Education Holdings 1, Inc.
and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

Education Holdings 1, Inc. and Subsidiaries
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December 31, 2017 and 2016

pwc

Independent Auditor's Report

To the Board of Directors and Management of
Education Holdings 1, Inc.

We have audited the accompanying consolidated financial statements of Education Holdings 1, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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 the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Education Holdings 1, Inc. and its subsidiaries at December 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 23, 2018

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Education Holdings 1, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2017 and 2016

(in thousands, except share amounts)	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 8,909	$ 4,442
Restricted cash	507	675
Accounts receivable, net of allowance of $402 and $378, respectively	3,885	2,781
Other receivables	48	124
Inventory	1,932	1,737
Prepaid expenses and other current assets	2,200	1,655
Total current assets	17,481	11,414
Property, plant, equipment and internal use software, net	19,799	22,837
Goodwill	27,612	33,559
Other intangibles, net	11,833	14,407
Deferred tax assets	-	131
Other assets	827	976
Total assets	$ 77,552	$ 83,324
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 171	$ 563
Accrued expenses	6,418	7,720
Current maturities of long term debt	225	1,767
Deferred revenue	15,984	14,800
Total current liabilities	22,798	24,850
Deferred rent	2	4
Long term debt, net of current portion	4,931	60,090
Deferred tax liability	185	-
Other liabilities	1,893	1,554
Total liabilities	29,809	86,498
Commitments and contingencies (Note 10)		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 30,000 shares authorized; 10,000 shares issued and outstanding at December 31, 2017 and 2016	-	-
Additional paid-in capital	64,748	4,552
Accumulated deficit	(17,629)	(8,353)
Accumulated other comprehensive income	624	627
Total stockholders' equity (deficit)	47,743	(3,174)
Total liabilities and stockholders' equity (deficit)	$ 77,552	$ 83,324

The accompanying notes are an integral part of these consolidated financial statements.

Education Holdings 1, Inc. and Subsidiaries
Consolidated Statements of Operation
December 31, 2017 and 2016

(in thousands)	**2017**	**2016**
Revenue	$ 92,734	$ 90,760
Operating expenses		
Cost of goods and services sold	24,864	26,560
Selling, general and administrative	51,756	49,738
Depreciation and amortization	17,418	15,661
Restructuring and other related expenses	-	331
Total operating expenses	94,038	92,290
Loss from operations	(1,304)	(1,530)
Other expense:		
Interest expense	(3,596)	(4,361)
Loss on extinguishment of debt	(4,215)	(1,839)
Other income (expense), net	-	5
Total other expenses	(7,811)	(6,195)
Loss before income taxes	(9,115)	(7,725)
Provision / Benefit from income taxes	161	54
Net Loss	$ (9,276)	$ (7,779)

The accompanying notes are an integral part of these consolidated financial statements.

Education Holdings 1, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
Year Ended December 31, 2017 and 2016

(in thousands)		2017		2016
Net Loss	$	(9,276)	$	(7,779)
Other comprehensive loss				
Change in unrealized foreign currency loss		(3)		-
Comprehensive loss	$	(9,279)	$	(7,779)

The accompanying notes are an integral part of these consolidated financial statements.

Education Holdings 1, Inc. and Subsidiaries
Consolidated Statements of Stockholders' (Deficit) Equity
Year Ended December 31, 2017 and 2016

(in thousands)	Stockholders' (Deficit) Equity Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' (Deficit) Equity
Balance at December 31, 2015	10	$ -	$ 38,200	$ (574)	$ 627	$ 38,253
Equity contributions (Note 7)			2,357			2,357
Stock Based Compensation			34			34
Distribution to Parent (Note 7)			(36,039)			(36,039)
Net loss				$ (7,779)		(7,779)
Change in unrealized foreign currency loss					-	-
Balance at December 31, 2016	10	$ -	$ 4,552	$ (8,353)	$ 627	$ (3,174)
Equity contributions (Note 7)			60,493			60,493
Stock Based Compensation			58			58
Distribution to Parent (Note 7)			(355)			(355)
Net loss				$ (9,276)		(9,276)
Change in unrealized foreign currency loss					(3)	(3)
Balance at December 31, 2017	10	$ -	$ 64,748	$ (17,629)	$ 624	$ 47,743

The accompanying notes are an integral part of these consolidated financial statements.

