

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Tenant improvement allowances are recorded as a deferred rent obligation upon receipt and amortized to income over the lease term as a reduction of rent expense. The capital expenditures funded by these tenant improvement allowances are recorded as leasehold improvements. Tenant improvement allowances are treated as noncash transactions in the accompanying consolidated statements of cash flows, since the allowances are either paid directly to the contractor by the lessor or are paid to the Company by the lessor at essentially the same time as the Company pays the contractor. The Company received \$1,523,020 and \$750,000 in construction allowances for the years ended December 31, 2011 and 2010, respectively.

Stock Compensation

The Company recognizes compensation cost for the fair value of equity awards with graded vesting on a straight-line basis.

Use of Estimates

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

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Subsequent Events

The Company has evaluated subsequent events through April 9, 2012, the date these financial statements were available to be issued.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

3. Accounts Receivable

Accounts receivable consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Trade accounts receivable	\$ 44,562,471	\$ 25,058,193
Other accounts receivable	449,447	52,433
	<u>45,011,918</u>	<u>25,110,626</u>
Less allowances for uncollectible amounts	2,031,135	1,150,975
	<u>\$ 42,980,783</u>	<u>\$ 23,959,651</u>

4. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Land and buildings	\$ 5,591,734	\$ 5,535,309
Furniture, fixtures, and equipment	14,744,230	11,939,525
Leasehold improvements	30,458,951	24,598,655
	<u>50,794,915</u>	<u>42,073,489</u>
Less accumulated depreciation and amortization	16,960,780	9,627,249
	<u>\$ 33,834,135</u>	<u>\$ 32,446,240</u>

Depreciation expense was \$8,051,001 and \$8,680,766 for the years ended December 31, 2011 and 2010, respectively.

5. Other Intangible Assets

Other intangible assets consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Accreditation, licenses, curriculum, and Title IV Program participation rights	\$ 51,317,000	\$ 51,317,000
Trademarks	13,000,000	13,000,000
Other intangible assets	53,839	53,839
	<u>64,370,839</u>	<u>64,370,839</u>
Less accumulated amortization	51,376	26,869
	<u>\$ 64,319,463</u>	<u>\$ 64,343,970</u>

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

5. Other Intangible Assets (continued)

Accreditation and licenses, curriculum, Title IV Program participation rights, and trademarks are considered to have indefinite lives and therefore are not amortized. Other intangible assets are amortized using the straight-line method over two years. Amortization expense was \$24,507 and \$11,466,244 for the years ended December 31, 2011 and 2010, respectively.

The estimated future aggregate amortization expense as of December 31, 2011, is as follows:

2012	<u>\$ 2,464</u>
	<u><u>\$ 2,464</u></u>

6. Income Taxes

The Company's policy is to classify interest and penalties as part of its provision for income taxes. The Company's federal income tax returns for the year 2007 and thereafter are available for examination by the United States Internal Revenue Service. The Company files in numerous state jurisdictions with varying statutes of limitation. The Company's state income tax returns for 2006 through 2010 remain subject to examination by various state authorities.

The activity of the Company is included in the consolidated federal income tax return of VAC. The Company calculates its income tax provision on a separate-company basis. Current taxes payable are remitted to VAC.

The provision for income taxes for the years ended December 31, 2011 and 2010, differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of state income taxes and nondeductible expenses for tax purposes.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

6. Income Taxes (continued)

The components of the income tax provision are as follows:

	Year Ended December 31	
	2011	2010
Current:		
Federal	\$ 6,676,998	\$ 15,465,805
State	818,053	1,897,892
	<u>7,495,051</u>	<u>17,363,697</u>
Deferred:		
Federal	1,935,535	(1,847,157)
State	203,990	(622,068)
	<u>2,139,525</u>	<u>(2,469,225)</u>
Total	<u>\$ 9,634,576</u>	<u>\$ 14,894,472</u>

Significant components of the Company's net deferred income tax assets and liabilities consist of the following at December 31:

	2011	2010
Deferred tax assets:		
Allowance for doubtful accounts	\$ 906,762	\$ 433,532
Stock compensation	466,007	228,082
Reserves	505,672	505,672
Total deferred tax assets	<u>1,878,441</u>	<u>1,167,286</u>
Deferred tax liabilities:		
Goodwill and other intangible assets	(49,232,373)	(46,352,944)
Property and equipment	(726,410)	(829,183)
Other	(132,605)	(58,581)
Total deferred tax liabilities	<u>(50,091,388)</u>	<u>(47,240,708)</u>
Net deferred tax liabilities	<u>\$ (48,212,947)</u>	<u>\$ (46,073,422)</u>

After consideration of all the evidence, both positive and negative, management has determined that no valuation allowance is necessary as of December 31, 2011 or 2010.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

7. Related Party Transactions

The Company periodically has intercompany activity with its parent, Vatterott Education Holdings Inc. (Holdings), including, but not limited to, income tax payments (see Note 7). Intercompany activity with Holdings is non-interest-bearing. As of December 31, 2011, the Company has a \$22,157,055 balance due from Holdings, included in the accompanying consolidated balance sheet. At December 31, 2010, the intercompany balance was \$3,999,690 due to Holdings.

8. Lease Commitments

The Company leases its campus buildings and headquarters under noncancelable operating leases with initial terms of up to twelve years and renewal options.

Future minimum annual lease payments at December 31, 2011, are as follows:

2012	\$ 14,648,307
2013	12,697,553
2014	11,331,255
2015	7,545,757
2016	6,205,916
Thereafter	11,903,069
	<u>\$ 64,331,857</u>

Total rent expense for all operating leases was \$11,923,185 and \$11,347,873, for the years ended December 31, 2011 and 2010, respectively.

The Company leases furniture and equipment under several lease agreements, which are accounted for as capital leases. The assets and liabilities under capital leases are recorded at the net present value of the minimum lease payments. The assets are amortized over the related lease term.

Equipment held under capital leases, included in furniture, fixtures, and equipment, totaled \$7,983,105 and \$7,152,000 as of December 31, 2011 and 2010, respectively, and the related accumulated amortization totaled \$4,656,211 and \$2,635,623 as of December 31, 2011 and 2010, respectively. Amortization expense on leased assets totaled \$2,020,588, and \$2,437,841 for the years ended December 31, 2011 and 2010, respectively.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

8. Lease Commitments (continued)

As of December 31, 2011, future minimum lease payments under capital leases are as follows:

2012	\$ 1,867,173
2013	1,356,166
2014	526,677
2015	227,761
2016	79,714
Total minimum lease payments	<u>4,057,491</u>
Less amount representing interest	<u>309,957</u>
Present value of minimum lease payments, including current portion of capital lease obligations of \$1,678,152	<u>\$ 3,747,534</u>

Interest paid on capital lease obligations amounted to \$279,215 and \$321,250 for the years ended December 31, 2011 and 2010, respectively.

9. Employee Benefit Plans

The Company sponsors a 401(k) plan (the Vatterott Plan) for eligible employees who are employed by the Company for 90 days, have attained the age of 21, and have worked at least 1,000 hours during the plan year. The employees may elect to defer up to 60% of their salary, subject to Internal Revenue Service limits. The Company may make a matching percentage contribution on a discretionary basis as determined by the Company's Board of Directors. In 2010 and 2009, the Company elected to match 25% of employees' contributions up to the first 4% contributed. The Company's expense related to this plan was \$65,614, and \$66,627 for the years ended December 31, 2011 and 2010, respectively.

