

STRATATECH HOLDINGS, INC.

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Consolidated Financial Statements

For the Year Ended September 30, 2023

with

Independent Auditors' Report

STRATATECH HOLDINGS, INC.

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ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

To the Board of Directors and Stockholders of
StrataTech Holdings, Inc.:

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of StrataTech Holdings, Inc. (a Delaware corporation), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of income and retained earnings and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of StrataTech Holdings, Inc. as of September 30, 2023, and the consolidated results of their operations and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of StrataTech Holdings, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, StrataTech Holdings, Inc. changed the manner in which it accounts for leases in 2023.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about StrataTech Holdings, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of StrataTech Holdings, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about StrataTech Holdings, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Required Supplementary Information and Other Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary information beginning on page 16 on StrataTech Holdings, Inc.'s calculation of its Title IV 90/10 revenue test, components of its composite score calculation and on related party transactions are required by the U.S. Department of Education and are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023, on our consideration of StrataTech Holdings, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of StrataTech Holdings, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering StrataTech Holdings, Inc.'s internal control over financial reporting and compliance.



Lake Forest, California
December 22, 2023

STRATATECH HOLDINGS, INC.

Consolidated Balance Sheet

September 30, 2023

Assets

Current assets:

Cash	\$ 13,376,445
Restricted cash	5,625,928
Accounts and notes receivable, net of allowance for doubtful accounts of \$12,753,734	9,389,468
Inventory	2,199,835
Prepaid expenses and other	2,643,052
Total current assets	<u>33,234,728</u>
Accounts and notes receivable, net of current portion and allowance for doubtful accounts of \$2,759,109	742,793
Furniture, equipment and improvements, net of accumulated depreciation and amortization of \$9,146,261	10,831,156
Right-of-use assets for operating leases	26,503,931
Deposits	200,863
Goodwill	77,464,306
	<u>\$ 148,977,777</u>

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 4,162,710
Accrued expenses	2,980,431
Income taxes payable	757,889
Unearned tuition	8,859,051
Current portion of operating lease liabilities	1,730,187
Total current liabilities	<u>18,490,268</u>
Operating lease liabilities, net of current portion	26,160,393
Long-term debt, net of deferred loan fees of \$431,466	25,801,041
Deferred income taxes	1,847,975
Total liabilities	<u>72,299,677</u>
Stockholders' equity:	
Series A preferred stock	4
Common stock	1
Additional paid-in capital	44,340,191
Retained earnings	32,337,904
Total stockholders' equity	<u>76,678,100</u>
	<u>\$ 148,977,777</u>

See notes to consolidated financial statements

STRATATECH HOLDINGS, INC.
Consolidated Statement of Income and Retained Earnings
For the Year Ended September 30, 2023

Revenues:	
Tuition and fees	\$ 106,441,906
Other revenue	3,320,048
Total revenues	<u>109,761,954</u>
Costs and expenses:	
Education	24,224,044
Marketing	23,203,002
Occupancy	4,754,701
General and administrative	35,592,492
Depreciation and amortization	2,871,021
Total costs and expenses	<u>90,645,260</u>
Income from operations	<u>19,116,694</u>
Other income (expense):	
Interest expense	(4,158,579)
Other income	219,034
	<u>(3,939,545)</u>
Income before provision for income taxes	15,177,149
Provision for income taxes	(3,769,062)
Net income	<u>11,408,087</u>
Retained earnings, beginning of year	<u>20,929,817</u>
Retained earnings, end of year	<u><u>\$ 32,337,904</u></u>

See notes to consolidated financial statements

STRATATECH HOLDINGS, INC.
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2023

Cash flows from operating activities:	
Net income	\$ 11,408,087
Adjustments to reconcile net income to net cash provided by operating activities -	
Depreciation and amortization	2,871,021
Amortization of right-of-use assets for operating leases	2,920,234
Amortization of deferred loan fees	265,518
Provision for bad debts	7,828,473
Deferred income taxes	(224,224)
Changes in assets and liabilities -	
Accounts and notes receivable	(11,051,080)
Income taxes payable	1,595,503
Inventory	(714,936)
Prepaid expenses and other	(847,872)
Deposits	114,075
Accounts payable	1,048,506
Accrued expenses	1,020,060
Unearned tuition	1,246,307
Operating lease liabilities	(2,729,399)
Net cash provided by operating activities	<u>14,750,273</u>
Cash flows from investing activities:	
Purchases of furniture, equipment and improvements	<u>(4,226,401)</u>
Net cash used by investing activities	<u>(4,226,401)</u>
Cash flows from financing activities:	
Repayments on long-term debt	<u>(7,000,000)</u>
Net cash used by financing activities	<u>(7,000,000)</u>
Increase in cash	3,523,872
Cash and restricted cash, beginning of year	<u>15,478,501</u>
Cash and restricted cash, end of year	<u>\$ 19,002,373</u>
Supplemental cash flows information:	
Cash paid for interest	<u>\$ 3,932,600</u>
Cash paid for income taxes	<u>\$ 2,382,053</u>
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 28,396,738</u>
Reconciliation of cash and restricted cash:	
Cash	\$ 13,376,445
Restricted cash	<u>5,625,928</u>
Total cash and restricted cash	<u>\$ 19,002,373</u>

See notes to consolidated financial statements

STRATATECH HOLDINGS, INC.
Notes to Consolidated Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

StrataTech Holdings, Inc. (the Company) is a Delaware corporation formed in November 2018 for the purpose of acquiring all of the equity securities of TWS Acquisition Corporation (TWSAC). TWSAC is a Delaware corporation and owns 100% of T.H.E., Inc. T.H.E., Inc. owns 100% of Tulsa Welding School, Inc., which owns 100% of Tulsa Welding School/Jacksonville Campus, Inc.; 100% of The Refrigeration School, Inc.; 100% of Tulsa Welding School/Houston Campus, Inc.; 100% of Tulsa Welding School/Dallas Campus, Inc.; 100% of Tulsa Welding School/Phoenix Campus, Inc. (inactive); and 100% of OcuWeld Holdings LLC. TWSAC and its direct and indirect subsidiaries are hereafter referred to as the Subsidiaries.