Education Holdings 1, Inc. and Subsidiaries
Consolidated Statements of Cash flows
Year Ended December 31, 2017 and 2016

(in thousands)	2017	2016
Cash flows used for operating activities		
Net loss	$ (9,276)	$ (7,779)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and Amortization	17,418	15,661
Bad debt expense	23	35
Deferred income taxes	316	14
Deferred rent	(2)	(3)
Non-cash interest	415	450
Loss on extinguishment of debt	4,215	1,839
Gain on sale of furniture, fixtures, and equipment	-	(7)
Stock based compensation	58	34
Other	338	7
Net change in operating assets and liabilities:		
Accounts receivable	(1,051)	531
Inventory	(195)	671
Prepaid expenses and other assets	(396)	998
Accounts payable and accrued expenses	(1,697)	(108)
Deferred revenue	1,184	1,505
Net cash provided by operating activities	11,350	13,848
Cash flows used for investing activities		
Purchases of furniture, fixtures and equipment	(562)	(912)
Expenditures for software and content development	(5,294)	(6,879)
Proceeds from the sale of real property	-	97
Change in restricted cash	169	498
Net cash used for investing activities	(5,687)	(7,196)
Cash flows provided by (used in) financing activities		
Proceeds from borrowings under TCW credit facilities	-	60,000
Proceeds from borrowings under TCW revolver	-	500
Equity contributions	60,493	2,357
Distribution to Parent	(355)	(36,039)
Payments of borrowings under term loan credit facilities	(59,625)	(29,775)
Payments of borrowings under revolving credit facility	-	(500)
Payments of borrowings under FNCB Mortgage	(194)	(181)
Payments of debt issue costs	(21)	(3,402)
Capital lease payments	(70)	(72)
Prepayment penalty on extinguishment of debt	(1,418)	(625)
Net cash used in financing activities	(1,190)	(7,737)
Effect of exchange rate changes on cash	(6)	(5)
Increase (decrease) in cash and cash equivalents	4,467	(1,090)
Cash and cash equivalents, beginning of period	4,442	5,532
Cash and cash equivalents, end of period	$ 8,909	$ 4,442
Supplemental cash flow disclosures:		
Cash paid for interest	$ 3,182	$ 3,895

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Business

Business

Education Holdings 1, Inc. and its consolidated subsidiaries (together, the "Company" or "EH1"), operate as one segment: Penn Foster (through the wholly owned subsidiary, Penn Foster Education Group, Inc.). Penn Foster is the oldest and one of the largest distance career schools in the world, generating over 125,000 new enrollments annually. Penn Foster provides regionally and nationally accredited, career-focused, online degree and vocational programs in the United States, Canada and over 150 other countries around the world.

On October 19, 2014, the Company entered into a Stock Purchase Agreement with TVG-I-E PFE Acquisition Inc. (the "Parent"), pursuant to which, upon the terms and subject to the conditions set forth in the Stock Purchase Agreement, Falcon Strategic Partners III, LP, Falcon Mezzanine Partners II, L.P., and FMP II Co-Investment LLC (collectively, "Falcon") and Sankaty Credit Opportunities II, L.P., Sankaty Credit Opportunities III, L.P., Sankaty Credit Opportunities IV, L.P., and Sankaty Credit Opportunities (Offshore Master) IV, L.P (collectively, "Sankaty") sold its common and preferred shares to the Company and forgave all outstanding debt issued to the Company, and the Parent became the new majority shareholder of the Company's equity.

Liquidity Risk and Management Plans

On August 31, 2016, the Company entered into a credit agreement with TCW Asset Management Company LLC as administrative agent and lender ("TCW"), pursuant to which TCW agreed to provide the Company with credit facilities consisting of $60.0 million five year term loan and $5.0 million revolving credit facility.

On July 31, 2017, the Parent settled the Company's outstanding third-party debt. The Company treated this settlement as an extinguishment of debt and an equity contribution. See Note 6 for additional details.

The Company had cash balances of $8.4 million as of December 31, 2017.

The Company believes that the cash on hand at December 31, 2017 and cash from operations will be sufficient to fund its currently anticipated cash needs for the foreseeable future.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Education Holdings 1, Inc. and its consolidated subsidiaries and have been prepared in accordance with generally accepted accounting principles ("GAAP"). All intercompany accounts and transactions have been eliminated. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accounting estimates used include estimates for revenue, uncollectible accounts receivable, deferred tax valuation allowances, impairment assessments, amortization lives assigned to intangible assets, fair values of assets and liabilities and stock-based compensation. Actual results could differ from those estimates, and such differences could be material to the accompanying consolidated financial statements.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less. The Company's cash deposits on hand at one financial institution often exceed federally insured limits.

Restricted Cash
Restricted cash represents all cash pledged as collateral to secure obligations and all cash whose use is otherwise limited by contractual provisions. Restricted cash includes funds that are held as collateral to a letter of credit agreement between the Company and the Pennsylvania Department of Education and a mortgage agreement between the Company and First National Community Bank (FNCB).

