sizes on a decreasing revenue base.

Selling, general and administrative expenses. Selling, general, and administrative expenses decreased $10.6 million; in addition, the expenses as a percentage of total revenue, decreased from 74.5% for the year ended May 31, 2016 to 70.4% for the year ended May31, 2017. This decrease is primarily due to $1.7 million reduction in bad debt expense, $3.0 million reduction in labor expenses, a $3.2 million reduction in other institutional support costs and $1.6 million reduction in other admissions expense. We continue to identify and execute cost cutting initiatives to better align with the decreasing enrollments and needs of the Company.

Auxiliary expenses. Auxiliary expenses for the year ended May 31, 2017 were $3.5 million, a decrease of $1.2 million, or 25.5%, as compared to $4.7 million for the year ended May 31, 2016. This decrease was primarily the result of lower enrollments that translated into lower book sales and cost of books sold.

Loss before non-controlling interest and taxes. The loss before non-controlling interest and taxes for the year ended May 31, 2017, was $7.8 million, a decrease of $0.4 million, compared to an $8.2 million loss for the year ended May 31, 2016. The impact is due to factors as explained above.

Liquidity and Capital Resources

The Company has experienced a decrease in revenue since 2013 due to enrollment declines at National American University, and this long-term decline in revenue has resulted in increasing net losses and decreases in our liquidity and capital resources. To counter the decrease in net losses, the Company consolidated students at thirteen locations into locations in the same market since the third quarter of 2017. Ten locations were consolidated in the third quarter of fiscal year 2018. The reduction of overhead as the result of these campus consolidations, while maintaining student services, has positively impacted operating cash flow and cash balances. The recent formation of the College of Military Studies and the acquisition of academic programs in strategic security and related fields from Henley Putnam University also have positive impact on our enrollment.

For the year ended May 31, 2018, our cash used in operating activities was $3.7 million. As of May 31, 2018, the Company had $5.3 million of unrestricted cash and cash equivalents and negative working capital of $652 thousand, which may not be sufficient to fund our forecasted operating and cash requirements without additional financing or other actions by management. The following management actions occurred after May 31, 2018, the results of which management believes are probable of occurring and will be sufficient to meet its forecasted liquidity needs for the next twelve months from the issuance of the Company’s financial statements:

The Company has identified certain, non-revenue producing assets, specifically two aircraft that it will divest in order to further reduce operating expenses and support its liquidity needs. The estimated proceeds from the sale of the assets as well as the savings from the related maintenance and operating costs are approximately $2.3 million.

The Company estimates a $3 million decrease in payroll expenses by eliminating positions through the reorganization of our enrollment function, which is now under one leadership team to provide transparency and accountability.

Operating Activities. Net cash used in operating activities was $3.8 million for the year ended May 31, 2018 compared to net cash provided by operating activities of $0.8 million for the year ended May 31, 2017. This decrease in cash was primarily due to an increase in the net loss, largely the result of decreased enrollment. In addition, the Company paid $1.0 million in 2018 for early termination of operating leases, compared to zero in 2017.

Net cash provided by operating activities was $0.8 million for the year ended May 31, 2017 compared to net cash provided by operating activities of $7.3 million for the year ended May 31, 2016. This decrease is primarily due to an increase in net loss and a decrease in cash flows caused by the change in student accounts receivable, which is due to a timing difference in cash receipts; and a reduction in the provision for uncollectable tuition partially offset by a decrease in income taxes receivable. The increase in net loss was largely the result of decreased enrollment. This enrollment reduction is due, in part, to the current improving economic climate, in which many working adults have chosen not to attend school.

Investing Activities. Net cash used in investing activities was $0.3 million for the year ended May 31, 2018, and $5.9 million for the year ended May 31, 2017. The decrease in the cash used in investing activities was primarily due to lower purchases of property and equipment in fiscal 2018 as compared to fiscal 2017, due to the new apartment building constructed by Fairway Hills in fiscal 2017. In 2018 we had $2.9 million net proceeds from the sale of investments, partially offset by the use of $1.3 million for the acquisition of Henley-Putnam University on March 21, 2018.

Net cash used in investing activities was $5.9 million for the year ended May 31, 2017, and $1.2 million for the year ended May 31, 2016. The increase in the cash used in investing activities was due mostly to an additional $4.6 million of asset purchases, primarily related to the 24-unit luxury apartment complex. Through May 31, 2017, the new apartment complex purchases were $4.9 million.

Financing Activities. Net cash used by financing activities was $2.5 million for the year ended May 31, 2018 as compared to net cash used in financing activities of $4.6 million for the year ended May 31, 2017. The decrease in funds used was the result of lower dividend payments. Dividends paid were cut in half since the year ended May 31, 2018 had two quarterly dividends paid, whereas fiscal year 2017 had four quarterly dividends paid.

Net cash used in financing activities was $4.6 million for May 31, 2017 as compared to net cash used in financing activities of $7.7 million for the year ended May 31, 2016. The decrease in funds used was due to $3.0 million in stock repurchases in 2016.

The table below sets forth our contractual commitments as of May 31, 2018:

	Total	Within 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating leases	23,258	5,590	8,553	5,096	4,019
Capital leases	17,992	1,183	2,438	2,535	11,836
Long term debt	8,000	800	2,400	4,800	0

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 7A. Quantitative and Qualitative Disclosure About Risk.

Market risk. We have no derivative financial instruments or derivative commodity instruments. Cash in excess of current operating requirements is invested in short-term certificates of deposit and money market instruments.

Interest rate risk. Interest rate risk is managed by investing excess funds in cash equivalents and marketable securities bearing variable interest rates tied to various market indices. As such, future investment income may fall short of expectations due to changes in interest rates or losses in principal may occur if securities are forced to be sold which have declined in market value due to changes in interest rates. At May 31, 2018, a 10% increase or decrease in interest rates would not have a material impact on future earnings, fair values or cash flows.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

National American University Holdings, Inc. and Subsidiaries

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All schedules are omitted because they are not applicable or not required.	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of
National American University Holdings, Inc. and subsidiaries:
Rapid City, South Dakota

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of National American University Holdings, Inc. and subsidiaries (the "Company") as of May 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regardingthe amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Minneapolis, MN
August 17, 2018

We have served as the Company's auditor since 2009.

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF MAY 31, 2018 AND 2017
(In thousands, except share and per share amounts)

	May 31, 2018	May 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$5,324	$11,974
Available for sale investments	-	4,183
Student receivables — net of allowance of $587 and $1,195 at May 31, 2018 and May 31, 2017, respectively	2,893	2,895
Other receivables	563	458
Income taxes receivable	105	2,301
Prepaid and other current assets	1,552	1,649
Total current assets	10,437	23,460
Total property and equipment - net	25,228	31,318
OTHER ASSETS:		
Restricted certificates of deposit	9,250	-
Condominium inventory	512	621
Land held for future development	414	229
Course development — net of accumulated amortization of $3,577 and $3,322 at May 31, 2018 and May 31, 2017, respectively	1,841	1,111
Goodwill	363	-
Other intangibles — net of accumulated amortization of $22 and $0 at May 31, 2018 and May 31, 2017, respectively	207	-
Other	555	853
Total other assets	13,142	2,814
TOTAL	$48,807	$57,592
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of capital lease payable	$380	$331
Current portion of long-term debt	800	-
Accounts payable	1,991	3,076
Dividends payable	-	1,094
Income taxes payable	70	113
Deferred income	3,758	1,691

Accrued and other liabilities	4,090	5,906
Total current liabilities	11,089	12,211
DEFERRED INCOME TAXES	0	194
OTHER LONG-TERM LIABILITIES	2,688	4,010
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	10,857	11,237
LONG-TERM DEBT, NET OF CURRENT PORTION	7,200	0
COMMITMENTS AND CONTINGENCIES (Notes 9 and 15)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.0001 par value (50,000,000 authorized; 28,685,195 issued and 24,344,122 outstanding as of May 31, 2018; 28,557,968 issued and 24,224,924 outstanding as of May 31, 2017)	3	3
Additional paid-in capital	59,305	59,060
Accumulated deficit	(19,873)	(6,622)
Treasury stock, at cost (4,341,073 shares at May 31, 2018 and 4,333,044 shares at May 31, 2017)	(22,496)	(22,481)
Accumulated other comprehensive loss, net of taxes - unrealized loss on available for sale securities	0	(4)
Total National American University Holdings, Inc. stockholders' equity	16,939	29,956
Non-controlling interest	34	(16)
Total stockholders' equity	16,973	29,940
TOTAL	$48,807	$57,592