The Tulsa Welding School entities have locations in Tulsa, Oklahoma, Jacksonville, Florida and Houston and Dallas, Texas that provide proprietary, post-secondary education with instruction in pipe, pipeline and aircraft welding, and nondestructive weld testing through structured instructional programs. The Refrigeration School, Inc.'s campus is located in Phoenix, Arizona. All currently operating campuses also provide programs in heating and air conditioning, refrigeration, as well as solar and electrical technologies.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and the Subsidiaries. All intercompany amounts and transactions have been eliminated in consolidation.

Letters of Credit

On December 3, 2022, letters of credit were submitted in favor of the U.S. Department of Education (ED) in the amounts of \$4,878,478 and \$1,219,619; on August 29, 2023, these letters of credit were amended to \$4,476,111 and \$1,149,817, respectively (see Note 9). All letters of credit have an expiration date of September 30, 2024. The collateral for the letters of credit is reflected as restricted cash on the accompanying consolidated balance sheet.

Revenue Recognition

Revenues are derived primarily from tuition and related fees on courses taught at the Company. The Company recognizes revenue in accordance with *Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers. Tuition and related fee revenues are recognized on a straight-line basis over the term of instruction, taking into consideration expected refunds. The majority of the Company's programs are designed to be completed in three to 22 months. Students are billed for tuition and fees at the start of the program and earned evenly over their respective program length. Unearned tuition represents tuition and fees paid by students in excess of amounts earned as of the consolidated balance sheet date.

The beginning of the year balances for accounts and notes receivable and unearned tuition were \$6,588,188 and \$7,612,744, respectively.

Accounts and Notes Receivable

Accounts and notes receivable are recorded at the net realizable value expected to be received from students or third-party payors and are not collateralized. Accounts and notes receivable include amounts billed and earned for services rendered to students, less payments received and an allowance for doubtful accounts. The allowance for doubtful accounts is management's best estimate based upon historical experience. Management continually monitors and adjusts its allowance associated with the Company's accounts and notes receivable to address any known credit risks. When uncertainty exists as to the collection of receivables, the Company records an allowance for doubtful accounts and a corresponding charge to bad debt expense.

Inventory

Inventory consists of various welding and HVAC supplies, materials and textbooks, used for instruction purposes, which are carried at the lower of cost or market, on a first-in, first-out basis.

Furniture, Equipment and Improvements

Furniture and equipment are recorded at cost and are being depreciated over their estimated useful lives ranging from 3 to 10 years utilizing the straight-line method. Leasehold improvements are recorded at cost and are being amortized on a straight-line basis over their estimated useful life or the remaining lease term, whichever is shorter. When furniture, equipment and improvements are sold or otherwise disposed of, the asset and accumulated depreciation and amortization are removed from the accounts, with any resulting gain or loss being reflected within operations for the period. Maintenance, repairs, and minor renewals and betterments are expensed as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, management would prepare an analysis comparing the carrying value of the assets to future undiscounted cash flows of the underlying assets. The net book value of the underlying assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. To date, management has not identified any such factors pertaining to the Company's long-lived assets.

Goodwill

Goodwill consists of the cost in excess of fair value of identifiable net assets acquired in a purchase business combination. Goodwill will not be amortized, but evaluated for impairment annually, in the fourth quarter of each fiscal year, or whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment would exist when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess. The Company tests for goodwill impairment at the reporting unit level. The Company consists of a single reporting unit. The Company's annual impairment testing did not result in an impairment of goodwill as of September 30, 2023.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include, among others, future economic and market conditions and determination of appropriate market comparables. Such estimates are unpredictable and inherently uncertain; actual future results may differ from the estimates. The Company may also assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

Deferred Loan Fees

Deferred loan fees represent costs associated with the Company obtaining its long-term debt. Such costs are being amortized to interest expense over the life of the debt. Amortization expense for the year ended September 30, 2023 was \$265,518.

Income Taxes

For financial reporting purposes, the Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in income in the period that includes the enactment date.

Fair Value Measurements

The carrying value of the Company's financial instruments approximates fair value due to the relative short-term nature of these instruments.

The Company uses a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company has no financial instruments utilizing Level 2 or Level 3 inputs for measurement of fair value.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2016-02, Leases*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease liabilities and right of use assets on the consolidated balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The Company completed an assessment of its evaluation of the new standard's impact on its accounting policies and processes and adopted the guidance under *ASU 2016-02* effective October 1, 2022 using a modified retrospective approach without restating prior periods, also electing the practical expedients package which allows the Company to forego reassessing (i) whether any expired or existing contracts are or contain leases; (ii) the lease classification for any expired or expiring leases; and (iii) initial direct costs for any existing leases. The most significant impact of *ASU 2016-02* relates to the Company's accounting for real estate leases. The adoption of *ASU 2016-02* significantly impacts the presentation of the Company's consolidated balance sheet and disclosures, but does not materially impact its annual results from operations and cash flows.