Accounts Receivable and Allowance for Doubtful Accounts
The Company provides credit to its customers in the normal course of business. Sales for the Company's business-to-consumer business are not recorded as revenue until cash is collected and therefore accounts receivable is not recorded. Accounts receivable on the Company's balance sheet is primarily related to the Company's business-to-business sales. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by type of receivable. The Company maintains an allowance for doubtful customer accounts for estimated losses that may result from the inability of the Company's customers to make required payments. That estimate is based on a variety of factors, including historical collection experience, current economic and market conditions, and a review of the current status of each customer's trade accounts receivable.

The Company charges bad debt expense when establishing this allowance and writes off account balances against the allowance when it is probable the receivable will not be recovered. The Company wrote off account balances of $0.31 million for the year ended December 31, 2017 and $0.04 million for the year ended December 31, 2016.

Inventories
Inventories consist of program and course materials and supplies. All inventories are valued at the lower of cost (first-in, first-out basis) or net realizable value.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets principally ranging from three to seven years. Buildings are depreciated over thirty years. Leasehold improvements are amortized using the straight-line method over the lesser of the lease term or its estimated economic useful life. Lease terms used are based upon the initial lease agreement and do not consider potential renewals or extensions until such time that the renewals or extensions are contracted. Upon sale or disposal, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income.

Software Development
The Company capitalizes certain direct development costs associated with internal-use software and website development. These capitalized costs are amortized on a straight-line basis over a period not to exceed three years beginning when the assets are substantially ready for use, representing the economic use period of such assets. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred.

Goodwill and Indefinite-Lived Intangible Assets
The Company has elected to adopt Accounting Standards Update ("ASU") No. 2014-02, *Intangibles - Goodwill and Other ("ASC 350"): Accounting for Goodwill*, in relation to the goodwill recorded on the Company's consolidated balance sheet. This permits the Company to amortize goodwill on a straight-line basis over a period of ten years, or less if the Company demonstrates that another useful life is more appropriate. The Company is permitted to apply a simplified impairment model to goodwill. Goodwill will be tested for impairment when a triggering event occurs that indicates that the fair value of the Company may be below its carrying amount. The Company has elected to test goodwill for impairment at the entity level. At the years ended December 31, 2017 and 2016 the Company believes there was no triggering event and no impairment of Goodwill is reflected in these statements.

Indefinite-lived intangible assets are assets that the Company believes have the continued ability to generate cash flows indefinitely and which have no legal, regulatory, contractual, competitive, and economic or other factors limiting the useful life to the Company and are recorded at fair market value on their acquisition date. These assets include trade names which represent the corporate names and brand identities. On November 30, 2014, the Company elected to adopt ASU 350 in relation to the intangible trade names on the Company's balance sheet. This permits the Company to amortize trade names on a straight-line basis over a period of ten years and assess for impairment if triggering events indicate that the carrying amount of the assets may not be recoverable. At the years ended December 31, 2017 and 2016 the Company believes there was no triggering event and no impairment of definite-lived intangible assets is reflected in these statements.

Other Intangible Assets

Course content represents the value of career programs, degree programs, high school courses and industrial training courses previously acquired and also includes certain expenditures incurred to develop course materials and curriculum. Internally developed course content costs, which primarily consist of amounts paid to consultants and salaries of employees hired to develop the course material and curriculum, are capitalized when a course is first developed or there is a major revision to a course or significant re-write of the course materials or curriculum (for example, when a related test changes). The internally developed course content costs are amortized on a straight-line basis over a period of five years, based upon the average life cycle of the related standardized test or course. Amortization of these capitalized course content costs commences with the realization of course revenues. The cost of minor enhancements or annual updates to the curriculum and materials is expensed as incurred.

Student roster and sales lead conversions are amortized on a straight-line basis over a period of three years and one year, respectively.

Deferred Revenue
Deferred revenue primarily represents customer deposits and tuition and other fees payable in advance of services. Deferred revenue primarily represents the portion of cash received from students and/or customers that is refundable under the terms of the contract and for payments received prior to delivery of services.

Revenue Recognition
The Company recognizes revenue for its arrangements when evidence of a customer agreement exists, delivery of the product or services has occurred, the price of such products or services is fixed or determinable, and collection is reasonably assured. The Company recognizes revenue

under multiple revenue streams; the revenue recognition policy related to each material revenue stream is described below.

Sales to Individual Students. Penn Foster generates revenue from sales to individual students who enroll in the Company's distance educational programs under the Company's standard tuition agreement. Revenues are recognized as exams are completed at the expected rate per exam based on the Company's historical experience over a large homogenous population. The majority of students pay for tuition under periodic payment plans. The Company has historically experienced significant nonpayment related to payment plans. Accordingly, the Company believes collectability under such arrangements is not reasonably assured, therefore revenue is not recognized until services are provided and cash is received (provided all other revenue recognition criteria have been met). Payments received prior to delivery of services are initially recorded as deferred revenue, and revenue is then recognized as exams are completed.

