PF Carrus Careers, LLC and Subsidiaries

Consolidated Financial Statements

December 31, 2022

PF Carrus Careers, LLC and Subsidiaries

Table of Contents
December 31, 2022

Independent Auditors' Report

To the Board of Managers
PF Carrus Careers, LLC

Opinion

We have audited the consolidated financial statements of PF Carrus Careers, LLC (the Company), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statement of operations, changes in member's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the Company reorganized its operational and legal structure during the current year. As a result, certain entities, which were under common control, are being consolidated in the current year. This is considered a change in the reporting entity and requires retrospective adjustment to the consolidated financial statements as of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Wilkes-Barre, Pennsylvania
April 28, 2023

PF Carrus Careers, LLC and Subsidiaries

Consolidated Balance Sheet
December 31, 2022
(In Thousands)

Assets		
Current Assets		
Cash	$	12,187
Accounts receivable, net of allowances		57,783
Other receivables		9,699
Inventory		1,171
Prepaid expenses and other current assets		4,184
Total current assets		85,024
Property and Equipment, Net		3,993
Software and Content, Net		14,841
Goodwill, Net		213,395
Other Intangibles, Net		37,340
Right-of-Use Assets		1,974
Other Assets		1,729
Total assets	$	358,296
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	$	1,866
Accrued liabilities		16,333
Current portion of finance lease liability		1,244
Current maturities of long-term debt		1,000
Deferred revenue		46,214
Total current liabilities		66,657
Long-Term Debt, Net of Current Portion		25,717
Other Liabilities		12,934
Finance Lease Liabilities		989
Note Payable		63,161
Total liabilities		169,458
Member's Equity		188,838
Total liabilities and member's equity	$	358,296

See notes to consolidated financial statements

Consolidated Statement of Operations
Year Ended December 31, 2022
(In Thousands)

Revenue	$ 171,908
Operating Expenses	
Cost of services	19,155
Selling, general and administrative	122,594
Depreciation and amortization	45,729
Total operating expenses	187,478
Loss from operations	(15,570)
Other Expenses	
Interest expense	(1,448)
Income tax benefit	1,366
Other expense, net	(1,612)
Total other expenses	(1,694)
Net loss	$ (17,264)

See notes to consolidated financial statements

Consolidated Statement of Member's Equity
Year Ended December 31, 2022
(In Thousands)

Balance, January 1, 2022	$	209,854
Contributions		2,973
Distribution to parent		(6,725)
Net loss		(17,264)
Balance, December 31, 2022	$	188,838

PF Carrus Careers, LLC and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2022
(In Thousands)

Cash Flows From Operating Activities	
Net loss	$ (17,264)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	44,446
Depreciation of right-of-use assets	1,137
Bad debt expense	2,408
Deferred income taxes	(2,465)
Amortization of debt discount and issuance costs	75
Reduction of contingent liability	(6,854)
Effect of exchange rate in cash	(184)
Other	(671)
Changes in operating assets and liabilities:	
Accounts receivable	(6,988)
Inventory	6,729
Prepaid expenses and other current assets	(483)
Accounts payable and accrued liabilities	10,658
Deferred revenue	(8,343)
Net cash provided by operating activities	22,201
Cash Flows From Investing Activities	
Purchases of furniture, fixtures and equipment	(195)
Purchases of software and content development	(7,531)
Proceeds from disposal of computer equipment	3
Net cash used in investing activities	(7,723)
Cash Flows From Financing Activities	
Proceeds from borrowings under revolver loan	3,000
Payments of borrowings under term loan	(1,000)
Distribution to parent	(16,921)
Payments of finance lease liabilities	(1,220)
Net cash used in financing activities	(16,141)
Net decrease in cash	(1,663)
Cash, Beginning	13,850
Cash, Ending	$ 12,187
Supplemental Disclosures	
Interest paid	$ 1,195
Cash paid for income taxes	$ 3,760
Noncash Investing and Financing Activities	
Purchase of property and equipment and capitalization of internal-use software development costs included in accounts payable and accrued expenses	$ 120
Lease liabilities arising from obtaining right-of-use assets	$ 3,674