On October 1, 2022, the Company recorded operating lease liabilities and right-of-use assets of \$28,396,738. Recording these items had no impact upon the statements of income and cash flows or beginning retained earnings.

Advertising, Course Service and Instruction Costs

Advertising, course service and instruction costs are expensed as incurred.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Company has evaluated subsequent events through the date of the auditors' report, December 22, 2023, which is the date the accompanying consolidated financial statements were available to be issued.

NOTE 2 – FURNITURE, EQUIPMENT AND IMPROVEMENTS

Furniture, equipment and improvements consisted of the following as of September 30, 2023:

Furniture and equipment	\$ 10,024,142
Leasehold improvements	9,516,131
	<u>19,540,273</u>
Less: accumulated depreciation and amortization	(9,146,261)
	<u>10,394,012</u>
Construction-in-progress	437,144
	<u><u>\$ 10,831,156</u></u>

Depreciation and amortization expense related to furniture, equipment and improvements for the year ended September 30, 2023 was \$2,871,021.

NOTE 3 – LONG-TERM DEBT

The Company and TWSAC are party to a Credit Agreement with a financial institution dated June 14, 2019, with TWSAC being the borrower. The Credit Agreement provides for a term loan of \$43,000,000 and a revolving credit facility of \$6,500,000. Proceeds from the Credit Agreement were used for funding a portion of the acquisition, fees and expenses related to the acquisition, working capital and other general corporate purposes. As of September 30, 2023, \$26,232,507 was outstanding under the term loan and \$0 under the revolving credit facility. Costs associated with obtaining the debt under the Credit Agreement have been capitalized and reflected as a reduction of long-term debt.

Amounts outstanding under the Credit Agreement bear interest at LIBOR plus a margin of 6.25% (11.81% at September 30, 2023), and require monthly payments of interest only.

The Company shall prepay amounts outstanding under the Credit Agreement in an amount equal to a percentage of excess cash flow, as defined, less any voluntary prepayments of the term loan, and to the extent accompanied by a permanent reduction of the revolving credit facility commitment, any voluntary prepayments under the revolving credit facility during such fiscal year. Due to voluntary prepayments of the term loan made by the Company during the year ended September 30, 2023, there was no excess cash flow payment associated with that year. The Company made a voluntary prepayment of \$3,500,000 on its term loan in October 2023. The Credit Agreement matures June 16, 2025, with all outstanding amounts due at that time.

Borrowings under the Credit Agreement are collateralized by 100% of the capital stock of TWSAC and its subsidiaries, as well as a Guarantee and Security Agreement among the Company, TWSAC, and Administrative Agent related to the Credit Agreement. The Credit Agreement requires the Company to comply with certain defined covenants. As of September 30, 2023, the Company was in compliance with the covenants.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its operating facilities under the terms of non-cancelable lease agreements which expire at various times through December 2047. The leases contain rent abatement periods, scheduled increases in base rent, tenant improvement allowances and require payment of certain operating expenses and real property taxes. In addition, certain of the Company's facility leases provide an option to renew for additional five-year terms. Rent expense is recorded evenly over the terms of the leases. There are no early termination penalties, residual value guarantees, restrictions or covenants imposed by the facility leases.

Lease Liability and Right-of-Use Asset

The Company determines a contract to represent a lease when it conveys the right to control the use of identified property, plant or equipment, in exchange for consideration. Upon identification and commencement of a lease, a right-of-use (ROU) asset and a lease liability are established.

The lease liability represents future lease payments for lease and non-lease components discounted for present value. Generally, rent escalation clauses which are specifically stated are included within the lease liability; options to extend are included within minimum lease terms when they are reasonably certain to be exercised. Payments for leases that are less than 12 months in length, as well as other variable lease payments for lease and non-lease components which are not based on an index or rate, are excluded from the calculation of the lease liability and are recognized within operations in the period incurred; short-term lease payments are recognized on a straight-line basis over the respective lease term.

The ROU asset consists of the amount of the initial measurement of the lease liability and adjusted for any lease incentives, including rent abatements and tenant improvement allowances, and any initial direct costs incurred by the Company. The ROU asset is amortized over the remaining lease term on a straight-line basis.

The lease term is determined by taking into account the initial period as stated in the lease contract and adjusted for any renewal options that the Company is reasonably certain to exercise, as well as any period of time that the Company has control of the space before the stated initial term of the lease, when applicable.

Significant Assumptions and Judgments

The Company has identified its facility leases to represent the only operating leases for recognition under adoption of *ASU 2016-02* on October 1, 2022; no contracts held by the Company were identified to be a finance lease. For the Company's operating leases, the discount rate implicit was not readily determinable. Therefore, the Company has elected to utilize the risk-free rate (weighted average of 3.95%) to calculate the present value of its leases. As of September 30, 2023, the remaining weighted-average lease term was 16.7 years.

The components of the Company's lease expense are included within occupancy expenses on the accompanying consolidated statement of income and retained earnings; such components were as follows for the year ended September 30, 2023:

Fixed operating lease expenses	\$ 2,920,234
Short-term and other variable operating lease expenses	<u>506,990</u>
	<u>\$ 3,427,224</u>

For the year ended September 30, 2023, cash paid for amounts in the measurement of the Company's operating lease liabilities was \$2,729,399.

