

Arizona leaders were intrigued by the possibility of acquiring an established institution. Their articulated rationale included the factors set forth below.

• Opportunity for national extension of UA's great mission of offering expanded

- Flexible operations and a lower cost structure, permitting responsive innovation and growth.
- Potential positive revenue generation for UArizona.
- Designated pathways and transfer agreements to propel increased enrollment for UArizona's existing primary online initiative, Arizona Online.
- Potential opportunities for online students to move to UArizona's main campus programs.
- Potential platform for global expansion, complementing UArizona's international programs and micro-campuses.

While UArizona had been interested in expansion of its online programs for some time, the onset of the COVID-19 pandemic that same month (March 2020) brought a sense of urgency, as colleges and universities around the country shut down their on-campus programs.

Although UArizona conceivably might have targeted other online universities for acquisition, Ashford University presented certain unique advantages, including those set forth below.

- Nearly 90% of Ashford students were over the age of 25.
- A majority of Ashford students were non-white, with 71% female and 25% associated with the military.
- An innovative award-winning approach to all-online education, offering students one five-week course at a time, with 50 academic starts each year (rather than the typical semester or trimester approach).
- Small average class size and low student-to-faculty ratio.
- Highly-rated by students relative to other peers in the online higher education market.
- Academically challenging based on external reviews and rankings, comparable to the top 10% of four-year colleges in the U.S.
- Over 2,300 faculty, over 50% of whom held Ph.D. or other doctoral degrees.

UArizona leaders viewed this opportunity as consistent with UArizona's land grant heritage, aligned with

University's future operations. From a legal standpoint, UArizona enlisted its long-standing transaction

During this period of due diligence, financial analysis, and assessment of regulatory issues, UArizona leaders identified several "Guiding Principles" for a potential transaction:

- Minimize downside risk to UArizona;
- Protect UArizona's academic reputation and brand;
- Maintain high academic standards and opportunities for the students;
- Continue accreditation of the online university;
- Establish positive funds flow from the online university to UArizona;
- Maintain flexibility to permit innovation and growth; and
- Protect UArizona's interests through the transaction and corporate structure, governance, and affiliation agreement.

Early in negotiations, Zovio insisted that the acquisition would be comprised of two separate components, each with its own definitive agreement: (i) the purchase and sale of Ashford's assets and operations; and (ii) a 15-year agreement under which Zovio would provide OPM services to UAGC Corporation. As UArizona and Zovio negotiated the Asset Purchase and Sale Agreement and Strategic Services Agreement for OPM services, a range of difficult and complex issues surfaced and were addressed in countless virtual meetings, given pandemic restrictions, and punctuated by several in-person meetings of each party's senior leaders.

The majority of the most difficult issues related to the Strategic Services Agreement, including the authority and responsibilities to be vested in Zovio as the OPM service provider, UAGC Corporation's oversight and monitoring authority with respect to Zov

Affiliation Agreement set forth a financial arrangement by which UArizona would directly share in any positive financial returns driven by UAGC's newly established ties to UArizona. Finally, the Affiliation Agreement provided UArizona with an option to acquire UAGC at any time following the third anniversary of the effective date of the Affiliation Agreement.

regulation, with robust indemnification in case those representations and warranties were later proven to be false or inaccurate. The UArizona team also obtained representations and warranties insurance (at Zovio's expense) so as to ensure a source of financial recovery in the event of a breach of certain representations and warranties.

Just as significantly, the UArizona team was focused on ensuring that the improper practices would not continue after Closing. Accordingly, in connection with the Strategic Services Agreement for Zovio's continued provision of OPM services to UAGC, the UArizona team negotiated extensively regarding the degree of authority to be vested in Zovio versus the authority to be retained by UAGC Corporation and, as to certain matters, by UArizona itself. Ultimately, the final Strategic Services Agreement signed at Closing confirmed that UAGC Corporation would have meaningful oversight authority of Zovio in the latter's performance of OPM services, including the ability to impose financial penalties for Zovio's failure to meet 26 agreed-upon key performance indicators.

(iii) Upon Closing, UAGC Corporation immediately instituted measures to retrain the former Ashford workforce, to implement new policies and procedures ensuring compliance, and to monitor Zovio's adherence to its contractual commitments, including compliance with regulatory and ethical standards.

Upon Closing on December 1, 2020, leadership of UAGC Corporation – specifically, Mr. Pastorek, initially in the role of advisor, then as Interim President, and eventually as President of UAGC Corporation – immediately asserted oversight of Zovio's performance of OPM services to prevent the occurrence of any questionable practices in marketing and enrolling students. Under Mr. Pastorek's leadership, UAGC

The team worked closely with Zovio on specific trainings for student-facing advisors. Finally, the team conducted independent reviews of Zovio employee document repositories and resources to ensure alignment with a single-source-of-truth model where UAGC Corporation could ensure that all information was sanctioned for use.

