September 12, 2017

Mr. Brent Richardson
Chief Executive Officer
Dream Center Education Holdings, LLC
7135 East Camelback Road
Phoenix, Arizona 85251

UPS Tracking Number:
1ZA879640299912303

Re: Preacquisition Review of the Proposed Change in Ownership and Conversion to Nonprofit Status:

Argosy University (02179900)
South University (01303900)
Miami International University of Art & Design (00887800)
The Art Institute of Houston (02117100)
The Art Institute of Atlanta (00927000)
The Art Institute of Seattle (02291300)
The Art Institute of Portland (00781900)
The Art Institute of Fort Lauderdale (01019500)
The Art Institute of Phoenix (04051300)
The Art Institute of Colorado (02078900)
The Illinois Institute of Art (01258400)
The Art Institute of Pittsburgh (00747000)
The Art Institute of Philadelphia (00835000)

Dear Mr. Richardson:

At your request, the Multi-Regional and Foreign School Participation Division ("MRFSPD") of the U.S. Department of Education ("Department"), Federal Student Aid has conducted a preacquisition review ("Review") of the proposed change in ownership application for the institutions identified above (collectively, "the Institutions"). The Institutions are currently owned by various entities affiliated with Education Management Corporation ("EDMC").

If consummated, the change in ownership ("CIO") will be accomplished pursuant to the terms of the Amended and Restated Purchase Agreement dated February 24, 2017 ("ARPA") between EDMC and its affiliates ("Sellers"), and the Dream Center Foundation ("DCF"), a California nonprofit corporation, and its affiliates ("Buyers")("the Transaction"). The Sellers are identified on Schedule A of the ARPA and the Buyers are identified on Schedule B of the ARPA, and Sellers and Buyers are hereinafter collectively referred to as the "ARPA Parties."

The ARPA Parties have also requested the Department's approval of the Institutions' conversion to nonprofit status once the Transaction is consummated.

A preacquisition review is undertaken prior to the CIO, so that the Department can preliminarily advise an institution whether the Department has identified problems with the institution's application or the proposed transaction, and to identify, to the extent feasible, any additional conditions that may be imposed in a provisional program participation agreement ("PPPA"). In the course of its Review, the Department reviewed the electronic applications and supporting documentation submitted in support of the applications. In addition, the Department requested documentation and information from EDMC on February 17, 2017 and June 27, 2017. In addition to its response to the February 17, 2017 request, EDMC provided a written response to the June 27, 2017 request, along with additional supporting documents, on July 11, 2017 ("EDMC July 11 Response"). In addition to the documents provided, the representations made in the EDMC July 11 Response have been relied upon by the Department in reaching the Preliminary Determination set forth herein. The Department has reviewed all of the materials submitted by EDMC in support of the applications.

This letter ("Preacquisition Review Response") sets out the results of the Department's Review of the requested approvals for the CIO and nonprofit institution status. As explained below, the Department has preliminarily concluded that, based on the information and documents provided to date, it does not see any impediment to EDMC's request for approval of the CIO or its request for approval of nonprofit institution status ("Preliminary Determination") following the CIO. Please note however, that formal approvals of the CIO and nonprofit institution status are contingent on the ARPA Parties' compliance with the requirements of 34 C.F.R. § 600.20(g) and (h), the Department's review and approval of any submissions required by those regulatory provisions, and any further documentation and information requested by the Department following the CIO or in this Preacquisition Review Response, including all documents related to the Transaction and the Institutions' conversion to nonprofit status. Some of the items for further review are described below. This Preliminary Determination is intended to provide the ARPA Parties with the Department's current view about the CIO and conversion to nonprofit status, but it is not binding on the Department.

I. CIO AND REQUEST FOR CONVERSION TO NONPROFIT STATUS

A. Regulatory Authority

The Department regulations identify certain covered transactions for an institution that constitute a CIO which require the institution to apply for and obtain approval from the Department to continue participating in Title IV, HEA programs. These include instances where an institution is sold, is merged with one or more eligible institutions, experiences a change in the owner of the controlling stock, has a transfer of assets that comprise a substantial portion of the education business of the institution, or has a change in status as a for-profit, nonprofit, or public institution. 34 C.F.R. § 600.31(d). To establish eligibility and to continue participation in Title IV, HEA programs, an institution must demonstrate to the Department that, after the change, the institution qualifies to be certified to participate under 34 C.F.R. Part 668, Subpart B pursuant to 34 C.F.R. § 600.31(a)(3)(ii). *See also* 34 C.F.R. § 600.20(g) and (h) (requirements for provisional certification following a CIO which results in a change of control).