As of September 30, 2023, future maturities of the Company's operating lease liabilities were as follows:

<u>Year Ending September 30,</u>	
2024	\$ 2,807,173
2025	2,844,979
2026	2,257,373
2027	1,912,228
2028	1,953,258
Thereafter	<u>27,397,214</u>
Future minimum lease payments	39,172,225
Less: imputed interest	<u>(11,281,645)</u>
Present value of future minimum lease payments	27,890,580
Less: current portion	<u>(1,730,187)</u>
	<u>\$ 26,160,393</u>

Contingencies

The Company is involved in various claims and lawsuits arising in the ordinary course of its business; the majority of these claims and lawsuits are covered by the Company's insurance policies. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect upon the financial condition of the Company.

NOTE 5 – INCOME TAXES

The provision (benefit) for income taxes consisted of the following for the year ended September 30, 2023:

Current:	
State	\$ 782,518
Federal	<u>3,210,768</u>
	<u>3,993,286</u>
Deferred:	
State	(61,158)
Federal	<u>(163,066)</u>
	<u>(224,224)</u>
	<u>\$ 3,769,062</u>

The amount of income tax expense that would result from applying federal statutory rates to pretax income differs from the provision for income taxes due primarily to state income taxes and the timing of recognition of certain expenses for financial reporting and income tax reporting purposes.

As of September 30, 2023, deferred tax assets recognized for deductible temporary differences totaled \$2,789,507. Deferred tax liabilities recognized for taxable temporary differences totaled \$4,637,482. Deferred tax assets and liabilities relate to differences in the timing of recognizing various expenses for income tax purposes and financial reporting purposes and result primarily from the allowance for doubtful accounts and depreciation. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Management believes that the Company's deferred tax assets will be fully-realized through the generation of future taxable income.

NOTE 6 – STOCKHOLDERS' EQUITY

The Company is authorized to issue common stock and preferred stock. The Company is authorized to issue 5,665 shares of Common Stock. The Company is authorized to issue 5,150 shares of Preferred Stock, of which 4,650 shares are designated as Series A Convertible Preferred Stock. The remaining 500 shares of Preferred Stock may be issued as determined by the Board of Directors of the Company. The Common Stock and Preferred Stock each have a par value of \$0.001 per share. As of September 30, 2023, there were 4,431.805 shares of Series A Convertible Preferred Stock and 1.772 shares of Common Stock issued and outstanding.

The Common Stock and Series A Convertible Preferred Stock have voting rights. The Series A Convertible Preferred Stock may be converted into Common Stock or redeemed, as stipulated in the Company's Amended and Restated Certificate of Incorporation.

Dividends on the Series A Convertible Preferred Stock and Common Stock shall only be paid when and if declared by the Board of Directors of the Company.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company has a Consulting Services Agreement (CSA) with its majority stockholder to receive financial and management consulting services. Services to be provided to the Company include, among others, consulting with the Board of Directors; strategic, operational and financial planning; financial and budgeting analysis; and interacting with the Company's outside advisors. For the year ended September 30, 2023, expenses related to the CSA were approximately \$892,000 and are included within general and administrative expenses on the accompanying consolidated statement of income and retained earnings.

NOTE 8 – 401(k) RETIREMENT PLAN

The Company maintains a 401(k) retirement plan (the Plan) covering substantially all employees of the Company. The Plan provides for employer matching contributions based on a 100% match of the first 3% of eligible compensation each employee contributes to the Plan, and up to 50% of the next 2% of eligible compensation contributed to the Plan. Company matching contributions are fully vested at all times. Company contributions for the year ended September 30, 2023 were approximately \$478,000.

NOTE 9 – REGULATORY MATTERS

The Company is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act (the Act) and the regulations promulgated thereunder by ED subject the Company to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Act. These standards include, among others, financial responsibility, student default rates, and the "90/10" rule. Ineligibility to participate in the Title IV programs would have a material adverse effect on the Company's enrollments, revenue and results of operations.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring. Institutions receiving a composite score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. For the year ended September 30, 2023, the Company's composite score was less than 1.0, largely due to the intangible assets related to the acquisition of TWSAC. As a result, the Company has posted letters of credit in favor of ED. ED requires an institution to provide additional disclosures with respect to the composite score components, which are included in the accompanying supplementary information beginning on page 16.

For each federal fiscal year, ED calculates a rate of student defaults for each educational institution known as a "cohort default rate". Under certain defined circumstances, an institution may lose its eligibility to participate in some or all Title IV programs. As of September 30, 2023, management believes that the Company was in compliance with ED's requirements concerning cohort default rates.

Substantial portions of the Company's revenue and collection of accounts receivable are dependent upon its continued participation in the Title IV programs of the Act. To continue to participate in the Title IV programs, the Company must comply with certain regulations of ED. ED regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from

the Title IV programs. The failure of an institution to meet the 90 percent limitation could result in the loss of an institution's ability to participate in Title IV programs. For the year ended September 30, 2023, the Company was in compliance with the 90/10 rule. ED requires an institution to provide additional disclosures with respect to the 90/10 rule, which are included in the accompanying supplementary information beginning on page 16. ED has published a final 90/10 rule which will apply to institutional fiscal years beginning on or after January 1, 2023. Management does not believe that the final 90/10 rule will materially affect the Company's 90/10 calculation or its compliance with the 90/10 rule.

As a result of operating in a highly regulated industry, the Company may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies, regulatory bodies, or other third parties. While there can be no assurance that such matters will not occur and if they do occur will not have a material adverse effect on the Company's business, results of operations or financial condition, management believes that the Company has complied with all regulatory requirements.