- Regular Meetings with Zovio Leadership – UAGC Corporation personnel held weekly meetings with Zovio’s VP of Client Management to ensure alignment on the achievement of KPIs and fulfillment of requests for information/data. In addition, UAGC Corporation leaders met on a bi-monthly basis with Zovio’s AVP for Regulatory, Risk and Corporate Compliance to address call monitoring, compliance matters, and marketing accuracy committee questions. Finally, mid-senior level leadership from both UAGC Corporation and Zovio participated in weekly operations meetings to ensure processes were aligned with the KPIs and SOWs.
- SOW and KPI Tracking – This UAGC Corporation team worked with other UAGC Corporation

Dr. Packard brings a wealth of academic experience and expertise to his leadership of UAGC. Before he accepted this new position, he served as the Dean of UArizona's College of Applied Science and Technology, having successfully integrated into UArizona a partially separate entity known as UA South. Before coming to UArizona, Dr. Packard served as the Vice Dean of Curriculum and Strategy and Vice Dean of Faculty at the U.S. Air Force Academy.

Dr. Marx, Dr. Packard, Dean of UArizona's Eller College of Management Karthik Kannan, Ph.D., and their team have already begun a detailed department-by-department, program-by-program, and in some cases course-by-course review and analysis of UAGC and the development of a plan to complete the full integration of UAGC into UArizona, including ending UAGC's status as a separately accredited Title IV institution and its operation under its separate Office of Postsecondary Education Identification ("OPEID") number. While this work is being done, Arizona Online and UAGC will be operated in a coordinated fashion under Dr. Packard's leadership. This analysis is intended to determine which UAGC programs add net value and should be continued and incorporated into UArizona, which UAGC programs do not offer sufficient educational value and should be reduced or eliminated, and how to structure this integration to best serve UAGC's students and further the mission and objectives of UArizona.

This new leadership approach represents a significant change both in substance and policy for UAGC, and it acknowledges feedback and guidance from the Department, ABOR, lawmakers, the University of Arizona community, and the market. President Robbins firmly believes that, with the leadership of Dr. Marx and Dr. Packard, this approach will allow UArizona to achieve its academic, administrative, and compliance objectives in a manner that is consistent with and furthers the mission and values of UArizona and complies with ABOR's requirements for oversight, transparency, and accountability.

Within UArizona, UAGC currently retains much of the compliance infrastructure initially implemented during Zovio's tenure as its OPM provider, now evolved to reflect current circumstances. The UAGC compliance program today includes a particular focus on standards governing student-facing enrollment practices, with four layers of oversight:

- Internal operations compliance, including a team of 13 FTEs monitoring student-facing communications and marketing compliance;
- External compliance operation, including quarterly secret shopper surveys by an external independent firm and annual live comprehensive training;
- Enrollment leadership oversight, including real time coaching and bi-weekly issue-specific trainings to enrollment advisors driven by results of internal and external monitoring; and
- Weekly meetings with Human Resources to ensure that any necessary corrective personnel actions are timely and based on the most recent data.

The most recent external compliance reviews indicate that UAGC has made significant progress in reinforcing its culture of compliance. With a view toward continuous improvement, UAGC leaders are working on new tools to aid in compliance, including speech analytics software and improved retention of monitoring data, and have an established policy of ensuring that, if any student or prospective student might be inappropriately advised or given inaccurate information, UAGC affirmatively reaches out to correct any

- Assess the strategic alignment among Arizona Online, UAGC, and CAST, including identifying any synergies, assessing how these initiatives align with the long-term goals and objectives of UArizona in relation to its mission and financial strategy, and recommending potential strategies for altering long-term goals and organization design;
- Perform a detailed financial analysis of UAGC and Arizona Online, including recommending potential efficiencies;
- Assess the organizational alignment between UAGC and Arizona Online, including assessing the financial and resource impact of the combination, and sharing leading practices pertaining to educational organizational structure for aligning key operational areas;
- Identify and assess potential risks associated with the business and organizational combination of functions related to online education, including identifying potential risk mitigation strategies;
- Assist in the development of UArizona’s detailed implementation plan for the operational combination of Arizona Online and UAGC; and
- Estimate the potential costs associated with the entire organization realignment.

EY expects to perform these activities over a 12-week period to occur between February 15 and June 30, 2024.

* * * *

ABOR and UArizona leadership would be pleased to provide additional information or to discuss any questions you may have regarding the matters described above.

Sincerely,

Regent Fred DuVal
Chair, Arizona Board of Regents



John Arnold
Executive Director, Arizona Board of Regents