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED MAY 31, 2018, 2017 AND 2016
(In thousands, except share and per share amounts)

	2018	2017	2016
REVENUE:			
Academic revenue	$70,885	$80,595	$88,697
Auxiliary revenue	3,885	4,832	6,306
Rental income — apartments	1,404	1,160	1,110
Condominium sales	817	0	0
Other real estate income	193	0	0
Total revenue	77,184	86,587	96,113
OPERATING EXPENSES:			
Cost of educational services	26,146	27,657	26,093
Selling, general and administrative	56,183	61,639	72,211
Auxiliary expense	2,741	3,477	4,667
Cost of condominium sales	709	0	0
Loss on course development impairment	286	0	0
Loss on lease termination and acceleration	362	285	0
Loss on impairment and disposition of property and equipment	2,258	767	735
Total operating expenses	88,685	93,825	103,706
OPERATING LOSS	(11,501)	(7,238)	(7,593)
OTHER INCOME (EXPENSE):			
Interest income	76	102	87
Interest expense	(846)	(850)	(870)
Other (expense) income - net	(72)	209	178
Total other expense	(842)	(539)	(605)
LOSS BEFORE INCOME TAXES	(12,343)	(7,777)	(8,198)
INCOME TAX BENEFIT	232	1,550	2,894
NET LOSS	(12,111)	(6,227)	(5,304)
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING	(50)	(48)	(44)

INTEREST			
NET LOSS ATTRIBUTABLE TO NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES	(12,161)	(6,275)	(5,348)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Unrealized gains (losses) on investments, net of tax benefit (expense)	4	(2)	(1)
Income tax benefit related to items of other comprehensive loss			
COMPREHENSIVE LOSS ATTRIBUTABLE TO NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC.	$(12,157)	$(6,277)	$(5,349)
Basic net loss attributable to National American University Holdings, Inc.	$(0.50)	$(0.26)	$(0.22)
Diluted net loss attributable to National American University Holdings, Inc.	$(0.50)	$(0.26)	$(0.22)
Basic weighted average shares outstanding	24,239,888	24,154,541	24,651,521
Diluted weighted average shares outstanding	24,239,888	24,154,541	24,651,521

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED MAY 31, 2018, 2017 AND 2016
(In thousands, except share and per share amounts)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Accumulated other comprehensive loss	Non-controlling interest	Total stockholders' equity
Balance - May 31, 2015	$3	$58,336	$13,751	$(19,455)	$(1)	$(108)	$52,526
Purchase of 1,260,330 shares common stock for the treasury	0	0	0	(3,022)	0	0	(3,022)
Share based compensation expense	0	557	0	0	0	0	557
Dividends declared	0	0	(4,391)	0	0	0	(4,391)
Net (loss) income	0	0	(5,348)	0	0	44	(5,304)
Other comprehensive loss, net of tax	0	0	0	0	(1)	0	(1)
Balance - May 31, 2016	$3	$58,893	$4,012	$(22,477)	$(2)	$(64)	$40,365
Purchase of 1,887 shares common stock for the treasury	0	0	0	(4)	0	0	(4)
Share based compensation expense	0	167	0	0	0	0	167
Dividends declared	0	0	(4,359)	0	0	0	(4,359)
Net (loss) income	0	0	(6,275)	0	0	48	(6,227)
Other comprehensive loss, net of tax	0	0	0	0	(2)	0	(2)
Balance - May 31, 2017	$3	$59,060	$(6,622)	$(22,481)	$(4)	$(16)	$29,940

Balance - May 31, 2017	$3	$59,060	$(6,622)	$(22,481)	$(4)	$(16)	$29,940
Purchase of 8,029 shares common stock for the treasury	0	0	0	(15)	0	0	(15)
Share based compensation expense	0	245	0	0	0	0	245
Dividends declared	0	0	(1,090)	0	0	0	(1,090)
Net (loss) income	0	0	(12,161)	0	0	50	(12,111)
Other comprehensive income, net of tax	0	0	0	0	4	0	4
Balance - May 31, 2018	$3	$59,305	$(19,873)	$(22,496)	$0	$34	$16,973

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2018, 2017 AND 2016

(In thousands)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(12,111)	$(6,227)	$(5,304)
Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities:			
Depreciation and amortization	4,642	5,086	5,596
Loss on course development impairment	286	0	0
Loss on lease terminations and accelerations	362	285	0
Payments for lease terminations	(1,010)	0	0
Loss on impairment and disposition of property	2,258	767	735
Realized loss on sale of available-for-sale investments	16	0	0
Provision for uncollectable tuition	2,152	3,740	5,403
Noncash compensation expense	245	167	557
Deferred income taxes	(194)	625	(1,379)
Changes in assets and liabilities:			
Student and other receivables	(2,098)	(3,707)	6,764
Prepaid and other current assets	114	429	73
Condominium inventory	713	0	(236)
Other long-term assets	271	235	202
Income taxes receivable/payable	2,153	482	(2,671)
Accounts payable	(698)	(224)	(372)
Deferred income	1,795	42	190
Accrued and other liabilities	(1,106)	6	(891)

Other long-term liabilities	(1,586)	(890)	(1,361)
Net cash flows (used in) provided by operating activities	(3,796)	816	7,306
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investments	(9,747)	(7,721)	(3,897)
Proceeds from sale of available for sale investments	4,668	7,652	3,881
Net cash paid for acquisition	(1,269)	0	0
Purchases of property and equipment	(1,765)	(5,547)	(959)
Proceeds from sale of property and equipment	26	215	75
Course development	(260)	(565)	(304)
Other	23	54	17
Net cash flows used in investing activities	(8,324)	(5,912)	(1,187)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of capital lease payable	(331)	(284)	(244)
Borrowings of long-term debt	8,000	0	0
Purchase of treasury stock	(15)	(4)	(3,022)
Dividends paid	(2,184)	(4,355)	(4,440)
Net cash flows provided by (used in) financing activities	5,471	(4,643)	(7,706)

(Continued)

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2018, 2017 AND 2016
(In thousands)

	2018	2017	2016
NET DECREASE IN CASH AND CASH EQUIVALENTS	$(6,650)	$(9,739)	$(1,587)
CASH AND CASH EQUIVALENTS — Beginning of year	11,974	21,713	23,300
CASH AND CASH EQUIVALENTS — End of year	$5,324	$11,974	$21,713
SUPPLEMENTAL DISCLOSURE OF CASH FLOW AND			
NON-CASH INFORMATION:			
Cash (received) paid for income taxes	$(2,192)	$(2,658)	$1,156
Cash paid for interest	$835	$851	$871
Property and equipment sold under contract for deed	$0	$171	$0
Property and equipment purchases included in accounts payable	$0	$450	$63
Dividends declared and unpaid at May 31, 2018, 2017 and 2016	$0	$1,094	$1,090

(Concluded)

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

NATIONAL AMERICAN UNIVERSITY HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED MAY 31, 2018, 2017 AND 2016
(In thousands, except share and per share amounts)

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. (the "Company"), 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 Partnership is 50% owned by Dlorah and 50% owned by individual family members, most of whom are either direct or indirect stockholders of the Company.

The Partnership is deemed to be a variable interest entity ("VIE") under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810-10, Consolidation. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the purpose and design of the VIE, the risks that the VIE was designed to create and pass along to other entities, the activities of the VIE that most significantly impact the VIE's economic performance and which entity could direct those activities. The Company assesses its VIE determination with respect to an entity on an ongoing basis and has not identified any additional VIEs in which it holds a significant interest.

The Company has determined that the Partnership qualifies as a VIE and that the Company is the primary beneficiary of the Partnership. Accordingly, the Company consolidated assets, liabilities, and net income of the Partnership within its consolidated balance sheets and statements of operations and comprehensive loss and appropriately presented the balances as non-controlling interest within the consolidated balance sheets and statements of operations and comprehensive loss. As of May 31, 2018 and 2017, the consolidated balance sheets include Partnership assets of $472 and $543, respectively, and Partnership liabilities of $88 and $90, respectively. The consolidated statements of operations and comprehensive loss include Partnership net income of $99, $97, and $88, for the years ended May 31, 2018, 2017, and 2016, respectively.