10. Stock-Based Compensation

VAC adopted the 2009 Stock Option and Grant Plan (the VAC Plan) for the benefit of the Company's management personnel and nonemployee directors. Up to 4,508.5 shares of VAC's common stock may be issued under the plan. Of the option shares under the plan, 25% vest on the first anniversary of the grant date, and the remaining 75% vest in 36 equal monthly installments at the end of each month following the first anniversary of the grant date. Certain of the stock options are subject to accelerated vesting or termination in certain circumstances.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

10. Stock-Based Compensation (continued)

The fair value of each options award granted under the VAC Plan in 2011 and 2010 was estimated on the grant date using the Black-Scholes-Merton option pricing model that uses the assumptions noted in the following table. Because VAC's shares are not publicly traded, the expected volatility is based on that of competitors in its industry.

	<u>2011</u>	<u>2010</u>
Risk-free rate	1.87%	2.38%
Expected life	5 years	5 years
Volatility	45.0%	63.0%
Dividend yield	—	—

On April 1, 2010, VAC's Board of Directors approved a one thousand for one reverse stock split of VAC's preferred and common stock. Stock option activity, after giving effect to the one thousand for one reverse stock split effected in 2010 by VAC, related to the VAC Plan was as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2009	3,063.880	\$ 6,071
Issued	60.000	823
Outstanding at December 31, 2010	3,123.880	5,970
Issued	595.000	4,120
Forfeited	(100.000)	4,120
Outstanding at December 31, 2011	<u>3,618.880</u>	\$ 5,717
Exercisable at December 31, 2011	<u>1,685.850</u>	\$ 5,970

The weighted average grant date fair value for the options granted under the VAC Plan during 2011 and 2010 was \$412 and \$1,320, respectively. The total fair value of options vested during 2011 and 2010 was \$586,137 and \$643,401, respectively. At December 31, 2011, \$1,215,908 of unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 1.55 years.

Vatterott Educational Centers, Inc.

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

The Company is a party to routine litigation incidental to its business, including, but not limited to, claims involving students or graduates and routine employment matters. While there can be no assurance as to the ultimate outcome of any litigation, management does not believe that any pending proceeding will result in a settlement or an adverse judgment that will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

Because the Company did not meet the required USDE composite score, it has posted a letter of credit in the amount of \$20,471,034 at December 31, 2011, to enable it to continue to participate in federal Title IV Programs.

Other Financial Information

Vatterott Educational Centers, Inc.

Calculation of Title IV 90/10 Revenue Test

December 31, 2011

	OPE ID No. 025997 - Berkeley		OPE ID No. 026093 - Quincy		OPE ID No. 026092 - Des Moines		OPE ID No. 007501 - Omaha		OPE ID No. 021192 - Court Reporting	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue										
Subsidized loan	\$ 24,463,301	\$ 24,463,301	\$ 4,631,722	\$ 4,631,722	\$ 8,629,179	\$ 8,629,179	\$ 3,540,314	\$ 3,540,314	\$ 1,885,499	\$ 1,885,499
Unsubsidized loan up to pre-ECASLA loan limits	24,606,896	24,606,896	4,676,997	4,676,997	8,620,964	8,620,964	3,884,147	3,884,147	2,072,556	2,072,556
Federal Pell Grant	30,845,788	30,845,788	5,584,258	5,584,258	10,341,065	10,341,065	3,786,496	3,786,496	1,438,888	1,438,888
FSEOG (subject to matching reduction)	56,699	56,699	181,012	135,759	220,840	165,630	82,170	61,628	73,311	56,483
Federal PLUS loan	150,914	150,914	639,699	639,699	730,932	730,932	200,424	200,424	79,851	79,851
All other Title IV grants (ACG and SMART)	152,083	152,083	40,869	40,869	16,235	16,235	15,092	15,092	13,207	13,207
Student Title IV Revenue	<u>\$ 81,692,681</u>	<u>\$ 81,028,066</u>	<u>\$ 15,754,557</u>	<u>\$ 15,709,304</u>	<u>\$ 28,559,155</u>	<u>\$ 28,503,945</u>	<u>\$ 11,308,644</u>	<u>\$ 11,488,101</u>	<u>\$ 5,565,312</u>	<u>\$ 5,546,484</u>
Revenue adjustment		(11,590,251)		(2,256,635)		(4,138,849)		(2,368,766)		(702,819)
Adjusted Student Title IV Revenue		<u>\$ 69,437,775</u>		<u>\$ 13,452,669</u>		<u>\$ 24,365,096</u>		<u>\$ 9,219,335</u>		<u>\$ 4,843,665</u>
Student Non-Title IV Revenue										
Grant funds for the student from non-federal public agencies or private sources independent of the institution	\$ 289,854		\$ 14,650		\$ 64,839		\$ 544,972		\$ 9,700	
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	3,939,540		710,361		1,219,829		665,583		44,063	
Funds used by a student from savings plans for educational expenses established on or behalf of the student but qualify for special tax treatment under the Internal Revenue Service	12,338		-		-		-		-	
Amount of unsubsidized loan over the pre-ECASLA loan limits	2,906,911		364,371		954,310		162,650		138,822	
Student payments	913,245		556,772		685,006		175,586		431,148	
Student Non-Title IV Revenue	<u>\$ 8,061,888</u>		<u>\$ 1,646,151</u>		<u>\$ 2,921,984</u>		<u>\$ 1,548,791</u>		<u>\$ 623,733</u>	
Revenue from Other Sources (Totals for the Fiscal Year)										
Activities conducted by the institution that are necessary for education and training	\$ 472,089		\$ 271,641		\$ 454,480		\$ 113,969		\$ 89,197	
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs	72,350		-		33,269		-		-	
Revenue from Other Sources	<u>\$ 544,439</u>		<u>\$ 271,641</u>		<u>\$ 487,749</u>		<u>\$ 113,969</u>		<u>\$ 89,197</u>	
Adjusted Student Title IV revenue		<u>\$ 69,437,775</u>		<u>\$ 13,452,669</u>		<u>\$ 24,365,096</u>		<u>\$ 9,219,335</u>		<u>\$ 4,843,665</u>
Adjusted Student Title IV revenue + Student non-Title IV Revenue + Revenue from other sources		<u>\$ 78,045,102</u>		<u>\$ 15,370,464</u>		<u>\$ 27,774,829</u>		<u>\$ 10,882,495</u>		<u>\$ 5,556,595</u>
		0.88971		0.87523		0.87724		0.84720		0.87170

Note to Calculation of Title IV 90/10 Revenue Test

The Company derives a substantial portion of its net revenues from financial aid received by its students under Title IV programs (Title IV Programs) administered by the USDF pursuant to the federal HEA, as amended. In order to continue to participate in Title IV Programs, the Company must comply with the standards set forth in the HEA and the regulations promulgated thereunder (the Regulations). Among other things, these Regulations require the Company to exercise due diligence in approving and disbursing funds and serving loans; to limit the proportion of cash receipts for tuition, fees, and other institutional charges derived from non-Title IV Programs to not less than 10% of the total revenue derived from students enrolled in the Company's Title IV eligible educational institutions (the 90/10 rule); and to exercise financial responsibility related to maintaining certain financial ratios and requirements. The above Calculation of 90/10 Title IV Revenue Test was prepared in accordance with the requirements of section 668.23 of title 34 of the Code of Federal Regulation, as amended.

Vatterott Educational Centers, Inc.

Related Party Transactions

December 31, 2011

There were no related party transactions other than those disclosed in Note 7.

Vatterott Educational Centers, Inc.