Because the Institutions seek to participate in Title IV, HEA programs as nonprofit institutions, they must meet the Department's requirements for that status. The Department regulations define a nonprofit instituton as an institution that:

(i) Is owned and operated by one or more nonprofit corporations or associations, no part of the net earnings of which benefit any private shareholder or individual[1];
(ii) Is legally authorized to operate as a nonprofit organization by each State in which it is physically located; and
(iii) Is determined by the Internal Revenue Service to be an organization to which contributions are tax dedeuctible under 26 U.S.C §501(c)(3) of the Internal Revenue Code. 34 C.F.R. § 600.2 (definition of nonprofit).

B. Transaction Summary

DCF is the ultimate parent of the Buyers. DCF was organized on January 8, 2008 as a California nonprofit. Its Articles of Incorporation state that the purpose of the corporation is "to promote social welfare in the community by funding [various identified entities collectively referred to as 'The Dream Center Organizations']. ... Such funding shall include, among other things, funding The Dream Center Organizations' numerous social welfare programs that provide food, shelter, clothing, health care and education to people in need on a daily basis, and assist in the beautification of The Dream Center Organizations' facilities and its neighboring communities." As set forth in its Bylaws (January 20, 2009) DCF has no members, and is managed by its Board of Directors. *See also* EDMC July 11 Response at p. 5. Neither DCF nor any of the Buyers has previous experience managing postsecondary institutions or administering Title IV, HEA programs.

DCF is the 100% owner of Dream Center Education Holdings, LLC ("DCED Holdings") an Arizona nonprofit that was formed on January 9, 2017 to facilitate the Transaction. DCED Holdings in turn owns four other nonprofits. The Arts Institutes International, LLC ("AII"), Dream Center South University, LLC ("DCSU"), Dream Center Argosy University of California, LLC ("DCAUC") and Dream Center Education Management, LLC ("DC Management") were all formed on January 9 or 10, 2017. Schedule B to the ARPA identifies DCF, DCED Holdings, DC Management, AII, DCSU and DCAUC as the Buyers in the Transaction. AII, DCSU and DCAUC in turn, through a series of nonprofit subsidiaries, will own the Institutions after the Transaction. DC Management will provide services to the owner entities and the Institutions. *See* Exhibit L to EDMC July 11 Response (chart depicting post-closing ownership structure).

As set forth in ARPA § 3.3, the consideration for the Transaction will be $60 million. EDMC has advised the Department that $50 million of the purchase price will be paid with $25 million in cash at closing, and $25 million will be paid as a result of a net working capital adjustment. *See also* ARPA §§ 3.3, 3.4. The $25 million in cash will be funded by financing provided by Najafi Companies, LLC (through an affiliated lender, ED Holding, LLC) (hereinafter referred to as

[1] *See also* HEA § 103(13), 20 U.S.C. § 1003(13).

"Najafi"). The remaining $10 million of the purchase price is deferred. ARPA § 3.3.[2] The Deferred Payments are to be paid from the Institutions' operations in two $5,000,000 payments. The first $5,000,000 is to be paid six months after the first closing date, and the remaining $5,000,000 balance is to be paid twelve months after the first closing date. *See* EDMC July 11 Response at p. 2.[3]

The Najafi financing is through a Credit Agreement and "Related Documents," including a Promissory Note, Continuing Guaranty, Continuing Security Agreement, UCC Financing Statements, Intercreditor Agreement and assignments or pledges of intellectual property. Unexecuted versions of the Credit Agreement, Promissory Note, Continuing Guaranty and Continuing Security Agreement were provided to the Department on August 9, 2017.

Najafi's agreement to extend credit is contingent on DCF providing "evidence that the Working Capital Line of Credit [has] been established upon terms and conditions that are acceptable to the Obligors [DCF and its subsidiaries]." Credit Agreement §3.3(d). EDMC has submitted a summary of DCF's working capital plan (Exhibit H to EDMC July 11 Response), and on September 6, 2017, provided several draft documents relating to the proposed working capital line of credit. However, the actual lenders (described in the Senior Secured Credit and Guaranty Agreement as "Various Lenders") have not been identified, and these are draft documents, not the final documents. Given the late tender of these documents, the Department has not had the opportunity to fully review these draft documents. Nevertheless, the Department is accommodating the request of the ARPA Parties for the Department to issue the Preacquisition Review Response prior to September 15, 2017. The Department advises the ARPA Parties that the Department will require all final documents relating to the working capital line (including any intercreditor agreement with Najafi) to be submitted prior to the final review of the CIO. The Department will also require all of the lenders to be identified, to include all natural persons with a controlling interest within the ownership structure of any lender.