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 consolidated financial statements, amounts in tables are in thousands of dollars, except for share and per share data as otherwise designated. The Company's fiscal year end is May 31. These financial statements include consideration of subsequent events through 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, 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.

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Financial Condition and Liquidity —

The Company has experienced a decrease in revenue since 2013 due to enrollment declines at National American University, and this long-term decline in revenue has resulted in increasing net losses and decreases in our liquidity and capital resources. To counter the decrease in net losses, the Company consolidated students at thirteen locations into locations in the same market since the third quarter of 2017. Ten locations were consolidated in the third quarter of fiscal year 2018. The reduction of overhead as the result of these campus consolidations, while maintaining student services, has positively impacted operating cash flow and cash balances. The recent formation of the College of Military Studies and the acquisition of academic programs in strategic security and related fields from Henley Putnam University also have positive impact on our enrollment.

For the year ended May 31, 2018, our cash used in operating activities was $3.7 million. As of May 31, 2018, the Company had $5.3 million of unrestricted cash and cash equivalents and negative working capital of $652 thousand, which may not be sufficient to fund our forecasted operating and cash requirements without additional financing or other actions by management. The following management actions occurred after May 31, 2018, the results of which management believes are probable of occurring and will be sufficient to meet its forecasted liquidity needs for the next twelve months from the issuance of the Company’s financial statements:

The Company has identified certain, non-revenue producing assets, specifically two aircraft that it will divest in order to further reduce operating expenses and support its liquidity needs. The estimated proceeds from the sale of the assets as well as the savings from the related maintenance and operating costs are approximately $2.3 million.

The Company estimates a $3 million decrease in payroll expenses by eliminating positions through the reorganization of our enrollment function, which is now under one leadership team to provide transparency and accountability.

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, Inc., a South Dakota corporation (“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 is listed as NAUH on the NASDAQ Global Market. The Company, through Dlorah, owns and operates National American University. NAU is a regionally accredited, proprietary, multi-campus institution of higher learning, offering associate, bachelor’s, 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; and in higher education. Courses are offered through educational sites and online. On March 21, 2018, the Company acquired substantially all of the net assets of Henley-Putnam University, a for-profit post-secondary educational institution that offers 100% online programs focused in the field of strategic security. During the fiscal year ended May 31, 2018, operations include educational sites located in Colorado, Indiana, Kansas, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, South Dakota, and Texas. Distance learning operations and central administration offices operate from Rapid City, South Dakota. A substantial portion of NAU’s academic income is dependent upon federal student financial aid programs, employer tuition assistance, and contracts to provide online course development, hosting and technical assistance to other educational institutions. To maintain eligibility

for financial aid programs, NAU must comply with U.S. Department of Education requirements, including the maintenance of certain financial ratios.

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.

Approximately 92% of the Company's total revenues for each of the years ended May 31, 2018, 2017, and 2016, were derived from NAU's academic revenue.

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.

Investments — The Company's investments consist of certificates of deposit, certain of which are brokered and classified as "available-for-sale." Available-for-sale securities represent securities carried at fair value in the consolidated balance sheets. Certain of the Company's investments have maturity dates greater than one year. However, these certificates of deposit can be accessed at any time and are convertible to cash on demand. As such, the Company has classified these amounts as current assets in the consolidated balance sheets. Unrealized gains and losses deemed to be temporary are reported net of taxes and included in other comprehensive income within stockholders' equity. Realized gains and losses and declines in value deemed to be other-than-temporary on available-for-sale securities are included in other (expense) income – net in the consolidated statements of operations and comprehensive loss. Fair value of the securities is based upon quoted market prices in active markets or estimated fair value when quoted market prices are not available. The cost basis for realized gains and losses on available-for-sale securities is determined on a specific identification basis. Proceeds from the sale or call of investments totaled $4,668, $7,652 and $3,881 for the years ended May 31, 2018, 2017 and 2016, respectively.

The Company's investments were comprised of the following at May 31:

	2018				2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Certificates of deposit	$-	$-	$-	$-	$4,187	$-	$(4)	$4,183
Restricted certificates of deposit	$9,250	$-	$-	$9,250	$-	$-	$-	$-

Declines in the fair value of individual securities classified as available-for-sale below their amortized cost that are determined to be other than temporary result in write-downs of the individual securities to their fair value, with the resulting write-downs included in current earnings as realized losses. Unrealized losses that may occur are generally due to changes in interest rates and, as such, are considered by the Company to be temporary. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company had no impairments during the years ended May 31, 2018, 2017, and 2016.

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 only when reasonable collection means are exhausted. Bad debt expense is included in selling, general and administrative cost on the consolidated statements of operations and comprehensive loss.

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

Property and Equipment — Property and equipment are stated at cost. Renewals and improvements exceeding five hundred dollars and with an expected life 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 loss on impairment and disposition of property. For financial statement purposes, depreciation includes the depreciation of the capital lease asset in the amount of $530 for each of the fiscal years 2018, 2017 and 2016. The depreciation expense for property and equipment was $4,309, $4,815, and $5,305 for the fiscal years 2018, 2017 and 2016, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and building improvements	19–40
Land improvements	10–20
Furniture, vehicles, and equipment	5–15

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

Property and equipment — net consists of the following as of May 31:

	2018	2017
Land	$211	$119
Land improvements	691	23
Construction in progress	945	5,118
Building under capital lease	10,600	10,600
Buildings and building improvements	23,871	26,724
Furniture, vehicles, and equipment	27,435	28,708
Total gross property and equipment	63,753	71,292
Less capital lease accumulated depreciation	(3,489)	(2,959)
Less other accumulated depreciation	(35,036)	(37,015)
Total net property and equipment	$25,228	$31,318

Condominium Inventory — Condominium inventory is stated at cost (including capitalized interest). Condominium construction costs are accumulated on a specific identification basis. Under the specific identification basis, cost of revenues includes all applicable land acquisition, land development and specific construction costs (including direct and indirect costs) of each condominium paid to third parties. Land acquisition, land development and condominium construction costs do not include employee related benefit costs. The specific construction and allocated land costs of each condominium, including models, are included in direct construction. Allocated land acquisition and development costs are estimated based on the total costs expected in a project. Direct construction also includes amounts paid through the closing date of the condominium for construction materials and contractor costs. Should any condominium be leased while awaiting sale, the accumulated depreciation is a reduction of the carrying value. Condominium inventory is recorded as a long term asset due to the normal operating cycle being greater than one year.

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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. In fiscal year 2018 the Company purchased $1,157 in curriculum in the acquisition of Henley-Putnam University. The curriculum is integral to the learning system. Customers do not acquire the curriculum or future rights to it.

The Company capitalizes course development costs. Costs that qualify for capitalization are external direct costs, payroll, and payroll-related costs. Costs related to general and administrative functions are not capitalizable and are expensed as incurred. Capitalization ends at such time that the course and/or material is available for general use by faculty and students. After becoming available for general use, the costs are amortized on a course-by-course basis over a period of three to five years. After the amortization period commences, the cost of maintenance and support is expensed as incurred, because it does not provide future benefit. If it is determined that the curriculum will not be used, the capitalized curriculum costs are written off and expensed in the period of this determination. The amortization of capitalized course development costs was $311, $271 and $291 for the fiscal years 2018, 2017 and 2016, respectively.

Goodwill and Other 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 their 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 value 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, within the NAU segment, in the consolidated financial statements.

In November 2017, upon review of assets for impairment, management determined the estimated future undiscounted cash flows associated with the assets of the Houston, Minnetonka, Bloomington, Brooklyn Center and Burnsville locations, as the result of continued decline in financial performance, are 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 believed to be minimal. An impairment charge of $1,009 related to these five locations was recorded during the year ended May 31, 2018.

In February 2018, ten locations (including Houston and the four Minnesota locations above) were consolidated into other locations. The five other locations consolidated were Albuquerque West, Colorado Springs South, Lewisville, Richardson and Watertown. The Wichita West location was closed down as the result of a fire. An additional impairment charge of $790 was recorded during the year ended May 31, 2018, for this location.

In addition, upon our fourth quarter review for impairment, we determined that the estimated future undiscounted cash flows associated with the assets of two other locations (Zona Rosa and Indianapolis), as the result of continued decline in financial performance, were not projected to be sufficient to recover their carrying value. Accordingly, their carrying values were reduced to their fair values. An impairment charge of $436 related to these two locations was recorded during the fourth quarter of fiscal year 2018.