Combining Statement of Income Before Income Taxes

Year Ended December 31, 2011

	Berkeley Institutions	Quincy Institutions	Des Moines Institutions	Omaha Institutions	Wheeler Institutions	Total
Net revenues	\$ 91,034,856	\$ 15,338,699	\$ 31,182,500	\$ 10,501,396	\$ 5,495,451	\$ 153,552,902
Costs and expenses:						
Instructional and educational support	34,022,366	8,071,913	14,977,612	6,794,558	3,671,360	67,537,809
Selling and promotional	12,027,987	1,881,273	3,561,432	1,314,475	956,483	19,741,650
General and administrative	26,614,923	3,694,694	6,187,741	2,611,304	1,764,278	40,872,940
Total costs and expenses	72,665,276	13,647,880	24,726,785	10,720,337	6,392,121	128,152,399
Income from operations	18,369,580	1,690,819	6,455,715	(218,941)	(896,670)	25,400,503
Interest expense	(114,916)	(91,702)	(50,677)	(21,747)	(2,805)	(281,847)
Interest income	517	3,152	2,215	110	—	5,994
Stock compensation expense	(611,666)	—	—	—	—	(611,666)
Income (loss) before income taxes	\$ 17,643,515	\$ 1,602,269	\$ 6,407,253	\$ (240,578)	\$ (899,475)	\$ 24,512,984

Compliance Report

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Directors
Vatterott Educational Centers, Inc.

We have audited the consolidated financial statements of Vatterott Educational Centers, Inc. (the Company) as of December 31, 2011 and 2010, and have issued our report thereon dated April 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

April 9, 2012

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services.

Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

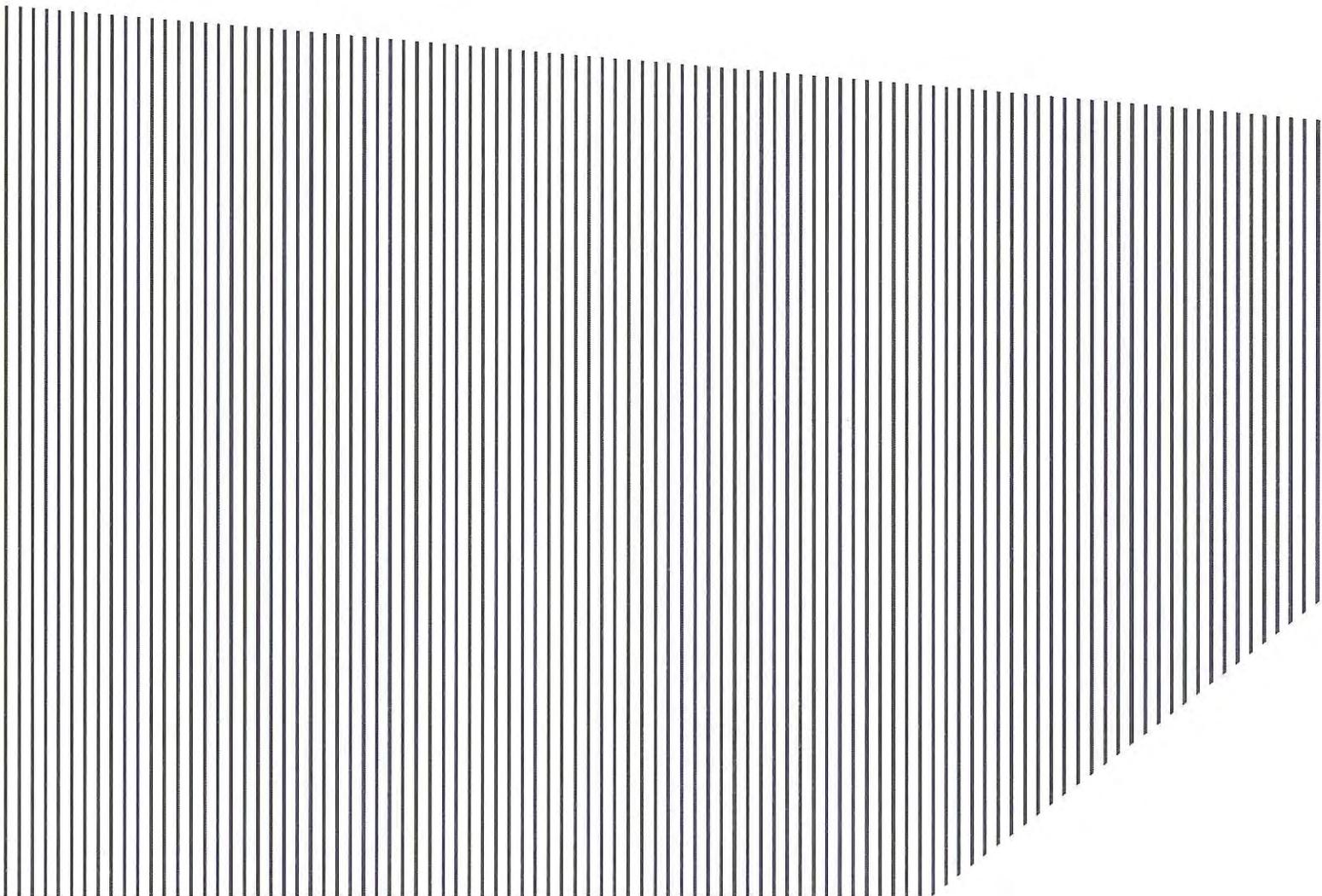


Exhibit 13

LEASE AGREEMENT

This Agreement is made and entered into as of this 21st day of March 2007 between WEST LAKES PROPERTIES, L.C., an Iowa limited liability company, ("Landlord") and VATTEROTT EDUCATIONAL CENTERS, INC., a Missouri corporation ("Tenant") (the "Lease"). The parties agree:

1. Premises.

A. Landlord leases to Tenant and Tenant leases from Landlord the following described premises situated in the City of Des Moines, County of Polk, State of Iowa, more particularly described as:

That certain tract of land consisting of approximately 5.5161 acres described on Exhibit "A-1" attached as a part hereof (the "Land"), together with a building designed by Jack Holleran of Holleran, Dultsman Architects (the "Building") containing approximately 43,036 square feet as measured from the exterior wall face to exterior walls face (the "Premises GRA") to be constructed by Landlord and located on the Land, together with all Leasehold Improvements to be constructed by Landlord and (as defined in the Construction Rider attached to this Lease as Exhibit "C" and by this reference made a part hereof. The Land, Building and other Leasehold Improvements together with all appurtenances thereunto belonging are herein collectively referred to as the "Premises". A site plan ("Site Plan") graphically depicting the Land, the proposed location of the Building and the parking field and drive lanes is attached hereto as Exhibit "A-2" and made a part hereof.

B. Landlord also leases and grants to Tenant all privileges, appurtenances, equipment, machinery, fixtures and any other improvements, if any, now or hereafter situated on, belonging or appertaining to the Premises.

2. Use.

The Premises may be used by Tenant for the use and operation of a vocational school and administrative offices and for any other lawful use. Tenant will set its hours and days of operation, if any, in its sole discretion.

3. Term.

A. The term of this Lease shall commence on the Commencement Date (hereinafter defined) and terminate twelve (12) complete Lease Years (as hereinafter defined) thereafter (the "Term"). The Commencement Date shall be the later of November 6, 2007, or the date of Substantial Completion (as defined in the Construction Rider) of the Leasehold Improvements. Tenant shall have the right, without payment of rent or other charges but otherwise subject to the terms of this Lease, to enter the Premises prior to the Commencement Date to inspect the same and to install its furniture, fixtures, and equipment.