Based on its preliminary review of the documents submitted, and representations made by the ARPA Parties, including by EDMC in the EDMC July 11 Response, the Department has concluded that control of the Institutions and DCF will not be concentrated in any person (or group of persons) who exerted control over EDMC, and that there is no other party that will financially benefit from the Institutions' operations.[4] As described above, other than the $10

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[2] The Department notes that the original Asset Purchase Agreement, dated January 18, 2017 ("APA"), included a purchase price of $100 million adjusted as provided for in the APA. See APA § 3.3.

[3] The ARPA Parties contemplate two closings due to the timing of accreditation approvals. The first closing will occur in September 2017. It will include the institutions accredited by the Southern Association for Colleges and Schools ("SACS"), WASC Senior College and University Commission ("WASC"), Northwest Commission on Colleges and Universities ("NWCCU"), and Accrediting Council for Independent Colleges and Schools ("ACICS"). The second closing will occur near the end of 2017, and it will include institutions accredited by the Higher Learning Commission ("HLC") and Middle States Association of Colleges and Schools ("Middle States"). *See* EDMC July 11 Response at 2. The Institutions have received approvals of the CIO from WASC and NWCCU. Although SACS has preliminarily approved the CIO, the final approval will not occur until December of this year. Middle States, citing insufficient information, deferred its decision.

[4] Many (if not all) of the campus level employees will continue under the new ownership. *See* EDMC July 11 Response.

million in Deferred Payments, the Transaction will be financed by Najafi, an entity unrelated to DCF and EDMC. *See* EDMC July 11 Response at p. 10. Neither Najafi nor any related person holds, or will hold a seat on any of the Institution's boards, or any entity in the Institution's ownership structure. *Id.* at p. 6. These conclusions are material to the Department's Preliminary Determination, and will need to be confirmed after the Transaction occurs when the Department conducts its final review of the requested conversion to nonprofit status. This review will also include a review of whether there is any control exercised by any party providing the working capital line of credit.

C. ACICS Institutions

The Accrediting Council for Independent Colleges and Schools ("ACICS") is the institutional accreditor for The Art Institute of Fort Lauderdale ("AI-FL") and The Art Institute of Phoenix ("AI-Ph"). On December 12, 2016, the Secretary withdrew ACICS's authority as a federally-recognized accrediting agency. Accordingly, AI-FL and AI-Ph do not presently have a recognized accreditor that can provide approval of the CIO as required by 34 C.F.R. § 600.20(h). To date, the Department has not approved CIO of ACICS-accredited institutions unless the transaction immediately resulted in the institution securing new accreditation.

EDMC has advised the Department that AI-FL and AI-Ph will be included in the first closing. EDMC July 11 Response at p. 2. The Department cautions the ARPA Parties that unless a new federally-recognized accrediting agency is in place to provide immediate accreditation upon the first closing, conveying the ACICS-accredited institutions during the first phase of the transaction would result in a loss of eligibility until those institutions obtain a new accrediting agency.

EDMC has further advised the Department that as part of the second closing, AI-FL and AI-Ph will merge into The Art Institute of Pittsburgh to secure non-ACICS accreditation through the Middle States Commission on Higher Education ("Middle States"). As noted above, there will be an immediate loss of eligibility if AI-FL and AI-Ph are conveyed in the first closing. In addition, if for some reason Middle States does not approve the merger of AI-FL and AI-Ph, those institutions will lose eligibility even if they are conveyed in the second closing.

To the extent that the term "Institutions" is used in this Preacquisition Response, it incorporates the limitations set forth in this section relating to AI-FL and AI-Ph.

D. The Department's Preliminary Determination

Based on the facts as described above, and with the exception noted above as to AI-FL and AI-Ph, the Department has not identified any known or present impediments to the CIO. However, although DCF has been in existence for two years to furnish audited financial statements (as required by 34 C.F.R. § 600(g)), neither DCF nor DCED Holdings have ever operated an educational institution participating in Title IV, HEA programs. Accordingly, the Department will impose conditions on the Institutions' provisional participation, as described below.

