CENGAGE LEARNING HOLDINGS II, INC.

Annual Report for Fiscal Year Ended March 31, 2019

As of the end of the period covered by this report, Cengage Learning Holdings II, Inc. and its consolidated subsidiaries (the "Company") were not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. However, the Company does have an obligation to comply with the terms of its Shareholder Agreement, dated as of March 31, 2014 (the "Shareholder Agreement"). The Shareholder Agreement includes references to certain provisions of the U.S. Securities and Exchange Commission's reporting requirements with modifications as agreed by all parties. The Company has complied with its obligations under the Shareholder Agreement and this report is made available pursuant to such obligations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify forward-looking statements because they contain words such as “believe,” “expect,” “may,” “will,” “should,” “could,” “seek,” “intend,” “plan,” “estimate,” “project,” “foresee,” “likely,” or “anticipate” or similar expressions that concern our strategies, objectives, plans, or goals. Although the forward-looking statements contained in this report reflect management’s current beliefs based upon information currently available to management and upon assumptions which management believes to be reasonable, actual results may differ materially from those stated in or implied by these forward-looking statements.

A number of factors could cause actual results or performance to differ materially from the results expressed or implied in the forward-looking statements, including those listed in the “Risk Factors” section of this report. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. These risks and uncertainties include, without limitation:

- the impact of competition from significant established competitors and nontraditional competitors including various technology providers and online distributors, including the impact of new and enhanced product and service offerings and technology and competitors’ acquiring additional businesses in key sectors in order to broaden their offerings;
- the impact of business combinations in the industry in which we compete;
- our ability to introduce new products, services or technologies;
- the impact of used textbook and/or rental textbook programs and our ability to compete with them;
- the effect of increased accessibility of free or relatively inexpensive information and materials on pricing and demand for our products and services;
- increased availability of lower priced international versions of our products in the domestic market or higher prices for our products overseas may cause our sales to decline;
- changes in the availability and prices of paper and unanticipated increases in other operating costs;
- our ability to attract and retain key authors, retain rights to our authors' works, and avoid disputes with our authors;
- our ability to attract and retain content providers and employees;
- our dependence on third-party distributors, representatives and retailers;
- termination of at-will contracts to which we are a party could harm our business;
- our ability and willingness to maintain licensing agreements with third-party content providers;
- our reliance on third-party providers of outsourced services and any failure of such providers to provide services effectively on a timely basis;
- reductions in enrollments at colleges and universities;
- adverse changes in domestic and global economic and political conditions, including those related to the availability of credit, government and private loans for students and consequential decline in consumer demand for our products;
- the effect of changes in government programs and private lending practices relating to student aid and library funding;
- the impact of changes to laws and regulations applicable to us and our customers, including rules that could result in decreased programs offered by, and limit enrollments in, institutions of higher and continuing education including for-profit schools, as well as the enactment of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”)
- our ability to win state adoptions, cancellation or postponement of adoptions, and changes in state funding;
- our ability to expand and conduct our operations outside the United States;
- the effect of fluctuations between foreign currencies and the United States dollar and our ability to effectively manage foreign currency exposure;
- the seasonality of our business;
- our ability to successfully implement our business strategy;
- our ability to identify, acquire and successfully integrate future acquisition targets;

- the impact of the Merger, which includes our ability to obtain timely regulatory approval, recruit and retain employees, and significant operating costs, expenses and fees;
- the Merger, which limits our flexibility in operating our business including, our ability to respond effectively to competitive pressures, industry developments and future opportunities;
- failures or disruptions of our and our third-party providers' hosting facilities and electronic delivery systems for our products and services;
- the impact of technology developments and our ability to continue to make effective investments in our technology infrastructure;
- technology failures;
- potential security breaches or cyberattacks involving our technology infrastructure, our products and services, or our customers' credit and debit card and private data, which could subject us to material claims and additional costs and harm our reputation;
- our ability to adequately manage and develop our operational and managerial systems and processes including our enterprise resource planning software;
- our ability to comply with privacy laws;
- our ability to adequately protect, maintain and enforce our intellectual property rights and proprietary rights and the adequacy of protections of our intellectual property under applicable laws;
- liabilities resulting from, and costs of defending against, litigation including piracy and intellectual property infringement claims;
- our debt agreements, which limit our flexibility in operating our business including, among other things, our ability under certain circumstances to engage in mergers or consolidations, sell assets and use the proceeds of such sale, pay distributions to our equity owners and/or buy back debt;
- the impact of being controlled by Principal Equityholders, whose interests may conflict with other stockholders;
- incurrence of impairment charges for goodwill, long-lived assets and identifiable intangible assets;
- our ability to react to changes in the economy or our industry;
- changes in our credit ratings or macroeconomic conditions; and
- our ability to maintain effective internal controls over financial reporting.

Although we have attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in or implied by our forward-looking statements, other factors and risks may cause actions, events or results to differ materially from those anticipated, estimated or intended. We cannot assure you that forward-looking statements will prove to be accurate, as actual actions, results and future events could differ materially from those anticipated or implied by such statements. All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. These forward-looking statements are made as of the date of this report and, except as required by law, we undertake no obligation to update, amend, clarify or revise them to reflect new events or circumstances.

TABLE OF CONTENTS

	Page No.
Description of Business	1
Risk Factors	13
Properties	25
Legal Proceedings	26
Market for the Issuer's Equity	26
Changes in and Disagreement with Accountants on Accounting and Financial Disclosure	26
Directors and Executive Officers	27
Principal Stockholders	32
Certain Relationships and Related Transactions	33
Principal Accountant's Fees and Services	34
Selected Quarterly Financial Data	35
Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Quantitative and Qualitative Disclosures About Market Risk	58
Consolidated Financial Statements	59

CENGAGE LEARNING HOLDINGS II, INC.

DESCRIPTION OF BUSINESS

Cengage Learning Holdings II, Inc. ("CL Holdings II, Inc."), together with its consolidated subsidiaries, is hereinafter collectively referred to as "Cengage," the "Company," "us," "we" and "our".

Our Company

We are a leading education and technology company built for learners. We serve the higher education, school (consisting of grade levels of kindergarten to the 12th grade, or "K-12"), professional, library and workforce training markets worldwide. We create high quality and affordable learning experiences that build confidence and momentum toward the future students want. Our educational solutions deliver tailored authoritative information to increase student engagement, foster academic excellence and improve learning and professional development. Our heritage as a leading educational publisher coupled with our significant investments in technology and customer services and long-standing customer relationships positions us as the second largest provider of learning solutions in the approximately $3.2 billion U.S. higher education learning solutions industry. In addition, operating under our Gale brand, we are a leading global provider of library reference materials with a vast collection of primary source content. As Cengage, we enrich the relationship between educators and students by advancing the way students learn.

For the fiscal year ended March 31, 2019, we had Adjusted Revenues of approximately $1,460.1 million and Adjusted EBITDA less Pre-Publication Costs of approximately $277.3 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for our definition of Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs and a reconciliation of Adjusted Revenues to revenues and Adjusted EBITDA less Pre-Publication Costs to net loss.

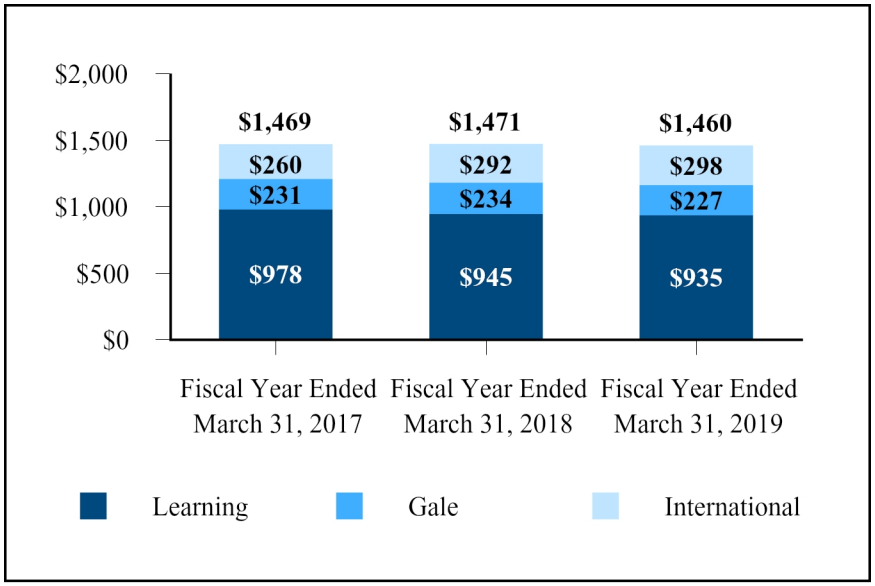
The global education industry encompasses a diverse set of products, systems and services, including digital solutions, textbooks and supplementary educational materials, infrastructure and services directed at students, faculty and educational institutions. The industry enjoys positive growth fundamentals: it has expanded over the last decade, driven primarily by population growth, increasing economic development and greater recognition of the value of education as measured by increased earnings power associated with higher levels of education. In the U.S. over the last couple of years, enrollment headwinds and lower student spending on new print materials has been compensated for by growth in recurring and more affordable revenue streams from digital solutions, eBooks and purchases of rental textbooks. On the digital front, learners and educators continue to increasingly recognize and embrace the power of digital solutions that improve learning outcomes by enabling personalized learning suited to each class and learner's specific needs and desired outcomes. As a result, our total addressable market is growing as students transition from print textbooks to digital solutions. In addition, our strategic partnerships with two of the largest rental providers, covering approximately 60% of the market , provide Cengage with more predictable, recurring sales into print adoptions.

Proposed Merger. On May 1, 2019, Cengage Learning Holdings II, Inc. ("Cengage"), Cengage Learning Holdco, Inc. ("Cengage Intermediate Holdco "), Cengage Learning, Inc. ("Cengage Issuer"), McGraw-Hill Education, Inc. ("McGraw-Hill"), and McGraw-Hill Global Educations Holdings, LLC ("McGraw-Hill Issuer") entered into an Agreement and Plan of Merger (the "Merger Agreement").

Pursuant to and subject to the terms and conditions of the Merger Agreement, upon completion of the proposed transaction, Cengage will merge with and into McGraw-Hill Issuer (the "Merger"), with McGraw-Hill Issuer continuing as the surviving entity following the Merger. At the effective time of the Merger (the "Effective Time") (1) each share of McGraw-Hill common stock, par value $0.01 per share, will convert into one share of Class A Common Stock of the combined company, and (2) each share of Cengage common stock, par value $0.01 per share, will convert into a certain number of shares of Class B Common Stock of the combined company such that, as of the Effective Time, the aggregate number of issued and outstanding shares of Class A Common Stock will equal the aggregate number of issued and outstanding shares of Class B Common Stock. Accordingly, the legacy stockholders of McGraw-Hill and the legacy stockholders of Cengage will, as of the Effective Time, each collectively own exactly 50% of the issued and outstanding shares of voting common stock of the combined company.

The proposed transaction is subject to certain closing conditions, including receipt of regulatory approvals. We have also agreed to various customary covenants and agreements, including, among others, to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, and to use reasonable best efforts to obtain all requisite regulatory approvals.

Reportable segments adjusted financial results. We are organized into three reportable segments on the basis of production process and products and services provided by each segment, identified as follows: Learning, Gale and International. For the fiscal year ended March 31, 2019, our total Adjusted Revenues were $1,460.1 million. Segment Adjusted Revenues for the past three fiscal years were as follows (in millions):



Learning

In the United States, we produce a variety of digital and print educational solutions and associated services for the academic (non-profit and for-profit higher education institutions), school (K-12) and skills markets. For the fiscal year ended March 31, 2019, our Learning segment generated approximately $934.7 million and $165.3 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

For the fiscal year ended March 31, 2019, our total Learning digital product sales comprised approximately 55% of our total Learning Adjusted Revenues compared with 53% for the fiscal year ended March 31, 2018. Over the last year, core digital gross sales increased by 3%, while student activation of our digital solutions grew by 19%. As of March 31, 2019, our core digital solutions were available for approximately 95% of our academic portfolio of learning solutions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for our definition of "digital product sales."

Gale

We offer research platforms around the world which provide access to our original content, collections of primary source materials and aggregated periodicals to learners at libraries, colleges, universities, schools and businesses. For the fiscal year ended March 31, 2019, our Gale segment generated approximately $227.5 million and $61.8 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

International

We distribute educational solutions across all major academic disciplines, provide English language teaching ("ELT") products and adapt our Learning offerings for use in approximately 170 countries and territories around the world. For the fiscal year ended March 31, 2019, our International segment generated approximately $297.9 million and $50.2 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Industry Overview

We compete in three specific industries within our Learning segment: academic, school and skills. Each of these industries as well as our Gale and International segments are discussed separately below. Within Learning, for the fiscal year ended March 31, 2019, gross sales from the academic and skills markets comprised 84% of total gross sales and the school market comprised 16% of total gross sales.

Academic

The academic industry is comprised of students, professors and institutions of higher education, primarily two- and four-year colleges and universities, as well as for-profit schools. The United States has the largest higher education system in the world with approximately 18 million students enrolled each year at approximately 4,400 two- and four-year post-secondary

institutions. Enrollments in the U.S. higher education market are stable and countercyclical, with a 30-year compound annual growth rate ("CAGR") of 2%.

Within the academic industry, total domestic spending on new learning materials was approximately $3.2 billion in 2018 including new digital and print solutions, as well as purchases of used and rental print products. Industry estimates and internal research suggest that approximately 45% of learning solutions purchases are in formats such as rental and used textbooks. We believe that the continued growth in the industry of digital solutions, which provide better outcomes and more efficient learning solutions for students, enables us to capture a greater share of the total market, given the embedded and gradeable/assessable orientation of our digital products and more affordable price points. We have developed and successfully penetrated the industry with our MindTap solution, which is a complete course solution that includes assessment, immediate feedback and analytics for instructors and students. Additionally, with the launch of Cengage Unlimited, our "all-you-can-learn" digital subscription for $119.99 per semester or $179.99 per year, we believe we have more opportunity to even further penetrate the market.

School

The United States K-12 industry consists of approximately 57 million students and is driven by state adoption sales, wherein states approve certain products for use in public schools statewide, and open territory sales, where individual public school districts determine which educational products to use. This market is linked, in part, to state and local budget cycles. Within the United States school industry, we are focused on specific disciplines that are closer to our core higher education offering and have more attractive growth potential, including Advanced Placement & Electives ("AP&E"), English language learning and specific non-common core programs in K-12 where we believe our National Geographic content, brand and technology creates competitive advantages.

Skills

Providers in the skills market create learning solutions and other related materials for learners who are seeking job training, certification or continuing professional education in vocational schools, academic institutions and continuing education programs. The skills industry spans a wide range of vocational study areas and customers include academic institutions and learners, employers who provide training to their employees, workforce boards and individuals who are seeking professional advancement. This market is fueled by the close link between improvement in training and skills and employee success in the form of job placement, promotion and productivity. The online skills industry, which we serve through MindTap course solutions as well as stand-alone businesses, continues to grow as learners migrate from traditional classrooms to virtual learning environments.

Gale

Content and solution providers in the research market create and sell specialized encyclopedias and directories, periodical databases, primary-source research collections and other reference materials. These materials are principally sold to academic, public, K-12, corporate and government libraries. Total institutional spending by libraries in schools and universities was nearly $6.0 billion in the U.S. and $17.0 billion globally in 2018. The research industry has experienced increased demand for digital materials with enhanced functionality and accessibility as well as authoritative content with credibility, organization and depth that are differentiated from free content available on the Internet.

International

In the international market, we adapt and provide U.S. course materials for various local industries. We also publish and sell course materials produced by local authors and we provide learning and reference solutions in various formats to individuals and businesses located outside the United States. Individual industries are generally defined by country, each with unique customer needs, distribution channels and sales strategies. Many international industries have grown rapidly, driven primarily by population growth and a growing recognition of the power of education to improve lives. In higher education, most international industries are at the beginning of the digital transformation.

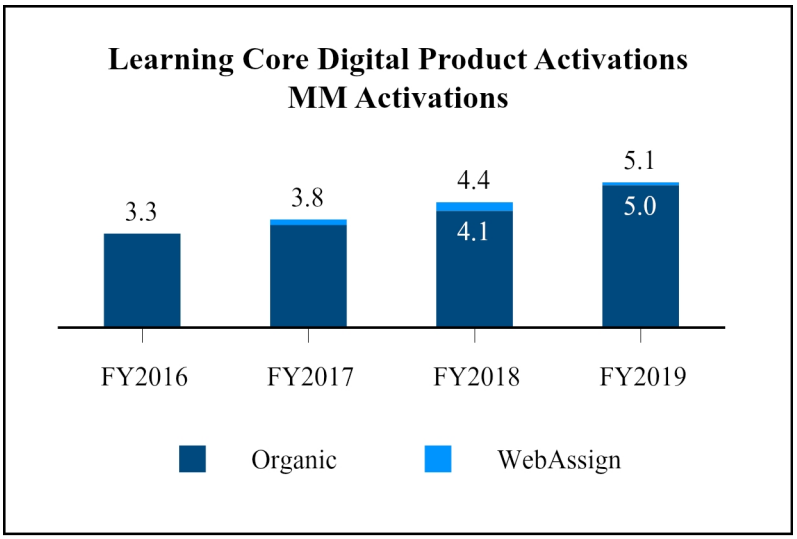
Our Strengths

We believe the following competitive strengths are instrumental to our success and position us to increase our revenues and profitability:

Industry leadership with an evolving brand. We have developed a well-known learning franchise with a scaled infrastructure designed to serve our clients with a broad array of learning solutions. In higher education, we believe we have leading positions in the United States in many of the largest academic disciplines, including the number one position in several areas such as Business Law and Business Communications, Social Work, Introductory Computing, Nutrition, Calculus, and Cosmetology and have the number two position in areas such as Economics, Introductory and Organic Chemistry, Political Science, Criminal Justice, and Business Statistics. Gale research digital ebooks, databases and archives are found in nearly all academic, school and public libraries in North America, and increasingly, in universities in growth markets like China and Brazil. Gale publishes the world's largest collection of primary source archives and is a technology innovator in the growing field of digital humanities.

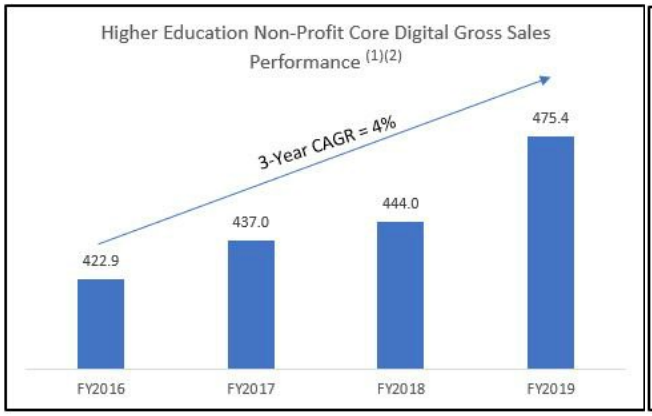
Industry-leading authors, content and content development capabilities. Our ability to develop authoritative, pedagogically-sound content linked to our digital solutions and assessments that leads to demonstrably better learning outcomes is one of our core competencies. Our content differentiation is a result of our long-term partnerships with authors who are recognized experts in their fields and with third-party licensors of authoritative research materials. We have been successful in attracting talented authors and developing long-term, collaborative relationships. For example, two of our leading authors include (1) N. Gregory Mankiw, former Chairman of the President’s Council of Economic Advisers and among the most respected authors of texts in introductory economics, and (2) Carl Warren, the author of our well-known accounting franchise now in its 27th edition. We typically own the copyright of the materials our authors produce and our agreements with authors usually include favorable non-compete clauses. We have demonstrated our content development capabilities across disciplines and product formats, including a deep understanding of, and commitment to, the process needed to produce high-quality learning solutions. In the research industry, we also maintain long-term agreements for third-party licensed materials from leading content providers, including the American Antiquarian Society, The British Library, The Financial Times, and The Smithsonian. In the ELT and school industries, we operate National Geographic Learning, leveraging the world class National Geographic brand and content.

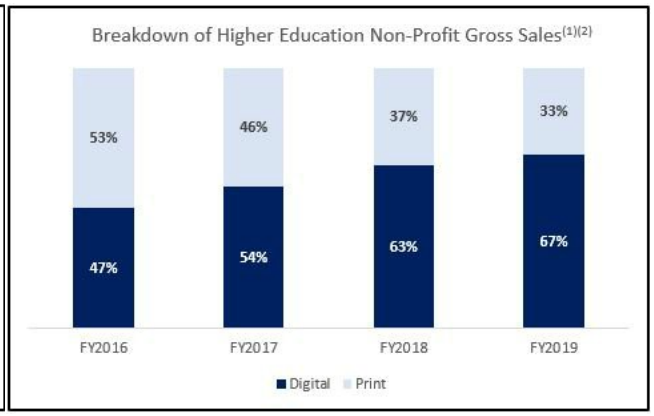
Innovative technology platforms and digital solutions. Our digital solutions are designed to enhance and complement our content to improve student engagement and learning outcomes. These digital solutions include courseware solutions, assessment solutions, adaptive tools, and analytics. We have made substantial investments in our technology infrastructure and are a leader in the development of digital content, pedagogy, and tools in our industry. Our MindTap solution includes MindTaps developed by Cengage or by third-party providers that are customized for different disciplines, and best-in-class customization capabilities that allow professors to easily build their own digital course by adding their own or third-party media and content. MindTap has grown to 2.7 million users, out of our over 5.1 million annual digital users. Our MindTap offerings are based on a student-centered approach to the industry. Over the past few years, Cengage has distinguished itself from competitors by focusing its digital product development on serving students as well as faculty. As a result, MindTap complements traditional faculty tools and assessments with student-centered features such as resource centers, personalized learning tools and proprietary analytics to analyze and help advance each student’s individual learning. We are able to demonstrate to our customers the impact of our student focus on increased student engagement leading to better learning outcomes. Additionally, our student focus in developing MindTap has allowed us to successfully grow MindTap in disciplines that have been resistant to previous digital offerings (such as Psychology, College Success and Art) as learning in these disciplines is not suited for typical assessments and homework solutions offered by competitors. Driven by MindTap and our other core digital offerings, higher education core digital gross sales have grown at an approximately 7% CAGR over the last three years. In the fiscal year ended March 31, 2019, MindTap activations, including through Cengage Unlimited, have increased 50%, demonstrating our success in the digital market.



Additional digital solutions include SAM (our proficiency-based assessment and training tool for Computing), WebAssign (our assessment and homework solution for the STEM disciplines - science, technology, engineering and math), OWL (our online learning system for Chemistry), and CNOWv2 (formerly, CNOW) (our assessment and homework solution for Accounting and Taxation). In the research industry, we have digitized virtually all of our reference content and enhanced it with interactive digital tools. As a result, we derive more than 80% of our domestic revenues in this market from digital products. Across the Company, we employ approximately 1,800 full-time product development and technology employees to grow our digital offerings and have made approximately 350 new technology hires within the last three years.

Over the last four years, our higher education non-profit core digital business has increased by a CAGR of 4% over the same period. This increase in core digital gross revenue has resulted in digital sales constituting a growing amount of our gross sales, with digital sales constituting 67% of our gross sales in the fiscal year ended March 31, 2019.

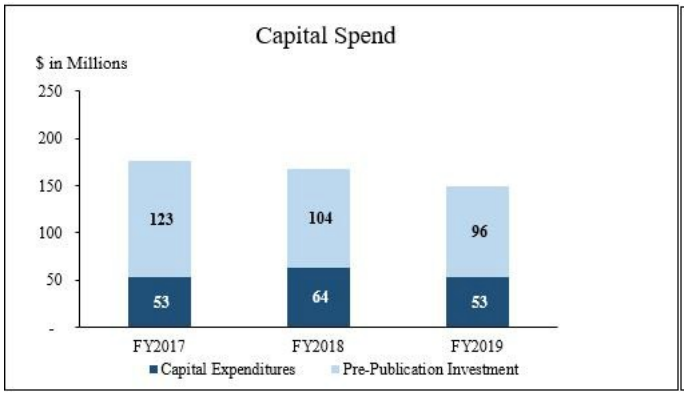


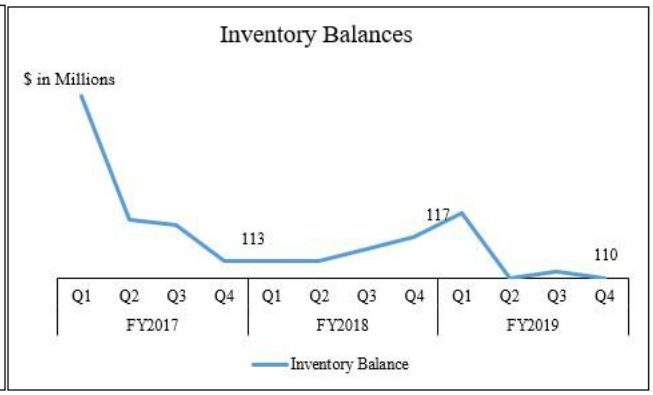


(1) Prior periods may differ from previously reported amounts due to product classification changes to conform to current year presentation.

(2) Digital classifications exclude eBook products, which are included in Print.

Additionally, the shift away from print has allowed us to decrease capital spend over time while steadily reducing levels of inventory.





Industry-leading distribution capabilities and customer relationships. Our industry positions are driven by a U.S. higher education sales force of approximately 450 sales consultants who directly interact on a daily basis and maintain long-standing relationships with our adopting instructors and customers. Our sales force scope and relationships allow us to sell multiple products across our industry and more easily introduce and train customers on our new digital product offerings. In addition, our customer support and services organization of approximately 375 employees works directly with customers to support product adoption, customization and implementation. In any given season, we directly interact with customers in thousands of institutions to introduce and explain our products, secure adoptions, ensure product availability through on-site and off-site channel partners, and support implementation and usage of our solutions. We are a best-in-class provider of services to faculty and institutions to help them set-up, customize and grow usage of their adopted digital solutions. Our distribution network and customer relationships are distinct competitive advantages. Our long-standing relationships with customers additionally provide a source of stability for our business through repeat business across the industry.

Significant economies of scale. Our leading positions facilitate our ability to:

- develop publications in a timely and cost-effective manner;
- significantly invest in our digital solutions, which are fundamental for our customers;
- leverage our content and technology over multiple media and industries;
- use our extensive sales force of approximately 450 sales consultants to sell multiple products across our industry and more easily introduce new product offerings;
- obtain volume purchasing benefits from our suppliers;
- distribute our product at scale, both physically and digitally, to ensure we are well-positioned within all student purchases paths; and
- leverage our fixed costs, including our distribution systems, to enhance profitability.

Strong operating cash flow and diversified revenues. Our leading positions, the breadth of our products, and our author and customer relationships generate strong, consistent operating cash flow. The majority of our sales in the academic industry come from established products. For example, over 90% of our gross sales in this market in the fiscal year ended March 31, 2019 were attributable to titles in their second and later editions. In addition, only approximately 6% of fiscal year 2019 total Learning gross sales came from for-profit schools. In the research industry, approximately 70% of our revenues are derived from recurring subscriptions and sales, and approximately 90% of our digital subscription-based revenues are generated from our previous year's customer base. As a result, we have been able to maintain strong operating cash flows throughout the education market's continuing digital transformation. We also have a diversified revenue stream, which reduces our dependence on any one product, author, discipline or industry. For example, no single author represented more than 2% of our total Adjusted Revenues for the fiscal year ended March 31, 2019.

World-class management team and culture. Over the past several years, Cengage rebuilt its senior management team by hiring a world-class executive team, led by Chief Executive Officer ("CEO") Michael Hansen. Mr. Hansen previously served as CEO for Elsevier Health Sciences, a division of Reed Elsevier (an information services provider operating in the science, medical, legal, risk, and business sectors). In his role he led the successful transformation of the business from print to digital. Prior to this he was President and CEO of Harcourt Assessment, the educational materials division of Reed Elsevier, where he led a successful turnaround and sale of that business. Mr. Hansen and the senior management team have engendered a culture that values engagement, empowerment and discovery and one that is accountable to and for each other. The culture throughout

Cengage is one that promotes the power and joy of learning and is focused on enriching the relationship between educators and students by advancing the way students learn, in a measurable and repeatable fashion.

Our Strategy

During the recent fiscal year, our strategy was to:

- accelerate penetration of our high quality digital courseware;
- lead the industry in affordability and monetize our print base;
- nourish our growth engines; and
- evolve towards a technology first organization and operating model

Encapsulating many of these strategies, we publicly announced, in the second half of fiscal year 2018, the launch of our innovative subscription service called Cengage Unlimited for our US Higher Education business. Cengage Unlimited is the first-of-its-kind subscription service for digital higher education materials. A subscription provides access to more than 22,000 products across 70 disciplines and more than 675 courses for one price-$119.99 a semester, no matter how many Cengage products are used. Students using the digital platforms also have the option of a print textbook for $7.99 and free shipping. Additionally, we have secured partnerships with leading student centric, educational focused brands, such as Kaplan, Evernote, Chegg and Quizlet, to offer services such as tutoring, test prep, flash cards and more as part of the subscription price. This is over $200 of value included within the $119.99 price.

Accelerate penetration of our high quality digital courseware. We continue to invest in the expansion, development, stability and effectiveness of our digital products while also focusing our Go-To-Market team on the sales of these digital solutions and services. Our digital solutions are based on deep research and understanding of today's students and their workflow, which increases the usefulness and desirability of the solutions by both faculty and end users. The growth in our digital business gives us access to a greater number of students in any given classroom and generates new sources of revenue from our existing adoption customers. In contrast to print publications, our digital products cannot be resold or transferred. We therefore realize revenue from every end user. Digital formats also free us from traditional publishing cycles, increasing our speed-to-market and affording us greater ability to tailor our offerings by course and even by specific faculty and student preferences. We plan to continue to aggressively invest in the growth of our digital products and platforms while increasingly focusing and incentivizing our Go-To-Market team in this area.

Lead the industry in affordability and increasingly monetize our print base. This fiscal year, we launched a number of initiatives to lower the barrier of entry to affordable learning while preserving student and instructor choice. The key pillar of our affordability strategy was Cengage Unlimited, our subscription service that provides access to our full catalog of digital courseware (when enrolled in a course) and eBooks for $119.99 a semester ($179.99 for annual, $239.99 for two year subscriptions). In addition to Cengage Unlimited, we expanded our other affordability initiatives including expanded rental, Open Education Resources, and Inclusive Access offerings by continuing to methodically evaluate and lower the price of key disciplines through our commercial/pricing Center of Excellence. This strategic pricing effort has optimized for affordability and digital penetration, shifting users towards the most effective and accessible digital solutions. While we continue to help our customers migrate to digital solutions that provide better learning outcomes, there are certain customers and disciplines that are more embedded in the use of print products, either as a stand-alone solution or in combination with a digital product. This is another mechanism in which Cengage Unlimited supports student success agnostic of the instructor adoption. We are actively pursuing new business and commercial models as well as go-to-market strategies to increase the affordability and access of our print products for those students that want to purchase print. For example, for those who choose not to adopt the all-inclusive model where a print complement is available as a $7.99 rental, we now provide students across all our disciplines the option to augment their digital solution with a print product that costs between $15 to $35 to the student, depending on the discipline. Additionally, in 2017 we launched rental partnerships based on a revenue share model with several of the largest rental providers in the higher education industry to benefit from the growing rental trend. We are now in the third year of the program, allowing us to re-capture revenue from an increasing number of seats in traditional print adoptions and helping to establish a reliable base of revenue from these adoptions. In addition to the rental partnerships, we will continue to offer direct to student rentals and purchase on our proprietary e-commerce site, Cengage.com.

Nourish our growth engines. Over the course of many years, we have pursued a corporate portfolio diversification strategy that provides balance to our higher education business while, more importantly, ensuring our high quality learning materials can be enjoyed by students throughout their educational and career journey. Our Cengage Global Businesses ("CGB") (inclusive of English language teaching ("ELT"), International Higher Education, Gale and National Geographic/ K12) and Online Skills business have been taking focused approaches to growth and achieving great results.

For our Cengage Global Business units, we extend our global reach by adapting Cengage's domestic products, services and technology to local markets and customer requirements. Our ELT business, operating as National Geographic Learning, competes in an addressable content industry estimated to be around $1.8 billion and growing at a rate of approximately 5% per year. Our National Geographic Learning business focuses on expanding Cengage's market share by concentrating investment on flagship products and on Go-To-Market teams addressing the most profitable segments in Latin America, the Middle East and Asia. In the fiscal year ended March 31, 2019, our global ELT business grew 3% outside the United States. Our higher education business also saw industry-leading growth, and while our revenue remains largely print-based, digital gross sales now represent 15% of gross sales and activations of our flagship MindTap product grew 56%. The reach of our International segment is exemplified through the diversity of its Adjusted Revenues for the fiscal year ended March 31, 2019, of which 32% was derived from Australia, 22% from Europe, the Middle East and Africa ("EMEA"), 20% from Asia, 14% from Latin America, and 12% from North America. Our Gale business continues to be a global leader in education, learning, and research resources online, with a vast digital archive of research databases, reference books (both eBook and print), and more.

Our National Geographic/K12, declined 10% following a record year of 18% growth in fiscal year 2018. The performance was largely in-line with the broader K12 industry which experienced cyclically lower funding following large adoptions in both California and Texas in the previous year. National Geographic has a highly focused strategy on AP&E courses at the High School level, which leverages and adapts our Higher Ed content and platforms. While this niche focus limits Cengage's direct exposure to the large basal adoption investment requirements and revenue cycles, overall funding tends to align with the broader basal adoption. We anticipate a return to growth in fiscal 2020 as the market funding environment improves.

Our online skills business, under the Ed2Go brand, is and will continue to be a core focus. While most students we serve pursue a two-year or four-year degree and learn on a course-based structure, learning is increasingly taking place outside the traditional course set-up. As a result, we are investing in providing learners in different settings our trusted solutions leveraging our content and technology. This includes comprehensive program or institutional offerings, online and hybrid learning formats, competency-based programs, add-on learning and certification and workforce development programs. For example, we are the largest provider of learning solutions in the skills area, which allows us to capture the growing industry demand for skills-based training outside traditional course set-ups.