In February 2017, the Company announced the closure of our Allen and Austin South locations. In addition, upon our review for impairment, we determined that the estimated future undiscounted cash flows associated with the assets of

two other campuses (Bellevue and Mesquite), as the result of continued decline in financial performance, were not projected to be sufficient to recover their carrying value. Accordingly, their carrying values were reduced to their fair values. An impairment charge of $852 related to these four locations was recorded during the year ended May 31, 2017.

During November 2015, the Company announced the closure of the Denver campus, effective February 29, 2016. In January 2016, the Company announced the closure of two additional campuses: Weldon Spring, Missouri and Tigard, Oregon, both effective March 1, 2016. Due to the closure of these three campuses, undepreciated leasehold improvements and other fixed assets of $85, $328 and $394, respectively, were fully written off during the year ended May 31, 2016.

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. 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.

Non-Controlling Interest — The non-controlling interest presented on the consolidated statements of operations and comprehensive loss represents the individual owners' share of the Partnership's income or loss. The consolidated balance sheet amount "Non-controlling interest" represents the individual owners' share of the Partnership obligations in excess of Partnership assets or vice versa. The Company has determined the non-controlling owners have a legal obligation to fund such deficits and believes it is fully collectable at May 31, 2018.

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

Academic Revenue Recognition — Academic revenue represents tuition revenue and the revenue generated through NAU's teaching relationships with other non-related party institutions. Tuition revenue and affiliate revenue is recorded ratably over the length of the respective courses. Academic revenue also includes certain fees and charges assessed at the start of each term. The portion of tuition and registration fees payments received but not earned is recorded as deferred income and reflected as a current liability on the consolidated balance sheets, as such amount represents revenue the Company expects to earn within the next year. Academic revenue is reported net of adjustments for refunds and scholarships. If a student withdraws prior to the completion of the academic term, the respective portion of tuition and registration fees that the Company already received and is not entitled to are refunded back to the students and the Department of Education. Refunds and scholarships are recorded during the respective terms. For students that have withdrawn from all classes during an academic term, the University estimates the expected receivable balance that is due from such students and records a provision to reduce academic revenue for that amount calculated based on historical collection trends and adjusted for known current factors. The amount is then recognized as academic revenue at the time the receivable is collected (e.g. cash basis).

Auxiliary Revenue — Auxiliary revenue represents primarily revenues from the University's bookstore operations. Revenue is recognized as items are sold and is recorded net of any applicable sales tax. The Company does not have book inventory because the book operation is outsourced to a third party vendor. Since the Company has the discrete ability to set book prices and maintains inventory and credit risk, we utilize gross reporting of revenue and expenses. Book sales revenue is recorded as auxiliary revenue and the related costs are recorded as auxiliary expense.

Rental Income — Rental income is primarily obtained from tenants of four apartment complexes under short-term operating leases. One of these apartment complexes was recently constructed, with operations beginning June 1, 2017. Tenants are required to pay rent on a monthly basis. Rent not paid by the end of the month is considered past due, while significant amounts paid in advance are included in deferred income on the consolidated balance sheets. If a tenant becomes 60 days past due, eviction procedures are started.

Other Real Estate Income — This income is primarily obtained from members of Owners Associations who pay monthly dues. Special assessments are also charged when significant work is done on owner-occupied buildings, like exterior painting. Amounts not paid by the end of the month are considered past due.

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Rental Expense — The University accounts for rent expense under its long-term operating leases using the straight-line method. Certain of the University's operating leases contain rent escalator provisions. Accordingly, a deferred rent and tenant improvement liability of $3,538 and $4,910, at May 31, 2018 and 2017, respectively, is recorded in accrued and other liabilities, and other long-term liabilities on the consolidated balance sheets. The 2017 liability amount also includes accelerated lease liability totaling $285 due to the closure of the Allen campus.

Accrued and other liabilities — Accrued and other liabilities consisted primarily of payroll and related benefits of $2,447 and $4,160 and the current portion of the long-term deferred rent and tenant improvement liabilities of $850 and $900, for 2018 and 2017, respectively.

4.
RECENTLY ADOPTED AND NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board 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: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and 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 will be effective for the Company's fiscal year 2019 in the first quarter ending August 31, 2018. The Company completed its evaluation of the impact on accounting policies and internal processes and controls the new standard may have on its revenue streams. Tuition revenue and affiliate revenue is recorded ratably over the length of respective courses, which the Company believes, based upon initial assessment, is reasonably consistent with the revenue recognition method required by the new standard. Under the guidance of Accounting Standards Codification Topic 605, Revenue Recognition, the Company recognizes revenue upon the receipt of cash in situations where collectability is not reasonably assured. This accounting treatment is not allowed under Topic 606 and will require modification; however, the impact on the modification is not material to the Company's consolidated financial statements as a whole.

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 ending 2020 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 March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify various aspects of share-based accounting. Specifically, the standard (1) requires all excess tax benefits and deficiencies to be recognized as income tax expense/benefit in the income statement as discrete items in the reporting period in which they occur, with no charges to additional paid-in capital; (2) requires excess tax benefits to be classified as operating cash flows; (3) allows an accounting election to account for forfeitures when they occur, instead of when they are expected to vest; (4) allows awards settled in cash to qualify for equity classification if withholding is up to the maximum statutory tax rates in the applicable jurisdictions; (5) clarifies that the cash paid by an employer to taxing authorities when directly withholding shares for tax-withholding purposes should be classified as a financing activity in the cash flow statement. This standard became effective in the first quarter ending August 31, 2017. The Company elected to account for forfeitures when they occur, instead of when they are expected to vest. The Company has determined that the impact of implementation on the Company's consolidated financial statements is minimal.

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. We adopted this standard for our fiscal year beginning June 1, 2018, and it is not projected to have an effect on our consolidated financial statements. ASU 2017-09 will be applied prospectively to any awards modified on or after the adoption date.

5.
REGULATORY MATTERS

The University extends unsecured credit to a portion of the students who are enrolled throughout the campuses 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 Company 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 they are in compliance with this requirement for the years ended May 31, 2018, 2017 and 2016, as shown in the underlying calculation:

	2018		2017		2016	
Title IV HEA						
funds received	$62,444		$69,900		$90,238	
Academic revenue (cash basis)	$76,097	=82.06%	$84,600	=82.62%	$103,904	=86.85%

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 in the Title IV programs as a financially responsible institution for up to three years under the Department of Education's "zone" alternative. Under the zone alternative, the Department of Education may subject the institution to various operating or other requirements, which may include complying with additional Department of Education monitoring requirements, agreeing 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 complying with or accepting 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.

Our audited financial statements for the fiscal year ended May 31, 2017 and May 31, 2016 indicated our composite score for both years was 1.8, 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. This score is subject to a final determination by the Department of Education once it receives and reviews our consolidated audited financial statements for the 2018 fiscal year, but we believe it is likely that the Department of Education will determine that we are "in the zone" and that we will be required to operate under the "zone alternative" requirements as well a s any other requirements that the Department of Education might impose in its

discretion. While the Company's operations are typically consistent with "zone alternative" requirements, new requirements imposed as a result of being "in the zone" could have a negative impact on the Company's liquidity.

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. Our official cohort default rates for federal fiscal years 2014 and 2013 are 24.1% and 23.4%, respectively. The draft cohort rate for federal fiscal year 2015 is 23.7%.

The University's current certification to participate in the Title IV programs, which is not provisional, was effective in June 2013 and extends through March 31, 2019.

6.
STUDENT RECEIVABLES, NET

Student receivables, net consist of the following as of the respective period ends:

	May 31, 2018	May 31, 2017
Student accounts receivable	$3,480	$4,090
Less allowance for doubtful accounts	(587)	(1,195)
Student receivables, net	$2,893	$2,895

Student accounts receivable is composed primarily of amounts due related to tuition and educational services. The following summarizes the activity in the allowance for doubtful accounts for the years ended May 31:

	2018	2017	2016
Beginning allowance for doubtful accounts	$1,195	$723	$1,026
Provisions for uncollectible accounts receivable	2,152	3,740	5,403
Write offs	(3,585)	(4,082)	(6,569)
Recoveries	825	814	863
Ending allowance for doubtful accounts	$587	$1,195	$723

7.
CONDOMINIUM PROJECT

The Company built 24 condominium units called Vista Park to be sold to the general public. Four condo units were sold in the year ended May 31, 2018, two in 2017, and none in 2016. As of May 31, 2018 and 2017, three and seven units, respectively, remained unsold. The remaining condominium units are accounted for within condominium inventory on the consolidated balance sheets. The sales of the units are recorded within condominium sales and their cost is recorded within cost of condominium sales on the consolidated statements of operations and comprehensive loss.