Business-to-Business Sales. For custom-designed and standard courses sold to businesses, the Company recognizes revenue once the final product has been shipped to the customer and the Company's obligation has been substantially fulfilled. If the contract specifies delivery over an extended period of time (generally three to 12 months), revenues are recognized ratably over the term of the agreement.

Course Materials and Other Products. The Company recognizes revenue from the sale of course materials and other products upon shipment.

Other Revenue. Other revenue consists of miscellaneous fees for other services provided to third parties primarily for advertising or mail and telemarketing services, which are recognized as the products or services are delivered. Other revenue also includes college marketing fees, such as newsletter or banner ads on the Company website, which are recognized ratably over the period in which the marketing services are provided, which is typically one year.

Rent Expense

Many of the leases underlying the Company's office sites have fixed rent escalators, which provide for periodic increases in the amount of rent payable by the Company over time. The Company calculates straight-line rent expense for these leases based on the fixed noncancelable term of the underlying lease.

Foreign Currency Translation

Balance sheet accounts of the Company's Canadian subsidiaries are translated using period-end exchange rates. Statement of operations accounts are translated at monthly average exchange rates. The resulting translation adjustment is recorded as accumulated other comprehensive income or loss.

Advertising and Promotion

Advertising and promotion costs are expensed in the period incurred. Costs related to producing mailers and other pamphlets are expensed when mailed. Total advertising and promotion expense for the Company was $18.9 million for the year ended December 31, 2017 and $19.9 million for the year ended December 31, 2016. As of December 31, 2017 and 2016, prepaid advertising costs of approximately $0.8 million and $0.5 million, respectively, were included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Restructuring and Other Related Expenses

Restructuring and other related expenses include legal and financial restructuring advisory fees and other professional fees associated with the Company's efforts to evaluate and/or pursue various alternatives for addressing its capital structure, which began in the fourth quarter of 2011. Such fees are expensed as incurred. Restructuring and other related expenses also include the cost of employee severances, noncancelable lease obligations and other costs associated with initiatives to consolidate or downsize operations, reorganize the Company management structure and/or eliminate duplicative assets and functions. Employee severance costs are expensed on the date the employee is notified, unless the employee must provide future service, in which case the severance costs are recognized ratably over the future service period. Noncancelable lease obligation costs are recognized at fair value when the Company ceases using the right conveyed by the lease. Any adjustments to previously recorded restructuring charges resulting from a change to the estimated liability are recognized in the period the change occurs. See Note 11 with respect to restructuring and other related expenses for further information.

Fair Value Measurements

For financial instruments including cash equivalents and loans payable, the carrying amount of such instrument approximates fair value.

The Company has certain financial assets and liabilities recorded at fair value which have been classified as Level 1, 2 or 3 within the fair value hierarchy as described in the accounting standards for fair value measurements.

Level 1 Quoted market prices in active markets for identical assets or liabilities. Assets utilizing Level 1 inputs include money market funds;

Level 2 Inputs other than Level 1 inputs that are either directly or indirectly observable, such as quoted market prices, interest rates and yield curves.

Level 3 Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk include cash and cash equivalents and accounts receivable arising from its normal business activities. The Company places its cash and cash equivalents with high credit-quality financial institutions. Concentrations of credit risks with respect to accounts receivable are limited due to the large number of entities and individuals comprising the payor base, and their dispersion across different states. The Company does not require collateral. Included in cash, cash equivalents and restricted cash at December 31, 2017 and 2016 is $0.15 million and $0.09 million, respectively, held in Canadian banks in Canadian dollars. A significant portion of the Company's cash is held in banks in excess of the federally insured limits.

Income Taxes

The consolidated financial statements reflect provisions for federal, state, local and foreign income taxes. The liability method is used for accounting for income taxes and deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. A change in tax rates is recognized in income in the period of the enactment date. A valuation allowance is recorded when it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Stock-Based Compensation
The Company accounts for stock-based compensation measured at the grant date fair value of the award. Stock-based compensation is recognized as expense over the applicable vesting period of the stock award (generally four years) using the straight-line method and includes an estimate of awards that will be forfeited. The Company calculates the fair value of stock options using the Black-Scholes option-pricing model.

The accounting standard also requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Because of the Company's historical net losses, and the uncertainty as to the realizability of its tax benefits, no tax benefits have been recorded.

The Company's Parent grants stock based incentive units to the Company's employees.

Subsequent Events
The Company has evaluated subsequent events through April 23, 2018, the date the Company's consolidated financial statements were available for issuance, and determined that no additional subsequent events occurred that would require recognition or disclosure in these consolidated financial statements other than as disclosed in Note 13.