See notes to consolidated financial statements

1. Description of Business

Business

PF Carrus Careers, LLC (the Company or PFCC) and its wholly owned subsidiaries, PF High School LLC, Carrus LLC, Career Step LLC, and PF Carrus Services LLC, provide regionally and nationally accredited, online high school, career, certificate and other educational programs. The Company's operations are primarily based in Scranton, Pennsylvania, Lehi, Utah and New York, New York. PFCC is a wholly owned subsidiary of Steel Purchaser, Inc.

On October 31, 2022, Health Careers Acquisition, Inc. legally converted to a limited liability company under state conversion statutes and subsequently changed its name to PF Carrus Careers, LLC, and reorganized its operational and legal entity structure in which it received net business assets of a High School, B2B, and Career Training business segments from PF Midco, Inc. (PF Midco), a related party, in exchange for a $61.7 million promissory note (see Note 10) and created a new subsidiary PF High School LLC. As PF Midco and PFCC and its subsidiaries were under common control at the time of the transfer of net business assets, the transfer was deemed to be a transaction under common control. Therefore, we accounted for this transaction at the carrying amount of the net business assets at the time of the transfer.

As a result, certain entities, which were under common control, are consolidated in the current year. This is considered a change in the reporting entity. Accordingly, these entities have been retrospectively included in the reporting entity effective January 1, 2022.

Risks and Uncertainties, Including Liquidity Risk

The Company is subject to a number of risks similar to other companies in the educational and services industry, including, but not limited to, the adequacy, quality and availability of its programs and services, and competition. The Company's long-term success is dependent upon its ability to successfully market its services, generate cash flow from operations, obtain additional capital when needed, and continue to maintain profitable operations. The Company's management believes that its cash as of December 31, 2022, the availability of financing under a revolving line of credit (Note 8) and anticipated proceeds from the sale of its services will be sufficient to fund operations, financial commitments, and other cash requirements for at least twelve months from the date the consolidated statements were available to be issued.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of PF Carrus Careers, LLC and its wholly owned subsidiaries as described in Note 1 and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the report amounts of income and expenses during the reporting. The areas where management made estimates requiring judgment include but are not limited to estimates for revenue, allowances for uncollectible accounts receivable, estimated useful lives of goodwill and intangible assets, and property and equipment. The estimates related to revenue primarily relate to estimates in the Company's business to consumer (B2C) business, which specifically are the estimation of variable consideration to be recognized as revenue and the estimated performance period over which to recognize that revenue. Actual results could differ materially from those estimates.

Accounts Receivable

Accounts receivable is recorded at the invoiced amount, net of estimated allowances for doubtful accounts and sales returns. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. The Company regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each customer's expected ability to pay, and collection history. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. For all periods presented, the allowance for doubtful accounts activity was not significant.

Inventories

Inventories primarily consist of program and course materials and supplies. All inventories are stated at the lower of cost or net realizable value, determined using the first-in, first-out basis. Inventory write-downs, once established, are not reversed and are recorded as a component of cost of goods and services sold. Course materials represented approximately $0.9 million of inventories as of December 31, 2022, with the remaining balance comprised of student supplies and other raw materials. Inventory obsolescence write-downs were not significant.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Software licenses, computer equipment, and furniture and fixtures are amortized or depreciated over a range of three to seven years. Buildings are depreciated over thirty years.

Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in the consolidated statement of operations.

Software Licensing and Development Costs

The Company capitalizes external and internal expenditures that are directly related to the 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. Software licensing costs are capitalized and amortized over the contractual licensing period. These costs are included in “Software and content, net” on the consolidated balance sheet. Costs incurred during the preliminary project stage as well as maintenance and training costs are expensed as incurred.