8.
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 agreement expires December 19, 2018, bears interest at 0.5% over the prime rate, and is secured by a restricted certificate of deposit totaling $1,250 at May 31, 2018. The letter of credit was required by the state of New Mexico in an amount set by the New Mexico Department of Higher Education. Great Western Bank has restricted the $1,250 Certificate of Deposit as collateral for the $1,000 Letter Of Credit and the Company's purchasing card account. The $1,000 bonding requirement in New Mexico has been satisfied through a bond and the State has

released the Letter of Credit. This $1,000 of restricted cash will become unrestricted cash.

On May 17, 2018, Dlorah and the Company jointly and severally issued to Black Hills Community Bank, N.A. (the "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 at May 31, 2018. The Company's Board of Directors requested the $8,000 in Certificates of Deposit be restricted, and not available for spending, pending the achievement
of budgeted financial targets in the current fiscal year. 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 monthly consecutive 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 on 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.

Future principal maturities are as follows as of May 31, 2018:

2019	$800
2020	800
2021	800
2022	800
2023	4,800
	$8,000

9.
LEASES

The University leases building facilities for branch operations and equipment for classroom operations under operating leases with various terms and conditions. Total rent expense for the years ended May 31, 2018, 2017 and 2016, was $5,482, $5,919, and $5,737, respectively, which is included in selling, general, and administrative expenses on the consolidated statements of operations and comprehensive income.

Future minimum lease payments on noncancelable operating leases for the future fiscal years ending May 31 are as follows:

2019	$5,590
2020	4,835
2021	3,718
2022	2,874
2023	2,222
Thereafter	4,019
	$23,258

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Future minimum lease payments at May 31, 2017 included the remaining lease payments for the Tigard, Weldon Spring and Austin South campuses. The associated lease payments were not accelerated because the Company was still receiving economic benefit from the leases at May 31, 2017. Effective August 1, 2017, the future obligation under the Tigard lease was bought out through a cash payment of $820. August 31, 2017 was the ceased use date for Tigard. Effective May 31, 2017, the Allen campus lease payments were accelerated as there was no intention to utilize the campus going forward, resulting in a liability of $285 at May 31, 2017. May 31, 2017 was the ceased use date for Allen. Effective June 30, 2017, the future obligation under the Allen lease was bought out through a cash payment of $190. The Company exercised the early termination option on its downtown Rapid City location, which terminated the lease on May 31, 2018. In May 2018, the Company exercised the early termination option on its Watertown, South Dakota lease, which terminates it effective November 30, 2018. The associated lease payments for Watertown were not accelerated because the Company was still receiving economic benefit from this lease at May 31, 2018. November 30, 2018 will be the cease use date for Watertown. Through regular monthly payments, exercise of early termination options, and buy-outs, the Company was able to reduce its operating lease obligation by $7,986 during the year ended May 31, 2018.

Effective November 1, 2011, the Company entered into a 20-year capital lease arrangement for space that houses the corporate headquarters, distance learning operations, and the Rapid City campus operations. The Company is obligated to make future payments under the capital lease obligation, which totaled $18.0 million and $19.2 million as of May 31, 2018 and 2017, respectively; had a net present value of $11.2 million and $11.6 million as of May 31, 2018 and 2017, respectively; and was recognized as current and non-current capital lease payable of $380 and $10,857 at May 31, 2018 and $331 and $11,237 at May 31, 2017, respectively. The capital lease asset totals $10,600, and accumulated depreciation totals $3,489 and $2,959 at May 31, 2018 and 2017, respectively. The net amount is included in net property and equipment in the consolidated balance sheets.

The following is a schedule of future minimum commitments under the capital lease obligation as of May 31, 2018:

2019	$1,183
2020	1,207
2021	1,231
2022	1,255
2023	1,280
Thereafter (through October 2031)	11,836
Total future minimum lease obligation	$17,992
Less: Imputed interest on capital leases	(6,755)
Net present value of lease obligations	$11,237

10.
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, 24,344,122 and 24,224,924 shares of common stock were outstanding as of May 31, 2018 and 2017, respectively. No shares of preferred stock or Class A common stock were outstanding at May 31, 2018 and 2017.

Stock-Based Compensation
In December 2009, the Company adopted the 2009 Stock Option and Compensation Plan (the “Plan”) pursuant to which 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. Restricted stock awards accrue dividends that are paid

when the shares vest. Restricted stock unit awards do not accrue dividends prior to vesting. Grants are issued at prices determined by the compensation committee, generally equal to the closing price of the stock on the date of the grant, vest over various terms (generally two years), and expire ten years from the date of the grant. The Plan allows vesting based upon performance criteria. Certain option and share awards provide for accelerated vesting if there is a change in control of the Company (as defined in the Plan). The fair value of stock options granted is calculated using the Black-Scholes option pricing model. Share options issued under the Plan may be incentive stock options or nonqualified stock options. At May 31, 2018, all stock options issued have been nonqualified stock options. A total of 1,300,000 shares were authorized by the Plan. Shares forfeited or canceled are eligible for reissuance under the Plan. At May 31, 2018, 217,335 shares of common stock remain available for issuance under the Plan.

In October 2013, the Company's Board of Directors 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. The Company may grant restricted stock awards or restricted stock units to aid in recruiting and retaining employees, officers, directors and other consultants. Restricted stock awards accrue dividends that are paid when the shares vest. Restricted stock unit awards do not accrue dividends prior to vesting. Restricted stock grants are issued at prices determined by the compensation committee, generally equal to the closing price of the stock on the date of the grant and vest over various terms. Shares forfeited or canceled are eligible for reissuance under the Plan. At May 31, 2018, 750,000 shares of common stock remain available for issuance under the 2013 Plan.

The Company's board of directors has approved the termination of the 2013 Plan subject to the approval by the stockholders of the National American University Holdings, Inc. 2018 Stock Option and Compensation Plan at the 2018 Annual Meeting of Stockholders.

Restricted Stock
The fair value of restricted stock awards was calculated using the Company's stock price as of the associated grant date, and the expense is accrued ratably over the vesting period of the award.

During the year ended May 31, 2017, the Company awarded 46,945 restricted stock awards with time based vesting at a grant date fair value of $1.96 per share to members of the board of directors. Shares vest one year from the October 20, 2016 grant date and require board service for the entire year.

During the year ended May 31, 2018, the Company awarded 52,615 restricted stock awards with time based vesting at a grant date fair value of $2.10 per share to members of the board of directors. 5,000 shares vested upon issuance on October 3, 2017 and 47,615 shares vest one year from the October 3, 2017 grant date and require board service for the entire year.

Compensation expense associated with restricted stock awards, totaled $112, $91 and $116 for the years ended May 31, 2018, 2017 and 2016, respectively. At May 31, 2018, unamortized compensation cost of restricted stock awards totaled $34. The unamortized cost is expected to be recognized over a weighted-average period of 0.3 years as of May 31, 2018.

A summary of restricted share awards activity as of May 31, 2018 and 2017, and the changes during the years then ended is presented below:

Restricted Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested shares at May 31, 2016	40,485	$2.47
Granted	46,945	1.96
Vested	(40,485)	2.47
Forfeited	0	0
Non-vested shares at May 31, 2017	46,945	$1.96
Granted	52,615	2.10
Vested	(51,945)	1.97
Forfeited	0	0
Non-vested shares at May 31, 2018	47,615	$2.10

Restricted Stock Units

During the quarter ended August 31, 2016, the Company issued 281,250 restricted stock units ("RSUs") with performance-based vesting under the 2013 Plan. The number of shares to be earned was determined by the Company's profitability and other operating metrics during the year ended May 31, 2017. The grant date fair value of the RSUs was $1.93 per share. No expense was recorded as targeted profitability and operating metrics were not attained and all shares were canceled on May 31, 2017.