Evolve towards a technology first organization and operating model. Our revenues are now predominantly derived from our courseware technology. Over the past few years, we have been evolving our organization, operating model and talent to drive this digital growth.

Our sales, marketing and services teams have shifted over the last few years from a textbook to a software sales and support model. We redesigned our field sales structure; flattened the organization; eliminated positions; created new positions focused on digital growth; increased and aligned our variable compensation to better reflect our digital future and evolved key roles to accelerate our plans. Our go-to-market organization is focused on helping our institutional and faculty customers adopt our digital solutions, increase student activation of the adopted solutions and drive customer usage and retention. We have put in place dedicated resources, systems and data tools to monitor and support digital conversion, migration and usage of customers at an individual faculty and student level. In addition, our best-in-class services organization supports our customers through the entire life cycle of their digital purchase throughout the semester: on-boarding, course set-up, trouble-shooting and usage.

Our product and technology organization continues to concentrate on the acceleration of our digital transformation. We continue to optimize the efficiency and effectiveness of our product development process, ensuring the product and technology teams work hand-in-hand from inception of product to delivery and ongoing improvement. We have expanded our Learning Science teams to apply the latest in pedagogical approaches to each of our disciplines and courseware platforms. We continue to expand and augment our engineering talent base. We are also implementing an agile development process and full stack teams that allows us to rapidly develop, release and iterate on our digital solutions.

Overall, we have made significant moves in organization structures, operating model and culture that has shifted us to a true education and technology company.

Our Products and Services

Academic

Our Academic offerings include:

- *Digital Solutions.* Cengage is a leader in providing customers with a broad range of digital solutions.
    - *Course Solutions.* MindTap comprises an interactive suite of digital learning solutions designed to engage students and offer instructors choice in content, platforms, devices and learning tools. Born out of industry demand and developed based on pedagogically sound principles, MindTap incorporates customizable

"MindApps" developed by Cengage and independent developers that actively encourage students to interact with their course content, as well as their peers and instructors. MindTap combines authoritative content with a structured but highly flexible and extensible delivery platform to enable instructors and students to incorporate open content in the context of their coursework. MindTap also allows faculty to see individualized engagement scores per student and areas where students require additional support. We have over 910 MindTaps in the market across disciplines, which covers approximately 75% of our product portfolio, and are able to add platform features and functionality across all MindTap or develop discipline-specific features as needed. Individual adoption analytics, as well as comparative white papers performed over the last two years, prove that MindTap leads to better learner outcomes. For example, in a recent study compiled using qualitative and quantitative data from over 7,000 students at 100 institutions, MindTap was proven to deliver improved student outcomes including:

- A 14% improvement in overall course grades for students using MindTap versus students not using MindTap.
- Instructors using MindTap saw a 17% reduction in the number of drops, fails, and withdrawals in their course.
- 71% of students said MindTap increased their confidence in understanding course materials.

- *Homework Solutions.* Cengage provides online homework solutions that combine our high quality content with digitally assignable and gradeable work for students. Our interactive learning solutions are designed to save instructors time, help students focus on what they need to learn and improve academic performance with demonstrable outcomes. These successful discipline-specific platforms include solutions such as Aplia, SAM and OWL, which are also increasingly integrated into the MindTap platform. Additionally, during fiscal year 2017, we acquired WebAssign, whose flagship product is a highly regarded assessment and homework solution for the STEM disciplines (science, technology, engineering and math).
- *Other Digital Solutions.* These include fully customized online course programs, institutional learning platforms, online skills solutions and supplementary materials.

- *Cengage Unlimited.* Cengage is the first to introduce to the industry a subscription model, Cengage Unlimited, that gives students on-demand access to all of our digital learning platforms, ebooks, online homework and study tools in one place and for one affordable low price. Cengage Unlimited will drastically reduce the cost of learning materials and provide seamless access to high-quality content for all students. We have secured joint distribution and marketing partnerships with key channel partners such as Barnes & Noble, Follett, Amazon, Vitalsource, Redshelf, MBS, Chegg and more. These partnerships allow students to easily purchase Cengage Unlimited virtually everywhere - either at the local campus bookstore, online or on our proprietary eCommerce channel, Cengage.com. As of March 31, 2019, we are eight months post launch and have already attracted one million Cengage Unlimited subscribers and saved students cumulatively over $60 million dollars.
- *Print textbooks and materials.* Cengage publishes a wide variety of print products including textbooks, study guides, laboratory exercises, instructor editions and supplemental products. These materials are based on best-in-class authoritative, reliable and current content from our extensive list of leading authors across all major academic disciplines and maintain leading positions in many major disciplines. We publish textbooks by several of the most talented and well-known academic authors such as Ron Larson in mathematics and N. Gregory Mankiw in economics. In many cases, our print products are sold together and complement our digital solutions.
- *Services.* Cengage offers a variety of services to complement our products. Our services include course development, custom content development and direct assistance to instructors and students to support effective implementation and ongoing use of our digital and print solutions.

Sales and Distribution Model

Cengage solutions are sold to instructors, bookstores, institutions, and ultimately students. Cengage and our competitors influence the decisions governing the required solution used for a course by marketing directly to the instructors responsible for selecting their course materials. The selection of course materials is referred to as an "adoption" in the industry. We employ a professional sales force who focuses on securing adoptions as well as helping faculty and students realize the full potential of the adopted solution.

We also employ a sales force that focuses specifically on institutional sales opportunities. These sales are typically more complicated and time consuming than adoptions by individual instructors, but often promise greater unit volume and economic value to Cengage.

We distribute our products primarily through "brick and mortar" college bookstores and online book retailers which sell directly to students. We also sell directly to students through Cengage.com, with gross sales of approximately $160 million for the fiscal year ended March 31, 2019, offering digital solutions, e-books, textbook rentals, print books, study aids, and supplemental materials, designed to enable students to choose solutions that have been adopted for their specific course and best satisfy their individual needs.

Skills

We provide materials in a wide range of skill areas, often extending our offerings for the education industry to professionals already in the workforce. Our products include customized materials for employers to provide training to their employees. For example, we offer Milady Beauty & Wellness solutions to train licensed beauty technicians and spa and salon managers. Cengage employs a direct professional sales force focused on sales to employers, training programs and directly to professionals seeking additional skills training.

School

Cengage holds leading positions in select elective disciplines, including AP&E and ELT. These disciplines have more attractive growth fundamentals than the school industry as a whole, enabling Cengage to leverage our existing assets in this market, while avoiding the impact of the cyclicality of the broader school industry on our business. Cengage's offerings to the school market are part of a partnership with National Geographic and the brand and content are leveraged across our ELT products, the National Geographic Science series, elementary school level science curriculum and a vast collection of National Geographic content including images, video, maps, illustrations, and articles.

Gale

Gale differentiates itself as an education-focused company serving lifelong learning needs in K-12, public and academic libraries. It holds a unique position within the research space as both a producer of original content in digital and print form, and an aggregator of one of the largest archives of primary source material, journals, and databases. Gale has partnerships with leading institutions to digitize rare historical content from around the world, affording a truly global product experience and opening new avenues of scholarship for researchers. Its digital content repository serves as the source for hundreds of online research databases that are used in libraries and learning institutions worldwide.

Gale extends its presence from the library to the classroom by integrating its reference content into Cengage's academic products. Through innovative digital products that are mobile-responsive and easily adaptable, Gale delivers content and technology that integrate seamlessly into classroom curriculum, driving utilization within student, faculty and researcher workflow.

Gale sells directly to libraries in communities, schools and universities as well as to library consortia. Gale has direct representatives in all major developed countries and is expanding its sales presence in the Middle East and Asian markets. In addition to selling to libraries, Gale also licenses its proprietary and third party content for integration within Web-based information providers. Gale currently has strategic business distribution arrangements with many leading information services, including Apple, Inc., Associated Press, Amazon.com, Inc., Bloomberg, Dow Jones & Company, Inc., Google, Inc., LexisNexis, National Geographic Society, Smithsonian Institution, The British Library, and Thomson Reuters Westlaw.

International

Cengage is a leading international provider in the global industry for course materials with operations in Asia, EMEA, Australia and Latin America. Cengage adapts domestic course materials for various local industries internationally. We also publish and sell course materials produced by local authors and provide learning and reference solutions in various formats to individuals and businesses located outside the United States.

Cengage serves the higher education, vocational, K-12, library reference, and ELT industries in select geographic areas with a focus on high-growth industries throughout the world. Our business covers four principal regions that serve a number of industries generally through local offices and staff with experience in the industries they serve. Our four major regional industries are served by physical locations in Asia (based in Singapore), EMEA (based in Andover, England), Australia (based in Melbourne, Australia), and Latin America (based in Mexico City, Mexico).

The business mix and strategic focus of these units differ based on prevailing local industry demand for learning products. Our regional operations publish adaptations of domestic course materials as well as indigenous course materials, and distribute other available content, including research databases. With offices in more than 25 countries, a sales force in nearly 40 countries, and billings into approximately 170 countries and territories around the globe, we believe we are well positioned to take advantage of specific favorable international growth dynamics. With our global reach we have a strong presence in the education market transitioning to digital, and we are beginning to scale our MindTap and other premium platforms.

Competition

We operate in a highly competitive industry with significant established competitors. Differentiating factors in our industry includes content quality, author reputation, digital platforms, customer service and price. Our largest competitors in the U.S. higher education industry are Pearson, McGraw-Hill, Wiley & Sons, MacMillan, digital solutions providers, and alternative materials such as Open Educational Resources. Competitive positions and players can vary significantly on a discipline-specific basis. In addition, we compete for student share of wallet with alternative options to a new textbook sale, including used and rental options and, at times, non-consumption. The continued focus on technology and digital offerings may result in additional competition from nontraditional competitors including various technology providers and online distributors. We compete primarily on the basis of price, the quality of our content and author reputation, the effectiveness of our digital solutions, and customer familiarity with our products.

History

On July 2, 2013, Cengage Learning Holdings II, L.P. and all of its domestic wholly-owned subsidiaries (collectively, the "Predecessor") filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code ("Chapter 11") in the Bankruptcy Court for the Eastern District of New York ("Bankruptcy Court"). Our foreign subsidiaries were not part of the bankruptcy filing. On March 13, 2014, the Predecessor received confirmation of the Plan of Reorganization from the Bankruptcy Court and emerged from bankruptcy proceedings as of the end of the day on March 31, 2014 (the "Effective Date"). Prior to the Effective Date, the Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and the orders of the Bankruptcy Court. Our foreign subsidiaries continued to operate in the ordinary course of business during the post-petition period. Following the Effective Date, Cengage Learning Holdings II, Inc., together with its consolidated subsidiaries, became the successor company to Cengage Learning Holdings II, L.P. Prior to July 2, 2013, the Predecessor was controlled by investment funds associated with or designated by Apax Partners, L.P, together with OMERS Private Equity, Inc.

Organization and Operations

Printing and binding; raw materials; fulfillment and distribution

We manage the preparation of products within an approved portfolio of pre-press vendors, printers, and paper suppliers within strict buying guidelines and pricing agreements. Together with leading providers of print-on-demand technology, we have implemented print-on-demand services that enable us to more efficiently produce certain print products.

The primary raw material we use is paper. Paper prices may fluctuate significantly from time to time. We attempt to manage our exposure to fluctuations in price by entering into single- and multi-year supply contracts with multiple paper suppliers and having alternative suppliers available.

We execute our fulfillment and distribution functions primarily from Independence, Kentucky. Additionally, we maintain small distribution and customer service points (some outsourced) to support publishing programs in Australia, Latin America, Asia and EMEA. By making use of modern distribution systems and materials-handling technologies, we have created efficiencies and reduced operating costs.

Employees

As of March 31, 2019, we had approximately 4,900 employees. We believe that we have an engaged and active workforce and that relations with our employees are satisfactory.

Seasonality and comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of our business. For the fiscal year ended March 31, 2019, we derived approximately 58.6% of our Adjusted Revenues and approximately 84.2% of our Adjusted EBITDA less Pre-Publication Costs in the second and fourth fiscal quarters, which coincide with the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, we typically incur a net cash deficit from all of our activities in the first and fourth fiscal quarters of our fiscal year. Changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates or changes in inventory management practices.

As we continue to migrate our product and service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be recognized ratably over the applicable subscription period, with amounts in excess of revenues recognized reflected as deferred revenue. This represents a change from traditional print products where revenues are typically recognized upon shipment of the materials to our customer. Consequently, reported revenues may not be comparable to prior periods as a growing proportion of our revenues are recognized in subsequent periods.

Intellectual property

Substantially all of our proprietary publications and products, including our proprietary customer facing technology, are covered by copyright in the United States and by virtue of international treaties and conventions, in most developed countries throughout the world. As the copyright holder, we have the exclusive right to reproduce, distribute, publicly display, perform, and create derivative versions of the copyrighted works. We also obtain significant content, materials and technology through license arrangements with third-party licensors.

We do not own any franchises or concessions, but we have registered certain patents, trademarks and service marks in connection with our publishing businesses. We also obtain domain name protection for our Internet domains. We believe we have taken, and continue to take, in the ordinary course of business, all appropriate available legal steps to protect our material intellectual property in relevant jurisdictions.

We rely on our authors for substantially all of the content for our learning solutions. In almost all cases, copyright ownership has been assigned to us by the original author(s). In certain specific instances, the author may retain the copyright, granting us an exclusive license to utilize the work. In both cases, the term of copyright under United States law is generally the life of the author plus 70 years (works first published prior to 1978 generally have a copyright term of 95 years from the date of first publication). With respect to materials created as “works made for hire,” the term of copyright is the shorter of 95 years from publication or 120 years from creation. For works assigned or licensed on or after January 1, 1978, authors (or their heirs or estates) have a statutory right to terminate such assignment or license for a five-year period generally commencing 35 years from the date of the assignment or license, or if the grant covers the right to publish the work, the shorter of 35 years from the date of publication or 40 years from the date of the assignment or license. For works first assigned or licensed prior to January 1, 1978, authors (or their heirs or estates) have a statutory right to terminate such assignment or license for a five-year period generally commencing at the end of 56 years from the date on which the copyright was first secured or January 1, 1978, whichever is later.

Environmental matters

We generally contract with independent printers and binders for their services, and our operations are generally not otherwise materially affected by environmental laws and regulations. However, as the owner and lessee of real property, regardless of fault, we could face liability or our operations could be disrupted if contamination were to be discovered on the properties we own or lease. We are currently unaware of any material environmental liabilities or other material environmental issues relating to our properties or operations and anticipate no material expenditures for compliance with environmental laws or regulations. See “Properties” for a description of our significant leased premises.

RISK FACTORS

The following factors affect our business and the industry in which we operate. The risks and uncertainties described below could materially adversely affect our business, results of operations or financial condition. Furthermore, the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known or those we currently consider immaterial may also have an adverse effect on our business, results of operations or financial condition. Certain factors make references to non-GAAP measures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for our definition of Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs and a reconciliation of Adjusted Revenues to revenues and Adjusted EBITDA less Pre-Publication Costs to our net loss.

We operate in highly competitive and rapidly changing industry.

We operate in a highly competitive industry with significant established competitors, such as Pearson, McGraw-Hill, John Wiley & Sons, Inc., Macmillan, Scholastic Inc., ProQuest-CSA LLC, and EBSCO Industries, Inc. With the overall industry shift to digital, we also have nontraditional competitors including various technology providers and online distributors.

We compete primarily on the basis of price, the quality of our content and author reputation, the effectiveness of our digital solutions, and customer familiarity with our products. Similar to us, our competitors are continuously enhancing their products and services, developing new business models and investing in technology. Some of our competitors are also acquiring additional businesses in key sectors in order to broaden their offerings.

We continue to adjust our business, including our pricing and delivery models, based on industry conditions and customer demand. We consider additional capital investments, as needed, which may affect profit margins as we strive to maintain or grow industry share, ensure the health of the business and deliver affordable access to quality learning for students.

Consolidation in the industry in which we operate could place us at a competitive disadvantage.

Some of the industries in which we operate have experienced consolidation. In particular, the combinations of traditional media content companies and new media distribution companies have resulted in new business models and strategies. Similarly, the consolidation of book retailers has increased our reliance on certain customers. We cannot predict with certainty the extent to which these types of business combinations may occur or the impact that they may have. These combinations could place us at a competitive disadvantage with respect to negotiations, scale, resources and our ability to develop and exploit new media technologies, which could adversely impact our business, financial condition and results of operations.

Failure to successfully introduce new products, services or technologies could impact our profitability.

In order to maintain a competitive position, we must continue to invest in new offerings and new ways to deliver our products and services. These investments may not be profitable or may be less profitable than what we have experienced historically. Our failure to successfully introduce new products, services or technologies to the industry could have a material adverse impact on our results of operations, profitability and financial condition.

We face competition from the used textbook industry and rental textbook programs for sales of our textbooks. The growth of the used textbook and/or rental textbook programs may materially adversely affect our business.

The academic used textbook industry has grown in recent years, driven primarily by more efficient distribution of used books and the cost of new textbooks. Our textbook customers are often presented with the option to purchase a new or used textbook, and we do not generate revenues from any sale after the initial sale of our printed textbooks. In addition, an increasing number of bookstores and online companies are offering textbook rental programs. Historically, the difficulty in making used textbooks available to students limited the growth of the used textbook market. The Internet, however, has made the used textbook industry more efficient and has significantly increased student access to used textbooks. The rental market also increases the efficiency of the used textbook industry by increasing the return rate of rented used textbooks which are rented multiple times. If the supply of used textbooks and/or textbook rental programs increases, students may increasingly look to purchase used textbooks and/or rent textbooks as an alternative to purchasing our new textbooks. We primarily compete against used and rental textbooks on the basis of supply and price. If we are unable to effectively compete with growing competition presented by the used textbook and rental textbook market, we could experience a loss in sales and our business, financial position and results of operations may be materially adversely affected.

Increased accessibility of free or relatively inexpensive information and materials may reduce demand for or negatively impact the pricing of our products and services.

In recent years, more public sources of free or relatively inexpensive information and research materials have become available, particularly in digital formats and through the Internet, and digital versions of products have been offered at lower pricing than similar products offered in traditional media such as print. We expect these trends to continue. For example, some governmental and regulatory agencies have increased the amount of information they make publicly available for free and certain educational institutions have increased demand for lower priced educational materials, including e-books at prices below the price of print books. Technological changes and the availability of free or relatively inexpensive information and materials have also affected changes in consumer behavior and expectations. Public and private sources of free or relatively inexpensive information and lower pricing for digital products may reduce demand and impact the prices we can charge for our products and services. To the extent that technological changes and the availability of free or relatively inexpensive information and materials limit the prices we can charge or demand for our products and services, our business, financial position and results of operations may be materially adversely affected.

Increased availability of lower priced international versions of our products in the domestic industry or higher prices for our products overseas may cause our sales to decline.

On March 19, 2013, the United States Supreme Court, in Kirtsaeng v. John Wiley & Sons, Inc. reversed existing case law that had made it illegal to import into the United States foreign manufactured versions of U.S. Copyrighted products ("Foreign-Manufactured Versions"), without the copyright owner's consent. The Kirtsaeng ruling could cause us to experience a loss in domestic sales if increased units of Foreign-Manufactured Versions and other international versions are imported and resold within the United States in competition with our own domestic product offerings. Further, we may experience a loss in sales outside the United States due to increased prices overseas. If we experience a loss of sales domestically due to increased competition from lower priced Foreign-Manufactured Versions or internationally due to lower demand in overseas industries for higher priced products, our business, financial position and results of operations could be adversely affected.

Increases in the cost of paper and other operating costs could negatively affect our results.

Paper is the principal raw material used in our business. As a result, our business may be negatively impacted by an increase in paper prices. The price of paper may fluctuate significantly in the future, and changes in the market supply of or demand for paper could affect delivery times and prices. Paper suppliers may consolidate and as a result, there may be future shortfalls in supplies necessary to meet the demands of the entire marketplace. We may need to find alternative sources for paper from time to time. We may not continue to have access to paper in the necessary amounts or at reasonable prices and a material increase in the cost of paper may have an adverse effect on our business, financial condition and results of operations.

We also have other significant operating costs, and unanticipated increases in these costs could adversely affect our operating margins. Higher energy costs and other factors affecting the cost of publishing, transporting and distributing our products could adversely affect our financial results. Our inability to absorb the impact of increases in paper costs and other costs or any strategic determination not to pass on all or a portion of these increases to customers could adversely affect our business, financial condition and results of operations.

Our inability to attract or retain the key authors that we need to remain competitive and grow, obtain rights to our authors' works and avoid disputes with our authors may result in a material adverse effect on our results of operations.

Our success is dependent, in part, on our ability to attract and retain talented authors and develop long-term, collaborative relationships with them. We operate in a number of highly visible industries where there is intense competition for successful, published authors. We enter into publishing agreements with authors that set forth the terms of our relationships, including the payment of royalties and the transfer of copyrights. Our rights to exclusively offer authors' content are dependent on the authors' transfer of copyrights to us. The United States Copyright Act of 1976, as amended, allows an author (or his or her heirs or estate), during a five-year window, to terminate the copyright transfer and thereby regain certain United States rights to their works. For copyrights transferred on or after January 1, 1978, the five-year window begins 35 years from the date of transfer, or if the grant provides a right to publish, the shorter of 35 years from the date of publication or 40 years from the date of transfer. For copyrights transferred before January 1, 1978, the five-year window begins from 56 years from the date on which the copyright was first secured or January 1, 1978, whichever is later. An author that terminates the grant of rights to his or her work could seek to terminate all rights in their works transferred to us or else negotiate more favorable economic or other terms. Further, we may become engaged in disputes with our authors

from time to time regarding the terms of the publishing agreements and calculation of the royalty we owe them. Our inability to attract new authors, the loss of certain of our high profile authors, increased costs incurred in attracting or retaining authors, changes in our rights to our authors' works, or becoming engaged in any disputes with our authors could harm our business, results of operations and financial condition.

We may not be able to attract or retain key employees.

Our future success depends on the continued services of key employees and our ability to attract and retain new employees with the experience and capabilities necessary to support our needs. The loss of any of the key employees or the failure to attract and retain suitably skilled new employees could adversely affect our business, financial condition and our results of operations.

We are dependent on third-party distributors, representatives and retailers for a substantial portion of our sales.

In addition to our own sales force, we offer our products through a variety of third-party distributors, representatives and retailers. We do not ultimately control the performance of our third-party distributors, representatives and retailers to perform as required or to our expectations and we do not control these parties' actions. In addition, some of our distributors, representatives or retailers may market other products that compete with our products. The loss of one or more of our distributors, representatives or retailers or their failure to effectively promote our products or otherwise perform in their functions in the expected manner could adversely affect our ability to bring our products to market and impact our revenues.

We are a party to at-will contracts with customers and the termination of these contracts could harm our business.

We currently provide or have agreements to provide products and services to governmental agencies, school districts and educational institutions under contracts that are generally terminable at-will. The fact that these customers have at-will contracts with us gives rise to the possibility that we may have no recourse in the event of customer cancellation of a contract. In addition, contracts awarded by the federal government or states pursuant to a procurement process are subject to challenge by competitors and other parties during and after that process and require that we comply with certain regulatory and pricing requirements. We anticipate that we will continue to rely upon a number of customers under such at-will contractual arrangements. As a result of this reliance, the election by these customers to terminate any or all of their at-will contracts with us, or the loss of or decrease in business from several of our large customers, could materially and adversely affect our business, financial condition and results of operations.

We may not be willing or able to maintain the availability of information obtained through licensing arrangements or the terms of our licensing arrangements may change, which may reduce our profit margins or our industry share.

We obtain significant information through licensing arrangements with content providers. Some content providers may seek to increase licensing fees for providing their proprietary content to us. In such case, our profit margins may be reduced if we are unable to pass along such price increases to our customers. If we are unable to renegotiate acceptable licensing arrangements with these content providers or find alternative sources of equivalent content, the quality of our content may decline and as a result we may experience a reduction in our industry share, and our business, financial condition and results of operations may be materially adversely affected.

We have and may continue to outsource certain functions to third parties and these arrangements may not be successful, thereby resulting in increased costs, or may materially adversely affect service levels, results of operations and our financial reporting.

We rely on third party providers of outsourced services to provide services on a timely and effective basis. These services include, among others, printing of textbooks, content development, payroll and benefits administration and specific activities related to general accounting, fixed asset and accounts payable functions. We do not ultimately control the performance of our outsourcing partners and the failure of third-party providers of outsourced services to perform as required by contract or to our expectations could result in significant disruptions and costs to our operations, which could materially adversely affect our business, financial condition and results of operations and our ability to report financial information accurately and in a timely manner.

A reduction in enrollment at colleges and universities may reduce our revenues or profitability.

A reduction in student enrollment at colleges and universities could lead to decreased demand for our products. Increases in tuition rates, decreases in family income and net worth and a perception that higher education is not connected to the economy, among other factors, can adversely affect demand for higher education. Further, enrollment levels at colleges and

universities outside the United States are influenced by the global and local economic climate, local political conditions and other factors that make predicting foreign enrollment levels difficult. Reductions in expected levels of enrollment at colleges and universities both within and outside the United States could adversely affect demand for our higher education products and, therefore, reduce our revenues or profitability.

Changes in governmental programs and private lending practices may reduce our revenues or profitability.

Students comprise a large portion of our consumer base. Many of these students depend on government and private funding, in the form of loans or grants, to pay for their education. Many of these programs are highly regulated and subject to frequent and substantial changes. Without sufficient government-sponsored loan programs, some of these students may have to forgo higher education opportunities. As a result, any decreases or delays in government-sponsored student loans or grants could reduce enrollment and thereby lead to decreased demand for our products, negatively impacting our business.

In addition, our library reference customers rely on various sources of governmental funding, primarily from state and local governments, to purchase products and services we offer. Accordingly, any decreases or delays in government funding for libraries, decreases in budgets or changes in spending patterns could negatively impact our business, financial position and our results of operations.

Changes in U.S. federal, state and local or foreign tax law, interpretations of existing tax law, or adverse determinations by tax authorities, could significantly affect the Company and its shareholders and affect our financial condition or results of operations.

As a global company, we are subject to taxation at the federal, state and local levels in the U.S. and various other countries and jurisdictions. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various places in which we operate. Our effective tax rate, however, may be different than experienced in the past due to numerous factors, including tax reform, such as the recent Tax Act, changes in the mix of our profitability, the results of examinations of our tax filings, and changes in accounting for income taxes. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations.

The specific impacts of the Tax Act, included among other things, (1) a corporate income tax rate reduction to 21%, (2) limitations of the tax deduction for interest expense to 30% of adjusted earnings, (3) limitations of the deduction for net operating losses to 80% of current year taxable income, (4) one time taxation of offshore earnings, (5) potential elimination of U.S. tax on foreign earnings, (6) immediate deductions for certain new investments, (7) modifications and/or repeals of many business deductions and credits and (8) putting into effect the migration from a “worldwide” system of taxation to a territorial system. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will adjust their policies in response to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is uncertain and could materially adversely affect our business, financial condition and results of operations.

Our failure to win state adoptions could adversely affect our revenue.

A significant portion of our revenue is derived from sales of K-12 instructional materials pursuant to pre-determined adoption schedules and, in most states, legislative approval of funding for each adoption. Due to the revolving and staggered nature of state adoption schedules sales of K-12 instructional materials have traditionally been cyclical, with some years offering more sales opportunities than others. Precursory to the state board of education or other adopting authority's selection process of approving materials for the state-adopted list, investments are made to develop or modify instructional materials to meet the individual adoptions curriculum standards. If state funding is delayed or adoption cycles are canceled or postponed our return on investment could be adversely affected. Additionally, in the adoption process for each state, our instructional materials face exclusion from being on the state-adopted list and furthermore, even if our program is approved by the state, we face significant competition in the individual school districts selecting our program. Our failure to develop instructional materials that are selected for the state-adopted list, cancellation or postponement of adoptions, and changes in state funding could materially and adversely affect our sales revenue for the year of adoption and subsequent years.

Conducting and expanding our operations outside the United States involves special challenges that we may not be able to meet and that may adversely affect our business.

While our primary markets are in the United States, we operate globally and have targeted certain markets outside North America for continued growth. For the fiscal year ended March 31, 2019, approximately 78% of our Adjusted Revenues were from the United States and approximately 22% were from markets outside the United States. International operations and any foreign business expansion we may undertake present numerous risks, including:

- challenges in penetrating new markets due, in part, to established and entrenched competitors,
- challenges in developing products and services that are tailored to the needs of local customers,
- challenges in developing and delivering technological infrastructure required to service and support products in local markets ,
- customers in certain foreign countries may have longer payment cycles,
- limitations on the repatriation of funds to the United States,
- challenges in enforcing agreements and collecting receivables under certain foreign legal systems,
- lack of local acceptance or knowledge of our products and services,
- lack of recognition of our brands,
- unavailability of joint venture partners or local companies for acquisition,
- instability of international economies and governments,
- changes in legal, regulatory and tax requirements,
- exposure to varying legal standards, including intellectual property protection laws, in other jurisdictions,
- general economic and political conditions in the countries in which we operate, and
- changes in foreign governmental regulations or other governmental actions that would have a direct or indirect adverse impact on our business and market opportunities.

We are also subject to the United States Foreign Corrupt Practices Act and the United Kingdom Anti-Bribery Act of 2010 (the "UK Anti-Bribery Act"), which generally prohibit companies and their intermediaries from making payments to foreign officials, and with respect to the UK Anti-Bribery Act, non-government persons as well, for the purpose of obtaining or keeping business, and similar requirements in other jurisdictions. The procedures we have in place that are designed to ensure our compliance with such laws may fail or may not protect us against liability as a result of actions that may be taken in the future by our agents and other intermediaries, including those over whom we may have limited or no control. Our success will depend, in part, on our ability to anticipate and effectively manage these and other risks associated with our operations outside the United States.

Fluctuations between foreign currencies and the United States dollar could have an unfavorable impact on our financial results.

We derived approximately 22% of our Adjusted Revenues during both the fiscal year ended March 31, 2019 and 2018, and approximately 20% during the fiscal year ended March 31, 2017 from our international operations. The financial condition and results of operations of our international operations are primarily measured using the foreign currency in the jurisdiction of operation of such business as the functional currency. As a result, we are exposed to currency fluctuations both in receiving cash from our international operations and in translating our financial results back into United States dollars. Assets and liabilities of our international operations are translated at the exchange rate in effect at each balance sheet date. Our income statement accounts are translated at the average rate of exchange during the period. A strengthening of the United States dollar against the relevant foreign currency reduces the amount of income we recognize from our international operations.

In addition, certain of our international operations generate a portion of their revenues in the applicable local currency or in currencies other than the United States dollar, but purchase inventory and incur costs primarily in United States dollars or currencies whose exchange rates are mechanically tied to the value of the United States dollar. The results of our international

operations may be adversely affected by an increase in the value of the United States dollar and we may experience transactional gains or losses because of volatility in foreign currency exchange rates.

We cannot predict the effects of further exchange rate fluctuations on our future operating results. As exchange rates vary, our results of operations and profitability may be materially adversely impacted. The risks we face in foreign currency transactions and translation may continue to increase as we further develop and expand our international operations, which could adversely affect our business, financial condition and results of operations.

Our revenues and operating results are seasonal and fluctuate on a quarterly basis.

Our business is seasonal. For the fiscal year ended March 31, 2019, we derived approximately 58.6% of our Adjusted Revenues and approximately 84.2% of our Adjusted EBITDA less Pre-Publication Costs in our second and fourth fiscal quarters, which coincide with the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, we typically incur a net cash deficit from all of our activities in the first and fourth fiscal quarters of our fiscal year, which ends on March 31. If these seasonal fluctuations are greater than anticipated, our business, financial condition and results of operations may be adversely affected. As we continue to migrate our product and service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be deferred and recognized ratably over the applicable subscription period. With the growth of digital products, accelerated with the launch of Cengage Unlimited in fiscal year 2019 offering 4 month, 12 month, and 24 month subscriptions, we expect our revenue will be recognized over longer periods corresponding to the longer subscription periods. This represents a change from traditional print products where revenues are typically recognized upon shipment of the materials to our customer. Consequently, reported revenues may not be comparable to prior periods as a growing proportion of our revenues are deferred and recognized in subsequent periods. In addition, changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, in a quarter with the consecutive quarter or in a fiscal year with the prior fiscal year. As a result of Cengage Unlimited we expect an increase in direct to student sales and a shift in the timing of sales closer to the start of the semester, which can result in sales shifting quarters compared to historical quarterly sales. The results of a quarter may be materially impacted as our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates and changes in their inventory levels and inventory management practices.

If we cannot successfully implement our business strategy, then our business, financial condition and results of operations could be materially adversely affected.

Our ability to successfully implement our business strategy is subject to a number of risks, many of which are beyond our control, including:

- rising development costs due to customers' requirements for more customized instructional materials and assessment programs,
- higher technology and process costs due to increased external cybersecurity threats and increased customer privacy expectations,
- rising advances for popular authors and industry pressures to maintain competitive retail pricing,
- a material increase in product returns or in certain production costs,
- regulatory pressure on textbook prices,
- increased rental of new and used print books,
- industry acceptance of new technology products, including online or computer-based learning,
- higher education enrollment trends,
- changing demographics and preferences of college students and professors that may affect product offerings and revenues, and
- consolidation in the retail and wholesale book industry.

We may not be able to successfully implement our business strategy and, even if successfully implemented, our strategy may not improve our operating results. In addition, we may decide to alter or discontinue aspects of our business strategy and may adopt alternative or additional strategies due to business or competitive factors or factors not currently expected, such as unforeseen costs and expenses or events beyond our control. If we are unable to successfully implement our business strategy, our business, financial condition and results of operations could be adversely affected.

If we are unable to identify, complete and successfully integrate acquisitions, our ability to grow our business may be limited and our business, financial condition and results of operations may be adversely impacted.