On November 1, 2016, ED published regulations on the topic of borrower defense to repayment which went into effect in October 2018. On September 23, 2019, ED published regulations on this topic which largely became effective July 1, 2020. The regulations allow a borrower to assert a defense to repayment based upon defined criteria and establish certain triggers which would require an institution to provide ED with additional reporting and/or financial guarantees. Management believes that the Company is in compliance with the applicable regulations in all material respects.

On November 1, 2022, ED's final borrower defense to repayment rules were published, with an effective date of July 1, 2023. The final rule overhauls regulations for borrower defenses to repayment, pre-dispute arbitration agreements and class action waivers, total and permanent disability, closed school and false certification loan discharges, and interest capitalization.

On September 27, 2023, ED announced its final regulations on Financial Value Transparency and Gainful Employment which were formally published in the Federal Register on October 10, 2023. The Gainful Employment (GE) program accountability framework covered under the final regulations applies to all GE programs, which include certificate programs offered at all institutions as well as degree programs offered at private for-profit institutions. Under the GE program accountability framework, ED will assess whether an institution's programs meet the statutory requirement of preparing students for gainful employment in a recognized occupation using two separate and independent metrics: (1) a debt-to-earning rate that compares median annual payments on loan debt borrowed for the program to the median earnings of its federally-aided graduates, and (2) an earnings premium test that measures whether the typical federally-aided graduate from a program is earning at least as much as a typical high school graduate in their state's labor force between the ages of 25 and 34. Programs that fail either metric in a single year will be required to provide warnings to current and prospective students that the programs could be at risk of ineligibility for Title IV aid in subsequent years. Programs that fail the same metric in two of three consecutive years will not be eligible to participate in federal student aid programs. The GE program accountability framework will go into effect on July 1, 2024, with the first official metrics published by ED in early 2025. The first year that programs may become ineligible is 2026. Based on its initial review, management believes its programs would comply with the GE regulations in their current form.

NOTE 10 – CONCENTRATION OF CREDIT RISK

At September 30, 2023, the Company maintained cash balances with a bank in excess of the federally insured amount.

STRATATECH HOLDINGS, INC.
Supplementary Information
(Information Required by the U.S. Department of Education)
September 30, 2023

Institution's Calculation of 90/10 Revenue Test

StrataTech Holdings, Inc. and Subsidiaries (collectively, the Institution) derives a significant portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs the Institution must comply with the regulations promulgated under HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. In July 2008, modifications to the regulations were made to allow for the inclusion of funds received for certain qualifying non-Title IV programs. In addition, the modifications included provisions for institutions that do not comply with the 90 percent rule for a single fiscal year, whereby such institutions would be placed on provisional certification status for a period of two years. Institutions that do not comply with the 90 percent rule for two consecutive fiscal years are subject to the loss of their ability to participate in the SFA programs. For the year ended September 30, 2022, the Institution was in compliance with the 90 percent rule.

For the year ended September 30, 2023, the Institution's 90/10 revenue test percentages were computed as follows:

Revenue by Fund Source	Tulsa Welding School, Inc. OPE ID No. 00961800		The Refrigeration School, Inc. OPE ID No. 01168900	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue				
Subsidized Loan	\$ 11,741,534	\$ 11,741,534	\$ 3,389,400	\$ 3,389,400
Unsubsidized Loan	16,564,444	16,564,444	4,849,720	4,849,720
Federal Pell Grant	19,643,802	19,643,802	5,609,597	5,609,597
FSEOG (subject to matching reduction)	248,963	186,722	88,677	66,508
Federal Work Study applied to tuition and fees (subject to matching reduction)	-	-	-	-
Federal Direct PLUS Loan	11,300,875	11,300,875	1,724,510	1,724,510
All Other Title IV Loans and Grants	-	-	-	-
Student Title IV Revenue	\$ 59,499,618	\$ 59,437,377	\$ 15,661,904	\$ 15,639,735
Revenue Adjustment:				
If the amount of funds applied first plus Student Title IV revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tuition and fees.		(1,214,982)		(54,577)
Title IV funds returned for a student under 34 C.F.R § 668.22 (withdrawal), reduce Student Title IV Revenue		(3,798,146)		(1,065,573)
Adjusted Student Title IV Revenue		\$ 54,424,249		\$ 14,519,585

Revenue by Fund Source

Student Non-Title IV Revenue

Grant funds for the student from non-Federal public agencies or private sources independent of the institution

\$ 969,172

\$ 801,633

Funds provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low income individuals

-

-

Funds used by a student from savings plans for educational expenses established by, or on behalf of, the student that qualify for special tax treatment under the Internal Revenue Code

-

-

Institutional scholarships disbursed to the student

-

-

Student payments

23,280,107

5,721,041

Student Non-Title IV Revenue

\$ 24,249,279

\$ 6,522,674

Revenue from Other Sources (Totals for the Fiscal Year)

Activities conducted by the institution that are necessary for education and training

\$ -

\$ -

Funds paid by a student, or on behalf of a student, by a party other than the school for an education or training program that is not eligible

-

-

Allowable student payments plus allowable amounts from account receivable or institutional loan sales minus any required payments under a recourse agreement