3. Property, Plant and Equipment, Net

(in thousands)	December 31, 2017	December 31, 2016
Land and land improvements	$ 1,351	$ 1,334
Buildings and building improvements	5,147	5,124
Construction in progress	75	-
Development in progress	3,555	3,375
Computer equipment	3,811	3,546
Furniture, fixtures and equipment	2,135	2,106
Computer, copier and phone equipment under capital lease	327	327
Software licenses - third party	3,015	2,861
Software and web site development - internally developed	23,720	20,312
	43,136	38,985
Less: Accumulated depreciation and amortization (including $0.1 million of accumulated depreciation and amortization for assets under capital leases)	23,337	16,148
	$ 19,799	$ 22,837

Aggregate depreciation and amortization expense of the Company totaled $7.2 million for the year ended December 31, 2017 and $5.3 million for the year ended December 31, 2016.

4. Goodwill and Other Intangible Assets

The following table summarizes the activity of the Company's goodwill balance and accumulated amortization:

(in thousands)	Goodwill
Balance at December 31, 2015	$ 39,538
Less: Amortization expense	(5,979)
Balance at December 31, 2016	$ 33,559
Less: Amortization expense	(5,947)
Balance at December 31, 2017	$ 27,612

Other Intangible Assets

The following table summarizes the components of other intangible assets:

	December 31, 2017			December 31, 2016		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization						
Course content	$ 16,746	$ 12,798	$ 3,948	$ 15,040	$ 9,658	$ 5,382
Student roster	5,200	5,200	-	5,200	5,200	-
Trade names	11,400	3,515	7,885	11,400	2,375	9,025
Other intangible assets	200	200	-	200	200	-
Total other intangible assets	$ 33,546	$ 21,713	$ 11,833	$ 31,840	$ 17,433	$ 14,407

Aggregate amortization expense for the Company was $4.3 million for the year ended December 31, 2017 and $4.4 million for the year ended December 31, 2016.

Estimated future aggregate amortization is as follows:

(in thousands) **Year Ending December 31,**	
2018	2,674
2019	2,096
2020	1,847
2021	1,633
2022 and thereafter	3,583
	$ 11,833

5. Accrued Expenses

The following table summarizes the Company's accrued expenses as of December 31, 2017 and 2016:

(in thousands)	December 31, 2017	December 31, 2016
Payroll and related benefits	$ 1,970	$ 3,565
Professional Accounting & Legal Services	1,488	452
License and royalty payments	156	157
Other	2,779	3,590
	$ 6,393	$ 7,764

6. Debt

Amounts under the Company's debt arrangements consist of the following:

(in thousands)	December 31, 2017	December 31, 2016
Term loan credit facility	$ -	$ 56,449
Mortgage	5,138	5,318
Capital lease obligations	18	90
Total debt	$ 5,156	$ 61,857

The outstanding amounts above are presented net of unamortized discounts relating to original issue discounts and fees paid to lenders.

November 2014 Credit Agreement
On November 24, 2014, the Company entered into a credit agreement with Fifth Street Finance Corp. as administrative agent and lender ("Fifth Street"), pursuant to which Fifth Street agreed to provide the Company with credit facilities consisting of a $30.0 million five year term loan and a $5 million revolving credit facility.

On March 23, 2015, the Company entered into a First Amendment to Credit Agreement with Fifth Street Finance Corp. to 1) amend and restate Exhibit 4.3 to clarify how interest expense should be annualized for the periods ending March 31, 2015, June 30, 2015 and September 30, 2015, 2) amend and restate the definitions of Educational Body and Interest Expense within Annex A and 3) correct the alphabetical order of ABPPE, DEAC, and PBPLS.

On October 20, 2015, the Company entered into a Second Amendment to Credit Agreement with Fifth Street Finance Corp. in order to facilitate the University Now (UNOW) software purchase. The Second Amendment increased allowable capital expenditure spending and modified the contingent obligation language.

Borrowings under the credit facility bore interest through the maturity date of November 24, 2019 at the greater of 9.5% or the LIBOR Rate. Interest was due monthly beginning on December 31, 2014. The interest rate increased by 2% in an Event of Default. The applicable margin for LIBOR loans was 8.5% per annum. The Company also incurred unused line fee on the unused portion of the revolving credit facility of 0.5% per annum.

On August 31, 2016, the Company entered into an agreement with TCW that was partially used to relieve the outstanding debt obligation to Fifth Street. With the early termination of the Fifth Street debt, a prepayment penalty of $0.6M was paid. This transaction was considered to be an extinguishment of debt and resulted in a loss of $1.8 million and is reflected in the consolidated statement of operations as of December 31, 2016.