During the quarter ended August 31, 2017, the Company issued 281,250 restricted stock units with performance-based vesting under the 2013 Plan. The number of shares to be earned was determined by the Company's profitability and other operating metrics during the year ended May 31, 2018. The grant date fair value of the RSUs was $2.38 per share. No expense was recorded as targeted profitability and operating metrics were not attained and all shares were canceled on May 31, 2018.

Unrestricted Stock

Unrestricted stock is issued to certain employees in settlement of a portion of their salaries and bonuses. Compensation expense in the consolidated statements of operations and comprehensive loss associated with these unrestricted stock issuances totaled $121, $60 and $320, respectively, for the years ended May 31, 2018, 2017, and 2016.

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 selling, general and administrative expense based on their fair value over the requisite service period.

For stock options issued during the years ended May 31, 2018 and 2017, the following assumptions were used to determine fair value:

Assumptions used:	2018	2017
Expected term (in years)	5.75	5.75
Weighted average expected volatility	48.75%	50.65%
Expected volatility range	48.15-49.14%	50.65-50.65%
Weighted average risk free interest rate	2.29%	1.37%
Risk free interest rate range	2.11 – 2.57%	1.37 - 1.37%
Weighted average expected dividend	0.00%	8.60%
Expected dividend range	0.00 – 0.00%	8.60 – 8.60%
Weighted average fair value	$0.72	$0.41

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

A summary of option activity under the Plan as of May 31, 2018 and 2017, and changes during the years then ended is presented below:

Stock Options	Shares	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at May 31, 2016	192,350	$4.11	8.4	$0
Granted	12,500	1.96		
Exercised	0	0		
Forfeited or canceled	(14,000)	5.80		
Outstanding at May 31, 2017	190,850	$3.85	7.6	$7
Exercisable at May 31, 2017	190,850	$3.85	7.6	$7
Outstanding at May 31, 2017	190,850	$3.85	7.6	$7
Granted	20,500	1.51		
Exercised	0	0		
Forfeited or canceled	(18,000)	3.83		
Outstanding at May 31, 2018	193,350	$3.54	6.9	$0
Exercisable at May 31, 2018	189,350	$3.59	6.9	$0

The Company recorded compensation expense for stock options of $12, $5 and $121, for the years ended May 31, 2018, 2017 and 2016, respectively, in the consolidated statements of operations and comprehensive loss. As of May 31, 2018, there is unrecognized compensation cost of $2 related to unvested stock option-based compensation arrangements granted under the Plan. The unamortized cost is expected to be recognized over a weighted-average period of 1.0 year as of May 31, 2018.

The Company plans to issue new shares as settlement of options exercised. There were no options exercised during the years ended May 31, 2018 or 2017.

Dividends

The following table presents details of the Company’s fiscal 2018 and 2017 dividend payments:

Date declared	Record date	Payment date	Per share
April 4, 2016	June 30, 2016	July 8, 2016	$0.0450
August 8, 2016	September 30, 2016	October 7, 2016	$0.0450
October 3, 2016	December 31, 2016	January 13, 2017	$0.0450
January 28, 2017	March 31, 2017	April 7, 2017	$0.0450
April 13, 2017	June 30, 2017	July 7, 2017	$0.0450
August 4, 2017	September 30, 2017	October 6, 2017	$0.0450

11.
EMPLOYEE COMPENSATION PLANS

Employee Benefit Plan Payable — The Company sponsors a 401(k) plan for its University employees, which provides for a discretionary match, net of forfeitures, of up to 5%. The University uses certain consistently applied operating ratios to determine contributions. The University's matching contributions paid were $0, $0, and $514 during the years ended May 31, 2018, 2017 and 2016, respectively. At May 31, 2018 and 2017, there were no accruals for the University's 401(k) match.

Compensation Plans — The Company has entered into an employment agreement, as amended, with Dr. Ronald Shape, Chief Executive Officer that requires, among other things, an annual incentive payment as defined in the agreement. There were no incentive payments made for 2018, 2017 and 2016. In addition, as part of the Chief Executive Officer compensation plan, $100 annually is scheduled to be paid in equal monthly installments converted to the Company's common stock shares based on the closing price on the last day of the month. In the fall of 2016, the Board of Directors voted to temporarily reduce the Chief Executive Officer compensation by $67 by suspending the monthly stock payments from October 2016 through May 2017. For the 2018 year, stock payments at the $100 per year resumed, but for the last two months, Dr. Shape elected to forgo the awards.

In addition, the Company has an approved Named Executive Officer Compensation Plan. The compensation plan has a base salary component, quarterly achievement award component and an annual achievement award component as defined in the agreements.

12.
SELF-INSURED HEALTH INSURANCE

The Company maintains a self-insured health insurance plan for employees. Under this plan, the Company pays a monthly fee to its administrator, as well as claims submitted by its participants. As there generally is a lag between the time a claim is incurred by a participant and the time the claim is submitted, the Company has recorded a liability for outstanding claims of $375 and $399 at May 31, 2018 and 2017, respectively. Such liability is reported with accrued and other liabilities in the consolidated balance sheets.

13.
INCOME TAXES

Components of the provision for income taxes for the years ended May 31, 2018, 2017 and 2016, were as follows:

	2018	2017	2016
Current tax (benefit) expense:			
Federal	$(96)	$(2,270)	$(1,579)
State	57	95	64
	(39)	(2,175)	(1,515)
Deferred tax (benefit) expense:			
Federal	(181)	733	(1,183)
State	(12)	(108)	(196)
	(193)	625	(1,379)
Total tax (benefit) expense	$(232)	$(1,550)	$(2,894)

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

	2018	2017	2016

Statutory	(29.2)%	(34.0)%	(34.0)%
Tax Effect of US Tax Reform	17.3%	0.0%	0.0%
State income taxes — net of federal benefit	0.3	(0.6)	(1.9)
Deferred tax valuation allowance	10.6	15.6	0.0
Permanent differences and other	(0.9)	(0.9)	0.6
Effective income tax rate	(1.9)%	(19.9)%	(35.3)%

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. Significant components of the Company's deferred assets (liabilities) as of May 31 were as follows:

	2018	2017
Deferred income tax assets:		
Account receivable allowances	$165	$493
Bad debt write-offs	793	1,521
Other	73	32
Accrued salaries	360	612
Start up costs	123	217
Capital lease obligations	2,753	4,338
Net operating loss carryforwards - expires 2021-2037	3,071	243
Deferred rent	867	1,841
Total deferred income tax assets	8,205	9,297
Valuation allowance	(3,444)	(1,222)
Net deferred income tax assets	4,761	8,075
Deferred income tax liabilities:		
Fixed assets and course development	(4,406)	(7,689)
Prepaid expenses	(355)	(564)
Other	0	(16)
Total deferred income tax liabilities	(4,761)	(8,269)
Net deferred income tax assets (liabilities)	$0	$(194)

As of May 31, 2018 and 2017, the Company had net operating loss (NOL) carryforwards of approximately $12 million and $0, respectively, adjusted for certain other non-deductible items available to reduce future taxable income, if any. The NOL carryforward has no expiration . 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 valuation allowance has been established as of May 31, 2018 and 2017 to reduce the tax benefit asset value to zero.

The change in the valuation allowance for deferred tax assets for the years ended May 31, 2018 and 2017 was $2.2 million and $1.2 million, respectively. 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 the 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 the deferred tax assets would not be realized as of May 31, 2018 and 2017, and recorded a full valuation allowance.

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 has been completed. The Company has recorded an income tax expense of $1,125 due to a re-measurement of deferred tax assets and liabilities; however, this has been offset by the valuation allowance noted

above.

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. Because of closure of an Internal Revenue Service examination, the Company is generally no longer subject to U.S. federal income tax or state and local tax examinations for years before 2014.

14.
EARNINGS 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:

	For the year ended May 31,		
	2018	2017	2016
Numerator:			
Net loss attributable to National American University Holdings, Inc.	$(12,157)	$(6,277)	$(5,349)
Denominator:			
Weighted average shares outstanding used to compute basic net income per common share	24,239,888	24,154,541	24,651,521
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	24,239,888	24,154,541	24,651,521
Basic net loss per common share	$(0.50)	$(0.26)	$(0.22)
Diluted net loss per common share	$(0.50)	$(0.26)	$(0.22)

A total of 189,350, 190,850 and 192,350 shares of common stock subject to issuance upon exercise of stock options for the year ended May 31, 2018, 2017 and 2016, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

A total of 99,560, 87,430, and 82,640 shares of common stock subject to issuance upon vesting of restricted shares for the year ended May 31, 2018, 2017 and 2016, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

15.
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 alleged misrepresentations to a programmatic accrediting agency, alleged miscalculating its percentage of revenues derived from Title IV program funds under the 90/10 Rule, and 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., 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, deny 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.