-

-

Revenue from Other Sources

\$ -

\$ -

Adjusted Title IV Revenue

\$ 54,424,249

\$ 14,519,585

Adjusted Title IV Revenue + Adjusted Student Non-Title IV Revenue

\$ 78,673,528

\$ 21,042,259

+ Total Revenue from other sources

69.18%

69.00%

Institution's Calculation of Composite Score

ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios, as defined in the regulations. As of and for the year ended September 30, 2023, the financial components from the consolidated financial statements utilized for calculation of the financial ratios contained in the composite score were as follows:

Primary Reserve Ratio			
<i>Location</i>	<i>Ref. Page</i>	Adjusted Equity:	Total
Balance Sheet	4	Total equity	\$ 76,678,100
n/a	-	Secured and unsecured related party receivables and/or other related party assets	-
n/a	-	Unsecured related party receivables	-
n/a	-	Other unsecured related party assets	-
Balance Sheet	4	Property, plant and equipment, net - including construction in progress and capital leases	10,831,156
Supplementary Information	20	Property, plant and equipment, net - pre-implementation less any construction in progress	1,841,644
n/a	-	Property, plant and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase	-
Supplementary Information	20	Property, plant and equipment, net - post-implementation less any construction in progress without outstanding debt for original purchase	8,552,368
Supplementary Information	20	Construction in progress	437,144
Supplementary Information	20	Lease right-of use asset	26,503,931
Supplementary Information	20	Lease right-of use asset - pre-implementation	7,391,491
Supplementary Information	20	Lease right-of use asset - post-implementation	19,112,440
Balance Sheet	4	Intangible assets	77,464,306
n/a	-	Post-employment and defined pension plan liabilities	-
Note 3	10	Long-term debt - for long-term purposes and construction in progress debt	26,232,507
Note 3	10	Long-term debt for long-term purposes pre-implementation	26,232,507
n/a	-	Qualified long-term debt for long-term purposes post-implementation for purchase of property, plant and equipment	-
n/a	-	Line of credit for construction in progress	-
Supplementary Information	20	Lease right-of-use asset liability	27,890,580
Supplementary Information	20	Pre-Implementation right-of-use lease liabilities	8,617,387
Supplementary Information	20	Post-Implementation right-of-use lease liabilities	19,273,193

<i>Location</i>	<i>Ref. Page</i>	Total Expenses and Losses:	Total
Statement of Income and Retained Earnings	5	Total operating expenses and losses	\$ 90,645,260
Statement of Income and Retained Earnings	5	Total non-operating expenses and losses	4,158,579
n/a	-	Comprehensive losses	-
n/a	-	Discontinued operations not classified as an operating expense	-
n/a	-	Change in accounting principle	-
n/a	-	Investment losses	-
n/a	-	Post-employment and defined pension plans losses less nonservice component of net periodic pension and other post-employment plan expenses	-

Equity Ratio

<i>Location</i>	<i>Ref. Page</i>	Modified Equity:	Total
Balance Sheet	4	Total equity	\$ 76,678,100
Supplementary Information	20	Lease right-of use asset - pre-implementation	7,391,491
Supplementary Information	20	Pre-Implementation right-of-use lease liabilities	8,617,387
Balance Sheet	4	Intangible assets	77,464,306
n/a	-	Unsecured related party receivables	-
n/a	-	Other unsecured related party assets	-

Modified Assets:

Balance Sheet	4	Total assets	\$ 148,977,777
Supplementary Information	20	Lease right-of use asset - pre-implementation	7,391,491
Balance Sheet	4	Intangible assets	77,464,306
n/a	-	Unsecured related party receivables	-
n/a	-	Other unsecured related party assets	-

Net Income Ratio

<i>Location</i>	<i>Ref. Page</i>	Income Before Taxes:	Total
Statement of Income and Retained Earnings	5	Net income (loss) before income taxes	\$ 15,177,149
n/a	-	Net comprehensive income (loss)	-

Total Revenue and Gains:

Statement of Income and Retained Earnings	5	Total operating revenue and gains	\$ 109,761,954
Statement of Income and Retained Earnings	5	Total other revenue and gains (interest)	219,034
n/a	-	Comprehensive income and gains	-
n/a	-	Discontinued operations not classified as an operating gain	-
n/a	-	Change in accounting principle gains	-

Certain amounts included in the supplemental schedule above have been presented on a summarized basis utilizing the Institution's consolidated financial statements as of and for the year ended September 30, 2023 or to the underlying accounting and other records used to prepare the consolidated financial statements; such amounts are detailed further, as follows:

Property, equipment and improvements, net:	
Pre-implementation property, equipment and improvements	\$ 1,841,644
Post-implementation property, equipment and improvements - no outstanding debt	8,552,368
Construction-in-progress	<u>437,144</u>
Total	<u><u>\$ 10,831,156</u></u>
Right-of-use assets for operating leases:	
Pre-implementation right-of-use assets for operating leases	\$ 7,391,491
Post-implementation right-of-use assets for operating leases	<u>19,112,440</u>
	<u><u>\$ 26,503,931</u></u>
Operating lease liabilities:	
Pre-implementation operating lease liabilities	\$ 8,617,387
Post-implementation operating lease liabilities	<u>19,273,193</u>
	<u><u>\$ 27,890,580</u></u>

Related Party Transactions

The Institution participates in Student Financial Aid (SFA) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The Institution must comply with the regulations promulgated under HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the consolidated financial statements.