Goodwill

The Company amortizes goodwill on a straight-line basis over ten years. The Company has elected the accounting alternative for evaluating goodwill impairment triggering events. Goodwill is tested for impairment when a triggering event occurs that indicates that its fair value may be below its carrying amount. During the year ended December 31, 2022, there were no triggering events and no impairments of goodwill recorded.

Intangible Assets, Net

Intangible assets, net primarily consists of indefinite-lived intangible assets, intangible assets acquired in connection with acquisitions, and course content.

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 their useful lives. These assets are recorded at fair value upon acquisition. These assets primarily include trade names, which represent corporate names and brand identities, as it is the Company's intent to continue their use. The Company also assesses intangible assets for impairment if triggering events indicate that the carrying amount of the assets may not be recoverable. In 2022, there were no triggering events and no impairments of indefinite-lived or definite-lived intangible assets were recorded. The Company tests indefinite-lived intangible assets for impairment on an annual basis, as of December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Course content represents the value of career programs, degree programs, high school courses and industrial training courses previously acquired and includes 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 that develop the course material and curriculum, are capitalized into course content when a course is developed or there is a major revision to the course materials or curriculum. The internally developed course content costs are capitalized to "software and content, net" and upon project completion are amortized over the average life cycle of the related standardized test or course on a straight-line basis, which is typically five to seven years. Amortization of these capitalized course content costs commence when they are placed in service. 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 to four years and one to seven years, respectively. Technology and content values are amortized on a straight-line basis over a period of seven years.

Impairment of Long-Lived Assets

Long-lived assets include property and equipment and internal use software. The Company evaluates its long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends and significant changes or planned changes in the use of the assets. To evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. If the carrying value exceeds the sum of the expected undiscounted cash flows, an impairment is recognized based on the excess of the asset's carrying value over its fair value. Long-lived assets to be disposed of are reported at the lower of carrying value or fair value less cost to sell. No events or changes in circumstances existed to require an impairment assessment in 2022.

Revenue Recognition

Revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration the Company is expected to be entitled to in exchange for these services. The Company's revenue recognition policy follows the following steps:

1. Identify the customer contract

   The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Collectability is assessed based on several factors including credit assessments, analysis of customer accounts, and payment history. The Company combines contracts if those contracts were negotiated as a single contract or contain price dependencies.

2. Identify performance obligations that are distinct

   A performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services. A promised good or service is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and the Company's promise to transfer the good or service is separately identifiable from other promises in the contract.

3. Determine the transaction price

   The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for promised goods or services. There is variable consideration related to the expected amount of consideration over the contract's performance period for business-to-consumer (B2C) educational programs and services performance obligation.

4. Allocate the transaction price to the distinct performance obligations

   If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation within the contract based on relative standalone selling prices.

5. Recognize revenue as the performance obligations are satisfied

   Revenues are recognized as control of the promised services is transferred to customers. The Company's online education programs do not provide the customer the right to take possession of the course content, and all course content is offered through the Company's online education platform. Revenue from these services is recognized ratably over the performance period, based on the estimated study period.

Business-to-Consumer (B2C) Sales

The Company generates revenue from sales of courses offered directly to students under standard tuition agreements who enroll in the Company's educational programs.

All courses are offered online. The course content provided to the student is pre-recorded, with no courses offered on an in-person or virtual real-time basis. The student determines the level of course progression based on individual study inputs. When a student enrolls in a course, the enrollment is completed through the Company's online portal. Upon enrollment, the following fees apply as a part of obtaining the course service:

1. Registration fees - upon sign-up, students are charged registration fees, which represent set-up fees for access to the course portal, and the provision of certain services to be performed in advance of initial course enrollment. These services include a customized study planner, a transcript evaluation of courses taken by the student prior to enrollment, and student skill set evaluations.

2. Course tuition - fees charged to take the specified course.

3. Extension fees - each course is allotted a fixed time period in which a student may start and complete the course. After this time period, access to the course content ceases; however, the Company offers the student two options to extend the term of the course content's availability.