B. Landlord shall construct the Building and other Leasehold Improvements on the Land and perform all other work required for the construction and completion of the Leasehold Improvements and tender possession of the Premises in Substantially Completed condition on or before the November 6, 2007 ("Target Completion Date"). Landlord and Tenant have agreed to adhere to the dates described upon Schedule 2 to the Construction Rider (singularly, a "Key Date" and collectively, the "Key Dates"). In the event a Key Date is missed, and such failure causes an anticipated delay in the Target Completion Date, Landlord: (a) agrees to immediately notify Tenant and to utilize its best efforts to cause the Leasehold Improvements to be completed on or prior to the Target Completion Date; and (b) agrees to extend the term of the existing Lease Agreement dated April 9, 2001, between Tenant and Landlord for property at Walnut Woods Business Center, Suite 290, 6100 Thornton Avenue, Des Moines, Iowa as amended on the same terms and conditions including rent in effect on December 31, 2007 for the period commencing on the end of the current lease term and ending on the earlier of the date Tenant ceases to operate in said premises or 60 days after the Commencement Date. Increased costs attributable to Landlord's undertaking to complete the Leasehold Improvements by the Target Completion Date (e.g. overtime costs, winter conditions, increased materials costs) and attributable to Tenant's acts or omissions or force majeure and not attributable to a default of Landlord shall become a component of the Total Project Costs.

C. Notwithstanding the date set for the commencement of the Term and the later commencement of Base Rent, all other provisions of this Lease shall be effective as of the date hereof.

D. Subject to the terms of Section 7A, hereof, upon the expiration of this Lease, or its earlier termination, Tenant agrees to remove its moveable trade fixtures and equipment and will otherwise surrender to Landlord possession of the Premises in "broom clean" condition and in good condition and repair except for (i) damage by fire or other casualty not required to be repaired by Tenant under the Lease, (ii) eminent domain, (iii) repairs and replacements for which Landlord is responsible, if any, (iv) alterations as permitted by this Lease unless consent was conditioned on their removal, and (v) ordinary wear and tear. For the purposes of this Lease, the phrase "good condition and repair" shall mean that Tenant shall be required to repair the holes in the walls and floors, if any, which may be made as a result of the removal of its fixtures and equipment upon the termination of this Lease, but not the nail or screw holes in the walls and floors, if any, which were made to install such fixtures and equipment in the first place.

E. If Tenant, without Landlord's consent, remains in possession of the Premises after expiration, or termination of this Lease, as provided herein, Tenant's holding over shall constitute a month-to-month tenancy, except that the monthly payments of Base Rent shall be increased twenty-five percent (25%) above the Base Rent in effect immediately prior to such holding over and Tenant shall be liable to Landlord for any damages sustained by Landlord as a result of Tenant's holding over without Landlord's consent.

F. Notwithstanding anything contained in the Lease to the contrary, Tenant does not, either expressly or by implication, directly or indirectly agree to open or to operate a business in the Premises, the rent reserved hereunder constituting the entire consideration for Landlord's entering into this Lease.

G. The term "Lease Year" as used in this Lease shall mean each consecutive twelve (12) calendar month period during the Term beginning on the Rent Commencement Date as hereinafter defined. Any charges or payments due from Tenant for partial Lease Years or partial months shall be prorated on a per diem basis.

4. Base Rent.

A. Base Rent shall constitute the rent due from Tenant to Landlord under this Lease and shall begin to accrue from, and the Base Rent payment shall be due to Landlord on, the Rent Commencement Date. If the Premises are delivered to Tenant in Substantially Completed Condition on or before the Target Completion Date, the Rent Commencement Date shall be the earlier of (i) January 1, 2008 and (ii) thirty (30) days after Tenant opens for classes in the Building. These dates for the Rent Commencement Date shall be extended, on a day-by-day basis for each day the delivery of the Premises to Tenant as required hereby is delayed beyond the Target Delivery Date. Landlord will designate one person, firm or corporation to receive rent payments. The rent shall be made payable to Landlord and mailed to Landlord's address as outlined in the "Notice" Section of this Lease until the payee or address is changed by written notice from Landlord to Tenant. Landlord's Federal Employer Identification Number is: 421330713.

B. Tenant agrees to pay annual Base Rent as of the Rent Commencement Date equal to the Total Project Costs, as defined on Exhibit "B" attached as a part hereof, times the following annual rental constant:

Lease Years 1-3 @ 8.30%

Lease Years 4-6 @ 8.80%

Lease Years 7-9 @ 9.33%

Lease Years 10-12 @ 9.90%

Base Rent shall be paid on a monthly basis on or before the first day of each calendar month, except that the first installment of Base Rent shall be due and payable on the Rent Commencement Date. Accordingly, not later than 90 days after the Commencement Date, Landlord and Tenant shall agree, in the manner provided for in this Lease, to the calculation of Base Rent (on a per square foot basis) and shall reconcile any difference between the Base Rent theretofore paid by Tenant and the Base Rent then agreed to by Landlord and Tenant. Such an agreement shall be evidenced by an amendment to this Lease which shall fix the Base Rent for the Term, as well as the Commencement Date the Rent Commencement Date and the date the Term of this Lease is set to end by effluxion. Base Rent for a partial calendar month shall be prorated by multiplying the monthly installment of Base Rent by a fraction, the numerator of which is the number of days of the partial month and the denominator of which is the total number of days in such partial calendar month. Until the Base Rent has been fixed as provided herein, Tenant shall pay the sum of \$48,402.61 as monthly Base Rent.

C. If any payment of any Base Rent or Additional Rent (as defined in Section 9) payable to Landlord shall be delinquent beyond any applicable cure period, Tenant shall pay interest thereon from the date such payment became due and payable to the date of receipt thereof by Landlord at a rate per annum (the "Default Interest Rate") equal to the greater of (i) four percent (4%) above the rate reported in the *Wall Street Journal* as the prime rate declared to be the base rate on corporate loans posed by at least 75% of the nation's 30 largest banks or (ii) the rate of interest on any loan currently secured by the Premises plus four percent (4%) but not in excess of the highest rate permitted by applicable law.

D. This Lease is a net lease and it is agreed and intended that Base Rent, Additional Rent and any other amounts payable hereunder by Tenant shall be paid (except to the extent otherwise expressly specified in this Lease), without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction and that Tenant's obligation to pay all such amounts throughout the Term is absolute and unconditional.

5. Landlord's Warranties.

Landlord warrants and represents that presently, and during the Term:

A. Landlord has the full power and authority to execute and deliver this Lease and perform its obligations under this Lease and the person signing on behalf of Landlord has authority to do so.

B. The execution and delivery of this Lease and the construction of the Leasehold Improvements shall not be precluded by or cause a breach of any agreement, mortgage, contract or other instrument or document to which Landlord is a party or to which the Premises is subject and no third party consents or approvals are required in order for Landlord to enter into this Lease and perform the construction of the Leasehold Improvements, except for governmental building permits and approvals.

C. The Premises is, and after completion of construction of the Leasehold Improvements will be, in good condition and repair, and in full compliance with the Declaration and all applicable laws, regulations, environmental laws, and building and health codes in effect as of the Commencement Date. There are no underground storage tanks under the Premises. Landlord agrees, at Landlord's expense, to remove any hazardous materials or toxic materials from the Premises which are present on the Premises on or prior to the Commencement Date or disposed by Landlord in the Premises thereafter.

D. As of the Commencement Date, the Premises shall be zoned to permit the operation of the Premises for the use and operation of a vocation school and administrative offices. Landlord shall obtain all necessary governmental consents, permits, approvals and zoning approvals for the construction and operation of the Premises for Tenant's intended use, and shall provide Tenant, on or before the Commencement Date, with evidence of satisfactory zoning for the use of the Premises for the operation of a vocational school and administrative offices.

E. Tenant, upon paying the rent and performing its obligations as herein provided, shall and may peaceably and quietly have, hold, occupy and enjoy the Premises.

F. All utility service lines, including gas, electric, telephone, water, sanitary sewer and other utilities sufficient to meet Tenant's requirements shall be constructed by Landlord as part of the Leasehold Improvements; provided that from and after the Commencement Date Tenant shall be responsible for contracting for and paying for all costs relating to all utilities servicing the Building and the Premises. However, Landlord shall supply adequate meters for the purpose of measuring all utilities payable by Tenant and consumed by Tenant in the Premises pursuant to the terms of the Construction Rider. Tenant agrees to pay charges only for utility services furnished and used by Tenant upon the Premises during the Term, excluding any and all connection fees, hook-up charges, impact fees, and other similar costs related to the initial start-up expenses for providing such services to the Premises, which shall be paid by Landlord and included as a component of the Total Project Costs.