Our acquisition strategy involves a number of risks, including:

- our ability to find suitable businesses to acquire at affordable valuations or on other acceptable terms,
- competition for acquisition targets may lead to higher purchase prices or one of our competitors acquiring one of our acquisition targets,
- prohibition of any of our proposed acquisitions under United States or foreign antitrust laws,
- the diversion of management's attention from existing operations to the integration of acquired companies,
- our inability to realize expected cost savings and synergies,
- expenses, delays and difficulties of integrating acquired businesses into our existing business structure,
- privacy, security, or compliance risks that exist in the acquired business, and
- difficulty in retaining key customers and management personnel.

If we are unable to continue to acquire and efficiently integrate suitable acquisition candidates, our ability to increase revenues and fully implement our business strategy may be adversely impacted, which could adversely affect our business, financial condition and results of operations.

The announcement and pendency of the merger with McGraw-Hill could adversely affect our business, results of operations and financial conditions.

On May 1, 2019, we entered into a definitive agreement with McGraw-Hill, pursuant to which, at the Effective Time and subject to the terms and conditions of the Merger Agreement, our Company and McGraw-Hill will combine in a "merger of equals" transaction and our stockholders will receive shares of capital stock representing exactly 50% of the issued and outstanding shares of voting common stock of the combined company. We have agreed to operate our business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, subject to certain agreed exceptions. Completion of the Merger is subject to certain conditions, including receipt of regulatory approvals. There are numerous risks related to the Merger, including the following:

- various conditions to the closing of the Merger may not be satisfied or waived in a timely manner, or not at all,
- potential customer deferral or reconsideration of adoption and purchasing decisions,
- lawsuits may be filed against us challenging the Merger, and an adverse ruling may delay the Merger or prevent it from being completed,
- our ability to attract, recruit, retain and motivate current and prospective employees may be adversely affected,
- the attention of our employees and management may be diverted due to activities related to the Merger, and
- the Merger Agreement restricts us from engaging in certain actions without McGraw-Hill's approval, which may restrict our ability to respond effectively to competitive pressures, industry developments and future opportunities and may otherwise adversely affect our business, results of operations and financial condition.

In addition, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, and these fees and costs are payable by us regardless of whether the Merger is completed.

Our business relies on our hosting facilities and electronic delivery systems and any failures or disruptions may adversely affect our ability to serve our customers.

As we continue to drive our digital business, our dependence on the capacity, reliability and security of our hosting facilities and electronic delivery systems to provide our online library reference materials and other online products to our customers continues to grow. Certain events, such as loss of service from third parties, operational failures, sabotage, break-ins, and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss, or computer viruses, could cause our electronic delivery systems to operate slowly or interrupt their availability for periods of time. Any back-up systems or facilities we maintain may also experience interruptions and loss of service. We do not have a back-up

facility for some of our online products. If disruptions, failures or slowdowns of our facilities, electronic delivery systems, or back-up systems or facilities occur, our ability to distribute our products and services effectively and to serve our customers may be adversely affected and we may experience loss of revenues and harm to our reputations, resulting in loss of customers.

We have made, and may be required to make in the future, substantial investments in our technology infrastructure. If we do not make such investments or do not effectively make such investments, our business, financial condition and results of operations may be materially adversely affected.

The method of delivering our products is subject to technological change. Over the past several years, we have made significant investments in technology, including spending on computer hardware, software, electronic systems, telecommunications infrastructure and digitization of our content. We expect our investment in technology to continue at significant levels. If we do not make such investments or do not effectively make such investments, our business, financial condition and results of operations may be materially adversely affected. In addition, we cannot predict whether technological innovations will, in the future, make some of our products, particularly those printed in traditional formats, wholly or partially obsolete. If we are unable to identify, develop and successfully integrate such technological innovations, or our competitors are able to better integrate such technological innovations, we may not be able to effectively compete, and, therefore, we may experience a loss in sales or we may be required to invest additional significant resources to further adapt to the changing competitive environment.

In addition, without continued investment in our technology, we have increased risk of cybersecurity incident affecting the confidentiality of data we have collected about students, the availability of our systems for use by students, and the integrity of the content and student data, such as test or assignment results. This could lead to erosion of confidence in our digital offerings, and a loss in sales.

Technology failure could result in liability, loss of revenue and reputational harm.

Technology failure may lead to service disruption for our digital solutions and may result from failure in end-user software functionality, hosting and/or business system infrastructure, and connectivity. To meet the demand for innovation and for us to maintain our competitive advantage in the rapidly changing digital industry, we generally deliver and launch products more quickly, which may increase the risks of defects that only become apparent after product launch. Prolonged remediation periods or digital product performance issues may result in liability, loss of revenue and reputational harm.

A security breach or cyberattack involving our technology infrastructure, our products and services, or our customers' credit and debit card and private data could subject us to material claims and additional costs and could harm our reputation.

Our customers rely on our products and services to collect, secure, store and transmit confidential information. In relation to our credit card sales, we transmit and store confidential credit and debit card information. We are driving more digital usage resulting in further exposure of our technology infrastructure due to an increased userbase. In relation to our credit card sales, we transmit and store confidential credit and debit card information. We also have access to, collect or maintain private or confidential information regarding our customers, employees, and our business. Our customers rely on the data in our systems being secured from exposure and protected from manipulation. The complexity of our information technology systems makes them vulnerable to a cyberattack, malicious intrusion, and other significant disruptions. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems that meet our customer's needs while also providing security, privacy, and compliance with ever-changing threats, regulatory landscape, and customer patterns. Third party cyberattacks, malicious intrusions, physical or electronic, or other significant disruptions could lead to interruptions and delays in customer processing, loss of data, or manipulation of data. Any such event for which we are, or perceived to be, responsible, in whole or in part, could subject us to claims that could harm our reputation and result in significant costs to defend, settle or satisfy. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could materially harm our operating results. We might be required to expend significant financial and other resources to protect against further security breaches or improve our technology infrastructure against further security related incidents. As cybersecurity related incidents continue to evolve, and regulatory focus on these issues continues to expand, additional investments may be required.

If we do not adequately manage and develop our operational and managerial systems and processes, our ability to manage and grow our business may be harmed.

We need to continue to improve existing and implement new operational and managerial systems to manage our business effectively. Any delay in the implementation of, or disruption in the transition to, our new or enhanced systems, could adversely affect our business, financial condition and results of operations.

Failure to comply with privacy laws may cause financial loss and reputational damage.

We are subject to a wide array of different privacy laws, regulations and standards in the United States and in foreign jurisdictions where we conduct business. Our failure to comply with applicable privacy laws, regulations and standards could lead to significant reputational damage and other penalties and costs, including loss of revenue. Our brand and customer trust are critical assets for our Company. In the event of negative publicity regarding our adherence to applicable privacy laws, regulations, and standards, whether valid or not valid, the resulting reputational damage could reduce demand for our products and adversely affect our relationship with teachers, educators and institutions. This reaction may have an immediate and/or long term impact on both new and renewed sales, and may lead to short and/or long term revenue loss.

Our intellectual property and proprietary rights may not be adequately protected under current laws which could harm our competitive position and materially adversely affect our business, financial condition and results of operations.

Our success depends, in part, on our proprietary content. Our products are largely comprised of intellectual property content delivered through a variety of media, including textbooks, digital learning solutions and the Internet. We rely on copyright, trademark and other intellectual property laws to establish and protect our proprietary rights in these products. However, our proprietary rights may be challenged, invalidated or circumvented. Our intellectual property rights in the United States, the primary jurisdiction in which we conduct business, are well-established. However, we also conduct business in other countries, such as China and India, where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our current performance and future growth. Moreover, despite copyright and trademark protection, third parties may be able to copy, infringe, illegally distribute, import or resell or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the Internet. In addition, the lack of Internet-specific legislation relating to intellectual property protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The steps taken by us to protect our proprietary information may not be adequate to prevent misappropriation of our content or technology. In addition, our proprietary rights may not be adequately protected because:

- people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it,
- policing unauthorized use of our intellectual property can be difficult, expensive and time-consuming (which may divert our management from implementing our business strategy), and we may be unable to determine the extent of any unauthorized use, and
- the laws of other countries in which we may market our products may offer little or no effective protection for our proprietary technologies.

We may also be required to initiate expensive and time-consuming litigation to defend our intellectual property or to maintain our intellectual property. If there is an increase in the scale of unauthorized copying and redistribution of our products, or if we are unable to adequately protect and enforce our intellectual property rights, it would adversely impact our product sales and reduce our revenue, thereby adversely affecting our results of operations and financial condition, as well as our competitive position.

We may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in our loss of significant rights.

Litigation regarding copyrights and other intellectual property rights is extensive in the publishing industry , including claims involving the terms by which photographs and other content are licensed to us for inclusion in our textbooks and other products. We may be subject to such claims in the future. Our third-party suppliers may also become subject to infringement claims, which in turn could negatively impact our business.

Litigation is expensive and time-consuming and could divert management's attention from our business and could have an adverse effect on our business, financial condition and results of operations. If there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to

the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. All of these requirements could damage our business. We may have to develop non-infringing technology and our failure in doing so or obtaining licenses to the proprietary rights on a reasonable or timely basis could have an adverse effect on our business, financial condition and results of operations.

Disputes with our customers regarding infringement and piracy of intellectual property may result in a material adverse effect on our results of operations.

In connection with defending our intellectual property rights and combating piracy, we may have disputes with our customers which may require us to institute expensive and time consuming litigation. These disputes could divert our management's attention, lead to counter claims, and could result in loss of business from these and other customers, which may have a material adverse effect on our consolidated results of operations.

We continue to be controlled by Apax Partners, L.P., KKR Asset Management, and Searchlight Capital Partners (together, the "Principal Equityholders"), and the interests of the Principal Equityholders may conflict with the interests of other stockholders.

The Principal Equityholders control CL Holdings II, Inc. and representatives of the Principal Equityholders comprise a majority of our directors. As a result, the Principal Equityholders can control our ability to enter into significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of the Principal Equityholders and their respective affiliates could conflict with or differ from the interests of our other stockholders. For example, the concentration of ownership held by the Principal Equityholders could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which may otherwise be favorable for us. If we encounter financial difficulties or are unable to pay our debts as they mature, the interests of the Principal Equityholders and certain of their respective affiliates as equityholders might conflict with the interests of holders of our debt. The Principal Equityholders may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to holders of our debt.

Additionally, our Principal Equityholders are in the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete, directly or indirectly with us. The Principal Equityholders may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as Principal Equityholders continue to indirectly own a significant amount of our equity, even if such amount is less than 50%, they will continue to be able to substantially influence or effectively control our ability to enter into corporate transactions.

We could incur impairment charges for goodwill, long-lived assets, and identifiable intangible assets.

As of March 31, 2019, we had goodwill of $1,629.1 million and identifiable intangible assets, net, of $912.7 million included on our consolidated balance sheet. On an annual basis and on the occurrence of certain events, we are required to perform impairment tests on our goodwill. We test the carrying value of goodwill for impairment at a "reporting unit" level. Prior to January 1, 2017, we tested the carrying value of goodwill for impairment using a two-step approach. For impairment tests to be performed after January 1, 2017, we early adopted the guidance issued in January 2017 by the Financial Accounting Standards Board ("FASB"), which simplifies accounting for goodwill impairment and removes the second step of the goodwill impairment test, which required a hypothetical purchase price allocation, as described above. A goodwill impairment is now the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. For the fiscal year 2019 annual impairment test, we concluded the fair values of all of our reporting units exceeded their respective carrying values. During the fourth quarter of fiscal year 2019, subsequent to the completion of the annual impairment test of goodwill, the Company identified two new operating segments based on newly available discrete financial information. The two new operating segments are Higher Ed (representing the academic and skills markets) and School, whom together comprises the Learning reportable segment. As a result, an additional impairment test was completed on the new reporting units and we concluded the fair values of these two reporting units exceeded their respective carrying values.

The estimated fair value of our School reporting unit exceeded its carrying value by 4.0% and had $238.1 million of goodwill as of March 31, 2019. The significant assumptions used in the discounted cash flow analysis include: revenue and revenue growth, selling margins, other operating expenditures, projected capital expenditures, the discount rate used to present value future cash flows and terminal growth rates. The Company performed a sensitivity analysis of its significant assumptions used to determine the fair value of the School reporting unit and determined that a more than nominal change to

its significant assumptions would impact its conclusion. If actual results differ from the projections and assumptions used in the calculation of the School reporting unit fair value, we could be required to record future non-cash impairment charges.

In addition, we review the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts of the lowest level asset grouping may not be recoverable. Our initial test for impairment compares the asset carrying amounts with the sum of undiscounted cash flows related to that asset grouping. If the carrying value is greater than the undiscounted cash flows of the asset, the individual assets are required to be written down to its estimated fair value.

If expectations for revenues and cash flows decline or if industry conditions deteriorate, we may not be able to realize the carrying values of our goodwill and long-lived assets and could be required to record future charges for impairment. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges, which could adversely impact our business, financial condition and results of operations.

There are risks associated with our indebtedness.

As of March 31, 2019, we had senior notes and a senior secured term loan with aggregate principal balances of $620.0 million and $1,663.0 million, respectively, excluding amortization of fees and discount. We also have an asset backed revolving credit facility with a maximum availability of $250.0 million. Availability is recalculated monthly and equals the sum of eligible accounts receivable and inventory, as defined in the asset based revolving credit facility agreement. As of March 31, 2019, we had $103.9 million of availability, net of letters of credit. As of March 31, 2019, no borrowings were outstanding under this revolving credit facility.

We may incur additional indebtedness in the future, including under our revolving credit facility or through offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have significant consequences, including, without limitation, any of the following:

- we will be required to use cash reserves to pay the principal of and interest on our indebtedness;
- our indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- adverse changes in the ratings assigned to our debt securities by credit rating agencies will likely increase our borrowing costs on refinanced or new debt;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or for general corporate and other purposes may be limited; and
- our flexibility in planning for, or reacting to, changes in our business and our industry may be limited.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated results of operations and financial condition, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things:

- repatriate funds to the United States at potentially substantial tax cost;
- seek additional financing in the debt markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or operating expenditures.

Such measures might not be sufficient to enable us to service our debt. Our failure to satisfy our obligations under the agreements governing our indebtedness could result in an event of default, which could permit our secured lenders to foreclose on our assets and stock securing such indebtedness. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all.

Our internal controls over financial reporting are comparable but not identical to the requirements under the Sarbanes-Oxley Act of 2002.

Because we are not a public company, we are not subject to the Sarbanes-Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. The Sarbanes-Oxley Act also generally requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). We are not required to comply with these requirements and therefore we may not have procedures in place at all or that are as effective as those maintained by public companies.

PROPERTIES

Our principal executive office is currently located at 20 Channel Center Street, Boston, MA and we expect to move to our new location at 200 Pier Four Boulevard, Boston, MA by the end of the first quarter of fiscal year 2020. The following table describes our principal physical owned and leased properties as of March 31, 2019, including the approximate space, principal uses and lease expiration dates. We believe that these properties are suitable and adequate for our present and anticipated business needs, satisfactory for the uses to which each is put, and, in general, fully utilized.

Location	Owned or Leased (Expiration Date of Leases)	Approximate Square Feet	Principal Use of Space	Segment
Andover, England	4/20/2091	160,000	Warehouse/Office	International
Boston, Massachusetts [1]	11/30/2019	141,482	Office	Learning
Boston, Massachusetts	11/30/2029	117,820	Office	Learning
Chicago, Illinois	8/31/2020	29,595	Office	Gale
Clifton Park, New York	12/31/2021	92,745	Office	Learning
Farmington Hills, Michigan	Owned	158,364	Office	Gale
Independence, Kentucky	9/30/2024	835,000	Warehouse/Office	Learning
Mason, Ohio	7/31/2021	160,069	Office	Learning
Melbourne, Australia	10/5/2022	33,336	Office	International
Mexico City, Mexico	3/31/2020	37,975	Warehouse	International
Monterey, California	2/29/2020	23,735	Office	Learning
Raleigh, North Carolina	4/15/2021	34,015	Office	Learning
San Francisco, California [2]	9/30/2027	45,625	Office	Learning
Sao Paulo, Brazil	3/31/2022	18,522	Warehouse	International
Singapore, Singapore	12/31/2020	16,706	Office	International
Temecula, California	2/28/2024	19,486	Office	Learning
Washington, D.C.	3/31/2024	14,497	Office	Learning

In addition, we lease several other offices that are not material to our operations.

[1] During the third quarter of fiscal year 2018, we signed a 10-year lease for a new corporate headquarters, and we expect to vacate our current headquarters by the end of the first quarter of fiscal year 2020.

[2] As part of our continued efforts to streamline operations, we vacated the San Francisco office effective March 29, 2019.

LEGAL PROCEEDINGS

From time to time we may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and/or may be related to contractual or other obligations of ours. We assess our potential contingent and other liabilities by analyzing our claims, disputes and legal and regulatory matters using all available information. We also develop our views on estimated losses, if any, in consultation with our legal and other advisors. We determine whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss may have been incurred by us.

Adverse developments relating to claims, disputes and legal and regulatory proceedings in which we are or become involved could cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual. Should any of these matters result in a final adverse judgment, settlement or other final resolution involving material amounts, it could have a material adverse effect on our financial condition, results of operations and/or cash flows.

Based on a review of the information available at this time, we do not expect that the total cost of resolving current claims, disputes and legal regulatory proceedings will have a material adverse effect on our consolidated financial condition, results of operations or cash flows. For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 18, “Commitments and Contingencies.”

MARKET FOR THE ISSUER’S EQUITY

CL Holdings II, Inc. shares of common stock are held by most of the Company’s debt holders and is not traded on any publicly listed exchange. We are aware that some shareholders have engaged in private transactions as transferees of CL Holdings II, Inc. common stock and are required to become a party to the CL Holdings II, Inc. Shareholder Agreement by submitting an executed joinder agreement to us. CL Holdings II, Inc. has not issued certificates representing shares of our common stock. Rather, we have retained Computershare, Inc. to serve as our transfer agent and to maintain our stock ledger in book entry form.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2019 and 2018. We may declare cash dividends in the future.

CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Position
Michael E. Hansen	58	Chief Executive Officer and Director
Kermit Cook	41	Director
Wade Davis	47	Director
John D. Dionne	55	Director
Marcelo Gigliani	44	Director
Richard Sarnoff	60	Director
Eric Sondag	44	Chairman and Director
Fernando Bleichmar	42	Executive Vice President, General Manager, U.S Higher Education and Skills
Alexander Broich	54	Executive Vice President, President, Cengage Global Businesses
Gary Fortier	47	Executive Vice President, Chief People Officer
Sharon Loeb	49	Executive Vice President, Chief Marketing Officer
Todd Markson	43	Executive Vice President, Chief Strategy Officer
George Moore	47	Executive Vice President, Chief Technology Officer
Bob Munro	53	Executive Vice President, Chief Financial Officer
Laura Stevens	45	Executive Vice President, General Counsel

Directors

Michael E. Hansen became Chief Executive Officer of Cengage in September of 2012 and has been a Director of Cengage since March 2014. He oversees all aspects of the global business. Under Mr. Hansen's leadership, Cengage has transformed from a print publisher to a company which today is creating some of the most highly rated digital learning products and platforms. In addition, Cengage has transformed the textbook publishing industry by offering an affordable 'all you can learn' subscription model (Cengage Unlimited) to college students within the United States. He has deep experience in equipping organizations with the structure necessary to support this transformation. A thought leader in the information services sector, Mr. Hansen has an extensive track record in developing successful business models and high-performing executive teams. Prior to joining Cengage, Mr. Hansen served as CEO of Elsevier Health Sciences, a division of Reed Elsevier. During his tenure, he developed and implemented a successful print-to-digital transition and accelerated new electronic product development. Prior to Elsevier Health Sciences, Mr. Hansen served as President and CEO of Harcourt Assessment, an education arm of Reed Elsevier. Early in his career, Mr. Hansen was Executive Vice President of Operational Excellence at Bertelsmann, a $20 billion global media company. Prior to that Mr. Hansen was the lead partner and Chairman of the digital convergence practice at the Boston Consulting Group. In addition, Mr. Hansen is currently a Board Member at Johns Hopkins American Institute for Contemporary German Studies (AICGS) and an Advisor to ProPublica. Mr. Hansen holds a Master of Law degree from the University of Bonn in Germany and an MBA from Columbia University in New York.

Kermit Cook has been a Director of Cengage since February 2018. Mr. Cook joined KKR Capstone in 2007 and currently serves as Co-Head of KKR Capstone in the Americas, and is a member of KKR's Portfolio Management Committees for Americas Private Equity and for Special Situations. Mr. Cook also leads KKR Capstone's value creation efforts for KKR's special situations and credit investing platforms. While at KKR Capstone, Mr. Cook has worked in New York, Sydney, Hong Kong and Menlo Park. He was based in Hong Kong and Sydney for over five years as he helped to develop KKR Capstone in Asia and Australia. Mr. Cook has worked with numerous KKR portfolio companies globally, including GenesisCare, Sundrop Farms, Bis Industries, Unisteel, US Foods, Education Management, Chembulk Tankers, Amedisys, and Cengage. Previously he worked for McKinsey & Company in Boston, and he taught high school physics in

St. Louis with Teach for America. Mr. Cook holds a B.A and B.E from Dartmouth College, and an M.B.A. and M.A Ed from Stanford University, where he graduated as the Henry Ford Scholar of the business school.

Wade Davis has been a Director of Cengage since March 2014. Mr. Davis is currently the Executive Vice President and Chief Financial Officer at Viacom, Inc. He has represented Viacom's interests on the Board of Directors of Viacom18 (India), MTV Italia, Bellator and Rhapsody Roku. Mr. Davis joined Viacom in October 2005 and prior to his current role at the company, served as Executive Vice President of Strategy, Mergers & Acquisitions. Prior to joining Viacom, from 2004 to 2005, Mr. Davis was the Co-Founder and Executive Vice President of Operations at America's Choice Inc., a provider of research-based school instructional solutions. Mr. Davis also founded AdvancePath, which operates in-school academies on high school campuses. Mr. Davis holds degrees with distinction and honors in both Philosophy and Economics from Williams College.

John D. Dionne has been a Director of Cengage since March 2014. Mr. Dionne is a Senior Advisor of Blackstone Group L.P. and a Senior Lecturer and member of the faculty with the Harvard Business School. He was most recently a Senior Managing Director at Blackstone and Global Head of its Private Equity Investor Relations and Business Development Groups. He also served as a member of Blackstone's Private Equity Investment and Valuation Committees. Mr. Dionne originally joined Blackstone in 2004 as the Founder and Chief Investment Officer of the Blackstone Distressed Securities Fund, the firm's initial entry into the single-manager hedge fund practice, with peak assets under management of $2 billion. During this period, he also served on the Investment Committees of Blackstone's GSO and Kalix investment businesses. Before joining Blackstone, Mr. Dionne was for several years a Partner and Portfolio Manager for Bennett Restructuring Funds, specializing in investing in financially troubled companies. Mr. Dionne currently serves on the Board of Directors of Pelmorex Media Inc., Caesar's Entertainment Corporation, and Clear Channel Outdoor Holdings, Inc. He is a Chartered Financial Analyst and Certified Public Accountant (inactive). Mr. Dionne is a graduate of the Harvard Business School and the University of Scranton.

Marcelo Gigliani has been a Director of Cengage since January 2016. Mr. Gigliani is an Equity Partner of Apax Partners and Managing Partner of Apax Digital, focusing on growth buyout and growth equity investments in leading internet, enterprise software, and technology-enabled services companies worldwide. Since joining Apax in 2001, Mr. Gigliani has both led and participated in a number of the Apax funds' investments across Technology, Digital, Media, and Services sectors throughout North America, Europe, and Asia, including Cengage, idealista, Trader Corporation (AutoTrader Canada), Dealer.com, Boats Group, Solita, So Young, and Wizeline. Mr. Gigliani currently also serves on the board of directors of Boats Group, idealista, Solita, SoYoung, and Wizeline. Prior to joining Apax Partners, Mr. Gigliani was a consultant at Mercer Management Consulting (now Oliver Wyman), a global management consulting firm where he advised leading European Media and Communications Companies in digital acceleration matters. Mr. Gigliani received an MBA from Harvard Business School and a BS in Business Administration from Boston University.

Richard Sarnoff has been a Director of Cengage since March 2014. Mr. Sarnoff is Chairman of Media, Entertainment, and Education for KKR's Private Equity platform in the Americas, and serves as a member of the TMT growth equity investment committee. From 2014 through 2017, he served as Managing Director and Head of the Media and Communications industry group, leading investments in the Media, Telecom, Information Services, Digital Media and Education sectors in the US. Prior to this position, Mr. Sarnoff served as a Senior Adviser to KKR, working closely with both investment teams and portfolio companies. Until 2011, Mr. Sarnoff was Co-Chairman of Bertelsmann, Inc., and President of Bertelsmann Digital Media Investments (BDMI). A longstanding senior executive at Bertelsmann, Mr. Sarnoff served as CFO and EVP of Random House beginning in 1998 and became the first U.S. executive to serve on the Supervisory Board of Bertelsmann AG in 2002. Starting in 2006, he established and ran its corporate digital media investing arm, BDMI, and concurrently served as Chairman of the Association of American Publishers. He was named the publishing industry's Person of the Year by Publishers Weekly magazine in 2009. Mr. Sarnoff graduated summa cum laude from Princeton University in 1981 with a BA in Art and Archaeology, and earned an MBA from Harvard University in 1987. He serves on the Board of Directors of Chegg, Weld North, UFC, WebMD, and RBMedia; and of not-for-profit organizations including the College Bound Initiative, the Center for Communication, the Princeton University Center for Information Technology Policy, and Pioneer Works.

Eric Sondag has been the Chairman of the Board of Cengage since May 2014 and has been a Director since March 2014. Mr. Sondag is a Partner at Searchlight Capital Partners. Prior to joining Searchlight in 2011, Mr. Sondag worked at GTCR Golder Rauner in Chicago, where he worked primarily on investments in the media, information services and consumer industries. He started his career in investment banking at Wasserstein Perella in Chicago in 1998. Mr. Sondag received a BSc from Georgetown University, and completed the Executive Management Program at INSEAD in Singapore. Mr. Sondag serves on the Board of Directors for TouchTunes Interactive Networks, Inc., M&M Food Market and Global Eagle Entertainment, and serves on the Board of Advisors for Georgetown University's McDonough School of Business.

Committees of the Board of Directors

Our board of directors has two committees: the Audit Committee and the Compensation Committee. Both of these committees were established during the May 5, 2014 meeting of the board of directors.

The Audit Committee

The Audit Committee is responsible for assisting the board of directors with respect to, among other things, reviewing our financial reporting procedures, internal audits and the performance of our external auditors. The Audit Committee has direct communication channels with our management, as well as with our external auditors to discuss and review specific issues as appropriate. The committee is also responsible for reviewing the quarterly and annual financial statements. The current members of the Audit Committee are Wade Davis, John Dionne and Richard Sarnoff. Mr. Davis is chairman of the Audit Committee.

The Compensation Committee

The Compensation Committee is responsible for assisting the board of directors with respect to the assessment and compensation of the chief executive officer and other executive officers of the Company, the assessment of compensation arrangements, plans, policies and programs and the assessment of benefit and welfare plans and programs of the Company. The current members of the Compensation Committee are Kermit Cook, Richard Sarnoff, Eric Sondag and Marcelo Gigliani. Mr. Cook is chairman of the Compensation Committee.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics (the “Code”) that applies to all employees, officers and directors. The Code is available without charge by written request to the attention of our General Counsel at Cengage, 20 Channel Center Street, Boston, MA 02210.

Executive Officers

The following sets forth certain information regarding our executive officers, each of whom is a member of the Executive Team and each of whom reports directly to the Chief Executive Officer, except as otherwise noted below. Information regarding Michael Hansen, who serves as a director and executive officer of the Company, may be found in the section entitled “Directors.”

Fernando Bleichmar has been the Executive Vice President and General Manager U.S. Higher Educations and Skills for Cengage since January 2019. In this role, Fernando leads a cross-functional team focused on delivering affordable quality learning for students, as well as driving the continued success of Cengage Unlimited - the industry's first-of-its-kind subscription service for college textbooks and course materials. Mr. Bleichmar joined Cengage in January 2014 and prior to his current role he served first as Chief Strategy Officer and later as Chief Product Officer. Prior to joining Cengage, Mr. Bleichmar held various roles at Altisource Technology Services, Reed Elsevier, and The Boston Consulting Group. Mr. Bleichmar holds an MBA from Columbia University and a Bachelor’s degree from the University of Pennsylvania.

Alexander Broich has been the President of International for Cengage since July 2013. In April 2017, Mr. Broich became President of Cengage Global Business which includes International, Gale Global and, as of January 2019, National Geographic Learning School. In this role, he is responsible for the growth and development of the Company’s global operations. Mr. Broich brings to Cengage more than 20 years of corporate and operational senior-level management experience, specializing in building, growing and developing businesses in changing environments. He has a successful track record in setting up and growing new technology driven businesses, is skilled in strategic planning and marketing, and is familiar with intercultural business practices and communications. Prior to joining Cengage, Mr. Broich served as the President of International at Pearson Clinical and Talent Assessment for five years. At Pearson, he drove the international business to double-digit growth, while significantly increasing profitability and expanding into new territories. He led the strategy development and implementation of the conversion from traditional print assessments into digital solutions and was a member of Pearson’s Innovation Board. Earlier in his career, Mr. Broich was the Senior Vice President of Corporate Development at Bertelsmann, Inc. for six years where he implemented development strategies in China, England, Germany and France, among other duties. He also held management positions with Bertelsmann Online Ltd., Health Online Services Multimedica, Bertelsmann AG, and Headwork Consulting. Mr. Broich holds a PhD in Business Administration from Ludwig Maximilians University in Munich.

Gary Fortier has been the Chief People Officer for Cengage since March 2018. In this role, he is responsible for growing and nurturing the Cengage culture and operationalizing Cengage's ethos in guiding principles that clarify what is needed from employees to transform the company, revolutionize our industry and truly deliver learners. Mr. Fortier brings to Cengage a proven cross-industry track record in driving effective change, with a major focus on tapping into the skills and passions of people and the leaders who guide them as key ingredients for success. Prior to joining Cengage, Mr. Fortier most recently served as the CEO for Vision Government Solutions, Inc. where he led a successful financial turnaround and organizational transformation. Earlier in his career he was COO for Raizlabs and managed Culture, Communications and Organizational Design, along with mergers & acquisitions ("M&A"), and Strategy & Operations. Earlier in his career Mr. Fortier served in operational, finance and HR leadership and executive-level roles at companies as varied as GL Advisor, Power Advocate, The Home Depot and Deloitte, where his business career started. Mr. Fortier serves on the Board of Directors for Harvard Student Agencies. Prior to attending business school, he served as an Army Infantry Captain in the 82nd Airborne at Fort Bragg, NC. Mr. Fortier holds an MBA, specializing in Finance and Management, from Columbia Business School and a Bachelor's degree in Government from Harvard University.

Sharon Loeb has been the Chief Marketing Officer for Cengage since January 2016. In this role, she is responsible for overseeing the marketing and communication programs, ensuring they support the Company's strategy. As part of the core team that developed Cengage Unlimited, the industry's first-of-its-kind subscription for college textbooks and course material, Ms. Loeb led the team that designed and executed the launch campaign resulting in one million subscriptions in just seven months. With a strong track record of proven success in the education industry, Ms. Loeb previously spent 15 years at McGraw-Hill Higher Education in a succession of entrepreneurial, high-impact leadership positions. Over this period, she led the successful launches of several disruptive and ultimately industry-leading offers. Ms. Loeb began her career at Pearson Education in roles spanning product, sales and marketing. Ms. Loeb holds an MA in Philosophy from the University of Toronto and a Bachelor's degree in Philosophy from York University.

Todd Markson has been the Executive Vice President and Chief Strategy Officer (CSO) for Cengage since December 2017. In this role, he is responsible for leading Cengage strategy and collaborating with the executive team and broader organization on the continuing evolution of Cengage corporate and portfolio strategy, as well as the oversight of corporate development, M&A, channel partnerships, commercial/pricing, central procurement and distribution. Mr. Markson's commitment to advancing the way students learn adds tremendous value by combining rigorous analytics with deep market knowledge to provide solutions that work for today's learners. Mr. Markson joined Cengage in 2014 and held the position of Senior Vice President of Go-To-Market Strategy and Operations and as such he stepped into this role at Cengage already boasting a strong track record of driving meaningful and effective change at Cengage. Prior to joining Cengage, Mr. Markson served many years as a management consultant across the United States, Europe and the Middle East, most recently as a Principal at The Boston Consulting Group (BCG) where he advised senior clients across global Private Equity, Financial Services, Telecom, Media and Technology companies in setting strategic direction as well as creating organizational structures and operating models making those strategies a reality. His work covered areas such as strategic direction, financial due diligence, sales force effectiveness, product line strategy, operations, and change. Earlier in his career, Mr. Markson was a technology entrepreneur in Silicon Valley and Microfinance volunteer with the Peace Corps in Mali, West Africa. Mr. Markson holds an MBA with Distinction from the University of Michigan and a Bachelor's degree from Brown University.

George Moore has been the Chief Technology Officer ("CTO") for Cengage since January 2013. In this role, he is responsible for shaping Cengage's long-term technology vision and driving innovation across the Company during a transformative time. Prior to joining Cengage, Mr. Moore served as CTO of Elsevier Health Science, where he was recruited to transform the world's leading medical publishing company into a medical information company. During his tenure, he was instrumental in developing ClinicalKey, one of the most innovative and successful product introductions in the health-care information industry. Earlier in his career, he was SVP of Product Development for Thomson Reuters' Healthcare organization, where he led the consolidation effort of the company's disparate acquisitions into a consolidated product development organization. Mr. Moore has also held various roles with a number of commercial software companies. Most prominently, he was VP of Product Development at Liquent, the industry leader in Pharmaceutical Publishing and Enterprise Resource Planning software. At Liquent, he led the company's efforts in defining how pharmaceutical companies would develop their information management systems that support drug discovery and approval, and also played a leading role in the sale and integration of Liquent into Thomson Reuters. Mr. Moore serves on the Board of Directors for Junior Achievement of Northern New England.

