RE: Action taken to meet Financial Guidance Standards

Below is a summary of steps taken by Southgate Academy, Inc.(SGA) to meet the Unrestricted Days Cash and Total Liabilities to Equity Ratio standards.

1B-Unrestricted Days Cash

SGA increased the unrestricted cash balance from $295,594 to $305,092 while decreasing the total operating expenses from 5.46 million to 5.15 million from FY 2010/11 to FY 2011/12. This effectively increased Unrestricted Days Cash from 19.7 to 21.6.*

SGA negotiated a lower interest rate on existing debt to related parties. The interest rate was reduced from 9% to the applicable federal rate (.23% as of June 30, 2012).

SGA has reduced the operating budget from 4,752,145 in FY 2011/12 to 4,349,104 in FY 2012/13. As of 1/31/2013, SGA has increased the Unrestricted Days Cash to 28.

2A - Total Liabilities to Equity Ratio

During the fiscal year ended 6/30/2012, SGA paid $689,645 in principal payments of long term debt effectively reducing the total liabilities to equity ratio from 10.27 as of 6/30/2011 to 4.95 as of 6/30/2012.

In the current fiscal year 2012/2013, SGA has paid down an additional $858,822 in long term debt to bring the total liabilities to equity ratio to 3.17 as of 12/31/12.

*In FY 2011/12 SGA suffered losses related to a micro-burst and incurred 3.22 million in expenditures related to the flooding. The expense related to flooding has been excluded for purposes of calculating the Unrestricted Days Cash.