As stated above, the Department reviews a request for a nonprofit conversion in the context of the definition of nonprofit set forth in 34 C.F.R. § 600.2. Accordingly, the Department must review all three prongs of its nonprofit definition (*i.e.*, ownership by a nonprofit and no benefit to any other party, legally authorized to operate as a nonprofit under state law, and determined to be tax exempt by the IRS). DCF and DCED Holdings (and the subsidiaries which will be the Institutions' direct owners) have been organized as nonprofit corporations under the laws of the states of Arizona and California. Thus, the Institutions' ownership by various nonprofit entities satisfies the first clause of subsection (i) of the Department's definition of a nonprofit institution ("owned and operated by one or more nonprofit corporations or associations").

Although the Department has not identified any known or present impediments to the Institutions' requested conversion to nonprofit status, following the CIO, and as described herein, DCF will have to submit additional documentation and information to confirm the other elements of nonprofit status. In addition to providing all state and IRS approvals, DCF/DCED Holdings will need to establish that the Institutions' net income does not benefit any party other than the Institutions. The acquisition of the institutional assets will be financed by Najafi, and other than the two Deferred Payments of $5 million each (from the Institutions' first year cash flows), there is no continuing stream of income to EDMC. At this point, however, the Department has not been provided with any valuation or other information indicating the fairness of the $60 million purchase price which includes $10 million in Deferred Payments to EDMC (and retention of $25 million resulting from the working capital adjustment). Before finally approving the conversion, the Department will require DCF/DCED Holdings to submit evidence that the consideration set forth in the ARPA does not exceed the value of the assets being transferred resulting in impermissible benefit to another party.

In addition to reviewing the Transaction to confirm its Preliminary Determination that the payment of the purchase price (and attendant financing) does not result in the Institutions' net earnings inuring to the benefit of any person or entity other than the Institutions, the Department will require DCF/DCED Holdings to provide documentation of the fair value of the compensation paid to officers and other highly compensated employees of any entity in the ownership structure, and of the Institutions.

When it reaches its final decision on the nonprofit conversion, the Department will also need to confirm its Preliminary Determination that control is not concentrated in any person (or group of persons) who might benefit financially from the Institutions' operations. EDMC has provided the Department with a listing of the current EDMC institutional trustees (for those institutions with a board) and has identified the changes to the institutional boards after the closing, as well as a list and biographies of DCED Holdings' board of directors (including nominees for independent trustees/directors). EDMC July 11 Response, Exhibits K-1 and K-2. EDMC also provided a list of current DCF board members. EDMC July 11 Response, Exhibit K-3. EDMC has also stated that except for the Chancellor of South University, the interim President of the Art Institutes, the Chancellor of Argosy University, and the former EDMC Controller, "no other current senior officer or management employee will be employed by the Buyers or the Institutions post-closing." EDMC July 11 Response at p. 3.

The Department further notes that as the financing is currently structured, and as it has been represented to the Department, Najafi will have no control over any entity in the Institutions' ownership structure, including DCF and DCED Holdings. *Id.* at p. 6. In reaching its Preliminary Determination, the Department is presuming that the same will be true for the lenders providing the working capital line of credit.

DCF will also need to provide documentation that the IRS and the states in which the nonprofit entities are organized continue to recognize those entities' tax exempt status.

The Department's Preliminary Determinations with regard to the CIO and the Institutions' conversion to nonprofit status are specifically based on the following, which will constitute material conditions for issuance of a PPPA:

1. Approval of the CIO and nonprofit status by all of the Institutions' federally recognized accrediting agencies and all state agencies where the Institutions are located.

2. Notwithstanding any provisions to the contrary in any of the documents relating to the Transaction (including in the ARPA at §1.1 (definition of "Preacquisition Review Response") and at §6.2(a)), DCF/DCED Holdings' posting of a letter of credit ("LOC") during the period of provisional certification, as described below.

   NOTE: No later than 10 days prior to each closing, the ARPA Parties must provide the Department with a final list of the Institutions to be included in such closing so that the Department can notify the Institutions of the amount of the LOC that must be posted.

3. EDMC's prompt compliance with the accelerated payment provisions of the November 16, 2015 Settlement Agreement entered into between EDMC and the United States and others, as outlined in EDMC's July 11 Response at p. 1-2.

   NOTE: Within 10 days of this Preacquisition Review Response, EDMC shall provide the Department a more detailed explanation of the payment calculation for the accelerated payments, to include the impact of the working capital adjustment. *See Id.* at Exhibit 1.