Senior Credit Facilities
On August 31, 2016, the Company entered into a credit agreement with TCW, pursuant to which TCW agreed to provide the Company with credit facilities consisting of a $60.0 million five year term loan and a $5 million revolving credit facility.

Borrowings under the credit facility bore interest through the original maturity date of August 31, 2021 at 8%. Interest was due monthly beginning on September 30, 2016. The Company also incurred an unused line fee on the unused portion of the revolving credit facility of 0.5% per annum.

Quarterly payments on the principal of $0.4 million commenced on December 31, 2016, with any outstanding balance due at maturity.

During the year ended December 31, 2016, the Company repaid $0.4 million of the credit facility term loan.

The Company incurred $1.2 million of fees that were paid to TCW upon the issuance of the credit facility. Upon issuance, the Company subtracted these fees from the original carrying amount of the term loan and reflected as a debt discount. The debt discount is amortized as interest expense using the effective interest method.

Credit Facility Extinguishment
On July 31, 2017, the Company's senior credit facility debt obligations were extinguished based on an equity contribution made by its Parent. This extinguishment included the Company's term loan and revolving credit facility agreement with TCW. Prior to the extinguishment, the Company had $58.9 million outstanding under its term loan and $0.0 million outstanding under its revolving credit facility along with $2.8 million of deferred financing fees and unamortized loan discount. The Company recognized a loss of $4.2 million as a result of the debt extinguishment that includes a $1.4 million prepayment penalty fee.

Mortgage

On February 12, 2014, the Company entered into an agreement with FNCB pursuant to which FNCB agreed to provide the Company with a mortgage consisting of $6.0 million 15 year term loan. The mortgage is secured by the Scranton facility and a $0.5 million deposit account.

Interest on this Note is payable, initially and for the first 60 months of the term, at a fixed rate of 5.625% per annum. On February 19, 2019 the interest rate shall be changed to a rate which is mutually agreeable to the Company and the bank. The interest rate will increase 4% in the Event of Default.

Commencing on March 19, 2014, principal payments in the amount of approximately $15,000 are due monthly and will be adjusted on February 19, 2019 and each anniversary date to an amount which would amortize the then principal balance in approximately level payments over an assumed term ending on February 19, 2034. The entire principal balance, plus interest and costs shall be paid in full on or prior to February 19, 2029.

The annual maturities of long term debt, excluding capital leases, for the next five years and thereafter as of December 31, 2017 are as follows:

(in thousands)		**Amount Maturing**
December 31,		
2018		206
2019		218
2020		230
2021		245
2022		259
Thereafter		4,150
Total cash obligations		5,308
Unamortized discounts and accrued in-kind interest, net		(170)
Capital lease obligations		18
Balance at December 31, 2017	$	5,156

Capital Lease Obligations

The Company leases copier equipment under capital leases, all of which are included in property, equipment and internal use software, net in the accompanying consolidated balance sheets. Future minimum payments under capital leases in effect at December 31, 2017 are as follows:

(in thousands)		
Year Ending December 31,		
2018		18
Total cash obligations		18
Present value of capital lease obligations	$	18

7. Stockholder's Equity

The company received additional capital contributions from the Parent of $60.5 million and $2.4 million during the years ended December 31, 2017 and 2016, respectively.

On August 31, 2016, the Company distributed $36.0 million to the Parent with the proceeds received from a term loan and cash on hand (Note 6).

On July 31, 2017, the Company recorded an equity contribution of $60.5 million resulting from the $58.9 million debt extinguishment paid by the Parent on behalf of the Company (Note 6). The equity contribution included payment of early termination and other fees as well as accrued interest. The Company determined that, since the cash payment for the extinguishment was not directly transacted through EH1 due to convenience, the transaction represented constructive receipt and constructive disbursement of funds by the Company and should be presented on a gross basis within the financing section of the consolidated statement of cash flows.

On October 27, 2017, the Company distributed $0.4 million to the Parent from cash on hand.

8. Stock-Based Compensation

The Company's employees, officers and directors participate in the Parent Company's Equity Incentive Plan which provides for the grant of restrictive profit interest incentive units. The incentive units are granted at not less than 100% of the fair value of the Parent Company on the date of the grant. The incentive units generally are vested over a four year period. Restrictive incentive units are common stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of certain conditions. Stock-based compensation cost is measured at the grant date based on the calculation of fair value of the award. The expense is recognized over the employee's requisite service period, generally the vesting period of the award. The following table summarizes the components of total Parent stock-based compensation expense included in the Company's statement of operations for the years ended December 31, 2017 and 2016:

(in thousands)	December 31, 2017	December 31, 2016
Selling, general and administrative	$ 58	$ 34
Total parent stock-based compensation	$ 58	$ 34

The following table summarizes Parent restricted unit activity applicable to the Company since January 1, 2017

	Number of Units
Outstanding at December 31, 2016	4,719
Granted	720
Vested	(818)
Forfeited	-
Restricted incentive units outstanding at December 31, 2017	4,621

As of December 31, 2017, incentive units representing 4,621 units were outstanding and unvested. These units are scheduled to vest through 2021. Of the total shares of incentive units outstanding, 1,362 units will vest upon fulfilling service conditions. The remaining 3,259 units will vest only if certain performance conditions are achieved. Pursuant to the terms of the agreements, all eligible outstanding incentive units will vest upon an exit event transaction.