Bob Munro joined Cengage as Executive Vice President and Chief Financial Officer for Cengage in April 2019. In this role he is responsible for the oversight of all financial functions, including financial planning and analysis, accounting, M&A, investor relations, tax and treasury. Prior to Cengage and since April 2015, Mr. Munro served as Chief Financial Officer of Callcredit Information Group, a credit reference agency and risk information solutions provider, which was acquired by TransUnion in June 2018. Earlier in his career, Mr. Munro served in a variety of senior management and financial roles at RELX (formerly Reed Elsevier plc), including Chief Financial Officer of Elsevier Health Sciences. His professional career started at Price Waterhouse, where he qualified as a Chartered Accountant, and is a member of the Institute of Chartered Accountants in England and Wales. Mr. Munro holds a BSc in physics and microelectronics from the University of Essex.

Laura Stevens has been the Executive Vice President and General Counsel for Cengage since May 2018 and she has been an integral part of the organization since 2003. In her current role Ms. Stevens provides legal support for Cengage's business operations, including Cengage's Global Product and Technology groups, Sales and Marketing, and Finance, as well as its Global Anti-Piracy program and Intellectual Property Acquisitions and Granting functions. Additionally, her team provides legal advice, contract negotiation support, dispute management and legal operational support for Cengage's content licensing and acquisition activities. Ms. Stevens realigned the Legal team, forming deep synergies and equipping the group to take on the challenges of an evolving business. This forward-thinking approach helped enable the launch of Cengage Unlimited and propel the Company's rapid print-to-digital transformation. Ms. Stevens also founded Cengage’s privacy office, creating industry-leading preparation and standards for responsible data stewardship. Ms. Stevens joined Thomson Learning, now Cengage, in 2003 as Publishing Counsel; she held the position Assistant General Counsel, Intellectual Property from 2007 to 2014 and Senior Vice President, Deputy General Counsel from 2014 until May 2018. Prior to joining Thomson Learning, Ms. Stevens was an attorney at Brown Raysman in New York City. Ms. Stevens holds a J.D. from Columbia Law School and a Bachelor’s degree in Political Science and Art History from the University of Rochester.

PRINCIPAL STOCKHOLDERS

As of March 31, 2019, there were five beneficial owners with more than 5.0% of Cengage common stock registered in one or more affiliated accounts: Apax, KKR Asset Management, Searchlight Capital Partners, Oaktree Capital Management LP, and Centerbridge Partners LP.

We adopted an equity incentive plan (the "2014 Equity Incentive Plan") for certain employees, officers and directors of Cengage, as approved by the Bankruptcy Court, designed to promote our interests by providing eligible persons with the opportunity to acquire common stock in Cengage as an incentive for them to remain in our employment or service. The plan allowed for the grant of equity awards in various forms, including incentive stock options, non-qualified stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights or performance awards. In accordance with the terms of the 2014 Equity Incentive Plan, we reserved 4,627,118 shares of common stock available for grant, representing approximately 5.6% of the fully diluted outstanding common stock as of March 31, 2014. In December 2014, the number of shares of common stock available for grant was increased to 5,103,650 shares upon execution of the 2014 leveraged recapitalization in accordance with the anti-dilution provisions of the plan. The total amount of shares authorized was additionally increased to 7,052,550 as of March 31, 2017 as a result of the one-time cash dividend paid in September 2016, in accordance with the anti-dilution provisions of the plan, and the grant of performance-based RSUs during fiscal year 2017. Stock options and RSUs were issued under the 2014 Equity Incentive Plan for no consideration and vest in 25% and 20% increments annually, respectively, on the last day of the first four or five fiscal years, respectively, following the grant date. Performance-based RSUs are subject to two vesting requirements: a service period (four years) and a performance condition (a liquidity event in the form of either a change of control or an initial public offering, each as defined in the 2014 Equity Incentive Plan) in order for the awards to fully vest. Effective as of November 15, 2018, the Company's Board of Directors and the majority shareholders adopted an equity incentive plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan provides for the grant of incentive stock options, certain other options, RSUs, restricted stock, and other stock-based awards to directors, officers, and employees of the Company. Following the approval of the 2018 Equity Incentive Plan, the Company does not intend to grant any additional awards under the 2014 Equity Incentive Plan. Under the 2018 Equity Incentive Plan, the majority shareholders and the Board of Directors authorized the grant over time of up to an additional 2,550,000 shares of common stock over and above those approved under the 2014 Equity Incentive Plan, increasing the aggregate number of shares authorized and available for grant under any equity incentive plan adopted by the Company to 9,602,550 shares as of March 31, 2019. In November 2018, there were 850,000, the maximum number of shares available for grant in a given fiscal year, authorized for grant under the 2018 Equity Incentive Plan. The awards under the 2018 Equity Incentive Plan are subject to two vesting requirements: the service requirement is satisfied in 25% increments on the last day of the first four fiscal years following the grant date and the performance condition is satisfied upon a liquidity event in the form of either a change of control or initial public offering, in either case occurring prior to the sixth anniversary of the grant date. As of March 31, 2019, there were 4,889,529 stock options, RSUs, performance-based stock options and performance-based RSUs outstanding, 424,947 RSUs vested, but unissued, 730,978 shares issued, and 3,557,096 shares of common stock available for grant under the 2018 Equity Incentive Plan. The stock options outstanding as of March 31, 2019 have a weighted-average exercise price per share of $18.09. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 13, "Equity-Based Compensation."

In August 2014, our shareholders approved and we adopted an equity plan authorizing an aggregate of 100,000 shares of Cengage common stock to be made available for purchase by our officers, employees and directors (the "2014 Equity Purchase Plan"). During the fiscal year ended March 31, 2015, the Company issued 76,000 common shares to certain directors, officers and employees for aggregate proceeds of $1.9 million, respectively. There have been no shares issued under the 2014 Equity Purchase Plan in the fiscal years succeeding March 31, 2015. As of March 31, 2019, 24,000 shares remain available for issuance under the 2014 Equity Purchase Plan.

We repurchase shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted stock units and delivery of shares. During the fiscal years ended March 31, 2019 and 2018, we spent $7.8 million and $5.6 million, respectively, to acquire shares in connection with net settlement of equity-based awards. As of March 31, 2019, there were 61,547,310 shares of Cengage common stock issued and outstanding.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Agreements with a former affiliate

Due to related party relationships, it is possible that the terms of the following transactions are not the same as those that would result from transactions among wholly unrelated parties.

We have a master services agreement ("MSA") and a master distribution and licensing agreement ("MDLA") with a former affiliate (the "former affiliate") of Cengage Learning Holdings II, L.P. (the "Predecessor"), the terms of which were agreed upon at the time the Predecessor and former affiliate were related parties. Under the MSA, we provide the former affiliate with various services including those relating to business and technology, content management, customers and operations, management, fulfillment services and business information support. The former affiliate provides us with certain real estate services. The cost of each of the services provided under the MSA is based on a fixed fee. All services under the MSA are provided for a specified period of time, subject to extension by mutual agreement of the parties. The former affiliate can generally terminate those services in advance upon 90 days written notice without penalty.

Under the MDLA, the former affiliate is our exclusive authorized distributor for sale and/or distribution of most of our academic and professional digital and print publications in Canada. Subject to our prior approval on a product by product basis, the former affiliate also has the exclusive right to adapt, customize and translate our publications for sale and distribution in Canada. The agreement sets certain other restrictions on the use of our content. The former affiliate is required by the agreement to pay us royalties as a percentage of net sales for certain specified publications, adaptations of our textbooks, translations of our textbooks and certain of our customized products. The agreement also requires the affiliate to pay fixed technology platform fees and variable technology unit fees.

The MSA was assumed by us upon the Effective Date and renewed on December 1, 2017 for a term that will end on March 31, 2021, unless otherwise renewed. The MDLA was also assumed by us upon the Effective Date and was amended effective March 17, 2017 and will end on December 31, 2029, unless canceled by one of the parties. Both agreements may be terminated upon material breach, bankruptcy or the mutual agreement of the parties.

In November 2011, the Predecessor entered into a new distribution agreement with the former affiliate, under which the former affiliate is our exclusive authorized distributor, subject to certain exceptions, for the sale and distribution of certain research digital and print products in Canada. This agreement was terminated March 31, 2017, and henceforth we will distribute these research products directly to Canadian customers.

The following is a summary of our activity and balances with the former affiliate:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Revenue from former affiliate	$ 16.9	$ 18.7	$ 19.5
Expenses to former affiliate	1.5	1.6	1.4

	As of March 31,	
(in millions)	**2019**	**2018**
Accounts receivable	$ 0.7	$ 1.7
Accounts payable and accrued expenses	0.3	0.3

PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

The table below provides a summary of the aggregate fees for professional services rendered to us by our auditors, PricewaterhouseCoopers LLP, for the following periods:

	Fiscal Year Ended March 31,	
(in millions)	**2019**	**2018**
Audit fees	$ 2.2	$ 2.5
Tax fees	0.6	0.3
All Other fees	1.2	—
Total	$ 4.0	$ 2.8

Audit Fees were for professional services necessary to perform an audit of the Company's annual financial statements, review of the quarterly reports, statutory and subsidiary audits and other services required to be performed by our independent auditors.

Tax Fees were for tax compliance, tax planning, and tax advice. Corporate tax services encompass a variety of permissible services, including technical tax advice related to United States and international tax matters; assistance with foreign income and withholding tax matters, assistance with sales tax, value added tax and equivalent tax related matters in local jurisdictions; preparation of reports to comply with local tax authority transfer pricing documentation requirements; and assistance with tax audits.

All Other Fees primarily consisted of due diligence and other permissible merger-related services.

It is the policy of the Audit Committee to review in advance, and grant any appropriate pre-approvals of all auditing services to be provided by the independent registered public accounting firm and all non-audit services to be provided by the independent registered public accounting firm, and in connection therewith, to approve all fees and other terms of engagement. For the fiscal years ended March 31, 2019 and 2018, the Audit Committee approved all fees billed by PricewaterhouseCoopers LLP prior to the engagement.

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, we typically incur a net cash deficit from all of our activities in our first and fourth fiscal quarters of our fiscal year, which ends on March 31. In addition, changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates or changes in inventory management practices.

As we migrate our product and service offerings towards hosted digital solutions that are delivered over a period of time, more of our revenues will be recognized ratably over the applicable subscription period, with billings in excess of revenues recognized reflected as deferred revenue. This represents a change from traditional print products where revenues are typically recognized upon shipment of the materials to our customers. Consequently, reported revenues may not be comparable to prior periods as a growing proportion of our revenues are recognized in subsequent periods.

The following tables present certain unaudited consolidated quarterly financial information for each of the fiscal quarters during the fiscal years ended March 31, 2019 and 2018. Such information has been prepared on the same basis as the Company's consolidated financial statements and includes all adjustments necessary to state fairly the information for the periods presented.

	2019			
(in millions)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Revenues	$ 288.3	$ 474.3	$ 310.9	$ 372.0
Gross profit[1]	100.5	231.5	122.0	177.4
Net (loss) income	(68.5)	34.4	(47.0)	(15.9)

	2018			
(in millions)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Revenues	$ 296.0	$ 522.4	$ 326.3	$ 321.5
Gross profit[2]	113.9	263.5	138.7	135.3
Net (loss) income	(29.1)	55.4	25.5	(53.6)

(1) Gross profit (defined as net revenues less cost of sales, depreciation and amortization) includes depreciation of $13.4 million, $14.3 million, $14.5 million and $14.6 million for the quarters ended June 30, 2018, September 30, 2018, December 31, 2018 and March 31, 2019, respectively.

(2) Gross profit (defined as net revenues less cost of sales, depreciation and amortization) includes depreciation of $15.2 million, $14.5 million, $14.3 million and $13.9 million for the quarters ended June 30, 2017, September 30, 2017, December 31, 2017 and March 31, 2018, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following contains management's discussion and analysis of our financial condition and results of operations ("MD&A") and should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this report. Certain historical amounts have been reclassified to conform to the current period's presentation. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Special note regarding forward-looking statements" and "Risk Factors" sections of this report. Actual results may differ materially from those contained in any forward-looking statements.

Overview

Cengage Learning Holdings II, Inc. ("CL Holdings II, Inc."), together with its consolidated subsidiaries, is hereinafter collectively referred to as "Cengage," the "Company," "us," "we" and "our."

We are a leading global provider of high-quality content and innovative digital learning solutions for the global academic, school, skills and research markets. We are a publisher of course materials in the United States higher education segment of the academic market, with strong positions across all major disciplines. Our offerings to customers include technology and academic services, including digital homework solutions and support services for use of our digital products, in response to market demand for more fully integrated solutions. In addition, operating under our Gale brand, we are a leading global provider of library reference materials with a vast collection of primary source content. For a full description of our industry and organizational structure, see "Description of Business."

In the second quarter of fiscal year 2019, we launched Cengage Unlimited, a digital subscription service offering for our U.S. higher education business within our Learning segment. Cengage Unlimited provides access to all of our digital learning platforms, ebooks, online homework and study tools as well as print rentals for a fixed price that can be subscribed to for one semester, one year or two years.

We are organized into three reportable segments on the basis of production process and products and services provided by each segment, identified as follows:

Learning—in the United States, we produce a variety of digital and print educational solutions and associated services for the academic, skills and school markets.

Gale—we offer research platforms around the world which provide access to our original content, collections of primary source materials and aggregated periodicals to learners at libraries, colleges, universities, schools and businesses.

International—we distribute educational solutions across all major academic disciplines, provide English language teaching ("ELT") products and adapt our Learning offerings for use in multiple countries and territories around the world.

When determining reportable segments, we aggregated operating segments based on their similar economic and operating characteristics.

Throughout the MD&A, our discussion of revenues may include gross sales measures by channel, which represent amounts invoiced to our customers. Gross sales are reflected before any adjustments for sales returns provision or revenue deferral. We believe this measure provides investors with a more comprehensive understanding of our underlying revenue results and trends by presenting amounts invoiced on a consistent basis. In addition, we may also discuss "core digital product sales" which represents gross sales, less actual returns, of digital standalone products, as well as bundled print and digital products.

Management reviews segment performance on a constant currency basis, which removes the impact of changes in foreign currency exchange rates by converting current period and prior period amounts from local currency to U.S. dollars using standard internal currency exchange rates held constant for each year. This allows us to evaluate underlying current operating performance in comparison to past operating performance. As needed, we recast segment information for the prior period based on our internally-derived standard currency exchange rates used for the current period in order to remove the impact of foreign currency exchange fluctuation.

To supplement our consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we have presented certain non-GAAP financial measures in addition to our GAAP results. We believe that these non-GAAP financial measures provide useful information for evaluating our business performance. We believe that the presentation of Adjusted Revenues and Adjusted EBITDA is appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not

expect to continue at the same level in the future as well as other items. Further, we believe Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance and understanding certain significant items. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

Our definition of Adjusted EBITDA allows us to add back certain non-cash and other charges or costs that are deducted in calculating net income from continuing operations. However, these are expenses that may recur, vary greatly and can be difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes.

We present the following non-GAAP financial measures in this report:

Measure	Definition
Adjusted Revenues	This measure is defined as revenues before the impact of changes in foreign currency exchange rates.
Adjusted EBITDA	This measure is defined as net income (loss) before: (benefit from) provision for income taxes; reorganization items, net; interest expense, net; loss on early extinguishment of debt, net; other (income) expense, net, in operating income (loss); amortization of identifiable intangible assets; depreciation; operational restructuring and other charges, net; amortization of pre-publication costs; other income (expense), net, below operating income (loss); equity-based compensation expense and non-core other operating expenses. This measure also removes the impact of changes in foreign currency exchange rates on the items noted above.
Adjusted EBITDA less Pre-Publication Costs	This measure reflects Adjusted EBITDA less additions to pre-publication costs on an accrual basis, which are costs incurred prior to the publication date of a title or release date of a product and represent activities associated with product development not limited to editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. In addition, pre-publication costs include the cost to procure perpetual rights for the use of content which have been developed by third parties and are to be included in our products. Costs are capitalized when the title is expected to generate probable future economic benefits and are amortized upon publication of the title over its estimated operating life cycle.
Adjusted EBITDA less Capital Expenditures	This measure reflects Adjusted EBITDA less additions to pre-publication costs and property, equipment and capitalized internal-use software on an accrual basis.

See "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

Proposed Merger

On May 1, 2019, we entered into a definitive agreement with McGraw-Hill, pursuant to which, at the Effective Time and subject to the terms and conditions of the Merger Agreement, our Company and McGraw-Hill will combine in a "merger of equals" transaction and our stockholders will receive shares of capital stock representing exactly 50% of the issued and outstanding shares of voting common stock of the combined company. We have agreed to operate our business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, subject to certain agreed exceptions. Completion of the Merger is subject to certain conditions, including receipt of regulatory approvals.

Highlights of Our Industry

Academic

Operating performance in the academic market is affected by enrollment levels, the extent of academic funding and the amount of courses available. The United States has the largest higher education system in the world with approximately 18 million students enrolled at approximately 4,400 two- and four-year post-secondary institutions. Within the academic market, total domestic spending on new learning materials was approximately $3.2 billion in 2018 (including spending relating to for-profit schools). U.S. two- and four-year post-secondary enrollments are expected to increase by 3% between 2016, the last year of actual data, and 2027 to approximately 20 million, according to the National Center for Education Statistics. In international markets, where government funding generally constitutes a larger percentage of the overall amount spent on education, including on our products, government spending generally decreases during recessionary periods, which can have an adverse effect on our revenues in such markets.

Technology continues to be a key driver of trends in the academic market for both course management and delivery of content. As such, we continue to pursue our strategy to accelerate development of our innovative digital products and tools. We expect these efforts will enable us to realize continued growth through new solutions that allow us to access a greater number of students and generate new sources of revenues from our existing customers.

School

The United States school (consisting of grade levels of kindergarten to the 12th grade, or "K-12") market consists of approximately 57 million students and is driven by state adoption sales, wherein states approve certain products for use in public schools statewide, and open territory sales, where individual public school districts determine which educational products to use to facilitate teaching of the curriculum. This market is linked, in part, to state and local budgetary cycles. Within the United States school market, we believe that certain disciplines, such as AP&E and ELT, both of which are areas of focus for the Company, have more attractive growth potential.

Research

Content and solution providers in the research market create and sell specialized encyclopedias and directories, periodical databases, primary-source research collections and other reference materials. These materials are principally sold to academic, public, K-12, corporate and government libraries. Total consumer spending in the research market was approximately $6.0 billion in the U.S. and $17.0 billion globally in 2018. The research market has seen increased demand for digital materials with enhanced functionality and accessibility as well as authoritative, proprietary content with credibility, organization and depth that are differentiated from free content otherwise available on the Internet.

Sources of Revenues

We offer a broad portfolio of products, including digital and print solutions. We compete primarily on the basis of price, the quality of our content and author reputation, the effectiveness of our digital solutions and customers' familiarity with our products.

- Within the higher education market, we publish a wide variety of print products including textbooks, study guides, laboratory exercises, instructor editions and supplemental products. We publish textbooks for all major academic disciplines of two- and four-year colleges as well as major disciplines of career studies. Our higher education offerings also include a broad range of digital and print-digital hybrid products. Our offerings to customers include technology and academic services, including digital homework solutions and support services for use of our digital products, in response to market demand for fully integrated solutions. We distribute our products primarily through traditional "brick and mortar" college bookstores and online book retailers which sell directly to students. In the second quarter of fiscal year 2019, we launched Cengage Unlimited, a digital subscription service offering for our U.S. higher education business. Cengage Unlimited provides access to all of our digital learning platforms, eBooks, online homework and study tools as well as free print for a fixed price that can be subscribed to for one semester, one year, or two years.
- Within the skills market, we create and sell textbooks, digital solutions and other related materials to students who are seeking job training, certification, or continuing skills training in the workplace and through professional training programs.
- Within the school market, we compete in select elective disciplines, including AP&E and ELT. The school market is composed of state adoption sales, where states approve certain products for use in public schools statewide, and open territory sales, where individual public school districts determine which educational products to use.
- Within the research market, we operate principally under our Gale brand. We sell directly to many libraries and library consortia, and also sell via distributors. In addition to selling to libraries, we also license our content for integration within web-based information services.

Operating Expenses

Our operating expenses are principally the following:

- Cost of revenues includes both fixed and variable costs directly related to publishing our digital products, textbooks and printed proprietary reference materials. This includes fixed and variable costs related to activation fees/royalties on third party technology, royalty payments to our authors, cost of paper, printing and binding, and distribution costs, all of which vary as revenues increase or decrease. Also included in cost of

revenues are fixed direct and indirect costs incurred for the production, delivery and customer support of our products and services such as occupancy and employee-related costs associated with editorial, product management, digital content development, customer service, technical product support and distribution. In addition, cost of revenues includes amortization of pre-publication costs, which are costs related to the development and creation of a book, reference material or other digital and print content, as well as amortization of certain technology-related and author buyout/content right identifiable intangible assets;

- Selling, general and administrative expenses includes salaries of our sales, marketing and administrative personnel, equity-based compensation expense, marketing and advertising expenses and other costs of operating our business which typically do not vary as revenues increase or decrease. Also classified within selling, general, and administrative expense are digital hosting and other technology costs, which are increasing as our digital transformation continues and we continue to invest in technology;

- Operational restructuring and other charges includes costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with approved restructuring plans, facility closures or other similar activities, knowledge transfer costs, and business process reengineering consulting costs that are directly related to the restructuring initiatives; and

- Depreciation and amortization represents the depreciation of our property, equipment and capitalized internal-use software as well as the amortization of our identifiable intangible assets.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, we typically incur a net cash deficit from all of our activities in the first and fourth quarters of our fiscal year which ends on March 31. In addition, changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates, changes in inventory management practices, and a shift in customer base driven by an increase in direct to student subscription products.

As we continue to migrate our service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be recognized ratably over the applicable subscription period, with amounts billed in excess of revenues recognized reflected as deferred revenue. Deferred revenue represents amounts billed in advance from our customers that will be recognized as revenue in subsequent periods as products and services are delivered to customers. The current portion of deferred revenue was $182.9 million and $178.9 million as of March 31, 2019 and 2018, respectively, and the non-current portion of deferred revenue was $32.9 million and $30.9 million as of March 31, 2019 and 2018, respectively.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2019 and 2018.

On September 14, 2016, our board of directors authorized management to pay a one-time cash dividend of up to $200.0 million payable to all common shareholders of record at the close of business on September 16, 2016, which was subsequently paid on September 30, 2016 using a portion of the proceeds from the issuance of debt during the first quarter of fiscal year 2017. Based on the 67,922,206 shares of common stock outstanding on the record date, the dividend payment was approximately $2.94 per share. The dividend reduced additional paid-in capital as we did not have retained earnings at the time of the dividend.

Operational Restructuring and Other Charges

Fiscal Year 2019

During the fourth quarter of fiscal year 2019, we initiated a restructuring program in our Learning segment to streamline operations. We incurred $3.6 million of severance related costs in connection with this program. Additionally, as part of this initiative, we vacated and ceased use of one of our offices and recorded a restructuring charge of $0.2 million, representing the relative portion of remaining future lease payments, net of estimated sublease income, along with other exit costs related to the facility closure, and net of a $5.0 million non-cash write-off of the related deferred rent and landlord inducement liability.

Also, during the fourth quarter of fiscal year 2019, we adjusted our estimated cease use liability on the floors within our offices that were vacated during the third and fourth quarters of fiscal year 2018. The Company recorded a $0.4 million increase in the estimated future sublease income.

During the third quarter of fiscal year 2019, we initiated a restructuring program in our Learning and International segments to continue the alignment of our operations to support the evolution of our changing business model, including Cengage Unlimited and its customer-focused approach. During fiscal year 2019 we incurred $8.0 million of severance related costs. We also incurred $0.6 million of process reengineering consulting costs during the fiscal year 2019. These charges are expensed as incurred.

During the second quarter of fiscal year 2019, we initiated a restructuring program in our Learning segment to streamline our operations. During fiscal year 2019, we incurred $1.0 million of severance related costs. As of March 31, 2019, this program was substantially completed.

During the first quarter of fiscal year 2019, we initiated a restructuring program in our Gale and International segments to better align our operations to current industry conditions and position the business for growth. We incurred $4.5 million of severance related costs during fiscal year 2019. As of March 31, 2019, this program was substantially completed.

Fiscal Year 2018

During the fourth quarter of fiscal year 2018, we initiated restructuring programs to better align our operations to position us for growth in anticipation of our continued shift to a subscription/digital model as well as to streamline and better align our operations to current industry conditions. We incurred aggregate severance charges of $2.3 million in connection with these programs. As of March 31, 2019, this program had been completed.

Also during fiscal year 2018, we exited a lease and vacated and ceased use of the space, as well as vacated and ceased use of space within two of our offices. We recorded restructuring charges of $3.6 million, representing the relative portion of remaining future lease payments, net of estimated sublease income, and a $3.9 million non-cash write-off of the related portion of the applicable landlord inducement liability. The remaining future lease payments will be paid over the underlying remaining lease terms. In connection with exiting the existing facility, we received a $12 million incentive payment from a third party that was included in other income (expense), net, in the accompanying consolidated statement of operations.

During the first quarter of fiscal year 2018, we initiated a restructuring program related to our initiatives to better align discipline and delivery strategies, to improve the development and enhancements of our digital products and assess our operations, and to further support the shift from a textbook to a software sales and support model. The Company incurred aggregate charges of $3.4 million of severance related costs and aggregate charges of $7.4 million of process reengineering consulting costs related to these actions. As of March 31, 2018, this program had been completed.

Fiscal Year 2017

During the first quarter of fiscal year 2017, we initiated a restructuring program designed to streamline operations and improve our cost structure. This program included actions across our segments and corporate functions. Such actions included streamlining our organizational structure and spending at the functional, business and geographic levels. We incurred aggregate operational restructuring and other charges of $23.8 million under this program, primarily related to severance costs and process reengineering consulting costs. Management is estimating cost savings from this program of approximately $37 million on an annualized basis. As of March 31, 2018, this program had been completed.

We may incur additional operational restructuring costs in the future as we continue to identify ways to enhance the efficiency and cost effectiveness of our operations. See Note 9, "Operational Restructuring and Other Charges," to our consolidated financial statements.

Acquisitions

From time to time, we may complete acquisitions that are complementary to our business initiatives and represent a strategic fit with the vision of our Company.

In September 2016, we acquired all of the outstanding equity of Advanced Instructional Systems, Inc. (d/b/a "WebAssign"), a leading provider of digital learning solutions for higher education based in Raleigh, N.C., for total consideration of $50.9 million, which consisted of $50.2 million of cash paid at closing and the fair value of the effective

settlement of an accrued liability and other preexisting contractual obligations. The transaction included $29.6 million of goodwill and $15.5 million of identifiable intangible assets with a weighted-average useful life of 8 years.

See Note 2, "Acquisitions," to our consolidated financial statements for additional information.

Financial Performance

Consolidated Results of Operations

Fiscal Year Ended March 31, 2019 Compared with Fiscal Year Ended March 31, 2018

	Fiscal Year Ended March 31,		Change	
(in millions)	2019	2018	$	%
Revenues	$ 1,445.5	$ 1,466.2	$ (20.7)	(1.4)%
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	642.6	625.5	17.1	2.7 %
Amortization of pre-publication costs	109.9	127.2	(17.3)	(13.6)%
Amortization of identifiable intangible assets	4.8	4.2	0.6	14.3 %
Total cost of revenues, excluding depreciation stated below	757.3	756.9	0.4	0.1 %
Selling, general and administrative expenses, excluding depreciation stated below	459.3	462.0	(2.7)	(0.6)%
Operational restructuring and other charges, net	17.5	10.6	6.9	65.1 %
Depreciation	76.2	72.3	3.9	5.4 %
Amortization of identifiable intangible assets	90.1	90.2	(0.1)	(0.1)%
Other (income) expense, net	—	(0.2)	0.2	(100.0)%
Total costs and expenses	1,400.4	1,391.8	8.6	0.6 %
Operating income	45.1	74.4	(29.3)	(39.4)%
Other income (expense), net	2.3	10.1	(7.8)	(77.2)%
Interest income	5.6	2.7	2.9	107.4 %
Interest expense	(177.5)	(162.1)	(15.4)	9.5 %
Loss before taxes	(124.5)	(74.9)	(49.6)	66.2 %
Benefit from income taxes	27.5	73.1	(45.6)	(62.4)%
Net loss	$ (97.0)	$ (1.8)	$ (95.2)	NM
Adjusted Revenues[(1)(2)]	$ 1,460.1	$ 1,470.6	$ (10.5)	(0.7)%
Adjusted EBITDA[(1)(2)]	$ 372.9	$ 405.9	$ (33.0)	(8.1)%
Adjusted EBITDA less Pre-Publication Costs[(1)(2)]	$ 277.3	$ 301.3	$ (24.0)	(8.0)%
Adjusted EBITDA less Capital Expenditures[(1)(2)]	$ 218.9	$ 248.3	$ (29.4)	(11.8)%

(1) See "Overview" for the definition of this non-GAAP financial measure, "Segment Operating Results" for discussion and "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

(2) Prior year amounts have been recast to current year standard internal currency exchange rates.

NM = Not meaningful

Revenues

Revenues for the fiscal year ended March 31, 2019 decreased by $20.7 million, or 1.4%, to $1,445.5 million. The decrease was primarily due to lower revenue from our Learning and Gale segments, which decreased $9.9 million and $6.5 million, respectively. The decrease in Learning revenue was primarily driven by lower sales into the school channel, primarily in Texas and California; a decline of new print textbooks sales and lower sales into the for-profit channel; partially offset by an increase in core digital sales, including the launch of Cengage Unlimited; revenue from several large sales including a significant software license and multiple content licenses; and revenue share from our rental partnerships. The Gale segment decline was primarily related to a decrease in the United States market and lower sales from a large customer in Latin America, partially offset by an increase in archive sales in EMEA. Additionally, there was a reduction in revenue due to adverse foreign exchange fluctuations of approximately $10.2 million. These decreases were partially offset by an increase of $5.9 million in our International segment primarily related to strong sales of our school products in Australia, including a large print deal, and sales growth in our ELT products across Asia and Latin America, partially offset by a decrease in sales of higher education products in Australia and a non-repeatable prior year order in EMEA.

Operating Costs and Expenses

Cost of Revenues

Total cost of revenues, excluding amortization of prepublication costs, amortization of intangible assets and depreciation increased $17.1 million, or 2.7%, primarily due to a $11.3 million increase in employee compensation and related costs associated with our key strategic investments in higher education digital product teams and infrastructure, including those related to Cengage Unlimited; a $7.3 million increase primarily related to enterprise-wide technology investments to support digital growth; a $6.2 million increase in the timing of paper, print and binding costs; and a $2.0 million increase in software development costs. These increases were partially offset by a $6.0 million decrease in royalty expenses primarily related to lower sales, as well as the acquisition of author/content rights in fiscal year 2018; a $2.5 million decrease in distribution related expenses; and a $0.8 million decrease in inventory obsolescence expense.

Amortization of prepublication costs decreased $17.3 million, or 13.6%, primarily related to the accelerated amortization of certain assets in fiscal year 2018 and an overall decrease in prepublication spend.

Amortization of intangible assets increased $0.6 million, or 14.3%, due to the acquisition of certain author/content rights in fiscal year 2018.

Operating Expenses

Selling, general and administrative expenses, excluding depreciation decreased $2.7 million, or 0.6%, to $459.3 million for the fiscal year ended March 31, 2019, primarily due to a $9.5 million decrease in equity-based compensation expenses, a $5.9 million decrease in employee compensation and related costs, a $1.2 million decrease in computer and software maintenance expenses, and a $1.0 million decrease in bad debt expenses. These decreases were partially offset by a $6.8 million increase in acquisition and merger-related costs, a $4.0 million increase in rent expense, net incurred during the build-out phase of our new headquarters in Boston, a $2.2 million increase in outside service fees, and a $0.8 million increase related to a contract termination cost in Australia.

Operational restructuring and other charges, net increased $6.9 million to $17.5 million in the fiscal year ended March 31, 2019. The $17.5 million charges, net, in 2019 includes $17.1 million of severance related costs, $0.6 million of process reengineering consulting fees, and a reduction of $.2 million of net lease exit costs. Charges in the prior period of $10.6 million includes $5.7 million related to severance related costs, $4.4 million of process reengineering consulting fees, and $0.5 million of net lease exit costs. Refer to Note 9, "Operational Restructuring and Other Charges," for additional details on these charges.

Depreciation increased $3.9 million, or 5.4%, during the fiscal year ended March 31, 2019, compared with the prior year period primarily due to the write-off of leasehold improvement assets and furniture and fixture assets associated with the closure of the San Francisco office and assets that were placed in service; partially offset by certain assets becoming fully depreciated.

Amortization of identifiable intangible assets was $90.1 million and $90.2 million for the fiscal year ended March 31, 2019 and 2018, respectively.

Non-Operating Items

Other income/(expense), net for the fiscal year ended March 31, 2019, was income of $2.3 million primarily due to foreign currency transaction gains. The same prior year period was income of $10.1 million primarily related to an incentive payment received from a third party in connection with exiting an existing facility, partially offset by foreign currency transaction losses.

Interest expense increased $15.4 million, or 9.5%, to $177.5 million for the fiscal year ended March 31, 2019, primarily due to an increase in the LIBOR rate applicable to our Term Loan.

Provision for Income Tax

Benefit from income taxes was $27.5 million and $73.1 million for the fiscal years ended March 31, 2019 and 2018, respectively. The current year benefit from income taxes is primarily attributable to pre-tax loss, while the decrease in benefit compared to the same prior year period is primarily attributable to the enactment of the Tax Act that lowered the corporate tax rate in the United States from 35% to 21%, resulting in a significant tax benefit in fiscal year 2018.