4. Other conditions as more fully described below.

II. UNINTERRUPTED PARTICIPATION IN THE TITLE IV PROGRAMS PRIOR TO EXECUTION OF THE PROVISIONAL PROGRAM PARTICIPATION AGREEMENT

A. Requirements within 10 days following the CIO

When a CIO occurs, the Department may continue the institution's participation on a provisional basis if the institution submits a "materially complete application" that is received by the Department no later than 10 business days after the date the change occurred. *See* 34 C.F.R. § 600.20(g). If a materially complete application is submitted, the Department may consider offering the Institutions (except for those accredited by ACICS) a Temporary Provisional Program Participation Agreement ("TPPPA"), pending the Department's and the Institution's execution of a new PPPA.

To submit a materially complete application (34 C.F.R. § 600.20(g)(2)), an institution must submit the following[5]:

		Status
1	Complete electronic Application for Approval to Participate in the Federal Student Aid programs;	The electronic application has been submitted for all Institutions. Miami International University of Art & Design will need to resubmit its application for a CIO once the change of affiliation is complete. Original signature pages will also need to be submitted for all Institutions.
2	Copy of the Institution's state licenses or equivalent that: a) Was in effect on the day before the CIO; and b) Authorized the Institution to provide a program of postsecondary education in the state(s) in which it is physically located;	The Department has this documentation on file.
3	Copy of the accrediting agency(ies) approval that: a) Was in effect on the day before the CIO and granted the Institution accreditation status; and b) Includes approval of the non-degree programs it offers;	The Department has this documentation on file.
4	Audited financial statements of the institution's two most recently completed fiscal years that are prepared in accordance with the requirements of 34 C.F.R. § 668.23. Under 34 C.F.R. § 668.23(d), these statements must be prepared on an accrual basis in accordance with generally accepted accounting principles ("GAAP"), and audited by an independent auditor in accordance with generally accepted government auditing standards ("GAGAS"); and	The Department has this documentation on file.
5	In accordance with 34 C.F.R. § 600.20(g)(2), a new owner is required to submit audited financial statements of its two most recently completed fiscal years that are prepared and audited in accordance with the requirements of 34 C.F.R. § 668.23(d), including statements prepared in accordance with GAAP and audited in accordance with GAGAS.	DCF submitted its audited financial statements on January 25, 2017. DCED Holdings has not been in existence for two years, nor does it appear that DCED Holdings can produce

[5] The Department has numbered each of the document requests sequentially to facilitate the ARPA Parties' response.

			audited financial statements that demonstrate any substantial business experience to date.

- **Letter of Credit.** In addition to the materially complete application, no later than 5:00 p.m. (Eastern) on the day that is 10 business days after the CIO, DCF/DCED Holdings must submit an LOC in the amount of 10% of the last fiscal year's Title IV funding for the Institutions that are conveyed in each closing; the amount may be increased once the Department reviews the same day balance sheet or other financial materials.

The Department will require DCF/DCED Holdings to maintain the LOC for the entirety of the period of the TPPPAs, and if the Department and the Institutions enter into Provisional Program Participation Agreements ("PPPAs"), DCF will be required to maintain the LOC (in such amount as determined by the Department, which may exceed 10%) for the entirety of the period of participation under the PPPAs.

B. Continuation of the TPPPA

In accordance with 34 C.F.R. § 600.20(h)(2)(iii), the TPPPA expires on the last day of the month following the month in which the CIO occurred. At the Department's discretion, the TPPPA may be extended on a month-to-month basis only if, prior to the expiration date, an institution submits:

		Status
6	A "same day" balance sheet showing the financial position of the Dream Center Foundation as of the date of the ownership change, that is prepared in accordance with GAAP and audited in accordance with GAGAS;	Please submit via eZ-Audit system.
7	Approval of the CIO from the state(s) in which the institution(s) are located by the state agency that authorizes the institution to legally provide postsecondary education in that state;	Please submit. In addition, must submit documentation of nonprofit status from all states in which the Institutions operate.
8	Approval of the CIO from the institution(s)'s accrediting agency(ies); and	Please submit. In addition, must submit the accrediting agencies' approval of the Institutions' conversion to nonprofit status.
9	If the Institution is not exempt from the requirement under 34 C.F.R. § 668.14(b)(15), a copy of its Default Management Plan.	Please submit (not exempt).

To the extent the above items have not already been provided, if the Institutions fail to provide them by the stated expiration date of the TPPPA, the TPPPAs will expire on that date, without further notice.