G. To the extent required, the Premises will be in full compliance with Title III of the Americans with Disabilities Act of 1990, all regulations issued thereunder and the Accessibility Guidelines for Buildings and Facilities issued pursuant thereto, as the same are or will be in effect as of the Commencement Date and during the Term (the "ADA").

H. During the Term, Landlord shall not charge for any of the parking spaces, nor relocate or reconfigure the parking spaces on the Premises, nor lessen the total number of parking spaces for the exclusive use of Tenant, which shall be not less than two hundred eighty spaces (280) ("Tenant Parking"), without the prior written consent of Tenant.

6. Taxes.

A. Landlord shall pay, when due, all real estate taxes, general and special assessments and any other charges, levies or impositions levied or assessed upon the Premises. Tenant's reimbursement of Landlord therefore is described in Section 9, hereof. Airport Commerce Park South is located in the City of Des Moines and therefore qualifies for a three year 100% tax abatement on the value of the Building. Landlord agrees to (i) file for the tax abatement with the City of Des Moines and (ii) pass on the abatement to Tenant. Since the Premises include a portion of Lot 20 which is assessed as a part of a larger parcel for tax purposes, taxes shall be prorated based upon the ratio that the assessed value of the Premises bears to the assessed value of the larger parcel (land only, excluding improvements) until such time as the Premises become separately assessed. Landlord agrees to request and use best efforts to cause the Premises be separately assessed for tax purposes as soon as possible.

B. Landlord shall have the right to contest the real estate tax assessment for the Premises subject to the following: (i) Landlord shall promptly notify Tenant upon the receipt of a new assessment value for the Premises of its decision whether it will contest a real estate tax assessment, (ii) if Landlord fails to contest an assessment when it is able to do so then Tenant may contest such assessment subject to the terms hereof and (iii) any net refunds shall reduce the Additional Rent paid by Tenant during the Term.

7. Tenant's Alterations.

A. Provided that no Event of Default has occurred and is continuing, Tenant shall have the right to make non-structural alterations, additions, improvements or replacements in the Building, provided Tenant shall notify Landlord in writing of the nature and scope of such alterations, additions, improvements and/or replacements prior to commencement. If Landlord will require Tenant to remove such alterations upon the termination of this Lease, Landlord shall so notify Tenant within thirty (30) days after being notified by Tenant of the same. Tenant agrees that such alterations will comply with all applicable laws and Tenant will keep the Building and the Premises free from mechanics' liens that may arise out of such work.

B. The alterations set forth in this Section 7 shall be designated as Tenant's Improvements. Landlord may require, as provided for in Section 7A, that Tenant's Improvements shall be removed prior to the expiration of this Lease and the Premises restored to the condition they were in on the Commencement Date with reasonable wear and tear excepted or, if Landlord does not require removal of the Tenant Improvements, Landlord may retain the Tenant's Improvements (other than Tenant's trade fixtures and personal property) as a part of the Building. Under no circumstances shall Tenant be obligated to remove paint, wall coverings or floor covering installed as part of a Tenant alteration, Tenant's removal obligations being limited, if at all, to its trade fixtures and personal property. Tenant shall maintain or cause to be maintained at all times during the construction of Tenant's Improvements a builder's risk insurance policy naming Landlord and its lender as additional insureds.

C. Landlord shall not make any alterations to the Premises (including, without limitation, changing the design, color or materials of the exterior of the Premises) nor shall Landlord construct any additional improvements on the Premises without the Tenant's prior written consent.

8. Repairs, Maintenance and Services.

A. During the Term, Landlord shall, at its sole cost and expense:

(i) subject to the terms hereof, replace, when necessary, the parking lot, and the structural elements of the Building, including, by way of illustration and not limitation: structural walls, trusses, beams, foundations, and the roof; and

(ii) make all repairs or replacements necessary due to or arising out of the grossly negligent or intentional act of Landlord, its agents, employees, or by reason of the breach of the Lease by Landlord; and

(iii) make all repairs and replacements required of Landlord pursuant to Section 13 and 14; and

(iv) make all replacements and repairs to the non-structural elements of the Premises (including, without limitation, the maintenance, repair and replacement of HVAC units

and the electrical, plumbing, mechanical and/or fire alarm system located in or serving the Premises) until the first (1st) anniversary of the Commencement Date, and thereafter for such periods of time and to the extent any such non-structural elements are covered by any contractors', manufacturers', vendors', or insurers' warranties or guaranties; and

(v) use its best efforts to enforce all warranties and guaranties received in connection with the construction of the Premises. Notwithstanding such efforts, Landlord shall not be relieved from any obligations herein.

Notwithstanding anything set forth in this Section 8A, Landlord shall have no responsibility to do any of the foregoing if such damage, repair, or replacement is caused by or relates to any grossly negligent or intentional act of Tenant, its agents, employees, invitees, or contractors, or by reason of the breach of the Lease by Tenant, unless such damage, repair, or replacement is covered by warranties and guaranties received in connection with the construction of the Premises or by Landlord's insurance or the insurance Landlord is required to keep and maintain under this Lease.

B. Other than as described in subparagraph A above, Tenant shall, at its cost, during the Term of this Lease maintain in good condition and repair: (i) the non-structural interior elements of the Premises (including plate glass, the electrical, plumbing, mechanical and/or alarm systems located in and serving exclusively the Premises), and (ii) the heating, ventilation and air conditioning ("HVAC") units exclusively serving the Premises. Tenant shall further perform any repairs to any damage, subject to or except as otherwise provided for in Sections 10, 13 and 14, to the Premises which is the result of any grossly negligent or intentional act or omission of Tenant, its agents, employees, invitees or contractors or any material breach by Tenant of any provision of this Lease.

C. Landlord shall, upon reasonable prior notice to Tenant, have access to the Building at reasonable intervals during normal business hours, for examining or repairing the Building, and Landlord may enter at any time for emergency repairs. Notwithstanding the foregoing, Landlord shall not interfere with the conduct of Tenant's business.

D. Tenant shall be responsible, at its sole cost and expense, for the performance of Legal Compliance Work (hereinafter defined): (a) pertaining to the interior or elements of the Premises which are neither structural nor comprise a major building system serving the Premises; or (b) required as a result of Tenant's use of the Premises as described in Section 2; provided, however, that the foregoing shall not relieve Landlord of its obligations to perform the construction of the Leasehold Improvements in accordance with this Lease and all legal requirements of the repairs as required in this Lease. Legal Compliance Work which is not the obligation of Tenant shall be performed by Landlord and unless the same are repairs to be performed by Landlord under Section 8 or other obligations to be performed by Landlord at Landlord's cost under this Lease, the cost of Legal Compliance Work shall be added to Base Rent using the annual rental constant defined in Section 4B. As used herein "Legal Compliance Work" shall mean any obligation, addition, alteration, improvement, or rebuilding, structural or otherwise, to the Premises or any part thereof, which may be required by reason of Federal, State and local governmental laws, rules, regulations and ordinances regarding the physical condition of the Premises, including laws relating to the environment, human health or natural resources,

and the Declaration as defined in Section 9B. Tenant shall notify Landlord immediately if (i) Tenant becomes aware of the presence of any hazardous materials as defined under existing or future applicable laws at, on, under, emanating from, or migrating to the Premises in any quantity or manner, which could reasonably be expected to violate any environmental law or give rise to any liability or to remediation or other material obligation under any environmental law, or (ii) Tenant receives any notice, claim, demand or other communication from a governmental authority or a third party regarding the presence of any hazardous materials at, on, under, within, emanating from or migrating to the Premises.