Organization and Basis of Presentation

StrataTech Holdings, Inc. (the Institution) is a Delaware corporation formed in November 2018 for the purpose of acquiring all of the equity securities of TWS Acquisition Corporation (TWSAC). TWSAC is a Delaware corporation and owns 100% of T.H.E., Inc. T.H.E., Inc. owns 100% of Tulsa Welding School, Inc., which owns 100% of Tulsa Welding School/Jacksonville Campus, Inc.; 100% of The Refrigeration School, Inc.; 100% of Tulsa Welding School/Houston Campus, Inc.; 100% of Tulsa Welding School/Dallas Campus, Inc.; 100% of Tulsa Welding School/Phoenix Campus, Inc. (inactive); and 100% of OcuWeld Holdings LLC. TWSAC and its direct and indirect subsidiaries are hereafter referred to as the Subsidiaries.

The Tulsa Welding School entities have locations in Tulsa, Oklahoma, Jacksonville, Florida and Houston and Dallas, Texas that provide proprietary, post-secondary education with instruction in pipe, pipeline and aircraft welding, and nondestructive weld testing through structured instructional programs. The Refrigeration School, Inc.'s campus is located in Phoenix, Arizona. All currently operating campuses also provide programs in heating and air conditioning, refrigeration, as well as solar and electrical technologies.

Consulting Agreement

The Institution has a Consulting Services Agreement (CSA) with its majority stockholder to receive financial and management consulting services. Services to be provided to the Institution include, among others, consulting with the Board of Directors; strategic, operational and financial planning; financial and budgeting analysis; and interacting with the Institution's outside advisors. For the year ended September 30, 2023, expenses related to the CSA were approximately \$892,000.

This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors and Stockholders of
StrataTech Holdings, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of StrataTech Holdings, Inc. (the Company) which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of income and retained earnings and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 22, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. Such tests included compliance tests as set forth in the *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards* or the Guide.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Almich & Associates

Lake Forest, California
December 22, 2023

ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

To the Board of Directors and Stockholder of
StrataTech Holdings, Inc.:

We have audited the consolidated financial statements of StrataTech Holdings, Inc. as of September 30, 2023 and for the year then ended, and our report thereon dated December 22, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 3. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Supplemental Schedules I and II is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Lake Forest, California
December 22, 2023

STRATATECH HOLDINGS, INC.
Supplemental Schedule I - Consolidating Balance Sheet
September 30, 2023

	Assets										Consolidated StrataTech Holdings, Inc.
	Tulsa Welding School, Inc./Ocuweld Holdings LLC	Tulsa Welding School/Jacksonville Campus, Inc.	Refrigeration School, Inc.	Tulsa Welding School/Houston Campus, Inc.	Tulsa Welding School/Phoenix Campus, Inc.	Tulsa Welding School/Dallas Campus, Inc.	T.H.E., Inc.	TWS Acquisition Corporation	StrataTech Holdings, Inc.	Eliminating Entries	
	Current assets:										
Cash	\$ 10,416,293	\$ 40,733	\$ 468,793	\$ 2,761,464	\$ -	\$ (168,270)	\$ -	\$ (142,568)	\$ -	\$ -	\$ 13,376,445
Restricted cash	5,625,928	-	-	-	-	-	-	-	-	-	5,625,928
Current portion of accounts receivable, net	1,560,681	2,649,160	2,036,450	2,900,966	-	242,211	-	-	-	-	9,389,468
Inventory	404,502	513,786	386,721	664,669	-	230,157	-	-	-	-	2,199,835
Prepaid expenses and other	226,581	337,098	240,449	387,397	-	179,915	-	1,271,612	-	-	2,643,052
Total current assets	18,233,985	3,540,777	3,132,413	6,714,496	-	484,013	-	1,129,044	-	-	33,234,728
Investment in subsidiaries	101	-	-	-	-	-	3,335,058	8,373,959	9,912,461	(21,621,579)	-
Due from affiliates, net	-	50,186,238	6,465,018	81,910,134	-	-	2,226,039	8,479,152	-	(149,266,581)	-
Deferred income taxes	-	510,847	-	696,580	-	-	-	-	-	(1,207,427)	-
Accounts receivable, net of current portion	129,175	154,840	117,462	168,183	-	8,133	-	165,000	-	-	742,793
Furniture, equipment and improvements, net	1,355,848	1,109,190	520,146	3,300,958	-	3,730,551	-	814,463	-	-	10,831,156
Right-of-use assets for operating leases	2,248,715	1,237,411	8,794,579	6,777,054	-	6,799,972	-	646,200	-	-	26,503,931
Deposits	-	51,515	37,819	55,245	-	56,284	-	-	-	-	200,863
Goodwill	-	-	13,759,582	-	-	-	-	28,370,649	35,334,075	-	77,464,306
	<u>\$ 21,967,824</u>	<u>\$ 56,790,818</u>	<u>\$ 32,827,019</u>	<u>\$ 99,622,650</u>	<u>\$ -</u>	<u>\$ 11,078,953</u>	<u>\$ 5,561,097</u>	<u>\$ 47,978,467</u>	<u>\$ 45,246,536</u>	<u>\$ (172,095,587)</u>	<u>\$ 148,977,777</u>
	Liabilities and Stockholders' Equity										
Current liabilities:											
Accounts payable	\$ 371,594	\$ 492,428	\$ 338,420	\$ 683,608	\$ -	\$ 150,064	\$ -	\$ 2,126,596	\$ -	\$ -	\$ 4,162,710
Accrued expenses	273,556	398,730	240,384	429,665	-	113,514	-	1,524,582	-	-	2,980,431
Income taxes payable	50,603	(56,621)	-	-	-	-	-	763,907	-	-	757,889
Unearned tuition	1,559,124	2,266,658	1,705,179	2,884,044	-	444,046	-	-	-	-	8,859,051
Current portion of operating lease liabilities	98,539	535,507	189,622	297,071	-	340,224	-	269,224	-	-	1,730,187
Total current liabilities	2,353,416	3,636,702	2,473,605	4,294,388	-	1,047,848	-	4,684,309	-	-	18,490,268
Due to affiliates, net	147,319,963	-	-	-	41,502	998,776	-	-	906,340	(149,266,581)	-
Operating lease liabilities, net of current portion	2,155,740	835,012	8,700,220	7,572,770	-	6,519,675	-	376,976	-	-	26,160,393
Notes payable, net of current portion and deferred loan fees	-	-	-	-	-	-	-	25,801,041	-	-	25,801,041
Deferred income taxes	(92,281)	-	2,472,250	-	-	34,337	-	641,096	-	(1,207,427)	1,847,975
Total liabilities	151,736,838	4,471,714	13,646,075	11,867,158	41,502	8,600,636	-	31,503,422	906,340	(150,474,008)	72,299,677
Stockholders' equity:											
Series A preferred stock	101	1	-	-	-	-	7	-	4	(109)	4
Common stock	-	-	-	-	-	-	-	-	1	-	1
Treasury stock	-	-	-	-	-	-	(648,000)	-	-	648,000	-
Additional paid-in capital	2,274,999	-	14,224,671	-	-	-	2,734,442	-	44,340,191	(19,234,112)	44,340,191
Retained earnings (accumulated deficit)	(132,044,114)	52,319,103	4,956,273	87,755,492	(41,502)	2,478,317	3,474,648	16,475,045	-	(3,035,358)	32,337,904
Total stockholder's equity (deficit)	(129,769,014)	52,319,104	19,180,944	87,755,492	(41,502)	2,478,317	5,561,097	16,475,045	44,340,196	(21,621,579)	76,678,100
	<u>\$ 21,967,824</u>	<u>\$ 56,790,818</u>	<u>\$ 32,827,019</u>	<u>\$ 99,622,650</u>	<u>\$ -</u>	<u>\$ 11,078,953</u>	<u>\$ 5,561,097</u>	<u>\$ 47,978,467</u>	<u>\$ 45,246,536</u>	<u>\$ (172,095,587)</u>	<u>\$ 148,977,777</u>