Retirement Plan

The Company sponsors a retirement savings plan (the "Plan") under Section 401(k) of the Internal Revenue Code which provides that eligible employees may make contributions subject to Internal Revenue Code limitations. All Company employees, with the exception of temporary, contract, adjunct and international employees, are eligible to participate in the Plan after satisfying age and length of service requirements prescribed by the plan. Under the Plan, employees may make pre-tax and/or post-tax contributions and the Company, subject to the limits prescribed by the IRS and as defined in the Plan description, makes matching contributions.

The Company's aggregate contributions to the Plan were $0.5 million for the year ended December 31, 2017 and $0.4 million for the year ended December 31, 2016. The employer contribution represents a matching contribution of 4% for each union employee's first 5% contribution and a matching contribution of 3% for each non-union employee's first 6% contribution.

9. Income Taxes

The provision for income taxes consists of the following (in thousands):

	December 31, 2017	December 31, 2016
Current tax provision:		
U.S. Federal	$ 65	$ -
State	31	33
Foreign	-	-
	96	33
Deferred tax provision:		
U.S. Federal	-	-
State	-	-
Foreign	65	21
Total deferred provision	65	21
Total provision for income taxes	$ 161	$ 54

Significant components of the Company's deferred tax assets and liabilities are as follows at:

(in thousands)	December 31, 2017	December 31, 2016
Deferred tax assets:		
Net operating loss carryforwards	$ 2,131	$ 3,870
State net operating loss carryforwards	1,060	824
Allowance for doubtful accounts	96	138
Accrued compensation	143	345
Deferred revenue	6,293	10,722
Stock compensation costs	22	
Depreciation and amortization	-	440
Software development costs	371	
Other	332	495
Total deferred tax assets	10,448	16,834
Deferred tax liabilities:		
Software development costs	-	(318)
Depreciation and amortization	(271)	-
Product development	(166)	(1,547)
Trade names	(1,891)	(3,251)
Total deferred tax liabilities	(2,328)	(5,116)
Net deferred tax assets before valuation allowance	8,120	11,718
Valuation allowance	(8,304)	(11,587)
Net deferred tax (liabilities) / assets	$ (184)	$ 131

Under established accounting standards, deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. A valuation allowance has been recorded for $8.3 million and $11.6 million at December 31, 2017, December 31, 2016, respectively.

As of December 31, 2017 the Company had federal and state net operating loss carryforwards of $10.1 million and $37.2 million, respectively, which expire at various dates beginning in 2034, and other temporary differences which may be available to offset future taxable income. In accordance with Statement of ASC 740, Accounting for Income Taxes, management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Management has determined that it is more likely than not that the Company will not recognize the benefits of federal and state deferred tax assets and, as a result, a full valuation allowance of $8.3 million has been established for the Company's domestic deferred tax assets at December 31, 2017. In 2014, the Company experienced an ownership change which fully limited all historic tax attributes generated prior to the ownership change.

A reconciliation setting forth the differences between the effective tax rates of the Company for the periods ended December 31, 2017 and 2016, and the U.S. federal statutory tax rate is as follows:

	December 31, 2017		December 31, 2016	
U.S. Federal income tax benefit (provision) expense at statutory rate	34	%	34	%
Effect of permanent differences and other	(26)		(27)	
Federal Attribute Reduction	(5)		7	
Effect of state taxes	1		-	
Impact of Tax Reform	(42)		-	
Valuation allowance	36		(15)	
	(2)	%	(1)	%

The Company files income tax returns in the United States ("U.S.") on a federal basis, various U.S. states, and in Canada. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. The 2012 and later tax years remain subject to examination by the applicable taxing authorities. However, carryforward attributes that were generated prior to 2012 may still be adjusted upon examination by state or local tax authorities if they either have been or will be used in a future period.

The Tax Cuts and Jobs Act (the 2017 Tax Act), which was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes include a federal statutory rate reduction from 35% to 21%, the elimination or reduction of certain domestic deductions and credits and limitations on the deductibility of interest expense and executive compensation. The 2017 Tax Act also transitions international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation as global intangible low taxed income (GILTI). These changes are effective beginning in 2018.