C. Additional Documents and Information Required for Department's Review

In addition to the foregoing documents, the ARPA Parties (no later than the period described in 34 C.F.R. § 600.20(h)(2)(iii)) must also submit the following documents and information for the Department to complete its review of the CIO and conversion to nonprofit status:

		Status
10	A copy of the agreement by which the CIO will be consummated, including any related documents or agreements;	• The executed ARPA has been submitted to the Department; • Please submit any amendments or modifications to, or restatements of, the ARPA and any related documents; and • Please submit a copy of the closing index for the Transaction.
11	All agreements and other documents relating to acquisition financing and line of credit; and The identity of all lenders for the acquisition financing and the line of credit.	• Please submit the final executed ED Holdings, LLC (Najafi) Credit Agreement and Related Documents; • Please submit the final executed documents for the Senior Secured Credit and Guaranty Agreement (or any other facility for the Working Capital Line of Credit), and related documents; • Please identify the members of ED Holdings, LLC, including the

		identity of all natural persons with controlling interests in such members or their ownership chain; and • Please identify the "Various Lenders" participating in the Senior Secured Credit and Guaranty Agreement, including the identity of all natural persons with controlling interests in any such Lender or within any Lender's ownership chain.
12	A copy of all documents pertaining to DC Management, including as appropriate, operating agreements, partnership agreements, company agreements, statements of work, performance metrics, etc.	A draft Services Agreement was provided to the Department as Exhibit E to the EDMC July 11 Response. The articles of incorporation were provided in Exhibit J. The Services Agreement references a statement of work which includes compensation information and performance metrics, but this documentation was not provided to the Department. This information must be provided.
13	Any agreements between any party to (or associated with) the Transaction and Significant Systems;	The WASC Structural Change Site Visit Report indicated this organization was brokering the Transaction. This information must be provided.
14	Agreements between any party to (or associated with) the	The Exclusivity Agreement

	Transaction and Lopes Capital;	dated November 11, 2016 indicates that Mr. Brent Richardson's company, Lopes Capital, has a financial relationship with the DCF. This information must be provided to the Department.
15	Copy of any agreement(s) between any of the Institutions and/or the any of the Buyers and any of the following: • the Sellers (or any related entity); • any entity that is owned by employees, officers and/or board members/trustees of any of the Sellers; or • any entity that is owned by employees, officers or board members/trustees of any of the Buyers; Agreements include, but are not limited to: consulting, employment, leasing, and management services agreements;	If agreements exist, please submit them; if no agreements exist, please confirm.
16	Correspondence and other documents relating to the Institutions' requests for approval of the CIO from their respective accrediting agencies;	Please submit any documents that have not previously been submitted to the Department.
17	Evidence that the consideration set forth in the ARPA does not exceed the value of the assets being transferred; and	Please submit support.
18	Evidence that compensation paid to officers and other highly compensated employees of the Institutions and any entity in the ownership structure is at market rates.	Please submit support.

The Department may also request additional documents as necessary to complete its review.

III. PPPA CONDITIONS FOLLOWING THE CIO

The Department has identified a number of conditions to be included in the Institutions' PPPAs in the event that the CIO is consummated. These conditions result from the Department's review of the materials provided to date, and it should be noted that conditions may be added to the PPPAs, or the conditions identified below may be modified, as a result of the Department's ongoing review of the CIO transaction and application.

Financial Responsibility and Administrative Capability Concerns. As stated above, the CIO will be accomplished pursuant to the terms of the ARPA whereby EDMC and its affiliates, the present owners of the Institutions, will be acquired by DCF, through various of subsidiaries of DCED Holdings (which is 100% owned by DCF). Although DCF has been in existence since 2008, DCED Holdings was formed on January 9, 2017 for purposes of this transaction. The Department further notes that DCED Holdings is not an operating business, DCF has primarily served as the funding arm of the Dream Center Organizations (primarily religious and charitable organizations), and neither DCF nor DCED Holdings have experience operating, or even investing in, Title IV institutions. However, EDMC has indicated that EDMC personnel employed at the campus level will generally remain in place following the CIO. EDMC July 11 Response at p. 3.

Acquisition of the Institutions will be financed by Najafi ($25 million), but $10 million in Deferred Payments over the first year will have to be generated from the Institutions' operations. Although EDMC has provided the Department with draft documents relating to DCF's plan for working capital for the Institutions' operations following the proposed CIO, DCF has not yet finalized that financing. In addition, the Institutions' composite scores have failed every year since 2006, and they get worse every year. In 2011, the Institutions were required to post a 15% LOC. The Institutions' declining enrollment is another factor that will affect their financial viability on an ongoing basis.