Each student completes and signs an enrollment, which constitutes the contract. The amount of expected consideration for an individual student is variable, and therefore, the Company estimates the total expected consideration to be received over the contract's performance period, which is referred to as lifetime revenue. To estimate the expected consideration, the Company aggregates individual students into a student portfolio, which is then disaggregated based on payment plans, course types, and enrollment timing. The Company estimates the total variable consideration to be received based on historical cash payment patterns.

Course tuition revenue is recognized over time throughout the performance period, which is defined as the period over which a student progresses through a given course, otherwise known as the "study period." Study periods range from 3 to 17 months depending on the program and course type. Given fluctuations in individual student course progression, the Company estimates the study period term based upon historical student study patterns.

Given the inherent uncertainty of historical cash collection and study patterns being representative of future cash collections and study patterns, there is inherent estimation uncertainty as it pertains to the estimated expected consideration and study periods, and future student study activity could result in significantly longer or shorter study periods. This estimate is evaluated and updated on a quarterly basis.

Business-to-Business Sales (B2B)

The Company also generates sales from contracts with a variety of commercial customers. These sales primarily involve the delivery of educational programs to individual students but paid for by a company or sponsoring organization.

All B2B contracts are substantiated via formal contractual agreements and invoices. Payment terms are typically 30 days from the date of enrollment.

The Company has three methods of measuring the progress related to the satisfaction of the performance obligations within B2B contracts, as follows:

1. Contract Term (Seat Licensing)
2. Enrollments
3. Credit Hours

Contract Term - Certain contracts provide for access and delivery of educational courses per student enrollment (seat license) for a contractually stated period of time. Revenues from these contracts are recognized over time through the term of the contract.

Enrollments - Certain contracts are billed based on course enrollments. The Company recognizes these revenues based on the average period of time required for course completion.

Credit Hours - Certain contracts are billed based on total credit hours required for completion. Such revenues are recognized based on an output method that recognizes revenues on the basis of direct measurements of the value to the customer of the of educational courses transferred to date, relative to the remainder of educational courses promised under the contract.

Deferred Revenue

For PFCC, deferred revenue consists of royalties, materials costs, consultant personnel costs, and packaging and shipping costs.

For the other entities, deferred revenue represents the unearned portion of expected lifetime cash receipts from the Company's B2C courses and are recorded on a portfolio basis. Deferred revenue also consists of billings and payments received in advance of revenue recognition generated by the Company's B2B sales.

Of total revenues recognized during the year ended December 31, 2022, $53.7 million related to revenue amounts included within deferred revenue at the beginning of the period.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Total advertising and promotion costs were $34.5 million in 2022.

Concentrations of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk include cash and accounts receivable. The Company's cash is held with large, diversified, high-quality financial institutions. Deposits held with these financial institutions generally are in excess of the amount of insured limits provided on such deposits.

Accounts receivable with concentrations of credit risk are primarily derived from the Company's business-to-business customers. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable, and, if necessary, an allowance for doubtful accounts is maintained for estimated potential credit losses. At December 31, 2022 and for the year ended December 31, 2022, no individual customer represented 10% or more of the Company's total accounts receivable or revenues.

Fees associated with customer credit card payments are recorded in cost of goods and services sold in the period incurred.

Income Taxes

As a result of the reorganization discussed in Note 1, the Company's U.S. entity is a single member limited liability company classified as a "disregarded entity" for income tax purposes. Accordingly, these financial statements will not include any U.S. provision or liability for income taxes in future periods due to the Company's change in tax status. Income and expenses of a disregarded entity are reported on the income tax returns of the sole member and the applicable income taxes, if any, are paid by the sole member.

For foreign tax purposes, deferred income taxes are recognized using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the Company's (1) financial statement carrying amounts and their respective tax bases and (2) operating loss and tax credit carryforwards. Valuation allowances are provided when the expected realization of tax assets does not meet a more-likely-than-not criterion.