16.
BUSINESS ACQUISITION AND INTANGIBLE ASSETS

On March 21, 2018, the Company acquired substantially all of the assets of Henley-Putnam University (“HPU”), a for-profit post-secondary educational institution that offers 100% online programs focused in the field of strategic security, for a cash payment of $1,933. Excluded from the transaction are leases on real estate, server and certain other technology and equipment, and related items. The results of HPU’s operations have been included in the consolidated statements of operations and comprehensive loss since March 21, 2018. HPU’s service areas complement the Company’s current educational offerings and locations. Within the last five years, HPU has invested in the expansion of its curriculum, programs, and student services, as well as cultivating its relationship with parts of the armed forces. Because the institution elected not to pursue Title IV eligibility, its ability to recruit students and support its efforts was limited. Upon review of HPU’s programs and operations, the Company found that acquiring HPU was in alignment with its strategic initiative to expand academic offerings and support services to the Company’s armed forces student population; approximately 25% of the University’s student population are active-duty service members, veterans, or dependents of an active-duty service members or veterans.

The total purchase price was allocated to the fair values of the assets acquired and the liabilities assumed as follows:

Cash and cash equivalents	$664
Student receivables - net	157
Prepaid and other current assets	17
Course development	1,067
Goodwill	363
Other intangibles	229
Accounts payable	(63)
Deferred income	(272)
Accrued and other liabilities	(229)
Total fair value of net assets acquired	1,933
Less cash acquired	(664)
Total consideration for acquisition, less cash acquired	$1,269

Course development costs are being amortized on a straight-line basis over five years. Goodwill is calculated as the excess of the purchase price paid over the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the assembled workforce and a proven ability to generate new products and services to drive future revenue.

The purchased intangible assets consist of student relationships and the Henley-Putnam brand name. These assets are being amortized on a straight-line basis over four and five years, respectively. Net intangible assets consist of the following at May 31, 2018:

	Cost	Accumulated Amortization	Net Carrying Amount
Student relationships	$157	$(18)	$139
Brand name	72	(4)	68
	$229	$(22)	$207

Future amortization expense is as follows as of May 31, 2018:

FY 2019	$54
FY 2020	54
FY 2021	54
FY 2022	34
FY 2023	11
	$207

The results of HPU's operations have been included in the consolidated statements of operations and comprehensive income since March 21, 2018. Below are the results of operations from March 21, 2018 through May 31, 2018. Proforma information is not presented as the effects are immaterial.

Academic revenue	$235
Auxiliary revenue	6
Total revenue	241
Cost of educational services	176
Selling, general and administrative	180
Auxiliary expense	5
Total operating expenses	361
Operating income (loss)	$(120)

17.
FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Company that are included in each category at May 31, 2018 and 2017:

Level 1 – Quoted prices in active markets for identical assets or liabilities. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted market prices.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The type of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using observable inputs. Level 2 assets consist of certificates of deposit that are valued at cost, which approximates fair value. Level 2 instruments require more management judgment and subjectivity as compared to Level 1 instruments. For instance:

Determining which instruments are most similar to the instrument being priced requires management to identify a sample of similar securities based on the coupon rates, maturity, issuer, credit rating and instrument type, and subjectively selecting an individual security or multiple securities that are deemed most similar to the security being priced; and

Determining whether a market is considered active requires management judgment.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The type of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation. The Company does not have any Level 3 assets or liabilities.

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
May 31, 2018				
Investments				
Restricted certificates of deposit	$-	$9,250	$-	$9,250
Total assets at fair value	$-	$9,250	-	$9,250
May 31, 2017				
Investments				
Certificates of deposit	-	$4,183	-	$4,183
Money market accounts included in cash equivalents	$9	-	-	9
Total assets at fair value	$9	$4,183	-	$4,192

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”) and money market accounts: Investments which have closing prices readily available from an active market are used as being representative of fair value. The Company classifies these investments as level 1. 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 May 31, 2018 are restricted by a $1 million letter of credit and an $8 million promissory note. See further information in Note 8 to these consolidated financial statements.

Fair value of financial instruments: The Company’s financial instruments include cash and cash equivalents, CD’s and money market accounts, 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 and money market accounts are recorded at fair values as indicated in the preceding disclosures.

18.
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:

	For the year ended May 31, 2018			For the year ended May 31, 2017			For the year ended May 31, 2016		
	NAU	Other	Consolidated Total	NAU	Other	Consolidated Total	NAU	Other	Consolidated Total
Revenue:									
Academic	$70,885	$-	$70,885	$80,595	$-	$80,595	$88,697	$-	$88,697
Auxiliary	3,885	-	3,885	4,832	-	4,832	6,306	-	6,306
Rental income - apartments	-	1,404	1,404	-	1,160	1,160	-	1,110	1,110
Condominium sales	-	817	817	-	-	-	-	-	-
Other real estate income	-	193	193	-	-	-	-	-	-
Total revenue	74,770	2,414	77,184	85,427	1,160	86,587	95,003	1,110	96,113
Operating expenses:									
Cost of educational services	26,146	-	26,146	27,657	-	27,657	26,093	-	26,093
Selling, general and administrative	54,293	1,890	56,183	60,171	1,468	61,639	70,819	1,392	72,211
Auxiliary expense	2,741	-	2,741	3,477	-	3,477	4,667	-	4,667
Cost of condominium sales	-	709	709		-	-			
Loss on couse development impairment	286	-	286	-	-	-	-	-	-
Loss on lease termination and acceleration	362	-	362	285	-	285	-	-	-
Loss (gain) on impairment and dispositon of property	2,250	8	2,258	862	(95)	767	810	(75)	735
Total operating expenses	86,078	2,607	88,685	92,452	1,373	93,825	102,389	1,317	103,706

Operating loss	(11,308)	(193)	(11,501)	(7,025)	(213)	(7,238)	(7,386)	(207)	(7,593)
Other income (expense):									
Interest income	65	11	76	78	24	102	80	7	87
Interest expense	(833)	(13)	(846)	(850)	-	(850)	(870)	-	(870)
Other income (expense) - net	(72)	-	(72)	-	209	209	-	178	178
Total other (expense) income - net	(840)	(2)	(842)	(772)	233	(539)	(790)	185	(605)
(Loss) income before taxes	$(12,148)	$(195)	$(12,343)	$(7,797)	$20	$(7,777)	$(8,176)	$(22)	$(8,198)

	As of and for the Year Ended May 31, 2018			As of and for the Year Ended May 31, 2017			As of and for the Year Ended May 31, 2016		
			Consolidated			Consolidated			Consolidated
	NAU	Other	Total	NAU	Other	Total	NAU	Other	Total
Total assets	$35,363	$13,444	$48,807	$44,422	$13,170	$57,592	$60,614	$7,912	$68,526
Expenditures for long-lived assets	$1,016	$749	$1,765	$1,136	$4,411	$5,547	$710	$249	$959
Depreciation and amortization	$3,965	$677	$4,642	$4,548	$538	$5,086	$5,058	$538	$5,596

19.
SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth selected unaudited quarterly financial information for the last eight quarters.

	Quarter			
	First	Second	Third	Fourth
Fiscal Year Ended May 31, 2018				
Revenues	$19,796	$20,018	$18,227	$19,143
Operating (loss) income	(3,910)	(3,580)	(3,586)	(425)
Net loss	(3,814)	(3,772)	(3,692)	(833)
Net loss attributable to NAUH and Subsidiaries	(3,828)	(3,777)	(3,707)	(849)
Net loss per share (common):				
Basic	(0.16)	(0.16)	(0.15)	(0.03)
Diluted	(0.16)	(0.16)	(0.15)	(0.03)
Basic and Diluted weighted average shares outstanding	24,181,440	24,219,884	24,269,158	24,290,404
Fiscal Year Ended May 31, 2017				
Revenues	$21,130	$21,983	$21,331	$22,143
Operating loss	(2,875)	(993)	(2,212)	(1,158)
Net loss	(2,039)	(742)	(2,524)	(922)
Net loss attributable to NAUH and Subsidiaries	(2,056)	(752)	(2,536)	(931)
Net loss per share (common):				
Basic	(0.09)	(0.03)	(0.10)	(0.04)
Diluted	(0.09)	(0.03)	(0.10)	(0.04)
Basic and Diluted weighted average shares outstanding	24,114,294	24,148,355	24,177,979	24,177,979

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure None.