In addition to addressing DCF/DCED Holdings' lack of committed capital to ensure the ongoing financial responsibility and viability of the Institutions, the PPPA conditions set forth below are also designed to ameliorate operational and administrative capability risk. EDMC is a party to a November 2015 Settlement Agreement with the United States and a consortium of state (and District of Columbia) attorneys general wherein EDMC agreed to pay $95.5 million to settle claims brought against it in False Claims Act litigation, and to resolve a consumer fraud investigation by the attorneys general. These claims and investigations involved the incentive compensation ban, as well as deceptive and misleading recruitment practices. These claims and investigations suggest historical administrative and operational weaknesses that if not completely eradicated would put the Institutions at risk of loss of accreditation, state licensing, and/or continued Title IV funding. Any of those events could lead to closure of the Institutions and resulting closed school loan discharges.

Loss of Eligibility Concerns. As described above, AI-FL and AI-Ph are ACICS-accredited institutions that have not obtained a new federally-recognized accrediting agency to approve their acquisition by DCF/DCED Holdings. If AI-FL and AI-Ph are included in the first closing before they have obtained accreditation and approval of the acquisition by a new federally-recognized accrediting agency, those institutions will suffer an immediate loss of eligibility. In addition, if for some reason Middle States does not approve the merger of AI-FL and AI-Ph into The Art Institute of Pittsburgh, those institutions will lose eligibility even if they are conveyed in the second closing. If that happens, these institutions will not have time to secure new accreditation before June 12, 2018. This places students attending AI-FL and AI-Ph at significant risk. In the event new accreditation cannot be secured, the resulting closed school loan discharges would be significant.

The Conditions. If the CIO is consummated, the Department will consider issuing PPPAs to the Institutions under the following conditions. These conditions will be in effect for the duration of the period of the PPPAs:

A. Letter of Credit

- The amount of the LOC will be at least 10% of the past year's Title IV funding for the Institutions, determined on a pro-rata basis for the Institutions that are conveyed in each closing;

- Ten days prior to each closing, the ARPA Parties must submit a list of the Institutions being transferred in that closing to the MRFSPF so that the Department can calculate the amount of the LOC to be posted;

- The LOC must be posted no later than 5:00 p.m. (Eastern) on the tenth day following the closing of the Transaction to allow the conveyed Institutions to continue to participate under TPPPAs;

- After it completes its review of the Institutions' application for approval of the CIO, including its review of the same day balance sheet and any other relevant information, the Department may require the LOC to be increased to an amount greater than 10% as a condition of the PPPAs;

- Any increased LOC must be posted no later than 5:00 p.m. (Eastern) on the day that the Institutions submit the signed PPPAs to the Department for countersignature;

- The Department will require the LOC to be maintained for the entirety of the period of the PPPAs; and

- Further LOC instructions are provided at the end of this Preacquisition Response.

B. Financial Reporting

- For the Department to monitor the Institutions' financial stability, the Institutions must submit 13-Week Projected Cash Flow Statements which include information about their current operations and future plans within the 13 week period;

- The projected cash flow statements must break-out each anticipated inflow and outflow by line item and amount, with business and financial disclosure notes identifying the disaggregated sources of non-Title IV revenue, including from each additional federal agency, from states, and from private parties (as measured for 90/10), as well as any important financial transactions or contemplated transactions; and

- The cash flow statements must be submitted to the MRFSPD no later than the day the PPPAs are executed by the Secretary, and biweekly thereafter.

C. Enrollment Monitoring

- The Institutions must submit monthly student rosters to the MRFSPD that include enrollment information for both on-campus students and online students;

- The student rosters must contain the following information: student name, 4 digit SSN, DOB, student address (divided into 4 fields by street address, city, state & zip code), telephone number, email address, program of study, educational delivery method (on-campus only, online only, or both on-campus and online), program start date, anticipated graduation date, current enrollment status (active, leave of absence), 8 digit OPEID, educational location (divided into 4 fields by street address, city, state & zip code), name of the high school from which the student received his or her high school diploma, and high school graduation date; and

- This information must be submitted in Microsoft Excel format by the 15th day of every month for the preceding month, and should be sent by encrypted electronic transmission.

D. Notification of Changes to Servicing Agreements

The Institutions must notify the Department of any changes to the existing Service Agreements between DC Management and the Institutions. Changes to statements of work, performance metrics, subagreements, and/or DC Management board composition must be reported to the Department within 30 days. Additionally, if a new or amended agreement is signed or another entity assumes any of responsibilities associated with the functional components of the Institutions, this also must be reported to the Department.