The Company recognizes tax benefits from uncertain tax positions if it is more-likely-than-not that the tax position will be sustained upon examination by a taxing authority based on the technical merits of the position. The tax benefits recognized from such positions are measured based on the largest benefit that has a greater than 50% likelihood to be realized upon settlement.

New Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to record right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition on the income statement. The Company was required to adopt this guidance for 2022. As of January 1, 2022, the Company recorded operating lease right-of-use assets and lease liabilities of $0.2 million and $0.2 million, respectively.

As part of its adoption process, the Company elected:

- The package of practical expedients permitted under the transition guidance which does not require the Company to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Company's right-of-use assets.

- Not to separate lease and nonlease components for all asset classes;

- When the rate implicit in the lease is not determinable, the Company used the Company's incremental borrowing rate on its revolver line of credit for the initial and subsequent measurement of lease liabilities for all asset classes;

- Not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Company is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term;

(In Thousands)

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. The amended guidance also clarifies and simplifies other aspects of the accounting for income taxes under Accounting Standards Codification (ASC) Topic 740, Income Taxes. The amended guidance was adopted in the year ended December 31, 2022 and did not have a material impact on the Company's financial statements.

Future Accounting Pronouncements

During June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. The Company is currently evaluating the effects of this new guidance on its results of operations, financial position, or cash flows.

3. Property and Equipment, Net

Property and equipment, net consists of the following:

Land and land improvements	$ 734
Buildings and building improvements	3,957
Construction in progress	2
Computer equipment	4,527
Furniture, fixtures and equipment	2,148
Software licenses, third-party	3,366
Total cost	14,734
Less accumulated depreciation	(10,741)
Property and equipment, net	$ 3,993

Depreciation expense totaled $2.1 million for the year ended December 31, 2022.

4. Disaggregation of Revenue

The following tables present revenue disaggregated by geography and business unit:

	Revenue by Geography and Entity			
	High School	**Career Training**	**B2B**	**Total Consolidated**
United States	$ 51,499	$ 84,413	$ 32,916	$ 168,828
Canada	-	2,109	-	2,109
International	-	971	-	971
Total	$ 51,499	$ 87,493	$ 32,916	$ 171,908

(In Thousands)

5. Goodwill, Net

The following table summarizes the activity and ending balances of goodwill and accumulated amortization:

Gross carrying amount	$	294,561
Less accumulated amortization		(81,166)
Goodwill, net	$	213,395

Goodwill amortization expense totaled $34.0 million in 2022.

6. Software and Content and Other Intangibles, Net

Software and Content, Net

The following table summarizes the components of internally developed software and content:

	Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount	
Software and website development, internally developed	$	25,172	$	24,131	$	1,041
Course content		18,130		10,525		7,605
Development in progress		6,195		-		6,195
Total software and content	$	49,497	$	34,656	$	14,841

Amortization expense totaled $3.1 million for the year ended December 31, 2022.

Estimated future aggregate amortization expense is as follows:

Years ending December 31:		
2023	$	4,542
2024		3,600
2025		2,891
2026		2,345
2027		1,463
Total	$	14,841

(In Thousands)

Other Intangible Assets, Net

The following table summarizes the components of intangible assets, net:

	December 31, 2022		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Indefinite-lived			
Trade names	$ 11,102	$ -	$ 11,102
Subject to amortization			
Course content	29,162	15,203	13,959
Student roster	12,457	12,284	173
Trade names	15,130	9,036	6,094
Other intangible assets	8,718	2,706	6,012
Total subject to amortization	65,467	39,229	26,238
Total intangibles	$ 76,569	$ 39,229	$ 37,340

Aggregate amortization expense totaled $12.4 million for the year ended December 31, 2022.