The 2017 Tax Act eliminates the deferral of U.S. income tax on the historical unrepatriated earnings by imposing the Transition Toll Tax, which is a one-time mandatory deemed repatriation tax on accumulated foreign subsidiaries' previously untaxed foreign earnings (the Transition Toll Tax). As of December 31, 2017, we recorded additional taxable income of $0.9 million but accrued no income tax liability under the Transition Toll Tax, due to the application of available net operating loss carryforwards.

Our deferred tax assets and liabilities are measured at the enacted tax rate expected to apply when these temporary differences are expected to be realized or settled. As our deferred tax assets exceed the balance of our deferred tax liabilities at the date of enactment, we have recorded a tax expense of $3.8 million offset by a reduction in the associated valuation allowance, reflecting the decrease in the U.S. corporate income tax rate and other changes to U.S. tax law.

Status of our Assessment

Our preliminary estimate of the Transition Toll Tax and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the 2017 Tax Act, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the 2017 Tax Act may require further adjustments and changes in our estimates. The final determination of the Transition Toll Tax and the remeasurement of our deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act.

The Company does not provide for United States income taxes on earnings of foreign subsidiaries as such earnings are considered to be indefinitely reinvested. The Company continues to assert indefinite reinvestment in these outside basis differences generated on or before December 31, 2017. As the 2017 Tax Act resulted in a one-time transition tax on the deemed repatriation of foreign earnings for federal tax purposes, the tax impact of subsequent cash distributions is limited to foreign withholding and exchange rate gains or losses, where applicable, and state taxes.

10. Commitments and Contingencies

Office Space Leases

The Company leases office space and equipment under operating leases that expire over various terms. Future minimum rental commitments under noncancelable operating leases in effect at December 31, 2017 are as follows:

(in thousands) **Years Ending December 31,**	
2018	274
2019	295
2020	289
2021	295
2022	301
2023	230
	$ 1,684

The Company's aggregate rent expense (including the effect of straight-line rent expense) under operating leases for the year ended December 31, 2017 was approximately $0.4 million and for the year ended December 31, 2016 was approximately $0.4 million. Certain leases provide for early termination without penalty.

University Now (UNOW) Software Purchase

On October 20, 2015 the Company acquired software to replace its learning platform from UNOW. The purchase agreement provided for an initial payment of $5.0 million with further payment of $1.5M in three separate installments dependent upon UNOW achieving three development milestones in January 2016, May 2016 and September 2016. All three milestones were achieved and $1.5M in payments were made in 2016, there are no outstanding commitments related to the UNOW purchase at December 31, 2017.

Legal Matters
From time to time and in the ordinary course of business, the Company is subject to various claims, charges and litigation. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably, the Company does not believe that it is currently a party to any material legal proceedings.

Minimum Purchase Commitments
Penn Foster division had no minimum purchase commitments at December 31, 2017.

11. Restructuring and Other Related Expenses

Restructuring and other related expenses for the year ended December 31, 2016 include approximately $0.3 million, of legal and financial restructuring advisory fees and other professional fees associated with the Company's efforts to evaluate and pursue various alternatives for addressing its capital structure.

2011 Initiative
The Company announced and commenced a restructuring initiative in the fourth quarter of 2011 to streamline the operations of the HER and Penn Foster divisions and to better align their operations with the Company's business strategy, refined business model and outlook. This initiative was finalized in 2016 as management completed this restructuring effort. The Company incurred restructuring charges of $0.03 million for this initiative during the year ended December 31, 2016.

2014 Stock Purchase and Reorganization

On October 19, 2014, the Company entered into a Stock Purchase Agreement with the Purchaser. In connection with this change of ownership, retention bonus agreements were established for key executives to help ensure business continuity. Retention bonus expense of $0.3 million was reflected as restructuring expenses for the year ended December 31, 2016 and was included as accrued expenses in the accompanying consolidated balance. The retention bonuses were paid in full in 2017.

12. Disclosure of Fair Value of Financial Instruments

In accordance with the fair value hierarchy described in Note 2, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
(in thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Asset,						
Cash and cash equivalents	$ 8,367	$ -	$ -	$ 4,442	$ -	$ -

13. Subsequent Events

On March 24, 2018, the Company entered into a Stock Purchase Agreement with BCDI Nexus Acquisition Inc. (the “Buyer”), pursuant to which, upon the terms and subject to the conditions set forth in the Stock Purchase Agreement, TVG-I-E PFE Holdings LLC, the holding company of the Parent, and the Parent will sell their common and preferred shares to the Buyer who will become the new majority shareholder of the Company’s equity. The purchase transaction is subject to regulatory approval which is expected within 60 days of the agreement date.