Fiscal Year Ended March 31, 2018 Compared with Fiscal Year Ended March 31, 2017

(in millions)	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2017	Change $	Change %
Revenues	$ 1,466.2	$ 1,460.0	$ 6.2	0.4 %
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below[2]	625.5	632.4	(6.9)	(1.1)%
Amortization of pre-publication costs	127.2	150.5	(23.3)	(15.5)%
Amortization of identifiable intangible assets	4.2	2.5	1.7	68.0 %
Total cost of revenues, excluding depreciation stated below	756.9	785.4	(28.5)	(3.6)%
Selling, general and administrative expenses, excluding depreciation stated below	462.0	384.7	77.3	20.1 %
Operational restructuring and other charges, net	10.6	26.7	(16.1)	(60.3)%
Depreciation	72.3	83.9	(11.6)	(13.8)%
Amortization of identifiable intangible assets	90.2	90.0	0.2	0.2 %
Other (income) expense, net	(0.2)	0.2	(0.4)	(200.0)%
Total costs and expenses	1,391.8	1,370.9	20.9	1.5 %
Operating income	74.4	89.1	(14.7)	(16.5)%
Loss on early extinguishment of debt, net	—	(10.8)	10.8	(100.0)%
Other income (expense), net	10.1	(1.0)	11.1	NM
Interest income	2.7	1.1	1.6	145.5 %
Interest expense	(162.1)	(157.1)	(5.0)	3.2 %
Reorganization items, net	—	(0.4)	0.4	(100.0)%
Loss before taxes	(74.9)	(79.1)	4.2	(5.3)%
Benefit from income taxes	73.1	36.0	37.1	103.1 %
Net loss	$ (1.8)	$ (43.1)	$ 41.3	(95.8)%
Adjusted Revenues[1][2]	$ 1,470.6	$ 1,469.3	$ 1.3	0.1 %
Adjusted EBITDA[1][2]	$ 405.9	$ 473.4	$ (67.5)	(14.3)%
Adjusted EBITDA less Pre-Publication Costs[1][2]	$ 301.3	$ 353.1	$ (51.8)	(14.7)%
Adjusted EBITDA less Capital Expenditures[1][2]	$ 248.3	$ 288.3	$ (40.0)	(13.9)%

(1) See "Overview" for the definition of this non-GAAP financial measure, "Segment Operating Results" for discussion and "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

(2) Prior year amounts have been recast to current year standard internal currency exchange rates.

NM = Not meaningful

Revenues

Revenues for the fiscal year ended March 31, 2018 increased $6.2 million, or 0.4%, to $1,466.2 million. The increase was primarily due to growth in our core digital product sales, and growth in our international businesses within both the Gale and International segments. The increase was partially offset by lower new print textbook sales from our largest segment, Learning, compared with the prior year period and unfavorable foreign currency exchange fluctuations of approximately $5.6 million. The decrease in Learning revenues was impacted by lower enrollments, continued pressure on print products, and efforts to address student affordability concerns which traded off higher priced bundle units for lower-priced, more sustainable standalone units that do not feed the secondary market.

Operating Costs and Expenses

Cost of Revenues

Total cost of revenues, excluding amortization of prepublication costs, amortization of intangible assets and depreciation decreased $6.9 million, or 1.1%, primarily due to $9.4 million of lower royalty expense related to lower revenues and efficiency initiatives from the Learning segment, an $8.0 million reduction in print, paper and binding costs reflective of the shift towards digital, and $5.6 million of lower inventory obsolescence expense. These decreases were partially offset by headcount investments in the digital production and infrastructure teams and a $1.8 million increase in technology infrastructure charges.

Amortization of prepublication costs decreased $23.3 million, or 15.5% in the fiscal year ended March 31, 2018, primarily due to the accelerated amortization associated with the abandonment of certain content projects during the fiscal year ended March 31, 2017.

Amortization of intangible assets increased $1.7 million, or 68.0%, primarily related the acquisition of certain author/content rights in fiscal year 2018.

Operating Expenses

Selling, general and administrative expenses, excluding depreciation increased $77.3 million, or 20.1%, to $462.0 million for the fiscal year ended March 31, 2018, primarily due to approximately $30.0 million in incentive compensation reductions recorded during the third and fourth quarters of fiscal year 2017, as well as an increase of approximately $34.0 million in employee compensation and other related costs associated with our key strategic initiatives including investments in higher education digital product teams and infrastructure, international, skills and school business, and fleet renewal cost increase of $2.0 million. Additionally, we recorded a $3.5 million aggregate reduction to our property and sales and use tax reserves as a result of the expiration of the statute of limitations for certain periods during fiscal year 2017.

Operational restructuring and other charges, net decreased $16.1 million to $10.6 million in the fiscal year ended March 31, 2018. The $10.6 million charges, net, in fiscal year 2018 includes $5.7 million of severance related costs, $4.4 million of process reengineering consulting fees, and $0.5 million of net lease exit costs. Charges in the prior period of $26.7 million includes $15.9 million related to severance related costs and $10.1 million related to process reengineering consulting fees. Refer to Note 9, "Operational Restructuring and Other Charges," for additional details on these charges.

Depreciation decreased $11.6 million, or 13.8%, during the fiscal year ended March 31, 2018, compared with the prior year period primarily due to the cumulative result of accelerated depreciation of $6.3 million in fiscal year 2017 associated with the abandonment of certain internally-developed software projects.

Amortization of identifiable intangible assets was $90.2 million and $90.0 million for the fiscal year ended March 31, 2018 and 2017, respectively.

Non-Operating Items

Loss on early extinguishment of debt of $10.8 million for the fiscal year ended March 31, 2017 represents accelerated amortization of debt issuance costs and discount costs related to the early extinguishment of the $2.0 billion prior term loan during the fiscal year ended March 31, 2017.

Other income (expense), net for the fiscal year ended March 31, 2018, was income of $10.1 million primarily related to an incentive payment received from a third party in connection with exiting an existing facility, partially offset by foreign currency transaction losses. The same prior year period was expense of $1.0 million primarily due to an impairment charge related to an other-than-temporary decline in the fair value of a cost method investment, partially offset by foreign currency transaction gains.

Interest expense increased $5.0 million, or 3.2%, to $162.1 million for the fiscal year ended March 31, 2018, primarily due to timing and mix of interest rates on debt issuance in the first quarter of fiscal year 2017.

Reorganization items, net, was $0.4 million for the fiscal year ended March 31, 2017 and consisted of professional and administrative fees associated with our Chapter 11 reorganization efforts.

Provision for Income Tax

Benefit from income taxes was $73.1 million and $36.0 million for the fiscal years ended March 31, 2018 and 2017, respectively. The fiscal year 2018 benefit from income taxes was almost entirely attributable to tax benefit resulting from the enactment of the U.S. federal tax law changes in the third quarter of fiscal year 2018, which lowered the corporate tax rate in the U.S from 35% to 21%, and the fiscal year 2018 generation of net operating losses.

Segment Operating Results

Fiscal Year Ended March 31, 2019 Compared with Fiscal Year Ended March 31, 2018

	Fiscal Year Ended March 31,		Change	
(in millions)	2019	2018[1]	$	%
Adjusted Revenues[2]				
Learning	$ 934.7	$ 944.6	$ (9.9)	(1.0)%
Gale	227.5	234.0	(6.5)	(2.8)%
International	297.9	292.0	5.9	2.0 %
Total	$ 1,460.1	$ 1,470.6	$ (10.5)	(0.7)%
Adjusted EBITDA[2][3]				
Learning	$ 217.9	$ 237.9	$ (20.0)	(8.4)%
Gale	83.1	92.7	(9.6)	(10.4)%
International	71.9	75.3	(3.4)	(4.5)%
Total	$ 372.9	$ 405.9	$ (33.0)	(8.1)%
Adjusted EBITDA less Pre-Publication Costs[2][3]				
Learning	$ 165.3	$ 183.3	$ (18.0)	(9.8)%
Gale	61.8	66.5	(4.7)	(7.1)%
International	50.2	51.5	(1.3)	(2.5)%
Total	$ 277.3	$ 301.3	$ (24.0)	(8.0)%
Adjusted EBITDA less Capital Expenditures[2][3]				
Learning	$ 117.3	$ 140.6	$ (23.3)	(16.6)%
Gale	56.0	61.6	(5.6)	(9.1)%
International	45.6	46.1	(0.5)	(1.1)%
Total	$ 218.9	$ 248.3	$ (29.4)	(11.8)%

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

(2) See "Overview" for the definition of this Non-GAAP financial measure and "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

(3) We allocate our corporate and shared services costs to each of our segments using either number of employees, specific identification or activity, or revenue.

Learning Adjusted Revenues for the fiscal year ended March 31, 2019 decreased $9.9 million, or 1.0%, primarily due to lower sales into the school channel and the continued secular decline of new print textbook sales in higher education, as well as an increase in deferred revenue growth of Cengage Unlimited subscriptions, partially offset by an increase in core digital sales, revenue from several large deals including a software license and multiple content licenses, and revenue share from our rental partners.

Gale Adjusted Revenues for the fiscal year ended March 31, 2019 decreased $6.5 million, or 2.8%, primarily driven by a decrease in two non-repeatable sales in the United States and lower sales from a large customer in Latin America, partially offset by an increase in archive sales in EMEA.

International Adjusted Revenues for the fiscal year ended March 31, 2019 increased $5.9 million, or 2.0%, primarily due to strong sales of our school products in Australia, including a large print deal, and sales growth in our ELT products across Asia and Latin America, partially offset by a decrease in sales of higher education products in Australia and a non-repeatable prior year order in EMEA.

Learning Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2019 decreased $18.0 million, or 9.8%, to $165.3 million due to a decrease in Learning Adjusted Revenues and an increase in costs primarily driven by our key strategic initiatives including investments in our school and on-line skills businesses and digital transformation, primarily Cengage Unlimited. These increases were partially offset by a decrease in royalty expense, a decrease in distribution related expense, lower inventory obsolescence expense, and a reduction in pre-publication spend costs. In addition, the increased investment in infrastructure was attributed and allocated to the operating segments.

Gale Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2019 decreased $4.7 million, or 7.1%, primarily due to the contribution of lower Gale Adjusted Revenue, and an increase in paper, print, and binding costs, an increase in bad debt expenses, an increase in outside service fees, partially offset by a decrease in employee compensation and related costs, a decrease in sales and marketing costs, and a decrease in prepublication spend costs. In addition, there was an increase in investments in infrastructure that was attributed and allocated to the operating segments.

International Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2019 decreased $1.3 million, or 2.5%, to $50.2 million, due to strategic investment initiatives in the expansion of Go-To-Market teams and operations support. These decreases were partially offset by the flow through on increased International Adjusted Revenue, a reduction in employee related compensation costs, and a reduction in ELT prepublication spend costs. In addition, there was an increase in investments in infrastructure that was attributed and allocated to the operating segments.

Fiscal Year Ended March 31, 2018 Compared with Fiscal Year Ended March 31, 2017

	Fiscal Year Ended March 31,		Change	
(in millions)	2018[1]	2017[1]	$	%
Adjusted Revenues[2]				
Learning	$ 944.6	$ 978.2	$ (33.6)	(3.4)%
Gale	234.0	230.8	3.2	1.4 %
International	292.0	260.3	31.7	12.2 %
Total	$ 1,470.6	$ 1,469.3	$ 1.3	0.1 %
Adjusted EBITDA[2][3]				
Learning	$ 237.9	$ 319.9	$ (82.0)	(25.6)%
Gale	92.7	94.7	(2.0)	(2.1)%
International	75.3	58.8	16.5	28.1 %
Total	$ 405.9	$ 473.4	$ (67.5)	(14.3)%
Adjusted EBITDA less Pre-Publication Costs[2][3]				
Learning	$ 183.3	$ 250.1	$ (66.8)	(26.7)%
Gale	66.5	63.9	2.6	4.1 %
International	51.5	39.1	12.4	31.7 %
Total	$ 301.3	$ 353.1	$ (51.8)	(14.7)%
Adjusted EBITDA less Capital Expenditures[2][3]				
Learning	$ 140.6	$ 197.1	$ (56.5)	(28.7)%
Gale	61.6	56.1	5.5	9.8 %
International	46.1	35.1	11.0	31.3 %
Total	$ 248.3	$ 288.3	$ (40.0)	(13.9)%

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

(2) See "Overview" for the definition of this Non-GAAP financial measure and "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

(3) We allocate our corporate and shared services costs to each of our segments using either number of employees, specific identification or activity, or revenue.

Learning Adjusted Revenues for the fiscal year ended March 31, 2018 decreased $33.6 million, or 3.4%, primarily due to the decline of print products, as well as a shift in student preference toward lower-priced print (rental) and digital options, partially offset by growth of standalone core digital products and growth of sales of Advanced Placement & Electives materials in the School channel.

Gale Adjusted Revenues for the fiscal year ended March 31, 2018 increased $3.2 million, or 1.4%, primarily due to strong performance in Asia, Australia, Latin America, the U.S. public market, partially offset by the ongoing decline in the U.S. print business and declines in EMEA.

International Adjusted Revenues for the fiscal year ended March 31, 2018 increased $31.7 million, or 12.2%, primarily due to strong sales of our higher education products in Australia, sales growth in our ELT products in EMEA and Latin America, partially offset by a decline in sales of higher education products in Asia.

Learning Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2018 decreased $66.8 million, or 26.7%, to $183.3 million, primarily due to the contribution of lower Learning Adjusted Revenues, operating expenses associated with our acquisition of WebAssign in September 2016, and higher employee compensation largely due to a reduction in incentive compensation recorded during the third and fourth quarters of fiscal 2017 and investments in higher education digital product and technology infrastructure teams. Additionally, during fiscal 2017 we recorded a $3.5 million aggregate reduction to our property and sales and use tax reserves as a result of the expiration of the statute of limitations.

Gale Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2018 increased $2.6 million, or 4.1%, to $66.5 million, primarily due to the contribution of higher revenue and a decrease in prepublication spend, partially offset by higher employee compensation and related costs.

International Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2018 increased $12.4 million, or 31.7%, to $51.5 million. The high flow-through on increased International Adjusted Revenues was driven by improved margins and operating efficiencies, partially offset by higher employee compensation and related costs and prepublication spend.

Reconciliations of Non-GAAP Financial Measures

The following table reconciles Adjusted Revenues to revenues per the consolidated statements of operations:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018[1]**	**2017[1]**
Revenues	$ 1,445.5	$ 1,466.2	$ 1,460.0
Impact of foreign currency	14.6	4.4	9.3
Adjusted Revenues	$ 1,460.1	$ 1,470.6	$ 1,469.3

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

The following table reconciles net loss to Adjusted EBITDA less Capital Expenditures, Adjusted EBITDA less Pre-Publication Costs, and Adjusted EBITDA:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018[1]	2017[1]
Net loss	$ (97.0)	$ (1.8)	$ (43.1)
Impact of foreign currency	4.5	1.3	3.5
Equity-based compensation expense	8.4	17.9	13.7
Non-core other operating expenses[2]	9.6	7.6	13.3
Acquisition and merger-related costs	6.8	0.4	—
Loss on early extinguishment of debt	—	—	10.8
Amortization of pre-publication costs	109.9	127.2	150.5
Operational restructuring and other charges	17.5	10.6	26.7
Depreciation	76.2	72.3	83.9
Amortization of identifiable intangible assets	94.9	94.4	92.5
Other (income) expense, net	(2.3)	(10.3)	1.2
Interest expense, net	171.9	159.4	156.0
Reorganization items, net	—	—	0.4
Benefit from income tax	(27.5)	(73.1)	(36.0)
Adjusted EBITDA	372.9	405.9	473.4
Additions to pre-publication costs[3]	(95.6)	(104.6)	(120.3)
Adjusted EBITDA less Pre-Publication Costs	277.3	301.3	353.1
Additions to property, equipment and capitalized internal-use software[3]	(58.4)	(53.0)	(64.8)
Adjusted EBITDA less Capital Expenditures	$ 218.9	$ 248.3	$ 288.3

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

(2) Non-core other operating expenses includes primarily bank fees, severance costs, duplicate rent expense, net, incurred during the build-out phase of the Company's new headquarters in Boston, contract termination costs, consulting costs and management fees.

(3) Additions to pre-publication costs and property, equipment and capitalized internal-use software are excluded from segment Adjusted EBITDA less Pre-Publication Costs on a constant currency and accrual basis. The impact of foreign currency exchange related to additions to pre-publication costs was $0.6 million, $0.3 million and $0.4 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively. The impact of foreign currency exchange related to property, equipment and capitalized internal-use software was less than $0.1 million for all periods presented.

Liquidity and Capital Resources

	March 31,	
(in millions)	2019	2018
Cash and cash equivalents	$ 335.8	$ 319.3
Current portion of long-term debt[1]	17.2	6.7
Long-term debt[1]	2,234.8	2,244.9

(1) Includes capital lease and original issue discount.

Our principal sources of liquidity have historically been cash flows from operations and borrowings under our revolving credit facilities. Our cash flows from operations are impacted by the inherent seasonality of our business, whereby we typically generate operating cash during the second and third quarters of our fiscal year and utilize cash for operating activities throughout the first and fourth quarters of our fiscal year.

Our liquidity and the ability to service our debt, as well as fund future acquisitions, share repurchases, other purchase commitments, operating leases, working capital and capital expenditure requirements, is dependent on our future financial

performance, which is subject to general economic, financial and other factors that are beyond our control. There can be no assurance that our business will generate sufficient cash flows from operations, that anticipated net sales growth and operating improvements will be realized or that future borrowings will be available under our revolving credit facility, or any other facility, in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs.

Our principal uses of cash are to fund operating costs and capital expenditures, including investments in product and technology offerings, strategic acquisitions, the payment of interest and principal on our outstanding debt, and share repurchases. We expect our cash flows from operations, combined with availability under our revolving credit facility and existing cash and cash equivalents, to provide sufficient liquidity to fund our current obligations, debt service requirements, projected working capital requirements, share repurchase program, restructuring obligations, scheduled long-term debt obligations and capital spending over the next twelve months. In addition, in February 2017, our board of directors approved an authorization of up to $100 million to purchase in the open market our 9.50% senior notes and/or senior secured term loan. As of March 31, 2019, we had $335.8 million of cash and cash equivalents, of which approximately $85.0 million was held in our foreign subsidiaries. We may be required to incur U.S. and foreign tax liabilities if we repatriate these funds. We consider the earnings of our foreign subsidiaries to be permanently reinvested and based on our historical earnings, we believe any changes to this assertion would not have a material impact on our tax provision.

Share Repurchase Programs

On June 6, 2017, we announced the authorization to extend our current $65.0 million share repurchase program until May 31, 2018. During fiscal year 2018, we completed this program, repurchasing 7,259,913 shares for $65.0 million in aggregate. The share repurchases were funded using a portion of the remaining proceeds from our issuance of long-term debt during fiscal year 2017.

During fiscal year 2017, we made share repurchases of $54.1 million, of which $50.0 million related to our March 14, 2016 share repurchase program and was funded utilizing cash from operations. Additionally, we made share repurchases of $4.1 million under our $65.0 million share repurchase program, which was funded using a portion of the remaining proceeds from our issuance of long-term debt during fiscal year 2017. This program was reduced from $265.0 million, announced on June 20, 2016, to $65.0 million on September 14, 2016, following the declaration of the one-time $200.0 million cash dividend paid on September 30, 2016.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2019 and 2018. In fiscal year 2017, we paid a $200.0 million dividend utilizing the net proceeds from our debt issuance in June 2016. We may declare additional dividend payments in the future using either cash from operations, long-term borrowings, or a combination of both.

Long-term Debt

On June 7, 2016, Cengage Learning, Inc., our wholly owned subsidiary, issued senior notes ("Senior Notes") and amended and restated its senior secured term loan facility ("Term Loan") and its asset based lending revolving line of credit ("ABL Revolving Credit Facility").

Senior Notes

On June 7, 2016, Cengage Learning, Inc., our wholly owned subsidiary, issued $620.0 million aggregate principal amount Senior Notes in a private placement, maturing June 15, 2024. The Senior Notes bear interest at a rate of 9.50% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2016. Cengage Learning, Inc. has the option to redeem the Senior Notes, in whole or in part, at any time on or before June 15, 2019, equal to 100% of the principal amount of the notes plus an applicable premium and accrued interest, as defined in the indenture. We also have the option to redeem the Senior Notes, in whole or in part, at any time on or after June 15, 2019, at certain redemption prices as defined in the indenture. In addition, we may repurchase the Senior Notes in part, at any time, in the open market, in accordance with federal securities regulations.

Pursuant to the indenture governing the Senior Notes, all material, wholly owned domestic subsidiaries of Cengage Learning, Inc., subject to certain exceptions, will guarantee the Senior Notes, up to applicable legal limits. To date, there are no subsidiary guarantors of the Senior Notes.

The indenture related to the Senior Notes contains certain covenants that we may be subject to which restrict our and our subsidiaries' ability to, among other things: incur additional indebtedness or issue certain disqualified shares and preferred shares; create liens; pay dividends or distributions or redeem or repurchase equity; prepay subordinated debt or make certain investments; transfer and sell assets; engage in a consolidation or merger or sell, transfer or otherwise dispose of all or

substantially all of our assets; and enter into certain transactions with affiliates. We will not be subject to these covenants if (i) the Senior Notes have Investment Grade Ratings from the relevant rating agencies, as defined in the terms of the Senior Notes, and (ii) no default has occurred and is continuing under the indenture. As of March 31, 2019, no default has occurred and we are compliant with all of the covenants of the indenture.

Term Loan

The Term Loan provides for senior secured term loans in an aggregate principal amount of $1,710.0 million and matures on June 7, 2023. In addition, we may request one or more incremental credit facilities in an aggregate amount of up to $500.0 million, plus additional amounts subject to certain requirements. Borrowings under the Term Loan bear interest at a rate equal to, at our option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor ("Eurocurrency Rate Loan"), or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. As of March 31, 2019, we elected to carry the Term Loan as a Eurocurrency Rate Loan with an effective interest rate of 6.74%.

We are required to repay 0.25% of the original principal amount of the Term Loan on the last business day of each quarter commencing with the quarter ended September 30, 2016. Following the end of each fiscal year, commencing with the fiscal year ending March 31, 2017, we must prepay a percentage between 0% and 50%, based on our total leverage ratio, of its Excess Cash Flow, as defined in the Term Loan agreement, within five business days after delivery of the financial statements. In fiscal year 2019, based on our March 31, 2019 consolidated financial statements, and in fiscal year 2018, based on our March 31, 2018 consolidated financial statements, we determined there were no prepayments due under the Excess Cash Flow provision. Prepayments made under the Excess Cash Flow provision are used to satisfy prospective mandatory quarterly principal repayments. We are also required to prepay loans with net proceeds from asset sales, casualty events, or issuances of indebtedness, subject to, in the case of asset sales and casualty events, reinvestment rights by us within certain time restrictions. In accordance with the Excess Cash Flow provisions of the Term Loan facility, we made a $27.7 million principal payment on June 8, 2017. In accordance with the Excess Cash Flow provisions of the previous term loan facility, we made a $25.6 million principal payment on June 2, 2016, which was reimbursed to us using the net proceeds of the issuance of debt. We may prepay or repurchase the Term Loan, in whole or in part, at any time, without penalty.

The obligations under the Term Loan are unconditionally guaranteed by Cengage Learning Holdco, Inc., a Delaware corporation, on a limited recourse basis, and all of our direct and indirect material, wholly owned domestic restricted subsidiaries, subject to certain exceptions. The obligations will be secured by (i) second-priority security interests in all accounts receivable, loans receivable, other receivables, inventory, related books and records, certain related general intangibles (excluding intellectual property and equity interests), deposit accounts (other than deposit accounts holding solely proceeds of Non-ABL priority collateral (as defined below)), cash and proceeds of the foregoing of Cengage Learning, Inc. and each subsidiary guarantor (collectively, the "ABL priority collateral"), with the ABL facility secured by first-priority security interests therein, and (ii) first-priority security interests in substantially all assets of Cengage Learning, Inc. and each subsidiary guarantor, in each case whether owned on the closing date or thereafter acquired, other than the ABL priority collateral, including a pledge of our capital stock (prior to an IPO), the capital stock of future subsidiary guarantors and 65% of the voting capital stock of first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions (collectively, the "Non-ABL priority collateral"), with the ABL Facility secured by second-priority security interests therein.

The Term Loan agreement contains certain customary conditions to borrowing, restrictions, affirmative covenants, negative covenants and events of default. The Term Loan does not contain any financial maintenance covenants.

ABL Revolving Credit Facility

The availability of credit under the amended and restated five-year ABL Revolving Credit Facility, which expires on June 7, 2021, is equal to the lesser of (i) $250.0 million and (ii) our borrowing base. The borrowing base equals the sum of (i) 90% of eligible credit card receivables, plus (ii) 85% of eligible receivables, plus (iii) 85% of the orderly liquidation value of eligible inventory, plus (iv) 100% of cash not to exceed $35.0 million. As of March 31, 2019 and March 31, 2018, the ABL Revolving Credit Facility had no outstanding borrowings and $22.8 million and $22.6 million respectively, in issued and outstanding letters of credit. Our available borrowing base as of March 31, 2019, which is based on the balance sheet at February 28, 2019, was $103.9 million, net of letters of credit.

The unused commitment fee will range between 0.25% and 0.375%, based upon the average facility usage for the most recently ended fiscal quarter. Outstanding letters of credit are also subject to a quarterly letter of credit participation fee which

will vary between 1.75% and 2.25%, depending on the average daily availability. During the fiscal year ended March 31, 2019, we incurred approximately $0.9 million of commitment fees and $0.4 million of letter of credit participation fees.

We have the right to prepay outstanding borrowings under the ABL Revolving Credit Facility, in whole or in part, from time to time, without premium or penalty.

The obligations under the ABL Revolving Credit Facility are unconditionally guaranteed by Cengage Learning Holdco, Inc., on a limited recourse basis, and all of our future direct and indirect material, wholly owned domestic restricted subsidiaries, subject to certain exceptions. The guarantees of those obligations will be secured by (i) first-priority security interests in the ABL priority collateral, with the term loan facility secured by second-priority security interests therein, and (ii) second-priority security interests in the Non-ABL priority collateral, with the term loan facility secured by first-priority security interests therein.

The ABL Revolving Credit Facility also contains certain other customary conditions to borrowing, restrictions, affirmative covenants, negative covenants and events of default.

Summary of Cash Flows

Our cash flows from operating, investing and financing activities were as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Net cash provided by (used in):			
Operating activities	$ 189.7	$ 253.3	$ 316.6
Investing activities	(152.4)	(191.2)	(217.0)
Financing activities	(19.4)	(95.4)	(0.5)
Impact on cash and cash equivalents from changes in foreign currency	(1.4)	0.3	(0.3)
Net increase (decrease) cash and cash equivalents	$ 16.5	$ (33.0)	$ 98.8

Operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2019 was $189.7 million, a decrease of $63.6 million from net cash provided by operating activities of $253.3 million for the fiscal year ended March 31, 2018. The decrease was primarily due to lower net income and an increase in cash used for net working capital. The increase in cash used for net working capital was primarily driven by fiscal year 2018 incentive compensation payments made during the first quarter of fiscal year 2019 and a decrease in accrual and trade payable balances due to timing of purchases and payments. These uses of cash were partially offset by lower inventory levels related to the continued shift to digital sales coupled with leaner purchasing methods implemented for traditional print products.

Net cash provided by operating activities for the fiscal year ended March 31, 2018 was $253.3 million, a decrease of $63.3 million from net cash provided by operating activities of $316.6 million for the fiscal year ended March 31, 2017. The decrease was primarily due to the benefit from deferred taxes, the extinguishment of debt in the prior year period, and an increase in cash used by net working capital, partially offset by higher net income. The increase in cash used for net working capital was primarily driven by timing of interest payments, current year stabilized inventory levels due to print efficiencies, timing of trade payables, partially offset by higher current year incentive compensation and timing of capital expenditure and prepublication cost payables.

Investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2019 was $152.4 million, a decrease of $38.8 million from net cash used in investing activities of $191.2 million for the fiscal year ended March 31, 2018. The decrease was primarily driven by a decrease in prepublication spend, a decrease in spend to acquire certain author/content rights, and the prior year timing of capital expenditures spend.

Net cash used in investing activities for the fiscal year ended March 31, 2018 was $191.2 million, a decrease of $25.8 million from net cash used in investing activities of $217.0 million for the fiscal year ended March 31, 2017. The decrease was primarily driven by prior year period cash used for the WebAssign acquisition, timing of capital expenditures and prepublication spend, partially offset by current year acquisition of author/content rights.

Financing activities

Net cash used in financing activities for the fiscal year ended March 31, 2019 was $19.4 million, a decrease of $76.0 million from net cash used by financing activities of $95.4 million in the fiscal year ended March 31, 2018. The decrease in cash used was primarily due to the prior year cash used which included $27.7 million prepayment due under the Excess Cash Flow provision of the Term Loan facility and share repurchases of approximately $60.9 million. The decrease in use of cash was partially offset by current year cash used of $7.8 million to acquire shares in connection with net settlement of equity based awards, $4.9 million of dividend equivalents paid in connection with the delivery of shares under vested RSUs, $6.4 million scheduled quarterly principal term loan repayment, and $0.3 million monthly capital lease payments.

Net cash used in financing activities for the fiscal year ended March 31, 2018 was $95.4 million, an increase of $94.9 million from net cash used in financing activities of $0.5 million in the fiscal year ended March 31, 2017. The increase in cash used was primarily due to current year share repurchases of $60.9 million, $5.6 million to acquire shares in connection with net settlement of equity-based awards, and payment of the Excess Cash Flow provision of the Term Loan facility of $27.7 million. The prior year source of cash included the debt issuance, net, principal payments, and repayment of our prior term loan which provided net cash proceeds of $265 million that was primarily offset by a $200 million one-time dividend, share repurchases of $54.1 million, and $0.9 million to acquire shares in connection with net settlement of equity-based awards.

Contractual Obligations and Commitments

The following table summarizes our future contractual obligations as of March 31, 2019:

(in millions)	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Long-term debt	$ 17.1	$ 34.2	$ 1,611.7	$ 620.0	$ 2,283.0
Interest payments on outstanding debt[1]	169.2	326.4	243.1	29.5	768.2
Operating lease obligations[2]	27.1	45.4	33.2	67.8	173.5
Capital lease obligations	0.1	—	—	—	0.1
Purchase obligations[3]	33.0	28.7	5.8	2.9	70.4
Other	—	0.5	0.1	—	0.6
Total	$ 246.5	$ 435.2	$ 1,893.9	$ 720.2	$ 3,295.8

(1) Interest on variable rate debt is estimated based upon the benchmark forward interest rates as of March 31, 2019. We expect our cash flows from operations, combined with availability of funds under our ABL revolving credit facility, to pay for these obligations.

(2) Represents minimum rental payments for operating leases having non-cancelable lease terms in excess of one year. Minimum rental payments do not take into account any expectations of future sublease income.

(3) Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding. Our purchase obligations primarily consist of outsourcing arrangements related to general accounting, fixed asset and accounts payable functions, as well as purchased or licensed content to be used in our educational products and royalty guarantees derived from minimum usage requirements in agreements with content providers.

In addition, largely related to internally developed software and the new Boston headquarters, we anticipate capital expenditures, including pre-publication costs, in the range of $135 million to $165 million in the fiscal year ending March 31, 2020.

Off-Balance Sheet Transactions

In the ordinary course of business, we may engage in financial transactions that are not recorded, or may be recorded, on the consolidated balance sheets in amounts that are different than the full contract or notional amount of the transactions, including, but not limited to facilities and other operating equipment leases. With the exception of the contractual obligations and purchase commitments described in Note 18, "Commitments and Contingencies," to our consolidated financial statements and in the "Contractual Obligations and Commitments" section above, we do not currently have any material off-balance sheet transactions.

Application of Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with GAAP. In preparing our consolidated financial statements, we apply various accounting policies and are required to use estimates and assumptions. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We believe that, of the significant accounting policies discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated financial statements, the following accounting policies require our most subjective or complex judgments:

Revenue Recognition: We deliver digital, print and hybrid educational solutions for universities, students, professors, libraries, professionals and corporations around the world. These solutions are delivered through specialized content, applications and services. Although printed materials continue to be the most widely-sold learning resource, we are increasingly providing customers with digital resources and a significant portion of our revenues is derived from sales of digital solutions, including digital versions of our print products. We recognize revenues when all of the following four criteria are met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The price to the buyer is fixed or determinable, and
- Collectability is reasonably assured.

Digital Content—Revenue from sales of digital content without any future performance obligations for us is recognized upon activation. Revenue from sales of digital solutions that contain future performance obligations by us is primarily deferred and recognized ratably over the appropriate period. Incremental costs that are directly related to the deferred digital revenues are deferred and amortized over the subscription period.

Print and Other Materials—We recognize revenues from the sale of print and other materials, less estimated returns, when the product is delivered and title, including the risks and rewards of ownership, passes to the customer. We classify amounts billed to customers for shipping and handling as revenues.

Subscription-Based Products—We recognize revenues from sales of subscription-based products, including hosted digital solutions, ratably over the term of the subscription. Subscription revenues received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenues are deferred and amortized over the subscription period.

Multiple Element Arrangements—When a sales arrangement requires the delivery of more than one product or service, the individual elements are accounted for separately, if applicable criteria are met. Specifically, the revenues are allocated to each element that qualifies as a unit of accounting based on the relative selling price of each element. The amount allocated to each unit is then recognized when each unit is delivered, provided that all other relevant revenue recognition criteria are met with respect to that unit.

Rental Revenue Arrangements—We have rental and rental revenue share arrangements, including rentals of consigned inventory of printed products. We record rental revenue, or our share of rental revenue, when it is earned provided that all revenue recognition criteria are met.