See notes to consolidated financial statements

STRATATECH HOLDINGS, INC.
Supplemental Schedule II - Consolidating Statement of Income
For the Year Ended September 30, 2023

	Tulsa Welding School, Inc./Ocuweld Holdings LLC	Tulsa Welding School/Jacksonville Campus, Inc.	Refrigeration School, Inc.	Tulsa Welding School/Houston Campus, Inc.	Tulsa Welding School/Phoenix Campus, Inc.	Tulsa Welding School/Dallas Campus, Inc.	T.H.E., Inc.	TWS Acquisition Corporation	StrataTech Holdings, Inc.	Eliminating Entries	Consolidated StrataTech Holdings, Inc.
Revenues:											
Tuition and fees	\$ 18,876,753	\$ 28,282,380	\$ 22,573,213	\$ 36,004,506	\$ -	\$ 705,054	\$ -	\$ -	\$ -	\$ -	\$ 106,441,906
Other revenue	249,262	274,358	114,174	224,647	-	1,047	-	2,456,560	-	-	3,320,048
Total revenues	19,126,015	28,556,738	22,687,387	36,229,153	-	706,101	-	2,456,560	-	-	109,761,954
Costs and expenses:											
Education	4,894,062	6,572,845	4,768,967	7,636,455	-	351,715	-	-	-	-	24,224,044
Marketing	4,930,712	6,255,379	3,868,960	6,557,650	-	549,617	-	1,040,684	-	-	23,203,002
Occupancy	615,536	1,242,875	1,058,146	1,617,858	-	220,286	-	-	-	-	4,754,701
General and administrative	5,288,630	7,587,949	5,597,363	10,761,684	-	2,773,089	-	3,583,777	-	-	35,592,492
Depreciation and amortization	543,256	334,543	238,058	887,939	-	661,734	-	205,491	-	-	2,871,021
Total costs and expenses	16,272,196	21,993,591	15,531,494	27,461,586	-	4,556,441	-	4,829,952	-	-	90,645,260
Income (loss) from operations	2,853,819	6,563,147	7,155,893	8,767,567	-	(3,850,340)	-	(2,373,392)	-	-	19,116,694
Other income (expense):											
Interest expense	(118)	-	-	(1,014)	-	-	-	(4,157,447)	-	-	(4,158,579)
Other income	-	-	219,034	-	-	-	-	-	-	-	219,034
Total other income (expense)	(118)	-	219,034	(1,014)	-	-	-	(4,157,447)	-	-	(3,939,545)
Income (loss) before income taxes	2,853,701	6,563,147	7,374,927	8,766,553	-	(3,850,340)	-	(6,530,839)	-	-	15,177,149
Provision for income taxes	(801,045)	(1,700,293)	(1,714,031)	(1,884,001)	-	1,034,984	-	1,295,324	-	-	(3,769,062)
Net income (loss)	\$ 2,052,656	\$ 4,862,854	\$ 5,660,896	\$ 6,882,552	\$ -	\$ (2,815,356)	\$ -	\$ (5,235,515)	\$ -	\$ -	\$ 11,408,087

See notes to consolidated financial statements