E. Landlord shall at its cost, subject to reimbursement under Section 9, operate, maintain, repair and replace all portions of the Premises other than the interior of the Building, including, but not limited to, any and all parking areas, parking spaces, driveways, truck service ways, sidewalks, entrances, exits, lighting facilities, landscaped areas, and detention areas in a manner and to the standard by which other first-class institutional exterior areas are operated, maintained, repaired and replaced in the Des Moines, Iowa area. Without limiting the foregoing, Landlord shall provide snow, ice, rubbish and debris removal, landscaping services, adequate lighting during hours of darkness, parking lot striping and paving, and supervision. In addition to the foregoing, Landlord will also provide those additional services included in the definition of Operating Expenses.

9. Additional Rent.

A. Tenant agrees, from and after the Commencement Date and during the remainder of the Term, to reimburse Landlord for real estate taxes and general and special assessments levied by state, county or local municipal governmental units, with respect to the Premises for pro-rata share of any tax bill that relate to the Term. The real estate tax reimbursement, by Tenant to Landlord, shall be payable thirty (30) days after presentation of receipts marked paid in full. Tenant's obligation to reimburse Landlord for tax bills that relate to the Term shall survive the expiration or earlier termination of this Lease.

B. Tenant agrees, from and after the Commencement Date during the remainder of the Term, to reimburse Landlord for its pro-rata share of the Operating Expenses (as hereinafter defined) related to the use and operation of the Premises. Tenant agrees to pay to Landlord, on a monthly basis during the Term, a sum equal to one twelfth (1/12) of its estimated pro-rata share of the cost and expense of the Operating Expenses for the then current calendar year (which may be prorated for the number of months during the first Lease Year and the last Lease Year). Landlord agrees to provide Tenant with an annual reconciliation of the Operating Expenses within ninety (90) days of the end of each calendar year. In the event Landlord has collected an amount in excess of the Operating Expenses for the applicable year, Landlord shall immediately remit such overpayment to Tenant upon determination of the annual reconciliation. In the event Tenant has paid an amount which is less than the actual Operating Expenses for the then current year, Tenant shall immediately remit such underpayment to Landlord upon receipt of the annual reconciliation. For the purposes of this Lease, the following described items shall comprise the collective components of "Operating Expenses": (i) routine maintenance expenditures limited to actual cash expenditures (without administrative charges or management fees) undertaken to repair and preserve and operate the interior and exterior of the Premises, which shall include, but shall not

be limited to, parking lot, HVAC, roof, landscape and irrigation maintenance, electricity, lighting, plumbing and exterior and interior painting; (ii) the cost and expense incurred pursuant to the Management Agreement, described in Section 25, hereof; and (iii) operating expenses in effect on the date of this Lease, pursuant to the terms of that certain Declaration of Protective Covenants for Airport Commerce Park dated January 17, 1996 and recorded January 19, 1996, in Book 7330, Page 768 with the Polk County Recorder's Office, as amended by a First Amendment dated March 13, 1998, a Second Amendment dated March 6, 2000 and a Third Amendment dated June 5, 2006 (the "Declaration") excluding those items required to be maintained by Landlord under Section 8A.

C. For a period of one year following Landlord's determination of Operating Expenses for each calendar year and notice to Tenant of such determination, Landlord shall permit Tenant or Tenant's auditors, with reasonable notice, to inspect all records for Operating Expenses, costs, real estate taxes and assessments, insurance costs and any other expense passed on to Tenant under this Lease. Landlord shall promptly repay Tenant for any overpayments or unsupported costs which Tenant or its auditors identify. Landlord shall pay the reasonable cost of Tenant's audit if overpayments or unsupported costs exceed actual costs by five percent (5%) or more.

D. Notwithstanding the foregoing, "Operating Expenses" shall only mean and refer to Landlord's operating expenses for the Premises that are reasonable, actual and necessary, out-of-pocket, obtained at competitive prices and that are directly attributable to the operation, maintenance and repair of the Premises, as determined under generally accepted accounting principles consistently applied. Operating Expenses exclude, without limitation, real estate taxes and general and special assessments which are reimbursed under Section 9A. hereof, insurance costs which are reimbursed under Section 9E. hereof, leasing commissions, costs incurred by Landlord in performing and completing the Leasehold Improvements, other costs for which Landlord is being independently reimbursed, costs that would normally be capitalized under generally accepted accounting principles consistently applied, depreciation or amortization, casualty repairs, warranty and punchlist work, fines or penalties resulting from Landlord's violation of laws or rules, costs incurred to test, survey, cleanup, contain, abate, remove, or otherwise remedy hazardous materials or wastes from the Premises, and other expenses that under generally accepted accounting principles consistently applied would not be considered normal maintenance, repair or operating expenses.

E. Tenant agrees, from and after the Commencement Date and during the remainder of the Term, to reimburse Landlord for insurance costs for insurance policies, Landlord is required to procure and maintain pursuant to Section 10B and C hereof. The insurance premium reimbursement by Tenant to Landlord shall be payable within thirty (30) days after presentation of receipts of paid invoices or other evidence of payment reasonably acceptable to Tenant. Reimbursements for insurance shall be prorated if the policy includes coverage for periods other than the Term. Tenant's obligation to reimburse Landlord for insurance costs that relate to the Term shall survive the expiration or earlier termination of this Lease.

10. Insurance.

Landlord shall pay for and maintain, from the date of commencement of the construction of the Leasehold Improvements through the end of the Term, the following policies of insurance covering the Premises, which insurance shall be obtained from companies currently rated "A-/VII" or better as defined in the then-current edition of Bests Insurance Reports (or the equivalent thereof if Bests Insurance Reports is no longer published):

A. Workers' Compensation Insurance in accordance with the laws of the State of Iowa (in the event Landlord employs any employees at the Premises).

B. Commercial General Liability Insurance for the Premises with coverage for premises/operations, products/completed operations, contractual liability, and personal/advertising injury liability with combined single limits of not less than \$2,000,000.00 per occurrence for bodily injury and property damage, including Tenant as an additional insured (as defined in ISO Form CG 20 26 11 85 or its equivalent).

C. "All-Risk" Property Insurance upon all buildings, building improvements, personal property owned by Landlord, and alterations on the Premises, including, but not limited to, those perils generally covered on a Causes of Loss – Special Form, including fire, extended coverage, windstorm, vandalism, malicious mischief, and sprinkler leakage in the amount of one hundred percent (100%) of full replacement cost and loss of rents. Earth Movement and Flood coverage may be included with normal limits and deductibles for commercial buildings in the area. The Property Insurance shall also include rental income insurance, insuring that one hundred percent (100%) of the rentals (as the same may be adjusted hereunder) will be paid to Landlord for a period of up to twelve (12) months if the Premises are destroyed or damaged, as may be required by any mortgagee or any mortgage covering the Premises.

D. The specified limits of insurance may be satisfied by any combination of primary or excess/umbrella liability insurance policies. Upon Tenant's request, at the end of each five (5) Lease Years of the initial Term, and at the beginning of each extension period, Landlord shall review with Tenant the coverages and limits of any or all of the policies required above, and at that time, shall cause such coverages and liability limits to be adjusted as reasonably agreed upon by Landlord and Tenant in view of reasonable exposure anticipated over the remainder of the Term.

E. Each policy shall expressly provide that it shall not be subject to cancellation or material change without at least thirty (30) days' prior written notice to Tenant, and that the coverage provided by such insurance policy shall be deemed primary insurance and that any insurance provided by or on behalf of Tenant shall be in excess of any insurance provided by such policy. Landlord shall furnish Tenant, or cause to be furnished to Tenant, concurrently with the execution of this Lease, and prior to the inception of each successive policy period, insurance certificates, and upon request by Tenant, copies of such policies required to be maintained hereunder. All policies required to be provided by Landlord hereunder shall include an endorsement to show that such insurance carrier acknowledges the waiver of subrogation in favor of Tenant contained in Section 11, below.