Reserve for Sales Returns: Accounts receivable are reflected net of a reserve for sales returns. The reserve for sales returns is based on a review of our historical sales returns experience and our estimate of future returns associated with various product types and sales channels, as well as current industry trends in the businesses in which we operate. A change in the pattern or trends in returns could affect our estimated reserve for sales returns. If our estimate does not reflect actual returns in future periods, revenues could be understated or overstated for a particular period by the difference between actual returns and our original estimate. Actual sales returns are charged against the reserve as products are returned to inventory. In conjunction with the sales return reserve, we also record estimated increases in inventory, to the extent that product returns are resalable, and estimated recoupable royalty costs. The sales returns reserve as of March 31, 2019 and 2018 was $42.8 million and $70.8 million, respectively.

Reserve for Inventory Obsolescence: Inventories, which are principally comprised of books and other print products, are stated at the lower of cost or market value, with cost determined generally using the weighted average method. Reserves are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value. The reserve is based upon our historical unit sales by title as compared to the number of units on hand, and considers our assessment of

current industry conditions, including estimates of customer demand, and publication revision cycles. A change in sales trends could affect our estimated reserve. We periodically assess the obsolescence reserve by evaluating general factors such as inventory levels, historical sales, and the remaining life of our products. Inventory losses and destroys are charged against the reserve. The reserve for inventory obsolescence as of March 31, 2019 and 2018 was $42.7 million and $53.0 million, respectively.

Impairment of Long-Lived Assets: We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the lowest level asset grouping, for which identifiable cash flows are independent of other assets, may not be recoverable. The initial test for impairment compares the asset carrying amounts with the sum of undiscounted cash flows related to that asset grouping. If the carrying value is greater than the undiscounted cash flows, the individual assets are impaired proportionately, limited to their respective carrying values.

Goodwill: We test the carrying value of goodwill for impairment at a reporting unit level annually in the fourth quarter of each fiscal year, or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For impairment tests performed after January 1, 2017, we early adopted the guidance issued in May 2017 by the FASB, which simplifies accounting for goodwill impairment. The guidance removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

For reporting units that passed their most recent impairment test by a substantial margin, we may consider performing a detailed qualitative assessment, considering various company-specific, industry, and macro-economic factors, to determine whether it is necessary to perform the quantitative goodwill impairment test in the current year. If, as a result of weighing the evidence under the qualitative assessment, we conclude that it is not more likely than not the reporting unit's fair value is less than its carrying value, the quantitative impairment test is not performed. For those reporting units where a significant change or event occurs, and where potential impairment indicators exist, we continue to utilize the quantitative assessment to test goodwill for impairment.

We performed goodwill impairment testing on our reporting units in the fourth quarter of fiscal year 2019. In order to estimate the fair value of each reporting unit, we used an equal-weighted application of the discounted cash flow and market approach methodologies. The discounted cash flow method estimates the value of a reporting unit by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such reporting unit. This methodology requires the use of significant estimates, including discount rates, estimated residual growth rates, and projections of revenue growth, profit margins, and working capital. The projections underlying the valuation were based on our internal strategic forecasts for each reporting unit. Discount rates were calculated using the capital asset pricing model based on a weighted average cost of capital of comparable companies. The estimated residual growth rate was developed considering the long-term economic outlook of the industry and geographical region in which each reporting unit operates. The discount rate assumptions used in our fourth quarter goodwill impairment review ranged from 11.5% to 16.0% and residual growth rate assumptions used in our fourth quarter goodwill impairment review ranged from 1.0% to 4.0%. In addition to the discounted cash flow analysis, we perform the market approach which is a comparison of both trailing and forward financial multiples implied by the estimated reporting unit fair value to a range of multiples of publicly held companies with similar characteristics. If recent merger and acquisition transactions for industry or peer companies are available, the financial multiples implied by the estimated reporting unit fair value are also compared to the range of multiples from such precedent transactions. We apply comparable revenue and EBITDA multiples under this methodology as we consider these measures the most relevant to our business. For the impairment test performed in the fourth quarter of fiscal year 2019, we applied forward multiples of projected revenues in a range of 1.2x - 2.3x and forward multiples of projected EBITDA in a range of 8.5x - 12.0x.

Based on the quantitative test of the fiscal year 2019 annual impairment test, we concluded the fair values of all reporting units exceeded their respective carrying values. There were no goodwill impairment charges recorded during the fiscal years ended March 31, 2019, 2018 and 2017. In 2018, the estimated fair value of the Learning reporting unit exceeded its carrying value by 5.0%. The discount rate applied to the Learning reporting unit discounted cash flow was 11.5% and the residual growth rate was 2.0%. We had performed a sensitivity analysis on our significant assumptions used to determine the fair value of the Learning reporting unit and determined that a more than nominal change to our significant assumptions could have impacted our conclusion. In 2019, the estimated fair value of our Learning reporting unit over its carrying value increased to 10.0%.

During the fourth quarter of fiscal year 2019, subsequent to the completion of the annual impairment test of goodwill, we identified two new operating segments based on newly available discrete financial information. The two new operating segments are Higher Ed (representing the academic and skills industries) and School, whom together comprises the Learning

reportable segment. In accordance with ASC 350-20-35-3C, there are several potential events and circumstances that could be indicators of goodwill impairment. A change in a company's reporting unit structure is one of these events, and when this does occur, a company must perform a "before and after" test of the reporting units.

We followed the same methodology, as described above for the annual impairment review, for the impairment review of the new reporting units. Our discount rate assumptions ranged from 9.5% to 12.5% and residual growth rate assumptions ranged from 1.0% to 2.0%. We applied forward multiples of projected revenues in a range of 1.6x - 2.5x and forward multiples of projected EBITDA in a range of 8.0x - 12.5x. For this impairment test, we concluded that the fair values of Higher Ed and School reporting units exceeded their respective carrying values.

The estimated fair value of our School reporting unit exceeded its carrying value by 4.0%. The discount rate applied to the School reporting unit discounted cash flow was 9.5% and the residual growth rate was 1.0%. We performed a sensitivity analysis on our significant assumptions used to determine the fair value of the School reporting unit and determined that a more than nominal change to our significant assumptions would impact our conclusion. If actual results differ from the projections and assumptions used in the calculation of the School reporting unit fair value, we could be required to record future non-cash impairment charges. We will continue to evaluate goodwill on an annual basis and whenever events or changes in circumstances indicate that there may be potential indicators of impairment. If expectations for revenues and cash flows decline or if actual results are less than our revised forecasts, we may not be able to realize the carrying value of our goodwill and could be required to record future impairment charges.

Legal Contingencies: From time to time, we may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. We assess our potential contingent and other liabilities by analyzing our claims, disputes and legal and regulatory matters using all available information, and develop our views on estimated losses in consultation with our legal and other advisors. We determine whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a material loss may have been incurred. Proceeds from legal settlements are gain contingencies and are recognized in the income statement when all contingencies have been resolved. As such, gains from legal settlements are recorded once they are received.

Equity-Based Compensation Plan: We account for our equity-based compensation plan under the fair value recognition provisions for share-based payments. We adopted the 2014 Cengage Learning Equity Incentive Plan (the "2014 Equity Incentive Plan") on March 31, 2014, and issued grants in the form of restricted stock units ("RSUs"), incentive stock options ("ISOs"), non-qualified stock options ("NQSOs") and performance awards. Effective as of November 15, 2018, the Company's Board of Directors and the majority shareholders adopted an equity incentive plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan provides for the grant of incentive stock options, certain other options, RSUs, restricted stock, and other stock-based awards to directors, officers, and employees of the Company. Following the approval of the 2018 Equity Incentive Plan, the Company does not intend to grant any additional awards under the 2014 Equity Incentive Plan.

Our outstanding common stock is privately held and not traded on any public exchange market. Therefore, to value equity-based awards granted under the 2014 Equity Incentive Plan and the 2018 Equity Incentive Plan, we followed guidelines set forth in the American Institute of Certified Public Accountants ("AICPA") Accounting & Valuation Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. To estimate the fair value of RSUs on the date of grant we are first required to estimate the value of our equity. Our estimate of equity value is based on an estimate of our enterprise value, reduced by the fair value of our outstanding indebtedness net of cash and cash equivalents. The value is then allocated to the outstanding common stock, RSUs, and stock options on a fully diluted basis using the Option-Pricing Method ("OPM"). Under the OPM, the value of each equity security is determined via a series of call options on our total equity value with exercise prices based on value thresholds, or breakpoints, at which value begins to be shared differently between the holders of each type of equity security. These call options are valued using a Black-Scholes option-pricing model with the following key inputs: equity value, risk-free interest rate, volatility factor, and time period from date of grant to a liquidity event. After determining the value allocated to RSUs, an appropriate discount for the lack of marketability was applied to arrive at fair value of the outstanding awards. The following table summarizes the weighted-average grant date fair value of RSUs and performance-based RSUs granted under the 2014 Equity Incentive Plan and performance-based RSUs granted under the 2018 Equity Incentive Plan in the periods presented:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Weighted-average grant date fair value	$ 17.33	$ 16.59	$ 17.44

The estimated fair value of the stock options granted is based on the Black-Scholes option pricing model. To determine the value of the stock options, we used the results from the OPM allocation of equity value to common stock. The risk-free interest rate was based on interpolated yields of U.S Treasury securities with a 4.75 year term as of the date of grant. Estimates of our volatility were based on available information on the volatility of peer group public companies, with adjustments specific to our capital structure on the date of grant. Expected term was estimated using the weighted-average mid-point of the vesting date and date of expiration. The following table summarizes the weighted-average fair value of stock options granted under the 2014 Equity Incentive Plan and performance-based stock options granted under the 2018 Equity Incentive Plan in the periods presented as well as the weighted average of the applicable assumptions used to value the stock options:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Weighted-average grant date fair value	$ 6.57	$ 6.08	$ 6.08
Weighted-average assumptions:			
Risk-free interest rate	2.6%	1.8%	1.1%
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	40.0%	40.0%	35.0%
Expected life (years)	4.75	4.75	4.75

Our enterprise value was determined using the same valuation techniques we employ when we conduct our annual goodwill impairment test. Our valuation is based on a weighted-average application of discounted cash flows, market related multiples and comparable transaction-related multiples. The significant assumptions used as inputs in the valuation calculations reflect our best estimates at the time of the date of grant. A change in any of the assumptions and inputs may have a significant impact on our estimated enterprise value.

As of March 31, 2019, there was aggregate unrecognized compensation cost of $10.3 million related to outstanding stock option and RSU awards, granted under the 2014 Equity Incentive Plan, that is expected to be recognized over a remaining weighted-average period of 2.9 years. As of March 31, 2019, there was aggregate unrecognized compensation cost of $4.2 million related to performance-based RSUs granted under the 2014 Equity Incentive Plan and aggregate unrecognized compensation cost of $4.9 million related to the performance-based stock options and performance-based RSUs granted under the 2018 Equity Incentive Plan, respectively. No compensation cost related to the performance-based stock options and performance-based RSUs under any equity incentive plan will be recognized until it is probable that the performance condition will be met.

Income Taxes: We account for income taxes using the asset and liability method of ASC Topic 740, "Income Taxes." Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, deferred tax assets are recorded with respect to net operating losses and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when realization of the benefit of deferred tax assets is not deemed to be more likely than not. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the enactment date.

New Accounting Standards and Accounting Changes

See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated financial statements for a description of new accounting standards and accounting changes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect our operating results, financial position and cash flows. We manage exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments to hedge economic exposures as well as reduce our earnings and cash flow volatility resulting from shifts in market rates. Volatility in our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period. Our derivative financial instruments, when held, are solely risk management tools and not for trading or speculative purposes. We have not entered into any derivative financial instruments in any period presented in the consolidated financial statements.

We continue to review liquidity sufficiency by performing various stress test scenarios, such as cash flow forecasting which considers hypothetical interest rate movements. Furthermore, we continue to closely monitor current events and the financial institutions that support our credit facility, including monitoring their credit ratings and outlooks, credit default swap levels, capital raising and merger activity.

For the fiscal years ended March 31, 2019, 2018, and 2017, we derived approximately 22%, 22%, and 20%, respectively, of our Adjusted Revenues from countries outside of the United States, with a significant portion of the related costs based in United States dollars, British pounds and Australian dollars. We anticipate that our future results will continue to be affected by market risks, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the British pound and Australian dollar. A hypothetical 10% adverse change in foreign currency rates relative to the U.S. dollar would not have had a material impact on our net loss.

As of March 31, 2019, we had $1,663.0 million in outstanding variable rate debt under our Term Loan at face value. The effective interest rate for our Term Loan is based on a contractual minimum base interest rate, or LIBOR floor of 1.0%, plus the applicable margin. Currently, LIBOR is above the LIBOR floor and the debt is subject to variable rates. A 50 basis point increase in LIBOR on our current Term Loan balance would increase our annual interest expense by approximately $8.3 million. Additionally, as of March 31, 2019, we had $620.0 million in outstanding debt at a fixed rate of 9.50%.

CENGAGE LEARNING HOLDINGS II, INC.
CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page No.
Report of Independent Auditors	60
Consolidated Balance Sheets	61
Consolidated Statements of Operations	62
Consolidated Statements of Comprehensive (Loss) Income	63
Consolidated Statements of Cash Flows	64
Consolidated Statements of Stockholders' Equity	65
Notes to Consolidated Financial Statements	66

Report of Independent Auditors

To the Board of Directors and Management of
Cengage Learning Holdings II, Inc.

We have audited the accompanying consolidated financial statements of Cengage Learning Holdings II, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2019.

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.

Auditors' 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 audit 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 Cengage Learning Holdings II, Inc. and its subsidiaries as of March 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

May 30, 2019

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CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Balance Sheets

(in millions, except share and per share amounts)	March 31, 2019	March 31, 2018
Assets		
Cash and cash equivalents	$ 335.8	$ 319.3
Accounts receivable, net	202.3	180.8
Inventories	109.6	116.8
Prepaid expenses and other current assets	77.7	58.3
Total current assets	725.4	675.2
Property, equipment and capitalized internal-use software, net	146.2	164.4
Pre-publication costs, net	215.8	232.2
Author advances	16.9	22.5
Identifiable intangible assets, net	912.7	1,009.9
Goodwill	1,629.1	1,633.2
Deferred tax assets	6.6	7.5
Deferred financing costs	2.3	3.4
Other non-current assets	23.3	24.5
Total assets	$ 3,678.3	$ 3,772.8
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$ 312.2	$ 276.6
Deferred revenue	182.9	178.9
Current portion of long-term debt	17.2	6.7
Income taxes payable	5.8	3.9
Other current liabilities	25.4	18.5
Total current liabilities	543.5	484.6
Long-term debt	2,234.8	2,244.9
Deferred tax liabilities	38.3	78.3
Other non-current liabilities	57.7	50.0
Total liabilities	2,874.3	2,857.8
Commitments and contingencies (Note 18)		
Preferred stock ($0.01 par value, 50,000,000 shares authorized, none issued)	—	—
Common stock ($0.01 par value, 300,000,000 shares authorized, 61,547,310 and 61,009,916 shares issued and outstanding as of March 31, 2019 and March 31, 2018, respectively)	0.6	0.6
Additional paid-in capital	1,225.3	1,224.7
Accumulated deficit	(367.9)	(270.9)
Accumulated other comprehensive loss	(54.0)	(39.4)
Total stockholders' equity	804.0	915.0
Total liabilities and stockholders' equity	$ 3,678.3	$ 3,772.8

See accompanying notes to the consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Statements of Operations

(in millions)	Fiscal Year Ended March 31, 2019	2018	2017
Revenues	$ 1,445.5	$ 1,466.2	$ 1,460.0
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	642.6	625.5	632.4
Amortization of pre-publication costs	109.9	127.2	150.5
Amortization of identifiable intangible assets	4.8	4.2	2.5
Total cost of revenues, excluding depreciation stated below	757.3	756.9	785.4
Selling, general and administrative expenses, excluding depreciation stated below	459.3	462.0	384.7
Operational restructuring and other charges	17.5	10.6	26.7
Depreciation	76.2	72.3	83.9
Amortization of identifiable intangible assets	90.1	90.2	90.0
Other (income) expense, net	—	(0.2)	0.2
Total costs and expenses	1,400.4	1,391.8	1,370.9
Operating income	45.1	74.4	89.1
Loss on early extinguishment of debt, net	—	—	(10.8)
Other income (expense), net	2.3	10.1	(1.0)
Interest income	5.6	2.7	1.1
Interest expense	(177.5)	(162.1)	(157.1)
Reorganization items, net	—	—	(0.4)
Loss before taxes	(124.5)	(74.9)	(79.1)
Benefit from income taxes	27.5	73.1	36.0
Net loss	$ (97.0)	$ (1.8)	$ (43.1)

See accompanying notes to the consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Statements of Comprehensive (Loss) Income

(in millions)	Fiscal Year Ended March 31, 2019	2018	2017
Net loss	$ (97.0)	$ (1.8)	$ (43.1)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(14.6)	11.1	(11.2)
Comprehensive (loss) income	$ (111.6)	$ 9.3	$ (54.3)

See accompanying notes to the consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Statements of Cash Flows

(in millions)	Fiscal Year Ended March 31, 2019	2018	2017
Cash Flows from Operating Activities			
Net loss	$ (97.0)	$ (1.8)	$ (43.1)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of pre-publication costs	109.9	127.2	150.5
Depreciation	76.2	72.3	83.9
Amortization of identifiable intangible assets	94.9	94.4	92.5
Amortization of debt discounts and deferred financing costs	8.2	8.2	7.5
Non-cash equity-based compensation expense	8.4	17.9	13.7
Operational restructuring and other charges	17.5	10.6	26.7
Cash payments for operational restructuring charges	(12.1)	(14.0)	(26.0)
Loss on early extinguishment of debt, net	—	—	10.8
Reorganization items, net	—	—	0.4
Cash payments for reorganization items, net	—	—	(3.8)
Deferred income taxes	(39.8)	(87.3)	(46.4)
Changes in operating assets and liabilities, net of acquisitions	22.2	26.5	48.5
Other, net	1.3	(0.7)	1.4
Net cash provided by operating activities	189.7	253.3	316.6
Cash Flows from Investing Activities			
Acquisitions of businesses, net of cash acquired	(1.5)	(3.1)	(45.0)
Additions to pre-publication costs	(95.8)	(103.6)	(122.8)
Additions to property, equipment and capitalized internal-use software	(53.4)	(63.7)	(53.1)
Acquisition of author content rights	(1.2)	(21.1)	—
Use of restricted cash	—	—	3.4
Other, net	(0.5)	0.3	0.5
Net cash used in investing activities	(152.4)	(191.2)	(217.0)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	—	—	2,312.9
Repayments of long-term debt	(6.7)	(28.0)	(2,023.6)
Proceeds from issuance of common stock	—	—	0.6
Debt issuance costs and other financing fees	—	—	(35.4)
Dividends and dividend equivalents paid	(4.9)	(0.9)	(200.0)
Common stock repurchases for tax withholding for net settlement of equity awards	(7.8)	(5.6)	(0.9)
Common stock repurchases under share repurchase program	—	(60.9)	(54.1)
Net cash used in financing activities	(19.4)	(95.4)	(0.5)
Impact on Cash and Cash Equivalents from Changes in Foreign Currency	(1.4)	0.3	(0.3)
Net Increase (Decrease) in Cash and Cash Equivalents	16.5	(33.0)	98.8
Cash and Cash Equivalents			
Beginning of year	319.3	352.3	253.5
End of year	$ 335.8	$ 319.3	$ 352.3

See accompanying notes to the consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Statements of Stockholders' Equity

(in millions)	Common Stock		Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares Issued	Par Value					
Balance at March 31, 2016	70.7	$ 0.7	$ —	$ 1,519.2	$ (226.0)	$ (39.3)	$ 1,254.6
Net loss	—	—	—	—	(43.1)	—	(43.1)
Foreign currency translation adjustment	—	—	—	—	—	(11.2)	(11.2)
Dividends paid	—	—	—	(200.0)	—	—	(200.0)
Purchase of treasury stock	(2.8)	—	(54.1)	—	—	—	(54.1)
Retirement of treasury stock	—	—	54.1	(54.1)	—	—	—
Restricted stock unit dividend equivalents	—	—	—	(5.4)	—	—	(5.4)
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.1	—	—	(0.9)	—	—	(0.9)
Issuance of common stock	—	—	—	0.6	—	—	0.6
Equity-based compensation	—	—	—	13.7	—	—	13.7
Balance at March 31, 2017	68.0	0.7	—	1,273.1	(269.1)	(50.5)	954.2
Net loss	—	—	—	—	(1.8)	—	(1.8)
Foreign currency translation adjustment	—	—	—	—	—	11.1	11.1
Purchase of treasury stock	(7.1)	—	(60.9)	—	—	—	(60.9)
Retirement of treasury stock	—	(0.1)	60.9	(60.8)	—	—	—
Restricted stock unit dividend equivalents	—	—	—	0.1	—	—	0.1
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.1	—	—	(5.6)	—	—	(5.6)
Equity-based compensation	—	—	—	17.9	—	—	17.9
Balance at March 31, 2018	61.0	0.6	—	1,224.7	(270.9)	(39.4)	915.0
Net loss	—	—	—	—	(97.0)	—	(97.0)
Foreign currency translation adjustment	—	—	—	—	—	(14.6)	(14.6)
Purchase of treasury stock	—	—	—	—	—	—	—
Retirement of treasury stock	—	—	—	—	—	—	—
Restricted stock unit dividend equivalents	—	—	—	—	—	—	—
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.5	—	—	(7.8)	—	—	(7.8)
Equity-based compensation	—	—	—	8.4	—	—	8.4
Balance at March 31, 2019	61.5	$ 0.6	$ —	$ 1,225.3	$ (367.9)	$ (54.0)	$ 804.0

See accompanying notes to the consolidated financial statements.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Cengage Learning Holdings II, Inc., together with its consolidated subsidiaries ("Cengage" or the "Company") is a leading education and technology company built for learners, serving the higher education, school, professional, library and workforce training markets worldwide. The Company is a publisher of course materials in the United States higher education market, with strong positions across all major disciplines. Increasingly, the Company is expanding its offerings in technology and academic services, including digital homework solutions and support services for use of its digital products, in response to industry demand for more fully integrated solutions. In addition, operating under its Gale brand, the Company is a leading global provider of library reference materials with a vast collection of primary source content.

Basis of Presentation

The Company prepares its financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Cengage and its majority and wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from those estimates. These estimates include, but are not limited to, reserves for sales returns and inventory obsolescence, the allowance for doubtful accounts, deferred tax assets and liabilities, the valuation allowances for deferred tax assets, operational restructuring and other charges, legal and tax contingencies, purchase accounting and equity-based compensation, as well as future cash flows and fair values used in the assessment of the realizability of long-lived assets, goodwill and identifiable intangible assets.

Seasonality and Comparability

The Company's revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. This seasonality affects the Company's working capital requirements and hence its overall financing needs. For example, the Company typically incurs a net cash deficit from all of its activities in the first and fourth fiscal quarters of the fiscal year. In addition, changes in customer ordering patterns may impact the comparison of the Company's results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where its customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates, changes in inventory management practices, and a shift in customer base driven by an increase in direct to student subscription products.

As the Company continues to migrate its service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be recognized ratably over the applicable subscription period, with amounts billed in excess of revenues recognized reflected as deferred revenue. This represents a change from traditional print products where revenues are typically recognized upon shipment of the material to the customer. Reported revenues will shift from being driven by sales in the same period to deferred recognition as revenues attributable to hosted digital solutions are recognized in subsequent periods. Deferred revenue represents amounts billed in advance to customers that will be recognized as revenues in subsequent periods as products and services are delivered to customers. The current portion of deferred revenue was $182.9 million and $178.9 million as of March 31, 2019 and 2018, respectively, and the non-current portion of deferred revenue was $32.9 million and $30.9 million as of March 31, 2019 and 2018, respectively.

Summary of Significant Accounting Policies

Revenue Recognition: The Company delivers digital, print and hybrid educational solutions for universities, students, professors, libraries, professionals, and corporations around the world. These solutions are delivered through specialized content, applications and services. A significant portion of the Company's revenues is derived from sales of digital solutions, including digital versions of its print products. The Company recognizes revenues when all of the following four criteria are met:

- Persuasive evidence of an arrangement exists,

- Delivery has occurred or services have been rendered,
- The price to the buyer is fixed or determinable, and
- Collectability is reasonably assured.

Digital Content—Revenue from sales of digital content without any future service obligations for the Company is recognized upon activation. Revenue from sales of digital solutions that contain future service obligations by the Company is primarily deferred and recognized ratably over the appropriate period. Incremental costs that are directly related to the deferred digital revenues are deferred and amortized over the subscription period.

Print and Other Materials—The Company recognizes revenues from the sale of print and other materials, less estimated returns, when the product is delivered and title, including the risks and rewards of ownership, passes to the customer. Amounts billed to customers for shipping and handling are classified as revenues.

Subscription-Based Products—The Company recognizes revenues from the sale of subscription-based products, including hosted digital solutions, ratably over the term of the subscription. Subscription proceeds received or receivable in advance of the delivery of services or publications are included in deferred revenue. Incremental costs that are directly related to the subscription revenues are deferred and amortized over the subscription period.

Multiple Element Arrangements—When a sales arrangement requires the delivery of more than one product or service, the individual elements are accounted for separately, if applicable criteria are met. Specifically, the revenues are allocated to each element that qualifies as a unit of accounting based on the relative selling price of each element. The amount allocated to each unit is then recognized when each unit is delivered, provided that all other relevant revenue recognition criteria are met with respect to that unit.

Rental Revenue Arrangements—The Company enters into rental and rental revenue share arrangements, including rentals of consigned inventory of printed products. The Company records rental revenue, or its share of rental revenue, when it is earned, provided that all revenue recognition criteria are met.

Advertising Costs: Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expenses, which include the cost of complimentary print products provided to professors in advance of a title release, amounted to the following:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Advertising costs	$ 27.5	$ 28.4	$ 26.6

Cash and Cash Equivalents: Cash consists of cash on deposit in banks. Cash equivalents are generally high-quality, short-term money market instruments with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Allowance for Doubtful Accounts and Reserve for Sales Returns: Most of the Company's accounts receivable are due from universities, bookstores, wholesalers, libraries, professionals, and corporations. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable are reflected net of a reserve for sales returns of $42.8 million and $70.8 million on March 31, 2019 and 2018, respectively, and an allowance for doubtful accounts of $12.6 million and $12.7 million on March 31, 2019 and 2018, respectively. The Company assesses the allowance for doubtful accounts by evaluating general factors, such as historical sales returns experience, the length of time individual receivables are past due, historical collection experience and credit evaluations of its customers as well as the economic and competitive environments. The Company periodically estimates the amount of future returns. The provision for sales returns is reflected as a reduction to revenues in the consolidated statements of operations. Sales returns are charged against the reserve as products are returned to inventory. Accounts receivable losses for bad debt are written-off against the allowance when the receivable is determined to be uncollectible.

Concentration of Credit Risk:

Customers accounting for 10% or more of the Company's total gross accounts receivable were as follows:

	As of March 31,	
(in millions)	**2019**	**2018**
Customer A	N/A	11%
Customer B	N/A	12%

N/A - not applicable as % is less than 10%

No customer was individually greater than 10% of the Company's consolidated revenues in the periods presented. The Company's top three customers accounted for 13%, 14%, and 15% of our consolidated revenues for the fiscal years ended 2019, 2018, and 2017, respectively.

Inventories: Inventories, which are principally comprised of books and other print products, are stated at the lower of cost or net realizable value, with cost determined using the weighted-average method. Reserves are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value and are reflected in cost of revenues in the consolidated statements of operations. The Company periodically assesses the obsolescence reserve by evaluating factors such as inventory levels, historical sales, and the remaining life of its products. Inventory losses and destroys are written-off against the reserve. The inventory obsolescence reserve is reported as a reduction of the inventory balance in the consolidated balance sheets and was $42.7 million and $53.0 million as of March 31, 2019 and 2018, respectively.

Property, Equipment and Capitalized Internal-Use Software: Property, equipment and capitalized internal-use software is stated at cost less accumulated depreciation and amortization. Computer hardware under capital lease is stated at fair value at inception of the lease, less accumulated amortization. Internal-use software includes customer-facing platforms used to deliver certain of the Company’s digital products and services. Major updates and improvements are capitalized, while maintenance and repairs, which do not extend functionality or useful life, are expensed as incurred.

Costs incurred for computer software developed or obtained for internal use are expensed during the preliminary project stage, which includes conceptual formulation and review of alternatives. Once that stage is complete, the application development stage, which includes design, coding and testing, begins. Direct internal and external costs incurred during this stage are capitalized. Internal costs that are capitalized represent amounts paid to employees through wages, salaries and salary-related costs. Capitalization of costs ceases when the software is ready for its intended use and all substantial testing is completed. Upgrades and enhancements which provide significant added functionality are accounted for in the same manner. Amortization expense on capitalized internal-use software was $52.3 million, $53.3 million, and $62.2 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

Upon disposal of property, equipment and capitalized internal-use software, the cost of the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. The Company periodically evaluates the depreciation methods, rates, and remaining lives of such assets, which are dependent upon the economic useful life of the asset. When the Company determines to abandon an asset that is in use, the Company records accelerated depreciation through the date of abandonment. When the Company commits to a plan to abandon an asset before the end of its previously estimated useful life, future depreciation is revised to reflect the use of the asset over its shortened remaining useful life. An asset to be abandoned is disposed of when it ceases to be used. During fiscal year 2017, the Company recorded accelerated depreciation of approximately $6.3 million associated with the abandonment of certain internally-developed software projects during the fiscal year. During fiscal years 2019 and 2018, the amount of accelerated depreciation associated with the abandonment of certain projects was inconsequential.

Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives:

Purchased and internally-developed software	3–10 years
Computer hardware	3–5 years
Buildings and building improvements	10–40 years
Furniture and equipment	3–10 years
Leasehold improvements	Lesser of lease term or estimated useful life

Pre-publication Costs: Pre-publication costs are incurred prior to the publication date of a title or release date of a product and represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. In addition, pre-publication costs include the cost to procure rights for the use of content which have been developed by third parties and are to be included in the Company's products. Costs are capitalized when the title is expected to generate probable future economic benefits and are amortized upon publication of the title over its estimated operating life cycle, with a higher proportion of the amortization typically taken in the earlier years. Internal costs that are capitalized represent amounts paid to employees through wages, salaries and salary-related costs. As the Company's business continues to evolve from traditional print to digital, its pre-publication costs continue to decline. The Company continues to evaluate its product portfolio and make strategic decisions as to which titles to invest in. The cost of putting together the initial edition of a print product and subsequent new editions drives the majority of pre-publication spending. Digital products are continuously updated, which results in smaller investments. Minor adjustments to digital products are typically expensed and not capitalized.

The Company periodically evaluates the amortization methods, rates and remaining amortization periods of such costs, which are dependent on its forecast of sales throughout the operating life cycle of the title. The Company also considers current assessments of the industry, industry trends and the projected success of programs. When the Company determines to abandon an asset that is in use, the Company records accelerated amortization through the date of abandonment. When the Company commits to a plan to abandon an asset before the end of its previously estimated useful life, future amortization is revised to reflect the use of the asset over its shortened remaining useful life. An asset to be abandoned is disposed of when it ceases to be used. During fiscal years 2019, 2018, and 2017 the Company recorded accelerated amortization of prepublication costs of approximately $2.9 million, $10.4 million, and $17.7 million, respectively, associated with the abandonment of certain content projects during the fiscal year.

Royalties and Author Advances: The Company pays royalty advances to its authors in connection with future sales. The advances are initially capitalized as assets and subsequently expensed as related revenues are earned or when the Company determines future recovery is not probable. Advances are expensed at the contracted royalty rate and such expenses are recognized as a component of cost of revenues on the consolidated statements of operations as revenues from the associated products or services are recognized.

As part of the ongoing assessment of recoverability, the Company considers the age of the content since publication. The longer the unearned portion of the advance remains outstanding, the less likely it is that the Company will recover the advance through the sale of the publication. The Company considers future sales projections for new authors and prior sales history for recurring authors and monitors the projection of future sales based on the current environment and the author's ability to meet his or her contractual obligations. Based on this information, the portion of any advance that the Company believes to be not recoverable is expensed.

Identifiable Intangible Assets: Upon acquisition, identifiable intangible assets are recorded at fair value. Identifiable intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis. The Company periodically evaluates the amortization methods, rates, and remaining amortization periods of the assets, which are dependent upon the economic useful life of the asset.

Amortization is computed on a straight-line basis over the following estimated useful lives:

Trademarks and tradenames	8–15 years
Copyrights	3–24 years
Customer relationships	14–20 years
Technology	4–8 years
Author/content rights	5–25 years

Goodwill: Goodwill represents the excess of the Company's reorganization value over the fair value of identifiable tangible and intangible assets upon emergence from Chapter 11 of the United States Bankruptcy Code ("Chapter 11") on March 31, 2014 (the "Effective Date"), as well as the excess purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination.

The Company tests the carrying value of goodwill for impairment at a reporting unit level, annually in the fourth quarter of each fiscal year, or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Under certain circumstances, the Company may elect to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. For reporting units in which the qualitative assessment indicates it is more likely than not that the fair value is more than its carrying value, the Company would not be required to perform further quantitative goodwill impairment testing.

For impairment tests performed after January 1, 2017, the Company early adopted the guidance issued in May 2017 by the FASB, which simplifies accounting for goodwill impairment. The guidance removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. See Note 7, "Goodwill," for further information related to the Company's goodwill and impairment testing.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company reviews its long-lived assets for impairment at the lowest level for which identifiable cash flows are independent of the cash flows of other groups of assets and liabilities. The initial test for impairment of long-lived assets held for use is a recoverability test that compares the asset's carrying value with the sum of undiscounted cash flows related to that reporting unit. If the carrying value is greater than the undiscounted cash flows, impairment is recorded based on estimated fair value. Individual long-lived assets are impaired proportionately, limited to their respective carrying values.

Investments in Affiliates: Investments in business entities in which the Company does not have control, but in which it has the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership of voting equity), are accounted for using the equity method of accounting. Under the equity method, investments are initially recorded at cost and the carrying amounts are adjusted to reflect the Company's share of net earnings or losses of the investee companies, and are reduced by distributions received. Investments in business entities in which the Company has significant influence over operating and financial policies, but its investment is not in common stock or in-substance common stock, are accounted for using the cost method of accounting. When the estimated fair values of investments fall below their carrying values, the investments are written down if such declines are considered to be other than temporary.