IV. ADDITIONAL INFORMATION

Notice to the Department and Materially Complete Application. Once the CIO takes place (first and second closings), DCE/DCED Holdings must notify the Department within 10 business days and complete all requirements to submit a materially complete application. Since the Institutions have already submitted their electronic applications, please send this notification and the other documentation required for a materially complete application to Meghan.Coyle@ed.gov.

LOC Instructions. As stated above, the LOC must be posted no later than 10 business days following the CIO for the Institutions to participate under TPPPAs, and any increased LOC must be posted no later than 5:00 p.m. (Eastern) on the day the signed PPPAs are submitted to the Department for countersignature. A sample form of LOC is enclosed. The LOC must be issued by a United States bank, and should be delivered to:

Veronica Pickett, Director
Performance Improvement and Procedures Service Group
U.S. Department of Education
Federal Student Aid/Program Compliance
830 First Street, NE, UCP3, MS 5435
Washington, DC 20002-8019

Note: In the event that the financial institution issuing the LOC fails, resulting in financial transactions and operations being administered by the Federal Deposit Insurance Corporation, the Institutions are required to notify the MRFSPD within 3 business days of the Institutions' notification of such event. Within 10 business days thereafter, the Institutions must submit a new replacement LOC issued by a different and non-failed U.S. bank.

Continued 90/10 and Gainful Employment Reporting. Unless and until the conversion to nonprofit institution status is approved by the Department, the ARPA Parties are reminded that the Institutions must continue to report their Title IV revenue percentages ("90/10 percentages") and its gainful employment data. In addition, the Department's procedures require a proprietary institution converting to another status to report its 90/10 percentages in the first fiscal year following the approval of the conversion.

Contact. If you have any questions, please contact Meghan Coyle at Meghan.Coyle@ed.gov.

Sincerely,

(b)(6)

Michael Frola
Division Director

cc: Richard Them, Senior Vice President -Student Finance and Compliance, EDMC *(email: rthem@edmc.edu)*

Enclosure: Sample Letter of Credit

IRREVOCABLE LETTER OF CREDIT

[illegible]

To beneficiary:

U.S. Department of Education
ATTN: Veronica Pickett, Director
Performance Improvement and Procedures Service Group
Federal Student Aid/Program Compliance
830 First Street, NE, UCP3, MS 5435
Washington, DC 20002-8019

Date: [illegible]
Amount: $ [illegible]
Expiration Date: [illegible]

Dear Sir/Madam:

We hereby establish our Irrevocable Letter of Credit Number [illegible] in your favor for the account of:

[illegible]
OPE-ID #: [illegible]

Hereafter, [illegible] ("Institution"), presents, in the amount of $ [illegible] (U.S. dollars), available by your draft (or drafts drawn on us) at sight accompanied by:

a) the original of this letter of credit instrument (along with originals of all amendments), and

b) a statement signed by the Secretary ("Secretary"), U.S. Department of Education ("Department"), or the Secretary's representative, certifying that the drafted funds will be used for one or more of the following purposes, as determined by the Secretary:

   1) to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of the Institution, whether the Institution remains open or has closed;

   2) to provide for the "teach-out" of students enrolled at the time of the closure of the Institution; or

3) to pay any fines, penalties, or liabilities whatsoever owing to the Secretary arising from the Institution's participation in programs authorized under Title IV of the Higher Education Act of 1965, as amended ("HEA"), including, without limitation, the violation of any agreement entered into by the Institution with the Secretary regarding the administration of programs under Title IV of the HEA and any liability owed to the Secretary pursuant to Sections 437 and 455(h) of the HEA, 20 U.S.C. §§ 1087(c), 1087e(h), or any regulation promulgated thereunder.

As used herein, the term "teach-out" shall include all activities conducted pursuant to a "teach out agreement," as that term is defined in 34 C.F.R. § 602.3, and/or other services designed to facilitate the transition of such students to another educational program. Should the Institution fail to renew the letter of credit within ten (10) days prior to its expiration, as directed by the Department, the Department may call the letter of credit and place the funds in an escrow account at the Department pending a prompt determination of the extent to which those funds will be used in accordance with subparagraphs (b)(1) through (b)(3), above.

We hereby agree with you that partial drawings are permitted and that drafts drawn under and in compliance with the terms of this letter of credit will be duly honored upon due presentation at our offices on or before the expiration date of this letter of credit.

This letter of credit is subject to the International Standby Practices (ISP98), International Chamber of Commerce Publication Number 590.

Printed Legal Name | Authorized Signature | Date Signed

Printed Official Title of Authorized Signer