F. Tenant shall be required to maintain Commercial General Liability Insurance for the operations of Tenant, in the amounts described in subsection 10B, hereof and "All-Risk" property damage insurance on the contents of the Building. Tenant shall furnish, or cause to be furnished, to Landlord and Landlord's mortgagee, prior to the inception of each successive policy period, insurance certificates, naming Landlord and Landlord's mortgagee, if any, as additional insureds, and upon request by Landlord, copies of such policies required to be maintained by Tenant hereunder. All policies of insurance required to be provided by Tenant hereunder shall include an endorsement to show that such insurance carrier acknowledges the waiver of subrogation in favor of Landlord contained in Section 11, below.

G. The proceeds of the policies of insurance required to be obtained and maintained by Landlord pursuant to this Lease shall, to the extent necessary, be used for the performance of Landlord's obligations under Section 13 hereof (it being agreed that such proceeds delivered to Landlord's lender may be disbursed in accordance with such lender's reasonable disbursement requirements).

11. Waiver of Subrogation.

Notwithstanding any other provisions herein, Landlord and Tenant on their own behalf and, on behalf of its insurers, and on behalf of anyone claiming under or through either one by way of subrogation, hereby release and waive all rights of recovery and causes of action against each other from any and all liability for any loss or damage to property or resulting from damage to such property, whether caused by the negligence or fault of the other party, which is normally insured under Special Form property insurance (formerly known as "All Risk") and time element insurance required to be maintained hereunder. Landlord and Tenant agree to furnish to each insurance company which has or will issue policies of "All-Risk" Property Insurance on the Premises, notice of the terms of the mutual waivers contained herein and to have the insurance policies properly endorsed, if necessary, to acknowledge the subrogation waivers contained herein.

12. Indemnity.

A. Except as otherwise provided in Section 11 hereof, Tenant covenants to defend and indemnify Landlord and hold Landlord harmless from and against any and all claims, actions, damages, liability and expense, including reasonable attorneys' fees, (x) in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in or upon the Premises, or any part thereof during the Term, or (y) occasioned wholly or in part by any act or omission of Tenant, its agents, contractors, employees, servants or licensees, except to the extent such claims, actions, damages, liabilities and expenses are caused by the acts or omissions of Landlord, its agents, contractors, licensees, employees, or for which any of said parties may be statutorily liable.

B. Except as otherwise provided in Section 11 hereof, Landlord covenants to defend and indemnify and hold Tenant harmless from and against any and all claims, actions, damages, liability and expense, including reasonable attorneys' fees, in connection with loss of life, personal injury and/or damage to property occasioned wholly or in part by any act or omission of Landlord, its agents, contractors, employees, servants, tenants (other than Tenant), occupants or

licensees, except to the extent such claims, actions, damages, liability or expense are caused by the acts or omission of Tenant, its agents, contractors, licensees or employees, or for which any of said parties may be statutorily liable.

13. Damage or Destruction.

A. If during the Term the Premises are partially damaged or destroyed by fire or any other casualty but Tenant remains open for business, Landlord, shall, at Landlord's expense, promptly, with due diligence, but in no instance later than ninety (90) days from the date of the casualty, commence to rebuild, repair and restore the Premises to substantially the same condition existing immediately prior to the damage or destruction and complete the restoration as soon as reasonably practicable thereafter, but in any event within one hundred eighty (180) days thereafter. If Landlord fails to do so, Tenant may terminate this Lease at any time thereafter by giving written notice to Landlord, or take over the restoration itself and charge Landlord for all costs of doing so. From the date of the damage or destruction, Base Rent, Additional Rent and all other charges payable by Tenant shall abate in the proportion that the square footage of the part of the Building destroyed or rendered unfit for Tenant's use bears to the total square footage in the Building.

B. If during the Term the Building is totally destroyed by fire or other casualty, or the Premises are rendered unfit for Tenant's use, in Tenant's commercially reasonable judgment, by fire or other casualty:

(i) Base Rent, Additional Rent and all other charges payable by Tenant shall abate, from the date of the fire or casualty, until the Building has been restored as herein provided; and

(ii) Landlord shall promptly pay to Tenant any unearned Base Rent, Additional Rent or other charges paid by Tenant, or Tenant shall promptly pay to Landlord any Base Rent earned and unpaid; and

(iii) during the first ten (10) Lease Years, Landlord, shall, at Landlord's expense, promptly, with due diligence, but in no instance later than ninety (90) days from the date of the casualty, commence to rebuild, repair and restore the Premises to substantially the same condition existing immediately prior to the damage or destruction and complete the restoration as soon as reasonably practicable thereafter, but in any event within one hundred eighty (180) days thereafter; if Landlord fails to do so, Tenant may terminate this Lease at any time thereafter by giving written notice to Landlord, or take over the restoration itself and charge Landlord for all costs of doing so; and

(iv) during the last two (2) Lease Years and the cost to Landlord of repairing or restoring the Building to its original condition exceeds thirty-five percent (35%) of the replacement cost of the Building, then either Landlord or Tenant shall have the right to cancel this Lease, within ninety (90) days of the fire or other casualty, by Notice to the other, as the case may be. In the event that neither Landlord nor Tenant provides the other party with Notice of cancellation of this Lease then, in that event, Landlord shall, at its expense,

promptly restore the Building to substantially the same condition existing immediately prior to the fire or other casualty.

14. Eminent Domain.

A. Landlord shall promptly notify Tenant in writing of any proposed taking or condemnation which will affect the Premises.

B. If any part or all of the Premises are involved in a taking or condemnation and the Lease is not terminated pursuant to the terms of Paragraph 14C, the rights of Landlord and Tenant to share in the proceeds of any award shall be determined as follows: Landlord shall be entitled to the award except for any award made to Tenant for (i) the cost and expense of relocation, and (ii) loss of business, and (iii) unamortized cost of Tenant's trade fixtures, and (iv) the cost and expense removal and relocation of Tenant's trade fixtures.

C. Tenant shall have, at its option, the right to terminate this Lease upon a taking or condemnation of any of the following: all or any substantial portion of the Premises which prohibits Tenant from operating its business as determined in its commercially reasonable discretion, a portion of Tenant parking that reduces parking below the required parking for the Premises which is not replaced on or immediately adjacent to the Premises within sixty (60) days from the effective date of such taking or condemnation (subject to weather conditions and seasonal availability of construction materials, e.g. asphalt), or a point of ingress and egress to and from the Premises from and to the public right-of-way, for which an alternative point of ingress and egress to the public right of way cannot be procured by Landlord within thirty (30) days of the effective date of such taking or condemnation. Landlord shall have the right to terminate this Lease upon a taking or condemnation of all or a substantial portion of the Premises, unless the taking or condemnation was instituted or commenced at Landlord's request, directly or indirectly.

D. If Tenant elects to terminate this Lease under this Section, Tenant shall notify Landlord in writing of this election within sixty (60) days after the taking to be effective on the date title vests in the condemning authority. Tenant's rental obligation shall cease as of the date title vests in the condemning authority, and Landlord shall promptly refund Base Rent, Additional Rent and other charges paid by Tenant for periods beyond that date.

E. If Tenant does not elect to terminate this Lease, Landlord shall, at its sole cost, promptly and diligently repair, alter, raze and restore the remaining part of the Premises, replace the parking area taken and/or replace the points of ingress and egress taken, so the improvements are made into a complete architectural unit, and the Premises, parking areas and points of ingress and egress are returned to, as nearly as reasonably possible, the condition existing prior to the taking or condemnation. Tenant shall not be obligated to make any payment or contribution toward the repair or restoration work. Tenant's rental obligation shall be proportionately reduced by the percentage of the Premises taken.