Operational Restructuring and Other Charges: The Company records a liability for significant costs associated with exit or disposal activities, including lease termination costs, certain employee severance costs associated with formal restructuring plans, facility closings or other similar activities and related asset impairments, when the liability is incurred. The determination of when the Company accrues for severance and related costs depends on whether the termination benefits are provided under a one-time benefit arrangement or under an ongoing benefit arrangement. Where the Company has either a formal severance plan or a practice of consistently providing severance benefits, it recognizes severance costs when they are both probable and estimable. Costs associated with restructuring actions that include one-time severance benefits are only recorded once a liability has been incurred, including when management with the proper level of authority has committed to a restructuring plan and the plan has been communicated to employees. These charges are included in operational restructuring and other charges on the consolidated statements of operations. Other charges include knowledge transfer costs and business process reengineering consulting costs that are directly related to the restructuring initiatives and are expensed as incurred.

Reorganization Items: Reorganization items represent expense or income amounts that were directly related to the plan and process of restructuring under Chapter 11, and were separately disclosed as reorganization items, net, on the consolidated statements of operations. Prior to fiscal years 2019 and 2018 reorganization items incurred during the fiscal year ended March 31, 2017 were $0.4 million and consisted of professional and administrative fees associated with the Company's Chapter 11 reorganization efforts.

Legal Contingencies: From time to time, the Company may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. The Company assesses its potential contingent and other liabilities by analyzing its claims, disputes and legal and regulatory matters using all available information, and develops its views on estimated losses in consultation with its legal and other advisors. The Company determines whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a material loss may be incurred. See Note 18, "Commitments and Contingencies," for further information. Proceeds from legal settlements are gain contingencies and are recognized in the income statement when all contingencies have been resolved. As such, gains from legal settlements are recorded once they are received.

Fair Value Measurements: Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants. Authoritative guidance specifies a hierarchy of valuation techniques based upon whether the inputs to

those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Company's own assumptions of market participant valuation (unobservable inputs). The fair value hierarchy consists of three levels:

Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The authoritative guidance requires the use of observable market data if such data is available without undue cost and effort. When available, the Company uses unadjusted quoted market prices to measure fair value and classify such items within Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based or independently-sourced market parameters, such as interest and currency rates and comparable transactions. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, items may be classified in Level 3 even though there may be inputs that are readily observable. If quoted market prices are not available, the valuation model used generally depends on the specific asset or liability being valued.

Some assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis. The Company records the fair value of long-lived assets, goodwill and other intangible assets on a nonrecurring basis. The carrying amounts of current financial instruments, which include accounts receivable and accounts payable, approximate their fair values due to the short-term nature of these instruments. The fair value of long-term debt is determined based upon either the most recent quoted market prices, the average bid and ask price or the most recent trade price, provided it was within the prior five trading days, of the Company's debt securities or the use of comparable debt prices of similarly rated public companies.

The Company reviews the carrying value of long-lived assets, goodwill and other intangible assets on an annual basis or whenever events or changes in circumstances indicate the fair value of the asset is below its carrying amount. Fair value is determined using various valuation techniques, including discounted cash flows, market-related multiples, and recently reported transactions for similar assets in the market place.

See Note 15, "Fair Value Measurements," for additional detail on the fair value hierarchy.

Equity-Based Compensation Plan: The Company accounts for awards granted under its equity-based compensation plan using the grant date fair value recognition provisions of authoritative guidance for share-based payments. See Note 13, "Equity-Based Compensation," for further information related to the plans and awards.

Foreign Currency: The functional currencies of certain foreign operations have been determined to be the respective local currencies of those foreign locations. Balance sheet accounts of these foreign operations are translated from foreign currencies into the reporting currency (U.S. dollar) at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the period. Translation adjustments resulting from differences between period-end and average exchange rates when translating functional currency financial statements into the reporting currency are recorded as a separate component of accumulated other comprehensive loss. Remeasurement adjustments are recorded in other income (expense), net, below operating income (loss) when the U.S. dollar, and not the local currency, is the functional currency. Currency gains or losses arising from transactions denominated in a currency other than the functional currency are recorded in other (expense) income, net, below operating income (loss) and were as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Foreign currency transaction gains (losses), net	$ 2.1	$ (1.9)	$ 2.2

Taxes Collected from Customers and Remitted to Governmental Agencies: The Company records taxes on customer transactions due to governmental agencies as a receivable and a liability on the consolidated balance sheets.

Income Taxes: Significant judgment is required in determining the Company's annual provision for income taxes and evaluating its income tax positions. The Company's tax rates are impacted by the tax laws, regulations and policies in federal,

state and local and international territories where its businesses operate. Changes to these laws and regulations and uncertainty generated by the prospect of future tax legislation may also affect the Company's income tax positions, in addition to other factors, including its global mix of earnings, acquisitions and dispositions, as well as the tax characteristics of its income. In determining its income tax provisions on a jurisdiction basis, the Company is required to make judgments on the need to record deferred tax assets and liabilities, including the realizability of deferred tax assets. A valuation allowance for deferred tax assets is established if it is more likely than not that a deferred tax asset will not be realized.

In evaluating uncertain tax positions, the Company makes determinations of the application of complex tax rules, regulations and practices. The Company evaluates its uncertain tax positions quarterly based on many factors including, but not limited to, new facts, changes in tax law and information received from regulators. A change in any one of these factors could change the evaluation of an existing uncertain tax position, resulting in the recognition of an additional charge or benefit to the Company's income tax provision, sometimes including applicable interest and penalties, and may result in fluctuations in the Company's effective income tax rate. Additionally, the Company's income tax returns are routinely audited and settlements of issues raised in these audits sometimes affect its income tax provisions. The resolution of audit issues and income tax positions taken may take extended periods of time due to the length of examinations by tax authorities and the possible extension of statutes of limitations.

Accumulated Other Comprehensive (Loss) Income: Accumulated other comprehensive (loss) income consisted of cumulative foreign currency translation adjustments at both March 31, 2019 and 2018.

Merger Related Costs: Merger related costs are expensed as incurred and were $6.8 million for the fiscal year ended March 31, 2019, included in selling, general and administrative expenses on the Consolidated Statements of Operations.

New Accounting Standards and Accounting Changes

In August 2018, the Financial Accounting Standards Board ("FASB") issued guidance on accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The amendments in this update are effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the impact of this update on its consolidated financial position, results of operations and cash flows.

In November 2016, the FASB issued guidance on the classification and presentation of restricted cash in the statement of cash flows which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated cash flows.

In August 2016, the FASB issued guidance on the classification of certain cash flow transactions, consisting of the following: debt prepayment or debt extinguishment costs; the settlement of zero-coupon debt instruments; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and the application of the predominance principle. The amendments provide guidance for each of the eight issues for which GAAP guidance was previously unclear or did not exist, thereby reducing the current and potential future diversity in practice. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact of this update on its consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued guidance and an update to add Accounting Standard Codification ("ASC") Topic 326, "Credit Losses". There was a subsequent amendment in November 2018 to amend and clarify the initial guidance. Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within that fiscal year, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is evaluating the impact of this update on its consolidated financial statements.

In February 2016, the FASB issued an updated standard to add Accounting Standard Codification ASC Topic 842, "Leases", which will replace most of the existing leasing guidance in U.S. GAAP when it becomes effective. One of the most significant changes this update will institute is that for all leases the lessees will be required to recognize at the commencement date: a) a lease liability; and b) a right-of-use asset. The lease liability represents the lessee's obligation to make lease payments and it is measured on a discounted basis. The right-of-use asset represents the lessee's right to use, or control the use of, the underlying leased asset during the term of the lease. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature and magnitude of lessees' lease obligations. Entities were required to adopt the new leases standard using a modified retrospective transition method, initially applying the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. In July 2018, the FASB issued updated guidance, which provided an additional transition option that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the consolidated financial statements. Companies that elect this option would record a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption. The amendments in this update are effective for the Company for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The Company is in the process of determining which transition method to apply and evaluating the impact of this update on its consolidated financial position, balance sheet, results of operations and cash flows.

In May 2014, the FASB issued an update to add ASC Topic 606, "Revenue from Contracts with Customers", which will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The authoritative guidance provides that an entity should recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services through the application of the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenues that are recognized. The amendments in this update are to be applied on a retrospective basis, utilizing one of two different alternatives. Entities can adopt the standard using a full retrospective approach, which requires statements of comparative prior periods, or modified retrospective approach, in which the standard is applied to open contracts at the date of adoption. In August 2015, the FASB approved a one year deferral of the effective date of the amended revenue recognition guidance. As a result, the amendments in this update are effective for the Company in the annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted, with certain limitations. The Company is evaluating the potential effect of this new standard on its major revenue streams and contracts with customers, as well as the impact on its consolidated financial position, results of operations and cash flows. The new standard provides explicit guidance on how to account for contract modifications, eliminates the cash basis accounting model, requires an estimate of variable consideration, an assessment of any significant financing components, and provides criteria for assessing whether a performance obligation is satisfied at a point in time or over time. In addition to impacting the way we recognize revenue, the new standard will also impact the accounting for direct and incremental commission costs of obtaining contracts. Under the new standard, we will defer incremental commission costs on contracts greater than one year in duration. We expect to amortize these costs on a straight-line basis over the period of economic benefit. The Company plans to utilize the modified retrospective approach in implementing the new standard.

2. ACQUISITIONS

Fiscal Year 2017 Acquisition

On September 23, 2016, the Company acquired all of the outstanding equity of Advanced Instructional Systems, Inc. (d/b/a "WebAssign"), a leading provider of digital learning solutions for higher education based in Raleigh, N.C., for total consideration of $50.9 million, which consisted of $50.2 million of cash paid at closing and the fair value of the effective settlement of an accrued liability and other preexisting contractual obligations. The acquisition of WebAssign strengthens the Company's position as an industry leader in science, technology and math, offering three unique platforms for faculty and institutions.

The operating results of WebAssign were included in the operating results of the Company's Learning segment from the acquisition date and were not material for the fiscal year ended March 31, 2017. The pro forma impact of the acquisition was not significant to the Company's results for the fiscal year ended March 31, 2017.

As a result of the final purchase price allocation, the Company recognized $29.6 million of goodwill, which was primarily due to the expected synergies of the combined entities and the workforce in place. The transaction was structured as an asset acquisition for tax purposes, therefore, the goodwill created by the transaction is deductible for tax purposes.

3. INVENTORIES

Inventories consist of the following:

	As of March 31,	
(in millions)	**2019**	**2018**
Raw materials	$ 0.1	$ 0.2
Work-in-progress	0.2	0.5
Finished goods	109.3	116.1
Total inventories	$ 109.6	$ 116.8

4. RESTRICTED CASH

During the fiscal year ended March 31, 2017, the Company withdrew the remaining $3.4 million of funds from the restricted escrow accounts to complete the final distribution related to the Chapter 11 claims. See Note 18, "Commitments and Contingencies."

5. PROPERTY, EQUIPMENT AND CAPITALIZED INTERNAL-USE SOFTWARE

Property, equipment and capitalized internal-use software, net consist of the following:

	As of March 31,	
(in millions)	**2019**	**2018**
Purchased and internally-developed software	$ 356.8	$ 313.9
Computer hardware	42.4	40.3
Leasehold improvements	42.6	35.0
Buildings and building improvements	27.5	27.1
Furniture and equipment	26.3	24.5
Land and land improvements	3.0	3.0
Total property, equipment and capitalized internal-use software, gross	498.6	443.8
Less: Accumulated depreciation and amortization	(352.4)	(279.4)
Total property, equipment and capitalized internal-use software, net	$ 146.2	$ 164.4

The amounts above include computer hardware under capital lease of $0.9 million with accumulated amortization of $0.8 million as of March 31, 2019.

6. IDENTIFIABLE INTANGIBLE ASSETS

Identifiable intangible assets, net consist of the following:

	As of March 31, 2019			As of March 31, 2018		
(in millions)	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Copyrights	$ 727.6	$ (249.2)	$ 478.4	$ 730.2	$ (200.3)	$ 529.9
Customer relationships	367.0	(121.6)	245.4	368.2	(97.6)	270.6
Trademarks	232.8	(77.6)	155.2	233.4	(62.1)	171.3
Technology and author/content rights	45.9	(12.2)	33.7	45.5	(7.4)	38.1
Total identifiable intangible assets	$ 1,373.3	$ (460.6)	$ 912.7	$ 1,377.3	$ (367.4)	$ 1,009.9

As of March 31, 2019, estimated annual amortization expense for each of the next five fiscal years is as follows:

(in millions)	
Fiscal Years Ending March 31,	
2020	$ 82.2
2021	81.9
2022	81.9
2023	81.0
2024	80.3

7. GOODWILL

The following table shows the changes in the carrying amounts of goodwill by segment.

(in millions)	Learning	Gale	International	Total
Balance at March 31, 2017	$ 1,326.1	$ 203.3	$ 98.5	$ 1,627.9
Foreign currency translation and other	—	1.5	3.8	5.3
Goodwill acquired during the period	—	—	—	—
Balance at March 31, 2018	1,326.1	204.8	102.3	1,633.2
Foreign currency translation	—	(0.9)	(3.2)	(4.1)
Goodwill acquired during the period	—	—	—	—
Balance at March 31, 2019	$ 1,326.1	$ 203.9	$ 99.1	$ 1,629.1

The Company conducts its annual impairment test of goodwill for each reporting unit during the fourth quarter of its fiscal year. During the fourth quarter of fiscal year 2019, subsequent to the annual impairment test of goodwill, the Company identified two new operating segments based on newly discrete financial information. The two new operating segments are Higher Ed (representing the academic and skills industries) and School, whom together comprised the Learning reportable segment. The reporting units are Higher Ed and School, within the Learning reportable segment, Gale reportable segment, and North America, EMEA (Europe, Middle East and Africa), Asia, Latin America and Australia, within the International reportable segment.

The Company performed goodwill impairment testing on its reporting units in the fourth quarter of fiscal year 2019. In order to estimate the fair value of each reporting unit, the Company used an equal-weighted application of the discounted cash flow and market approach methodologies. The discounted cash flow method estimates the value of a reporting unit by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such reporting unit. This methodology requires the use of significant estimates, including discount rates, estimated residual growth rates, and projections of revenue growth, profit margins, and working capital. The projections underlying the valuation were based on the internal strategic forecasts for each reporting unit. Discount rates were calculated using the capital asset pricing model based on a weighted-average cost of capital of comparable companies. The estimated residual growth rate was developed

considering the long-term economic outlook of the industry and geographical region in which each reporting unit operates. The fourth quarter goodwill impairment review discount rate assumptions ranged from 11.5% to 16.0% and residual growth rate assumptions ranged from 1.0% to 4.0%. In addition to the discounted cash flow analysis, the Company performs the market approach, which is a comparison of both trailing and forward financial multiples implied by the estimated reporting unit fair value to a range of multiples of publicly held companies with similar characteristics. If recent merger and acquisition transactions for industry or peer companies are available, the financial multiples implied by the estimated reporting unit fair value are also compared to the range of multiples from such precedent transactions. The Company applies comparable revenue and EBITDA multiples under this methodology as it considers these measures the most relevant to its business. For the impairment test performed in the fourth quarter of 2019, the Company applied forward multiples of projected revenues in a range of 1.2x - 2.3x and forward multiples of projected EBITDA in a range of 8.5x - 12.0x. For the annual impairment test for fiscal years 2019, 2018, and 2017, the Company concluded that the fair values of all reporting units exceeded their respective carrying values. In 2018, the estimated fair value of the Learning reporting unit exceeded its carrying value by 5.0%. The discount rate applied to the Learning reporting unit discounted cash flow was 11.5% and the residual growth rate was 2.0%. The Company had performed a sensitivity analysis on its significant assumptions used to determine the fair value of the Learning reporting unit and determined that a more than nominal change to the Company's significant assumptions could have impacted its conclusion. In 2019, the estimated fair value of the Company's Learning reporting unit over its carrying value increased to 10.0%.

During the fourth quarter of fiscal year 2019, subsequent to the completion of the annual impairment test of goodwill, the Company identified two new operating segments based on newly available discrete financial information. The two new operating segments are Higher Ed (representing the academic and skills industries) and School, whom together comprises the Learning reportable segment. In accordance with ASC 350-20-35-3C, there are several potential events and circumstances that could be indicators of goodwill impairment. A change in a company's reporting unit structure is one of these events, and when this does occur, a company must perform a “before and after” test of the reporting units.

The Company followed the same methodology, as described above for the annual impairment review, for the impairment review of the new reporting units. The Company’s discount rate assumptions ranged from 9.5% to 12.5% and residual growth rate assumptions ranged from 1.0% to 2.0%. The Company applied forward multiples of projected revenues in a range of 1.6x - 2.5x and forward multiples of projected EBITDA in a range of 8.0x - 12.5x. For this impairment test, the Company concluded that the fair values of the Higher Ed and School reporting units exceeded their respective carrying values.

The estimated fair value of the Company's School reporting unit exceeded its carrying value by 4.0%. The discount rate applied to the School reporting unit discounted cash flow was 9.5% and the residual growth rate was 1.0%. The Company performed a sensitivity analysis on its significant assumptions used to determine the fair value of the School reporting unit and determined that a more than nominal change to the Company's significant assumptions would impact its conclusion. If actual results differ from the projections and assumptions used in the calculation of the School reporting unit fair value, the Company could be required to record future non-cash impairment charges.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of March 31,	
(in millions)	**2019**	**2018**
Accounts payable	$ 104.5	$ 79.9
Accrued royalties	61.4	58.3
Accrued bonuses	66.3	58.3
Accrued interest payable	20.5	22.2
Other accrued expenses	59.5	57.9
	$ 312.2	$ 276.6

9. OPERATIONAL RESTRUCTURING AND OTHER CHARGES

Fiscal Year 2019

During the fourth quarter of fiscal year 2019, the Company initiated a restructuring program in its Learning segment to streamline operations. The Company incurred $3.6 million of severance related costs, with related cash payments expected to be made through the fourth quarter of fiscal year 2020. Additionally, as part of this initiative, the Company vacated and ceased use of one if its offices and recorded a restructuring charge of $0.2 million, representing the relative portion of remaining future lease payments, net of estimated sublease income, along with other exit costs related to the facility closure, and net of a $5.0 million non-cash write-off of the related deferred rent and landlord inducement liability. The remaining future lease payments will be paid over the underlying remaining lease terms.

Also, during the fourth quarter of fiscal year 2019, the Company adjusted its estimated cease use liability on the floors within its offices that were vacated during the third and fourth quarters of fiscal year 2018. The Company recorded a $0.4 million increase in the estimated future sublease income.

During the third quarter of fiscal year 2019, the Company initiated a restructuring program in its Learning and International segments to continue the alignment of its operations to support the evolution of its changing business model, including Cengage Unlimited and its customer-focused approach. The Company incurred $8.0 million of severance related costs during the fiscal year ended March 31, 2019, with related cash payments expected to be made through the fourth quarter of fiscal year 2020. The Company incurred $0.6 million of process reengineering consulting costs during the fiscal year ended March 31, 2019. These charges are expensed as incurred.

During the second quarter of fiscal year 2019, the Company initiated a restructuring program in its Learning segment to streamline its operations. Associated with these actions, the Company incurred $1.0 million of severance related costs during the fiscal year ended March 31, 2019. As of March 31, 2019, this program was substantially completed, with related cash payments expected to be made through the first quarter of fiscal year 2020.

During the first quarter of fiscal year 2019, the Company initiated a restructuring program in its Gale and International segments to better align its operations to current industry conditions and position the business for growth. The Company incurred $4.5 million of severance related costs during the fiscal year ended March 31, 2019. As of March 31, 2019, this program was substantially completed, with cash payments expected to be made through the third quarter of fiscal year 2020.

Fiscal Year 2018

During the fourth quarter of fiscal year 2018, the Company initiated a restructuring program to better align our operations and positioning for growth in anticipation of our continued shift to a subscription/digital model. The Company incurred aggregate charges of $0.6 million. As of March 31, 2019, this program had been completed.

Also during the fourth quarter of fiscal year 2018, the Company initiated a restructuring program in our International segment to streamline and better align our operations to current industry conditions. The Company incurred aggregate charges of $1.7 million associated with these actions. As of March 31, 2019, this program had been completed.

Also during the fourth quarter of fiscal year 2018, the Company vacated and ceased use of a floor within one of its offices and recorded a restructuring charge of $1.5 million, representing the relative portion of remaining future lease payments, net of estimated sublease income, and net of a $0.1 million non-cash write-off of the related portion of the landlord inducement liability. The remaining future lease payments will be paid over the underlying remaining lease terms.

During the third quarter of fiscal year 2018, the Company vacated and ceased use of another floor within another one of its offices and recorded a restructuring charge of $2.1 million, representing the relative portion of remaining future lease payments, net of estimated sublease income, and net of a $0.3 million non-cash write-off of the related portion of the landlord inducement liability. The remaining future lease payments will be paid over the underlying remaining lease terms.

During the first quarter of fiscal year 2018, the Company initiated a restructuring program related to its initiatives to better align discipline and delivery strategies, to improve the development and enhancements of its digital products and assess its operations, and to further support the shift from a textbook to a software sales and support model. The Company incurred aggregate charges $3.4 million of severance related costs related and aggregate charges of $7.4 million of process reengineering consulting costs related to these actions. As of March 31, 2019, the program had been completed.

Also during the first quarter of fiscal year 2018, the Company exited an existing lease and ceased use of the space. As a result, the Company recorded a $3.5 million non-cash charge to write-off the existing landlord inducement liability. In

connection with exiting the existing facility, the Company received a $12 million incentive payment from a third party that was included in other income (expense), net, in the accompanying consolidated statement of operations.

Fiscal Year 2017

During the first quarter of fiscal year 2017, the Company initiated a restructuring program designed to streamline operations and improve its cost structure. This program included actions across the Company's segments and its corporate functions. Such actions included streamlining the Company's organizational structure and spending at the functional, business and geographic levels. The Company incurred aggregate charges of $23.8 million associated with these actions. As of March 31, 2018, the program was complete.

Operational restructuring and other charges recognized in the consolidated statement of operations by segment were as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Learning	$ 9.7	$ 4.0	$ 15.6
Gale	4.0	—	0.8
International	1.2	1.8	—
Corporate	2.6	4.8	10.3
Total operational restructuring and other charges, net	$ 17.5	$ 10.6	$ 26.7
Less: non-cash write-offs	(5.0)	(3.9)	—
Total charges expected to be settled in cash	$ 22.5	$ 14.5	$ 26.7

The following table summarizes cash activity for restructuring reserves, which is included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets:

(in millions)	**Severance**	**Process reengineering consulting**	**Lease Exit and Other**	**Total**
Balance at March 31, 2016	$ 4.8	$ —	$ —	$ 4.8
Charges	15.9	10.1	0.7	26.7
Cash Payments	(17.6)	(7.3)	(0.7)	(25.6)
Balance at March 31, 2017	$ 3.1	$ 2.8	$ —	$ 5.9
Charges, net	5.7	4.4	0.5	10.6
Cash Payments	(6.1)	(7.2)	(0.7)	(14.0)
Non-cash write-offs [1]	—	—	3.9	3.9
Balance at March 31, 2018	$ 2.7	$ —	$ 3.7	$ 6.4
Charges, net	17.1	0.6	(0.2)	17.5
Accretion Expense	—	—	0.2	0.2
Cash Payments	(9.8)	(0.6)	(1.7)	(12.1)
Non-cash write-offs [1]	—	—	5.0	5.0
Balance at March 31, 2019	$ 10.0	$ —	$ 7.0	$ 17.0

[1] Represents write-offs of landlord inducement liabilities in connection with facility and lease exit activities

The Company's total restructuring liability was reported as follows:

	As of March 31,	
(in millions)	2019	2018
Other current liabilities	$ 14.0	$ 4.1
Other non-current liabilities	3.0	2.3
Total restructuring liability	$ 17.0	$ 6.4

10. DEBT

Debt, related maturities and interest rates were as follows as of March 31, 2019 and 2018:

		Interest Rate at March 31,		March 31,	
(in millions)	Original Maturity	2019	2018	2019	2018
Current portion:					
Term Loan	2023	6.74%	6.04%	$ 17.1	$ 6.4
Capital lease	2019			0.1	0.3
Total current portion of long-term debt				17.2	6.7
Non-current portion:					
Senior Notes	2024	9.50%	9.50%	620.0	620.0
Term Loan	2023	6.74%	6.04%	1,645.9	1,663.0
Capital lease	2019			—	0.1
Unamortized Term Loan discount				(10.2)	(12.7)
Unamortized deferred financing costs				(20.9)	(25.5)
Total non-current portion of long-term debt				2,234.8	2,244.9
Total debt				$ 2,252.0	$ 2,251.6

Scheduled principal payments due on the Company's debt as of March 31, 2019 are as follows:

(in millions)	
Fiscal Years Ending March 31,	
2020	$ 17.2
2021	17.1
2022	17.1
2023	17.1
2024	1,594.6
Thereafter	620.0
Total	$ 2,283.1

On June 7, 2016, Cengage Learning, Inc., a wholly owned subsidiary of the Company, issued senior notes ("Senior Notes") and amended and restated its senior secured term loan facility ("Term Loan") and its asset based lending revolving line of credit ("ABL Revolving Credit Facility").

In connection with the issuance of the Senior Notes, Term Loan and ABL Revolving Credit Facility, the Company incurred fees with the arrangers, along with legal and other professional costs of approximately $35.4 million, which was capitalized as deferred financing costs and will be amortized over the life of the associated debt. Of the $35.4 million, $1.4 million related to the ABL Revolving Credit Facility and was included in non-current assets in the consolidated balance sheet at June 30, 2016. The net proceeds from the offering of the Senior Notes and the Term Loan, after deducting underwriting discounts and estimated offering expenses, were approximately $2.3 billion and were used to repay the Company's $2.0

billion aggregate principal amount of the Term Loan due 2020 and to fund a share repurchase program and to pay a cash dividend. See Note 12, "Equity," for additional details on the share repurchase program and cash dividend. During the fiscal year ended March 31, 2017, the Company recorded a charge of $10.8 million in loss on early extinguishment of debt, net of accelerated amortization of debt issuance and original issuance discount costs. In February 2017, the Company's board of directors approved an authorization of up to $100 million to purchase in the open market its 9.50% senior notes and/or senior secured term loan.

Senior Notes

On June 7, 2016, Cengage Learning, Inc. issued $620.0 million aggregate principal amount Senior Notes in a private placement, maturing June 15, 2024. The notes bear interest at a rate of 9.50% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2016. Cengage Learning, Inc. has the option to redeem the Senior Notes, in whole or in part, at any time on or before June 15, 2019, at a redemption price equal to 100% of the principal amount of the notes plus an applicable premium and accrued interest, as defined in the indenture. The Company also has the option to redeem the Senior Notes, in whole or in part, at any time on or after June 15, 2019, at certain redemption prices as defined in the indenture. In addition, the Company may repurchase the Senior Notes in part, at any time, in the open market, in accordance with federal securities regulations.

The indenture related to the Senior Notes contains certain covenants that the Company may be subject to which restrict its and its subsidiaries' ability to, among other things: incur additional indebtedness or issue certain disqualified shares and preferred shares; create liens; pay dividends or distributions or redeem or repurchase equity; prepay subordinated debt or make certain investments; transfer and sell assets; engage in a consolidation or merger or sell, transfer or otherwise dispose of all or substantially all of its assets; and enter into transactions with affiliates. The Company will not be subject to these covenants if (i) the Senior Notes have Investment Grade Ratings from the relevant rating agencies, as defined in the terms of the Senior Notes, and (ii) no default has occurred and is continuing under the indenture. As of March 31, 2019, no default has occurred and the Company is compliant with all of the covenants of the indenture.

Term Loan

The Term Loan provides for senior secured term loans in an aggregate principal amount of $1,710.0 million and matures on June 7, 2023. In addition, the Company may request one or more incremental credit facilities in an aggregate amount of up to $500.0 million, plus additional amounts subject to certain requirements. Borrowings under the Term Loan bear interest at a rate equal to, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor ("Eurocurrency Rate Loan"), or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. As of March 31, 2019, the Company elected to carry the Term Loan as a Eurocurrency Rate Loan with an effective interest rate of 6.74%.

The Company is required to repay 0.25% of the original principal amount of the Term Loan on the last business day of each quarter commencing with the quarter ended September 30, 2016. Following the end of each fiscal year, commencing with the fiscal year ending March 31, 2017, the Company must prepay a percentage between 0% and 50%, based on its total leverage ratio, of its Excess Cash Flow, as defined in the Term Loan agreement, within five business days after delivery of the financial statements. In fiscal year 2019, based on the Company's March 31, 2019 consolidated financial statements, and in fiscal year 2018, based on the Company's March 31, 2018 consolidated financial statements, the Company determined there were no prepayments due under the Excess Cash Flow provision. Prepayments made under the Excess Cash Flow provision are used to satisfy prospective mandatory quarterly principal repayments. The Company is also required to prepay loans with net proceeds from asset sales, casualty events, or issuances of indebtedness, subject to, in the case of asset sales and casualty events, reinvestment rights by the Company within certain time restrictions. In accordance with the Excess Cash Flow provisions of the Term Loan facility, the Company made the fiscal year 2017 principal prepayment of $27.7 million to debt holders in June 2017.

ABL Revolving Credit Facility

The availability of credit under the amended and restated five-year ABL Revolving Credit Facility, which expires on June 7, 2021, is equal to the lesser of (i) $250.0 million and (ii) the Company's borrowing base. The borrowing base equals the sum of (i) 90% of eligible credit card receivables, plus (ii) 85% of eligible receivables, plus (iii) 85% of the orderly liquidation value of eligible inventory, plus (iv) 100% of cash not to exceed $35.0 million. As of March 31, 2019 and March 31, 2018, the ABL Revolving Credit Facility had no outstanding borrowings and $22.8 million and $22.6 million,

respectively, in issued and outstanding letters of credit. The Company's available borrowing base as of March 31, 2019, which is based on the balance sheet at February 28, 2019, was $103.9 million, net of letters of credit.

The unused commitment fee will range between 0.25% and 0.375%, based upon the average facility usage for the most recently ended fiscal quarter. Outstanding letters of credit are also subject to a quarterly letter of credit participation fee which will vary between 1.75% and 2.25%, depending on the average daily availability. During the fiscal year ended March 31, 2019, the Company incurred approximately $0.9 million of unused commitment fees and $0.4 million of letter of credit participation fees.

11. BENEFIT PLANS

The Company maintains a defined contribution 401(k) Savings Plan in the United States. The plan covers substantially all United States based employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax or post-tax basis. The Company matches 100% of employee contributions up to 4% of the employee's compensation, as defined in the plan. These matching contributions vest based upon an employee's years of service and become fully vested after four years of service. The Company also has similar defined contribution plans for certain employees outside the United States. The Company's contributions to all plans, net of plan forfeitures, were $13.8 million, $13.0 million, and $12.1 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

12. EQUITY

Pursuant to the Company's Certificate of Incorporation, the Company is authorized to issue an aggregate of 350,000,000 shares of capital stock, of which 300,000,000 shares were designated as common stock and 50,000,000 shares designated as preferred stock, each class having a par value of $0.01. Holders of common stock are entitled to one vote per share on all matters to be voted upon by stockholders and shall vote together as a single class. The Company's board of directors is authorized to issue shares of one or more series of preferred stock and establish the designation, powers, preferences, and rights of the shares of each series and any qualifications, limitations, or restrictions thereof. As of March 31, 2019, the Company has not issued any shares of preferred stock.

Equity Purchase Plan

The Company adopted an equity purchase plan during fiscal year 2015 (the "Equity Purchase Plan") which allows the compensation committee of its board of directors to designate directors, officers and employees of Cengage to purchase newly issued equity securities for fair value based on the Company's reorganization value on the Effective Date. The sale of these securities is not intended to raise capital for Cengage. Rather, the purpose of the plan is to provide additional opportunities to further align the interests of the Company's directors, officers and employees with the interests of its shareholders. As the shares are issued at fair value, the Company considers the Equity Purchase Plan to be non-compensatory. The compensation committee may impose certain sale and transfer restrictions on securities purchased under the Equity Purchase Plan. The board of directors authorized 100,000 shares of the Company's common stock to be reserved for issuance under the Equity Purchase Plan. There were no shares issued under the Equity Purchase Plan in the fiscal years ended March 31, 2019, 2018 and 2017. As of March 31, 2019, 24,000 shares remain available for issuance under the Equity Purchase Plan.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2019 and 2018. We may declare cash dividends in the future.

On September 14, 2016, the Company's board of directors authorized management to pay a one-time cash dividend of up to $200.0 million payable to all common shareholders of record at the close of business on September 16, 2016 (the "Dividend Record Date"), which was subsequently paid on September 30, 2016 using a portion of the proceeds from the issuance of debt during the first quarter of fiscal year 2017. See Note 10, "Debt," for additional details on the debt issuance. Based on the 67,922,206 shares of common stock outstanding on the Dividend Record Date, the dividend payment was approximately $2.94 per share. The dividend reduced additional paid-in capital as the Company did not have retained earnings at the time of the dividend.

Purchases of Company Common Stock

On June 20, 2016, the Company announced a share repurchase program under which the Company is authorized to repurchase up to $265.0 million in shares of the Company's outstanding common stock. On September 14, 2016, in connection with the declaration of the one-time $200.0 million cash dividend, the Company announced the reduction of this

share repurchase program to $65.0 million. On June 6, 2017, the Company announced the authorization to extend this program to May 31, 2018. As of September 30, 2017, the Company completed this program, repurchasing 7,259,913 shares for $65.0 million in the aggregate. Under this program, approximately $4.1 million was paid in fiscal year 2017 and $60.9 million was paid in the fiscal year 2018. Repurchased shares will be retired and returned to the status of authorized but unissued.