Estimated future aggregate amortization expense is as follows:

Years ending December 31:	
2023	$ 7,848
2024	7,287
2025	4,455
2026	856
2027	817
2028 and thereafter	4,975
Total	$ 26,238

7. Accrued Liabilities

The following table summarizes the Company's accrued liabilities:

Payroll and related benefits	$ 4,026
Income taxes payable	2,366
Sales and use tax	7,256
Course materials	713
Marketing	1,744
Professional accounting and legal services	228
Total	$ 16,333

(In Thousands)

8. Debt

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

Term loan credit facility	$	19,000
Revolving credit facility		8,000
Less deferred debt issuance costs		(283)
Total debt	$	26,717

Term Loan and Credit Facility Agreements

On October 12, 2021, the Company entered into a credit agreement with JP Morgan (JPM), pursuant to which JPM agreed to provide the Company with a credit facility consisting of a $20.0 million, five-year term loan, which can be increased by an additional revolving line of credit facility of up to $10.0 million, for an aggregate outstanding amount not to exceed of $30.0 million.

Borrowings under the credit facility bear interest through the maturity date of October 12, 2026, which is defined as the Secured Overnight Financing Rate (SOFR) plus 3% for the term loan credit facility (7.3% at December 31, 2022). For the revolving credit facility, there are two separate spreads. The first line for $5.0 million is also defined as 3.0% above the greater of the SOFR and 2.5% (7.3% at December 31, 2022) while the second line for $3.0 million is defined as 2% above the greater of the prime rate and 2.5% (9.5% at December 31, 2022). Interest is due quarterly for the term loan and for the $5.0 million line, and monthly on the $3.0 million revolving line of credit facility. Quarterly principal payments of $0.25 million are due on the term loan each quarter, with the outstanding balance due at maturity.

The loans are collateralized by substantially all of the Company's assets.

Debt Covenants

The Company is subject to covenants arising from its credit agreement with JPM. The covenants include a leverage ratio and fixed charge coverage ratio and are tested for compliance at the end of each fiscal quarter. The leverage ratio is based on the ratio of total debt to EBITDA for the trailing four quarters. The fixed charge coverage ratio is the ratio of EBITDA (less capital expenditures) to fixed charges over the trailing four quarters. As of December 31, 2022, the Company was in compliance with the terms of the debt arrangements and debt covenants.

Maturities

The annual maturities of long-term debt as of December 31, 2022 are as follows:

Years ending December 31:		
2023	$	1,000
2024		1,000
2025		1,000
2026		24,000
Total	$	27,000

9. Commitments and Contingencies

Office Space Leases

The Company leases office space and equipment under noncancelable operating leases that expire over various terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize these leases on a straight-line basis over the lease term. Many of the leases underlying the Company's office sites have fixed rent escalation clauses, which provide for periodic increases in the amount of rent payable over time. Some leases include one or more options to renew. The exercise of lease renewal options is at the Company's sole discretion. The Company regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Company includes such options in the lease term. The depreciable life of the leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term, while lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right of use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term. In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Company used its incremental borrowing rate based on the Company's revolving credit facility.

Right-of-use assets are assessed for impairment in accordance with the Company's long-lived asset policy. The Company reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment.

The Company made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Company:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Company obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;

- Determined whether contracts contain embedded leases;

- Determined for leases that contain a residual value guarantee, whether a payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments;

The lease liabilities were calculated using a weighted average discount rate of 5.05%. As of December 31, 2022, the weighted average remaining lease term was 1.5 years. The operating right-of-use assets are included in other assets and current lease liabilities are included in accrued liabilities and noncurrent lease liabilities are in included in other liabilities.

(In Thousands)

The following table summarizes the right-of-use assets and related lease liabilities as of December 31, 2022:

Assets:		
Operating	$	117
Finance		1,974
Total right-of-use assets	$	2,091
Liabilities:		
Current:		
Operating	$	94
Finance		1,244
Noncurrent:		
Operating		21
Finance		989
Total lease liabilities	$	2,348
Lease expenses		
Operating lease cost	$	101
Finance lease cost:		
Amortization		1,099
Interest		109
Total lease expenses	$	1,309

Maturity of Lease Liabilities

The annual payments due on lease liabilities are as follows:

	Operating Leases	Finance Leases	Total
Years ending December 31:			
2023	$ 98	$ 1,328	$ 1,426
2024	20	786	806
2025	1	235	236
Total lease payments	119	2,349	2,468
Less interest	4	116	120
Present value of lease liabilities	$ 115	$ 2,233	$ 2,348

Other Information

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$	90
Operating cash flows from finance leases		1,334

(In Thousands)

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 is not currently a party to any material legal proceedings.