15. Default.

(A) The following events shall constitute "Lease Events of Default":

(i) Tenant shall fail to make any payment of Base Rent and/or Additional Rent within five (5) days after Tenant receives written notice from Landlord of Tenant's failure to pay Base Rent and/or Additional Rent when due;

(ii) Tenant shall fail to make any payment of Base Rent and/or Additional Rent when due, at any time during a calendar year in which Tenant has already received three (3) notices of its failure to pay Base Rent and/or Additional Rent by the date when due;

(iii) Tenant shall fail to timely perform or observe any covenant or agreement (not otherwise specified in this Section 15) to be performed or observed by it hereunder and such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord or Landlord's lender; provided that the continuation of such a failure for thirty (30) days or longer after such notice shall not constitute a Lease Event of Default if such failure cannot reasonably be cured within such thirty (30) day period, and Tenant shall be diligently and continuously prosecuting the cure of such failure; provided, that such failure must be cured within the earlier of one hundred eighty (180) days after written notice and the expiration of the term of this Lease;

(iv) Tenant shall fail to provide Landlord and Landlord's lender with evidence of insurance as provided in, and within the time period set forth in Section 10 and such failure shall continue for a period of ten (10) days after notice of such failure to Tenant from Landlord or Landlord's lender;

(v) any representation or warranty made by the Tenant herein shall prove to have been incorrect in any material respect when such representation or warranty was made;

(vi) (a) Tenant makes any general arrangement or assignment for the benefit of creditors; (b) becomes a "debtor" as defined in 11 U.S.C. § 101 of the Bankruptcy Code or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (c) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days; or (d) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease where such seizure is not discharged within sixty (60) days; provided, that in the event that any provision of this subsection (vi) is contrary to any applicable law, such provision shall be of no force of effect; or

(vii) Tenant shall have assigned this Lease or sublet the Premises in violation of Section 17.

B. Enforcement Remedies. Upon the occurrence of any Lease Event of Default and at any time thereafter so long as the same shall be continuing, Landlord may, at its option, by notice to Tenant do one or more of the following as Landlord in its sole discretion shall determine:

(i) Landlord may, by notice to Tenant, terminate this Lease as of the date specified in such notice; however, (A) no reletting, reentry or taking of possession of any or all of the Premises by Landlord will be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention is given to Tenant, (B) notwithstanding any reletting, reentry or taking of possession, Landlord may at any time thereafter elect to terminate this Lease with respect to any or all of the Premises, and (C) no act or thing done by Landlord or any of its agents, representatives or employees and no agreement accepting a surrender of any or all of the Premises shall be valid unless the same be made in writing and executed by Landlord;

(ii) Landlord may (a) demand that Tenant, and Tenant shall upon the written demand of Landlord, return the Premises promptly to Landlord in the manner and condition required by, and otherwise in accordance with all of the provisions of, Section 3D as if the Premises were being returned at the end of the Lease Term, and Landlord shall not be liable for the reimbursement of Tenant for any costs and expenses incurred by Tenant in connection therewith, and (b) without prejudice to any other remedy which Landlord may have for possession of the Premises, enter upon the Premises and take immediate possession of (to the exclusion of Tenant) the Premises and expel or remove Tenant and any other person who may be occupying the same, by summary proceedings or otherwise, all without liability to Tenant for or by reason of such entry or taking of possession, whether for the restoration of damage to property caused by such taking or otherwise and, Tenant shall be responsible for the reasonably necessary costs and expenses of reletting for the remainder of the Term, including brokers fees, security costs and the costs of any repairs made by Landlord. The provisions of this Section 15B shall operate as a notice to quit and shall be deemed to satisfy any other requirement or provisions of Iowa law which may require Landlord to provide a notice to quit or of Landlord's intention to re-enter any or all of the Premises and any such requirements or provisions are hereby waived by Tenant;

(iii) Except as Landlord may otherwise be required by applicable laws, Landlord may hold, keep idle or lease to others the Premises as Landlord in its sole discretion may determine, free and clear of any rights of Tenant and without any duty to account to Tenant with respect to such action or inaction or for any proceeds with respect to such action or inaction, except that Tenant's obligation to pay Base Rent and Additional Rent from and after the occurrence of a Lease Event of Default shall be reduced by the net proceeds, if any, received by Landlord from leasing the Premises to any person, or allowing any person to use the Premises, other than Tenant for the same periods or any portion thereof;

(iv) Landlord may retain and apply against Landlord's damages all sums which Landlord would, absent such Lease Event of Default, be required to pay to, or turn over to, Tenant pursuant to the terms of this Lease; or

(v) Landlord may exercise any other right or remedy that may be available to it under applicable laws or in equity, or proceed by appropriate court action (legal or equitable) to enforce the terms hereof or to recover damages for the breach hereof including without limitation, the right to sue for and collect the present value of all future Base Rent from date of termination for the balance of the Term (if the Lease had not been terminated) discounted monthly at the annual rate then in effect as the Discount Rate of the Federal Reserve Bank of New York. Separate suits may be brought to collect any such damages for any period or periods

with respect to which Rent shall have accrued, and such suits shall not in any manner prejudice Landlord's right to collect any such damages for any subsequent periods, or Landlord may defer any such suit until the expiration of the Term, in which event such suit shall be deemed not to have accrued until the expiration of the Term.

C. Remedies Cumulative; No Waiver; Consents; Mitigation of Damages. To the extent permitted by, and subject to the mandatory requirements of, applicable laws, each and every right, power and remedy herein specifically given to Landlord or otherwise in this Lease shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by Landlord, and the exercise or the beginning of the exercise of any power or remedy shall not be construed to be a waiver of the right to exercise at the same time or thereafter any right, power or remedy. No delay or omission by Landlord in the exercise of any right, power or remedy or in the pursuit of any remedy shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of Landlord or to be an acquiescence therein. Landlord's consent to any request made by Tenant shall not be deemed to constitute or preclude the necessity for obtaining Landlord's consent, in the future, to all similar requests. No express or implied waiver by Landlord of any Lease Event of Default shall in any way be, or be construed to be, a waiver of any future or subsequent Lease Event of Default. Landlord shall use reasonable efforts to mitigate any damages suffered by Landlord that result from a Lease Event of Default.

D. Landlord's Default. Landlord's failure to perform or observe any of its Lease obligations after a period of thirty (30) days or such additional time, if any, that is reasonably necessary to promptly and diligently cure the failure after receiving notice from Tenant is a "Landlord Default". Provided, however, that the cure period shall not apply to emergencies. The notice shall give in reasonable detail the nature and extent of the failure and identify the Lease provision(s) containing the obligation(s). After Tenant receives notice of a mortgagee's name and address and request for notice upon Landlord Default, Tenant shall provide the notice required by this paragraph to the mortgagee at the same time Tenant gives notice to Landlord. If Landlord commits a Landlord Default, Tenant may pursue any remedies given in this Lease or that may be available to it under applicable laws or in equity.

E. Self-Help. If either party defaults ("Defaulting Party"), the other party ("Non-defaulting Party") may, without being obligated and without waiving the default, cure the default. The Defaulting Party shall pay the Non-defaulting Party upon demand, all reasonable costs, expenses and disbursements incurred by the Non-defaulting Party to cure the default.

16. Subordination, Non-Disturbance and Attornment.

If the Premises are, or become subject to one or more mortgages:

A. Subordination. This Lease and Tenant's right hereunder are subordinate to the lien of any and all mortgage or mortgages on the Premises; provided, however, upon notice to Tenant by any such mortgagee, this Lease and the rights of Tenant shall become superior, in whole or in