On March 14, 2016, the Company announced a share repurchase program under which the Company was authorized to repurchase up to $50.0 million in shares of the Company's outstanding common stock. The shares could be repurchased from time to time over the twelve months following the authorization in accordance with federal securities laws. On April 22, 2016, the Company completed this program, repurchasing 2,663,825 shares for $50.0 million in the aggregate. Repurchased shares were retired and returned to the status of authorized but unissued.

Since December 2014, the Company's board of directors has authorized the Company to repurchase up to $290.0 million of the Company's outstanding common stock under share repurchase programs. The shares could be repurchased from time to time over the twelve months following the authorization in accordance with federal securities laws. As of March 31, 2018, all of these programs had been completed. Repurchased shares were retired and returned to the status of authorized but unissued.

The following table presents the number of shares and dollar amount of shares acquired in aggregate under the Company's share repurchase programs during the fiscal years ended March 31, 2018 and 2017.

(dollars in millions)	Number of Shares	Amount
Share Repurchases:		
Fiscal Year 2018	7,097,974	$ 60.9
Fiscal Year 2017	2,825,764	$ 54.1

In addition, the Company also repurchases shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted stock units and delivery of shares. During the fiscal years ended March 31, 2019, 2018 and 2017, the Company spent $7.8 million, $5.6 million, and $0.9 million, respectively, to acquire shares in connection with net settlement of equity-based awards.

13. EQUITY-BASED COMPENSATION

2014 Cengage Learning Equity Incentive Plan

On the Effective Date, the Company adopted the 2014 Cengage Learning Equity Incentive Plan (the "2014 Equity Incentive Plan"). The 2014 Equity Incentive Plan was approved by the Bankruptcy Court and the Company's board of directors and is administered by the Compensation Committee to the board of directors. Directors, officers, and employees of the Company were eligible to receive awards under the 2014 Equity Incentive Plan. The awards could be granted in the form of incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock units ("RSUs"), restricted stock, stock appreciation rights or performance awards. Upon the occurrence of a change in capital structure, as defined by the 2014 Equity Incentive Plan, the board of directors is required to modify affected awards to preserve their value, including adjusting the number of shares for awards then outstanding or to be granted, adjusting the exercise price (or base price in the case of stock appreciation rights), or providing for an immediate cash payment to the holders of awards in consideration for cancellation of the awards. Upon the occurrence of a change in control, as defined by the 2014 Equity Incentive Plan, the Company has the authority to cancel affected awards and pay to each affected 2014 Plan participant a cash amount equivalent to the award's fair value. In accordance with the terms of the 2014 Equity Incentive Plan, the Company reserved 4,627,118 shares of common stock available for grant, representing approximately 5.6% of the fully diluted outstanding common stock. As of March 31, 2015, in connection with the leveraged recapitalization of the Company, the total amount of shares authorized under the 2014 Equity Incentive Plan was increased to 5,103,650. The total amount of shares authorized was additionally increased to 7,052,550 as of March 31, 2017 as a result of the one-time cash dividend, in accordance with the anti-dilution provisions of the plan, and the grant of performance-based RSUs during fiscal year 2017.

Stock options vest in 25% increments annually on the last day of the first four fiscal years following the grant date, and expire seven years after the date of grant. RSUs vest in 20% increments annually on the last day of the first five fiscal years following the grant date. Shares are delivered to the RSU recipients upon the earliest of a change in control, as defined; termination, to the extent vested; or 50% on the fourth anniversary of the date of grant and the remaining 50% on the fifth

anniversary. The Company recognizes equity-based compensation expense on a straight-line basis over the applicable vesting period.

2018 Cengage Learning Equity Incentive Plan

Effective as of November 15, 2018, the Company's Board of Directors and the majority shareholders adopted an equity incentive plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. The plan provides for the grant of incentive stock options (the "ISOs"), certain other options, restricted stock units (the "RSUs"), restricted stock, and other stock-based awards to directors, officers, and employees of the Company. Upon the occurrence of a change in capital structure, as defined by the 2018 Equity Incentive Plan, the Board of Directors is required to modify affected awards to preserve their value, including adjusting the number of shares for awards then outstanding or to be granted, adjusting the exercise price, or modifying applicable financial or other performance targets. Upon the occurrence of change in control, as defined by the 2018 Equity Incentive Plan, the Company has the authority to cancel affected awards and pay to each affected 2018 Equity Incentive Plan participant a cash amount equivalent to the award's fair value. Following the approval of the 2018 Equity Incentive Plan, the Company does not intend to grant any additional awards under the 2014 Equity Incentive Plan. Under the 2018 Equity Incentive Plan, the majority shareholders and the Board of Directors authorized the grant over time of up to an additional 2,550,000 shares of common stock over and above those approved under the 2014 Equity Incentive Plan, with a maximum of approximately 850,000 shares available for grant in a given fiscal year. The total amount of 850,000 shares were authorized for grant under the 2018 Equity Incentive Plan and the aggregate number of shares authorized and available for grant under any equity incentive plan adopted by the Company to 9,602,550 shares as of March 31, 2019.

The awards under the 2018 Equity Incentive Plan vest upon meeting two (2) requirements: the service requirement is satisfied in 25% increments on the last day of the first four fiscal years following the grant date and the performance condition is satisfied upon a liquidity event in the form of either a change of control or initial public offering, in either case occurring prior to the sixth anniversary of the grant date. See below for additional details on the performance-based stock options and performance-based RSUs.

Presented below is a summary of the compensation cost recognized in selling, general and administrative expenses, excluding depreciation in the consolidated statements of operations:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Restricted stock units	$ 6.9	$ 11.2	$ 8.4
Stock options	1.5	6.7	5.3
Equity-based compensation expense	$ 8.4	$ 17.9	$ 13.7

2014 Equity Incentive Plan Performance-Based Restricted Stock Units

During the fiscal years ended March 31, 2019, 2018, and 2017 the Company granted 58,200, 73,200 and 215,200 shares, respectively, of performance-based RSUs with a weighted-average grant date fair value for the fiscal year 2019 of $17.33 per award and for the fiscal years 2018 and 2017, $16.59 per award. The performance-based RSUs are subject to two vesting requirements: a service period (four years) and a performance condition (a liquidity event in the form of either a change of control or an initial public offering, each as defined in the 2014 Equity Incentive Plan) in order for the awards to fully vest. The Company did not record any expense related to these awards during the fiscal years ended March 31, 2019, 2018 and 2017, as it was not probable that the performance condition would be met.

2018 Equity Incentive Plan

During the period from November 15, 2018 through March 31, 2019, under the 2018 Equity Incentive Plan, the Company granted 525,370 stock options and 87,612 RSUs to certain employees with a weighted-average fair value of $17.33 per award. The awards under the 2018 Equity Incentive Plan vest upon meeting two (2) requirements: the service requirement is satisfied in 25% increments on the last day of the first four fiscal years following the grant date and the performance condition is satisfied upon a liquidity event in the form of either a change of control or initial public offering, in either case occurring prior to the sixth anniversary of the grant date. The Company did not record any expense related to these awards during the fiscal year ended March 31, 2019, as it was not probable that the performance condition would be met.

Shares Available for Grant or Issuance

As of March 31, 2019, there were a total of 3,557,096 shares currently available for grant in respect of awards under the 2018 Equity Incentive Plan. In addition, as of March 31, 2019, under the 2014 Equity Incentive Plan, there were awards of 4,704,522 shares of stock options, performance-based RSUs and RSUs outstanding. Should the 4,704,522 shares again become available for grant, the shares would be available for grant under the 2018 Equity Incentive Plan.

Restricted Stock Units

Cengage's outstanding common stock is privately held and not traded on any public exchange market. Therefore, to value its shared-based awards, the Company follows guidelines set forth in the American Institute of Certified Public Accountants Accounting & Valuation Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. To estimate the fair value of RSUs on the date of grant the Company is first required to estimate the value of its equity. The estimate of equity value was based on the estimated enterprise value of the Company adjusted for the fair value of its outstanding indebtedness. The value was then allocated to the outstanding common stock, RSUs, and stock options on a fully diluted basis using the Option-Pricing Method ("OPM"). Under the OPM, the value of each equity security is determined via a series of call options on the total equity value of the Company with exercise prices based on value thresholds, or breakpoints, at which value begins to be shared differently between the holders of each type of equity security. These call options are valued using a Black-Scholes option-pricing model with the following key inputs: equity value, risk-free interest rate, volatility factor, and time period from date of grant to a liquidity event. After determining the value allocated to RSUs, an appropriate discount for the lack of marketability was applied to arrive at fair value of the outstanding awards. The following table summarizes the weighted-average grant date fair value of RSUs and performance-based RSUs granted under the 2014 Equity Incentive Plan and performance-based RSUs granted under the 2018 Equity Incentive Plan in the periods presented:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Weighted-average grant date fair value	$ 17.33	$ 16.59	$ 17.44

The following table summarizes the RSU and performance-based RSU activity under the 2014 Equity Incentive Plan and the performance-based RSU activity under the 2018 Equity Incentive Plan:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested as of March 31, 2018	958,359	$ 17.76
Granted	369,987	17.33
Vested	(430,831)	18.52
Forfeited	(96,713)	17.45
Non-vested as of March 31, 2019	800,802	$ 17.19

Total unrecognized compensation cost related to the 2014 Equity Incentive Plan non-vested RSUs as of March 31, 2019 was $7.0 million, which is expected to be recognized over a weighted average period of 3.6 years. Total unrecognized compensation cost related to the 2014 Equity Incentive Plan non-vested performance-based RSUs as of March 31, 2019 was $4.2 million. Total unrecognized compensation cost related to the 2018 Equity Incentive Plan non-vested performance-based RSUs as of March 31, 2019 was $1.5 million. No compensation cost related to the performance-based RSUs will be recognized until it is probable that the performance condition will be met.

Stock Options

The estimated fair value of the stock options granted is based on the Black-Scholes option pricing model. To determine the value of the stock options, the Company used the results from the OPM allocation of equity value to common stock. The risk-free interest rate was based on interpolated yields of U.S. Treasury securities with a 4.75 year term as of the date of grant. Estimates of the Company's volatility were based on available information on the volatility of peer group public companies, with adjustments specific to the Company's capital structure on the date of grant. The expected term was estimated using the weighted-average mid-point of the vesting date and date of expiration. The following table summarizes the weighted-average fair value of stock options granted under the 2014 Equity Incentive Plan and performance-based stock options granted under the 2018 Equity Incentive Plan in the periods presented as well as the weighted average of the applicable assumptions used to value the stock options:

	Fiscal Year Ended March 31,		
	2019	2018	2017
Weighted-average grant date fair value	$ 6.57	$ 6.08	$ 6.08
Weighted-average assumptions:			
Risk-free interest rate	2.6%	1.8%	1.1%
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	40.0%	40.0%	35.0%
Expected life (years)	4.75	4.75	4.75

The following table summarizes the stock option activity under the 2014 Equity Incentive Plan and 2018 Equity Incentive Plan:

	Shares	Weighted-Average Exercise Price
Outstanding as of March 31, 2018	3,863,676	$ 18.16
Granted	863,701	17.33
Exercised	(138)	17.33
Forfeitures and cancellations	(638,512)	17.46
Outstanding as of March 31, 2019	4,088,727	$ 18.09
Vested and exercisable as of March 31, 2019	2,936,358	$ 18.48

As of March 31, 2019, vested and non-vested stock options outstanding have a weighted-average remaining contractual life of 2.3 and 3.3 years, respectively. Total unrecognized compensation cost related to the 2014 Equity Incentive Plan non-vested stock options as of March 31, 2019 was $3.3 million, which is expected to be recognized over a weighted-average period of 2.9 years. Total unrecognized compensation cost related to the 2018 Equity Incentive Plan non-vested performance-based incentive stock options as of March 31, 2019 was $3.4 million. No compensation cost related to the performance-based incentive stock options will be recognized until it is probable that the performance condition will be met.

14. INCOME TAXES

The components of loss before taxes by jurisdiction are as follows:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
United States	$ (163.5)	$ (101.2)	$ (106.8)
Other jurisdictions	39.0	26.3	27.7
Loss before taxes	$ (124.5)	$ (74.9)	$ (79.1)

The benefit from income taxes by jurisdiction is as follows:

(in millions)	Fiscal Year Ended March 31, 2019	2018	2017
Current:			
United States—Federal	$ (1.3)	$ (1.4)	$ (1.4)
United States—State	(0.1)	0.4	(1.0)
Other jurisdictions	(10.9)	(13.1)	(8.0)
Total current	(12.3)	(14.1)	(10.4)
Deferred:			
United States—Federal	32.9	77.8	34.5
United States—State	5.9	7.9	8.8
Other jurisdictions	1.0	1.5	3.1
Total deferred	39.8	87.2	46.4
Benefit from income taxes	$ 27.5	$ 73.1	$ 36.0

The cumulative tax effects of significant temporary differences giving rise to deferred tax assets and liabilities are as follows:

(in millions)	As of March 31, 2019	2018
Deferred tax assets:		
Net operating losses	$ 151.0	$ 107.8
Accrued expenses and reserves	44.8	50.0
Nondeductible interest	12.9	—
Author advances	11.6	9.7
Equity compensation	6.1	10.5
Deferred revenue	7.9	7.3
Fixed assets	6.3	4.1
Deferred financing costs	1.1	2.2
Inventory	1.4	1.3
Pre-publication costs	2.8	—
Other	0.5	0.5
Total deferred tax assets	246.4	193.4
Deferred tax liabilities:		
Intangibles	(250.8)	(232.3)
Internally-developed software	(20.9)	(23.1)
Pre-publication costs	—	(1.7)
Minority interests	—	—
Other	(1.5)	(0.1)
Total deferred tax liabilities	(273.2)	(257.2)
Net deferred tax liability	(26.8)	(63.8)
Less: Valuation allowance	(4.9)	(7.0)
Total net deferred tax liability	$ (31.7)	$ (70.8)

As of March 31, 2019, the Company had estimated federal net operating loss ("NOL") carryforwards of $566.0 million that will begin to expire in 2035 if not utilized. In addition, the Company had estimated state NOL carryforwards of $765.6 million that will begin to expire in 2020 if not utilized. These NOL carryforwards can be used to offset taxable income in future periods and reduce the Company's income taxes payable in those future periods. At this time, the Company considers it more like than not that the Company will have sufficient future taxable income in the form of reversals of existing taxable temporary differences that will allow the Company to realize these tax attributes. However, it is possible that in a future period, the generation of deferred tax assets will exceed the taxable temporary differences and at that point a valuation allowance against the Company's federal and state net deferred tax asset may be required.

Utilization of the U.S. federal and state NOL carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, due to ownership changes that have occurred previously or that could occur in the future. These ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income and tax liabilities, respectively. The Company has not completed a formal study to assess whether a change of ownership has occurred, or whether there have been multiple ownership changes since its formation, due to the significant cost and complexity associated with such a study. Any limitation may result in expiration of a portion of the NOL carryforwards before utilization.

The Company has recorded valuation allowances for certain deferred tax assets which are primarily related to net operating losses in foreign jurisdictions as it is more likely than not that these assets will not be realized.

The Company has not made any provisions for foreign withholding or income taxes on the undistributed earnings of its foreign subsidiaries since it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. Based on the Company's historical earnings, management believes that any changes to its assertion to permanently reinvest the earnings of the Company's foreign subsidiaries would not have a material impact on the Company's tax provision.

Reconciliation of income taxes from the U.S. statutory rate of 21.0% to the consolidated effective tax rate is as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Benefit at the statutory rate	$ 26.2	$ 23.6	$ 27.6
State taxes, net of federal benefit	4.8	2.9	2.5
Foreign tax rate differential	(2.2)	0.9	2.4
Withholding tax	(2.7)	(4.3)	(3.2)
Return-to-provision adjustments	0.2	(1.3)	4.4
Change in valuation allowance	1.6	3.9	4.9
Bankruptcy-related items	—	—	(0.1)
Foreign exchange gain/(loss)	—	—	0.5
Change in tax rate	—	49.6	0.1
Other	(0.4)	(2.2)	(3.1)
Benefit at the effective income tax rate	$ 27.5	$ 73.1	$ 36.0

A reconciliation of the beginning and ending amounts of unrecognized tax benefits ("UTB") is as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Balance at beginning of period	$ —	$ —	$ —
Reductions of tax positions of prior years	—	—	—
Balance at end of period	$ —	$ —	$ —

There was no expense or benefit related to UTBs during the fiscal years ended March 31, 2019, 2018 and 2017 and no accrued interest and penalties.

The Company's income tax returns are currently under examination in various foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations for the tax year ended March 31, 2015, and state tax examinations for the tax

year ended March 31, 2014, all preceding tax years and, with limited exceptions, for periods preceding 2012 for foreign tax examinations.

15. FAIR VALUE MEASUREMENTS

Recurring Measurements

As of March 31, 2019 and 2018, the Company had no assets and liabilities measured at fair value on a recurring basis.

Non-Recurring Measurements

Non-financial assets and liabilities, which include goodwill, identifiable intangible assets, property and equipment, capitalized internal-use software, net, and various liabilities, are not required to be measured at fair value on a recurring basis. However, if an impairment test is required, the Company evaluates the non-financial assets and liabilities for impairment. If impairment is determined to have occurred, the asset or liability is required to be written down to its estimated fair value. During fiscal years 2019 and 2018, the Company did not recognize any impairments of its non-financial assets and liabilities. During fiscal year 2017, the Company determined that the fair value of one of its cost method investments was below its carrying value and that the carrying value of the investment was not expected to be recoverable within a reasonable period of time. Accordingly, the Company recognized an impairment charge of $3.0 million related to this investment during fiscal year 2017. The impairment charge was included in other income (expense), net, below operating income (loss) in the accompanying consolidated statement of operations.

Other Fair Value Disclosures

In addition to fair value disclosure requirements related to financial instruments carried at fair value, accounting standards require disclosures regarding the fair value of all of the Company's financial instruments. The estimated carrying and fair value of long-term debt was as follows:

	As of March 31, 2019		As of March 31, 2018	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes[1]	$ 614.0	$ 506.6	$ 612.9	$ 471.9
Term Loan[2]	1,637.9	1,470.0	1,638.3	1,486.8

(1) The carrying amount for the Senior Notes is presented net of the unamortized deferred financing costs of $6.0 million and $7.1 million as of March 31, 2019 and March 31, 2018, respectively.

(2) The carrying amount for the Term Loan as of March 31, 2019 and March 31, 2018 is presented net of the unamortized original issue discount and deferred financing costs of $25.1 million and $31.1 million, respectively.

The estimated fair value of the Company's Senior Notes and Term Loan is based on information from a pricing service or broker quotes and may not represent prices that can be transacted upon. Therefore, the debt is classified as Level 3 in the fair value hierarchy. The carrying value of cash and cash equivalents approximated their fair values as of March 31, 2019 and 2018 due to the short-term nature of these instruments.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Details of "Changes in operating assets and liabilities, net of acquisitions" were:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
Accounts receivable, net	$ (23.8)	$ (4.2)	$ 23.4
Inventories	10.1	(3.4)	26.8
Prepaid expenses and other current assets	(6.3)	(6.1)	(6.3)
Author advances, net	5.4	(1.4)	(2.4)
Accounts payable and accrued expenses	26.7	29.9	(22.2)
Accrued interest payable	(1.7)	(1.6)	23.4
Deferred revenue	6.7	8.1	5.5
Current taxes payable	2.2	0.1	1.5
Other, net	2.9	5.1	(1.2)
	$ 22.2	$ 26.5	$ 48.5

Cash paid for interest and income taxes was:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
Net cash interest paid	$ 165.4	$ 152.8	$ 125.2
Income taxes paid, net of refunds	11.0	9.7	5.9

Non-cash Investing Activities

Additions to pre-publication costs and property, equipment and capitalized internal-use software included in accounts payable and accrued expenses were as follows:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
Additions to pre-publication costs	$ 8.7	$ 9.5	$ 8.8
Additions to property, equipment and capitalized internal-use software	8.5	3.5	14.2

Non-cash Financing Activities

During the fiscal year ended March 31, 2017, in connection with the one-time $200.0 million cash dividend, the Company accrued $5.4 million of dividend equivalents payable to holders of RSUs. The accrued dividend was included in other non-current liabilities in the consolidated balance sheet as March 31, 2017. During the fiscal year ended March 31, 2015, in connection with the 2014 leveraged recapitalization, the Company accrued $5.6 million of dividend equivalents payable to holders of RSUs.

As of March 31, 2019, $3.7 million of dividend equivalents payable was included in other accrued expenses and $0.3 million was included in other non-current liabilities in the consolidated balance sheet.

17. RELATED PARTY TRANSACTIONS

Due to related party relationships, it is possible that the terms of certain of the Company's past transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Company has a master services agreement ("MSA") and a master distribution and licensing agreement ("MDLA") currently in place with a former affiliate of Cengage Learning Holdings II, L.P. (the "Predecessor" of the Company), the terms of which were agreed upon at the time the Predecessor and the former affiliate were related parties. Under the MSA,

the Company provides the former affiliate with various services including those relating to business and technology, content management, customers and operations, management, fulfillment services and business information support. The former affiliate provides the Company with certain real estate services. The cost of each of the services provided under the MSA is based on a fixed fee. All services under the MSA are provided for a specified period of time, subject to extension by mutual agreement of the parties. The former affiliate can generally terminate those services in advance upon 90 days written notice without penalty.

Under the MDLA, the former affiliate is the Company's exclusive authorized distributor for sale and/or distribution of most of its academic and professional digital and print publications in Canada. Subject to the Company's prior approval on a product by product basis, the former affiliate also has the exclusive right to adapt, customize and translate the Company's publications for sale and distribution in Canada. The agreement sets certain other restrictions on the use of the Company's content. The former affiliate is required by the agreement to pay the Company royalties as a percentage of net sales for certain specified publications, adaptations of its textbooks, translations of its textbooks and certain of its customized products. The agreement also requires the affiliate to pay fixed technology platform fees and variable technology unit fees.

The MSA was assumed by the Company upon emergence from Chapter 11 bankruptcy on March 31, 2014 and renewed on December 1, 2017 for a term that will end on March 31, 2021, unless otherwise renewed. The MDLA was also assumed by the Company on March 31, 2014, on the same term length, but was amended effective March 17, 2017, and will end on December 31, 2029, unless canceled by one of the parties. Both agreements may be terminated upon material breach, bankruptcy or the mutual agreement of the parties.

In November 2011, the Predecessor entered into a new distribution agreement with the former affiliate, under which the former affiliate is the Company's exclusive authorized distributor, subject to certain exceptions, for the sale and distribution of certain research digital and print products in Canada. This agreement was terminated March 31, 2017, and henceforth Cengage will distribute these research products directly to Canadian customers.

The following is a summary of the Company's activity and balances with the former affiliate:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
Revenue from former affiliate	$ 16.9	$ 18.7	$ 19.5
Expenses to former affiliate	1.5	1.6	1.4

	As of March 31,	
(in millions)	2019	2018
Accounts receivable	$ 0.7	$ 1.7
Accounts payable and accrued expenses	0.3	0.3

18. COMMITMENTS AND CONTINGENCIES

Claims, Disputes and Legal and Regulatory Actions

From time to time, the Company may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business or that relate to contractual and other obligations. The Company assesses its potential contingent and other liabilities by analyzing its claims, disputes and legal and regulatory matters using available information, and develops its views on estimated losses in consultation with its legal and other advisors. The Company determines whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a material loss for which the Company is responsible may have been incurred.

Adverse developments relating to claims, disputes and legal and regulatory proceedings in which the Company is or becomes involved could cause a change in its determination as to an unfavorable outcome and result in the need to recognize a material accrual. Should any of these matters result in a final adverse judgment, settlement or other final resolution involving material amounts, it could have a material adverse effect on the Company's financial position, results of operations and cash flows.

As of March 31, 2017, all claims in connection with the Company's Chapter 11 filing were settled, the resolution process

for general unsecured claims was completed and the final distribution was made in July 2016. The Chapter 11 cases were formally closed in August 2016.

Based on a review of the information available at this time, the Company does not expect the total cost of resolving all other current claims, disputes and legal and regulatory proceedings will have a material adverse effect on the consolidated financial position, results of operations or cash flows.

Leases

The Company leases certain facilities and other operating equipment under non-cancelable operating lease arrangements expiring at various dates through 2029, except for one lease that expires in 2091. As of March 31, 2019, future minimum lease payments under these leases were as follows:

(in millions)	
Fiscal Years Ending March 31,	
2020[1]	$ 27.1
2021	25.1
2022	20.3
2023	16.9
2024	16.3
Thereafter	67.8
Total minimum future lease payments[2]	173.5
Less: Sublease income	1.1
Total minimum future lease payments, net	$ 172.4

(1) The Company has $0.1 million of computer hardware under capital lease that expires in 2019.

(2) Minimum rental payments do not take into account any expectations of future sublease income.

Rent expense by year was as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2019**	**2018**	**2017**
Rent expense	$ 28.3	$ 29.8	$ 27.0

Other Commitments

As of March 31, 2019 and 2018, the Company had approximately $70.4 million and $65.7 million, respectively, of outstanding purchase commitments that are not recorded in the consolidated financial statements. Such agreements entered into with third parties primarily consisted of outsourcing arrangements related to general accounting, fixed asset and accounts payable functions, as well as purchased or licensed content to be used in the Company's educational products and royalty guarantees derived from minimum usage requirements in agreements with content providers.

As of March 31, 2019, the committed purchase amounts by year were as follows:

(in millions)	
Fiscal Years Ending March 31,	
2020	$ 33.0
2021	18.5
2022	10.2
2023	2.9
2024	2.9
Thereafter	2.9
	$ 70.4

Warranties

The Company's standard terms and conditions of sale, warrants ownership of and/or licensing rights to the Company's products and provides certain warranties and indemnifications. The Company is not aware of any instances that would result in any material payments being made as a result of these warranties and indemnifications, and therefore, no reserve has been recorded in the consolidated financial statements.

19. SEGMENT INFORMATION

The Company is organized into three reportable segments on the basis of production process and products and services provided by each segment, identified as follows:

Learning—in the United States, the Company produces a variety of digital and print educational solutions and associated services for the academic, skills and school industries.

Gale—the Company offers research platforms around the world which provide access to its original content, collections of primary source materials and aggregated periodicals to learners at libraries, colleges, universities, schools and businesses.

International—the Company distributes educational solutions across all major academic disciplines, provides English language teaching ("ELT") products and adapts its Learning offerings for use in multiple countries and territories around the world.

When determining reportable segments, the Company aggregated operating segments based on their similar economic and operating characteristics.

The accounting policies applied by the segments are the same as those applied by the Company. All transactions between reportable segments are eliminated upon consolidation. The Company allocates its corporate and shared services costs to each of its segments using either number of employees, specific identification or activity, or revenue. The Company discloses information about its reportable segments based on the measures used in assessing the performance of those reportable segments. These measures are on a constant currency basis, which removes the impact of changes in foreign currency exchange rates. To calculate constant currency basis, the Company converts current period and prior period results from local currency to U.S. dollars using standard internal currency exchange rates held constant for each year. As needed, the Company recasts segment information for the prior period based on its internally-derived standard currency exchange rates used for the current period in order to remove the impact of foreign currency exchange fluctuation.

The Company uses Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs to measure the operating performance of its segments because it believes that these measures provide a meaningful basis for reviewing the results of operations by eliminating the effects of financing decisions, as well as excluding the impact of activities not related to its ongoing operating business. Adjusted Revenues is defined as revenues before the impact of changes in foreign currency exchange rates. Adjusted EBITDA less Pre-Publication Costs is defined as net income (loss) before: benefit from (provision for) income taxes; reorganization items, net; interest expense, net; loss on early extinguishment of debt, net; other (income) expense, net in operating income (loss); amortization of identifiable intangible assets; depreciation; operational restructuring and other charges; amortization of pre-publication costs; other income (expense), net, below operating income (loss); equity-based compensation expense and non-core other operating expenses in the accompanying consolidated statements of operations, less additions to pre-publication costs on an accrual basis. This measure also removes the impact of changes in foreign currency exchange rates on the items noted above. By reducing Adjusted EBITDA by pre-publication costs, the Company includes the impact of re-investment within the segments, primarily for content and digital platform technology. The prior periods have been revised to conform to current period presentation.

Selected financial information for the Company's segments is as follows:

	Adjusted Revenues		
	Fiscal Year Ended March 31,		
(in millions)	2019	2018[1]	2017[1]
Learning	$ 934.7	$ 944.6	$ 978.2
Gale	227.5	234.0	230.8
International	297.9	292.0	260.3
Segment Adjusted Revenues	1,460.1	1,470.6	1,469.3
Impact of foreign currency	(14.6)	(4.4)	(9.3)
Total revenues	$ 1,445.5	$ 1,466.2	$ 1,460.0

	Additions to Pre-Publication Costs		
	Fiscal Year Ended March 31,		
(in millions)	2019	2018[1]	2017[1]
Learning	$ 52.6	$ 54.6	$ 69.8
Gale	21.3	26.2	30.8
International	21.7	23.8	19.7
Segment additions to pre-publication costs	95.6	104.6	120.3
Impact of foreign currency	(0.6)	(0.3)	(0.4)
Impact of cash investing activities[2]	0.8	(0.7)	2.9
Total additions to pre-publication costs	$ 95.8	$ 103.6	$ 122.8

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

(2) Net impact of prior period accrued pre-publication costs paid in current period and current period accrued pre-publication additions.

Segment Adjusted Revenues only includes revenues from external customers and is presented by country of origin. Total asset information by segment is not shown because it is not provided to or reviewed by the chief operating decision maker.

The following table reconciles Adjusted EBITDA less Pre-Publication Costs to net loss per the consolidated statements of operations:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018[1]	2017[1]
Learning	$ 165.3	$ 183.3	$ 250.1
Gale	61.8	66.5	63.9
International	50.2	51.5	39.1
Total Segment Adjusted EBITDA less Pre-Publication Costs	277.3	301.3	353.1
Additions to pre-publication costs[2]	95.6	104.6	120.3
Impact of foreign currency	(4.5)	(1.3)	(3.5)
Equity-based compensation expense	(8.4)	(17.9)	(13.7)
Non-core other operating expenses[3]	(9.6)	(7.6)	(13.3)
Acquisition and merger-related costs	(6.8)	(0.4)	—
Loss on early extinguishment of debt, net	—	—	(10.8)
Amortization of pre-publication costs	(109.9)	(127.2)	(150.5)
Operational restructuring and other charges	(17.5)	(10.6)	(26.7)
Depreciation	(76.2)	(72.3)	(83.9)
Amortization of identifiable intangible assets	(94.9)	(94.4)	(92.5)
Other income (expense), net	2.3	10.3	(1.2)
Interest expense, net	(171.9)	(159.4)	(156.0)
Reorganization items, net	—	—	(0.4)
Benefit from income taxes	27.5	73.1	36.0
Net loss	$ (97.0)	$ (1.8)	$ (43.1)

(1) Prior year amounts have been recast to current year standard internal currency exchange rates.

(2) Additions to pre-publication costs are excluded from segment Adjusted EBITDA less Pre-Publication Costs on a constant currency and accrual basis. The impact of foreign currency exchange related to additions to pre-publication costs was $0.6 million, $0.3 million, and $0.4 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

(3) Non-core other operating expenses includes primarily bank fees, severance costs, duplicate rent expense, net, incurred during the build-out phase of the Company's new headquarters in Boston, contract termination costs, consulting costs and management fees.

Geographic Information

Revenues and long-lived assets, consisting of property, equipment and capitalized internal-use software and pre-publication costs, were as follows:

	Fiscal Year Ended March 31,		
(in millions)	2019	2018	2017
Revenues:			
United States	$ 1,133.7	$ 1,147.1	$ 1,182.1
Rest of world	311.8	319.1	277.9
Total revenues	$ 1,445.5	$ 1,466.2	$ 1,460.0
Long-lived assets:			
United States	$ 336.3	$ 366.8	$ 405.7
Rest of world	25.7	29.8	31.6
Total long-lived assets	$ 362.0	$ 396.6	$ 437.3

20. VALUATION AND QUALIFYING ACCOUNTS

(in millions)		Additions				
Description	**Balance at Beginning of Period**	**Charge to Costs and Expenses**	**Charge to Other Accounts**	**Write Offs**	**Translation**	**Balance at End of Period**
Fiscal Year Ended March 31, 2019						
Allowance for doubtful accounts	$ 12.7	$ 5.4	$ —	$ (4.8)	$ (0.7)	$ 12.6
Sales return reserves	70.8	173.4	(1.6)	(198.8)	(1.0)	42.8
Deferred tax valuation allowance	7.0	(1.5)	—	—	(0.6)	4.9
Fiscal Year Ended March 31, 2018						
Allowance for doubtful accounts	$ 9.5	$ 5.7	$ —	$ (2.8)	$ 0.3	$ 12.7
Sales return reserves	75.8	232.6	(0.9)	(237.3)	0.6	70.8
Deferred tax valuation allowance	11.0	(3.2)	(0.9)	—	0.1	7.0
Fiscal Year Ended March 31, 2017						
Allowance for doubtful accounts	$ 10.0	$ 5.3	$ —	$ (5.6)	$ (0.2)	$ 9.5
Sales return reserves	92.0	311.5	(2.7)	(324.7)	(0.3)	75.8
Deferred tax valuation allowance	15.7	(4.7)	—	—	—	11.0

21. SUBSEQUENT EVENTS

On May 1, 2019, Cengage entered into a definitive agreement (the “Merger Agreement”) with McGraw-Hill Education, Inc. (“McGraw-Hill”), pursuant to which, at the Effective Time and subject to the terms and conditions of the Merger Agreement, Cengage and McGraw-Hill will combine in a “merger of equals” transaction and Cengage's stockholders will receive shares of capital stock representing exactly 50% of the issued and outstanding shares of voting common stock of the combined company. Cengage has agreed to operate its business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, subject to certain agreed exceptions. Completion of the Merger is subject to certain conditions, including receipt of regulatory approvals.

There were no other material subsequent events identified through May 30, 2019, the date these financial statements were issued.