Item 9A. Controls and Procedures Disclosure Controls and Procedures

(a) Evaluation of Disclosure 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 May 31, 2018.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of May 31, 2018, due to a material weakness in our internal control over financial reporting as described in (b) below. Our internal control over financial reporting is the process designed by and under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external reporting in accordance with accounting principles generally accepted in the United States of America.

We have begun implementing various changes in our internal control over financial reporting to remediate the material weaknesses described below.

(b) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company’s internal control over financial reporting as of May 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control—Integrated Framework (2013). Based on our assessment using those criteria, due to the material weakness described below, we have concluded that our internal control over financial reporting was not effective as of May 31, 2018.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected in a timely basis.

During the preparation of our financial statements for the year ended May 31, 2018, our management determined that, as of May 31, 2018, there was a material weakness in the Company's control environment in that it 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, including a controller, and insufficient technical competence of its financial personnel to appropriately perform and to monitor the performance of control activities. This material weakness resulted in, or could have resulted in, material misstatements in the May 31, 2018 financial statements (including disclosures) that were corrected prior to issuance.

(c) Material Weakness Discussion and Remediation

Management analyzed the impacts resulting from the material weakness identified above and concluded that it did not have a material impact on our previously issued consolidated financial statements. Notwithstanding the material weaknesses in our internal control over financial reporting, we have concluded that the accompanying financial statements fairly present in all material respects our financial condition, results of operations, and cash flows as of, and for, the periods presented.

Plan for Remediation of Material Weaknesses

Following the identification of the foregoing material weaknesses, management commenced implementation of a remediation plan, which is ongoing. We are in the process of evaluating the sufficiency, experience, and training of our internal personnel and we will hire additional personnel or use external resources. Management believes that the implementation of this plan will remediate the material weaknesses described above. We are in the process of further reviewing, documenting, and testing our internal controls over financial reporting, and we may from time to time make changes aimed at enhancing existing controls and/or implementing additional controls.

Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

(d) Changes in Internal Control Over Financial Reporting

Other than as described above, there has been no change in our internal control over financial reporting identified in connection with our evaluation that occurred during the fourth quarter of 2018 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

The information required by Part III is incorporated by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (the “Proxy Statement”), which will be filed with the SEC pursuant to Regulation 14A within 120 days after May 31, 2018. Except for those portions specifically incorporated in this annual report on Form 10-K by reference to our Proxy Statement, no other portions of the Proxy Statement are deemed to be filed as part of this Form 10-K.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated herein by reference to the information set forth in the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference to the information set forth in the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated herein by reference to the information set forth in the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance as of May 31, 2018, which includes our 2009 Stock Option and Compensation Plan and our 2013 Restricted Stock Unit Plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stock holders(1)	193,350	$3.54	967,335

Total	193,350	$3.54	967,335

(1)
See Part II, Item 8, “Financial Statements and Supplementary Data”-"National American University Holdings, Inc. "Notes to Consolidated Financial Statements—Note 10—Stockholders' Equity" for further description of our equity compensation plans.

(a)
Includes grants of stock options, time-based restricted stock awards, and performance based restricted stock units. For purposes of the table above, the number of shares to be issued under performance based restricted stock units reflects the maximum number of shares that may be issued; the actual number of shares to be issued will depend on the results of operations during the fiscal year ending May 31, 2018, and beyond

(b)
Includes weighted average exercise price of stock options only.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated herein by reference to the information set forth in the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated herein by reference to the information set forth in the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

All required financial statements of the registrant are set forth under Item 8 of this annual report on Form 10-K.

(a)(2) Financial Statement Schedules

None required.

(b) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated August 7, 2009, by and among Camden Learning Corporation, Dlorah Subsidiary, Inc. and Dlorah, Inc. (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on August 11, 2009)
2.2	Amended and Restated Agreement and Plan of Reorganization, dated August 11, 2009, by and among Camden Learning Corporation, Dlorah Subsidiary, Inc. and Dlorah, Inc. (incorporated by reference to Exhibit 2.2 to the Company’s Current Report on Form 8-K filed on August 11, 2009)
2.3	Amendment No. 1 to the Amended and Restated Agreement and Plan of Reorganization, dated October 26, 2009, by and among Camden Learning Corporation, Dlorah Subsidiary, Inc., and Dlorah, Inc. (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 27, 2009)
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on November 30, 2009)
3.2	Amended Bylaws (incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q filed on October 4, 2013)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on November 30, 2009)

4.2	Collateral Real Estate Mortgage, dated May 17, 2018, by Dlorah, Inc. in favor of Black Hills Community Bank, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 21, 2018)
4.3	Promissory Note, dated May 17, 2018, by Dlorah, Inc. and National American University Holdings, Inc. to Black Hills Community Bank, N.A. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 21, 2018)

10.1	Registration Rights Agreement, dated as of November 23, 2009, by and among Camden Learning Corporation and each of H. & E. Buckingham Limited Partnership and Robert D. Buckingham Living Trust (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on November 30, 2009)
10.2	Registration Rights Agreement, dated as of November 29, 2007, by and among Camden Learning Corporation and certain of the founding stockholders of Camden Learning Corporation (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 5, 2007)
10.3	Form of Restricted Stock Agreement under the registrant's 2009 Stock Option and Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on January 12, 2010) *
10.4	National American University Holdings, Inc. 2009 Stock Option and Compensation Plan., as amended (incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 8-K filed on November 30, 2009, and to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on September 27, 2014) *
10.5	Employment Agreement between Dlorah, Inc. and Jerry L. Gallentine, amended and restated September 9, 2003, and further amended by the First Amendment to Employment Agreement, dated November 18, 2009 (incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K filed on November 30, 2009)
10.6	Employment Agreement between Dlorah, Inc. and Ronald Shape, dated effective as of June 1, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 6, 2012) *
10.7	Joinder to Registration Rights Agreement, dated as of January 12, 2010 between National American University Holdings, Inc. and T. Rowe Price Associates, Inc. on behalf of its investment advisory clients T. Rowe Price Small-Cap Value Fund, Inc. and T. Rowe Price U.S. Equities Trust (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 filed on March 23, 2010)
10.8	Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2010) *
10.9	National American University Holdings, Inc. 2013 Restricted Stock Unit Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed on September 27, 2014) *
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
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	The following materials from National American University Holdings, Inc.'s Annual Report on Form 10-K for the fiscal year ended May 31, 2017, are formatted in XBRL (eXtensible Business Reporting Language): (a) Consolidated Balance Sheets, (b) Consolidated Statements of Operations, (c) Consolidated Statements of Stockholders Equity, (d) Consolidated Statements of Cash Flows, and (e) Notes to Annual Consolidated Financial Statements

*

Denotes management contract, compensatory plan or arrangement required to be filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Ronald L. Shape
Name: Ronald L. Shape, Ed. D.
Title: President and Chief Executive Officer
(principal executive officer)

By: /s/ David K. Heflin
Name: David K. Heflin, Ed. D.
Title: Chief Financial Officer
(principal financial officer and principal accounting officer)

Dated as of September 13, 2018.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of September 13, 2018.

Name	Title
Dr. Edward D. Buckingham	Chairman of the Board of Directors
/s/ Jerry L. Gallentine Jerry L. Gallentine, Ph.D.	Co-Vice Chairman of the Board of Directors
/s/ Therese Crane Therese Crane, Ed.D.	Director
/s/ Jeffrey Berzina Jeffrey Berzina	Director
/s/ Thomas D. Saban Thomas D. Saban, Ph.D.	Director
/s/ Jim Rowan Jim Rowan	Director
/s/ Richard Halbert Richard Halbert	Director
/s/ Robert D. Buckingham Robert D. Buckingham	Co-Vice Chairman of the Board of Directors

/s/ Ronald L. Shape

Ronald L. Shape, Ed. D.	President, Chief Executive Officer and Director