The Company maintains licenses to conduct business with certain state and regional education regulatory bodies, which are subject to periodic review and renewal. Certain licenses are granted only if the Company is in compliance with specific financial ratios required by the regulatory bodies, otherwise known as composite scores. As of December 31, 2022, the Company was in compliance with all applicable licensing requirements.

10. Note Payable – Related-Party Transactions

On August 23, 2021, PF Midco entered into an agreement to acquire all of the outstanding stock of Health Careers Acquisitions, Inc. (HCA) which later converted to an LLC and changed its name to Penn Foster Carrus Careers, LLC (PFCC). PF Midco provided $11.6 million to Education Holding 1, LLC (EH1) to pay the transaction costs related to this acquisition on its behalf. EH1 then paid approximately $8.5 million in transaction costs related to the HCA acquisition on behalf of PF Midco. The balance was further reduced by management fees and other expenses paid on behalf of PF Midco leaving a balance due from EH1 to PF Midco of $1.5 million. As a result of the Company's reorganization as noted in Note 1, approximately $1.2 million of the balance due to PF Midco was assigned to PFCC. This balance was increased by $61.7 million for the promissory note payable due from PF Midco in exchange for the net assets sold to PF Midco as explained in Note 1, leaving a $62.8 million net balance due to PF Midco as of December 31, 2022. This $61.7 million unsecured related-party note payable is supported by a promissory note that matures on October 31, 2029. Interest accrues at 4.1%. The note can be prepaid or repaid from time to time without premium or penalty.

The Company also has $.3 million in related-party balances due to EH1, a company owned by PF Midco. These balances are primarily for the share of payroll and general insurance costs incurred by EH1 on behalf PFCC.

These related-party balances as summarized as follows:

Due to PF Midco, Inc.	$	(62,852)
Due to Education Holdings 1, LLC		(309)
Total	$	(63,161)

(In Thousands)

11. Income Taxes

The components of the provision for income taxes are as following:

Current tax expense:		
Federal	$	47
State		177
Total current tax expense		224
Deferred tax expense:		
Federal		(3,142)
State		(253)
International		1,805
Total deferred tax expense		(1,590)
Total income tax expense	$	(1,366)

The Company's effective income tax rate is different than what would be expected if the federal statutory rate were applied to income before tax because of state taxes, goodwill amortization not deductible for tax purposes, and foreign taxes. In addition, the Company's reorganization, discussed in Note 1, resulted in a change in tax status from a taxable entity to a single member limited liability company classified as a "disregarded entity" for U.S. income tax purposes. Accordingly, these financial statements will not include any deferred tax assets or liabilities for U.S. tax purposes and the impact of this change in U.S. tax status has been recorded through income tax expense.

Components of deferred tax assets and liabilities consist of the following:

Deferred tax assets:		
Intangibles	$	30
Net foreign operating loss carryforwards		3,054
Deferred tax assets		3,084
Valuation allowance		(2,487)
Net deferred tax assets		597
Deferred tax liabilities:		
Property and equipment		(597)
Net deferred tax assets	$	-

As of December 31, 2022, the Company has foreign net operating loss carryforwards of approximately $11.3 million available to offset future foreign taxable income through 2032. A valuation allowance has been recorded for that portion of the foreign net operating loss carryforwards that is not expected to be realized prior to their expiration.

The Company does not believe that it needs to recognize any liabilities for uncertain tax positions as of December 31, 2022. The Company will classify any future interest and penalties as a component of income tax expense if incurred.

12. Subsequent Events

The Company evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through April 28, 2023, the date the consolidated financial statements were issued. There were no significant events during this subsequent period.