



CENGAGE LEARNING HOLDINGS II, Inc.

**First Quarter Report
Three Months Ended June 30, 2017**

During 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 the factors described in this quarterly report and those listed in the “Risk Factors” section of the Company’s Annual Report for the fiscal year ended March 31, 2017. 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:

- our ability to introduce new products, services or technologies;
- the impact of competition from established competitors and new businesses that have not traditionally participated in our markets, including the impact of new and enhanced product and service offerings and technology and competitors’ ability to adapt more quickly to new or emerging technologies and market conditions;
- 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;
- the effect of changes in government programs and private lending practices relating to student aid and library funding;
- our ability to successfully implement our business strategy;
- the impact of technology developments and our ability to continue to make effective investments in our technology infrastructure;
- the seasonality of our business;
- 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 intellectual property infringement claims;
- 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;
- our ability to attract and retain key authors, content providers and employees;
- our ability and willingness to maintain licensing agreements with third-party content providers;
- failures or disruptions of our and our third-party providers’ hosting facilities and electronic delivery systems for our products and services;
- technology failures;
- our reliance on third-party providers of outsourced services and any failure of such providers to provide services effectively on a timely basis;
- our ability to adequately manage and develop our operational and managerial systems and processes including our enterprise resource planning software;
- changes in the availability and prices of paper and unanticipated increases in other operating costs;
- 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;

- our ability to identify, acquire and successfully integrate future acquisition targets;
- adverse changes in domestic and global economic and political conditions, related availability of credit, government and private loans for students and consequential decline in consumer demand for our products;
- reductions in enrollments at colleges and universities;
- our ability to win state adoptions;
- our dependence on third-party distributors, representatives and retailers;
- incurrence of impairment charges for goodwill and long-lived assets;
- the impact of business combinations in the markets in which we compete;
- our ability to react to changes in the economy or our industry;
- 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;
- potential security breaches involving our products and services or our customers' credit and debit card and private data, which could subject us to material claims and costs and harm our reputation;
- our ability to comply with privacy laws;
- termination of at-will contracts to which we are a party could harm our business;
- 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 our credit ratings or macroeconomic conditions;
- the impact of being controlled by Principal Equityholders, whose interests may conflict with other stockholders, 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.

CENGAGE LEARNING HOLDINGS II, Inc.
FIRST QUARTER REPORT
THREE MONTHS ENDED JUNE 30, 2017
(UNAUDITED)

TABLE OF CONTENTS

	<u>Page No</u>
Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Loss	4
Condensed Consolidated Statements of Cash Flows	5
Notes to the Condensed Consolidated Financial Statements	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Quantitative and Qualitative Disclosures about Market Risk	28
Legal Proceedings	28
Risk Factors	28
Purchases of Equity Securities by the Issuer	29

CENGAGE LEARNING HOLDINGS II, Inc.
Condensed Consolidated Balance Sheets
(UNAUDITED)

	As of	
<i>(in millions, except share and per share amounts)</i>	June 30, 2017	March 31, 2017
Assets		
Cash and cash equivalents	\$ 243.7	\$ 352.3
Accounts receivable, net	185.9	173.6
Inventories	112.6	112.5
Prepaid expenses and other current assets	56.9	51.7
Total current assets	599.1	690.1
Property, equipment and capitalized internal-use software, net	174.8	183.4
Pre-publication costs, net	249.3	253.9
Author advances	17.9	20.9
Identifiable intangible assets, net	1,058.8	1,080.4
Goodwill	1,629.1	1,627.9
Deferred tax assets	6.7	6.8
Deferred financing costs	4.2	4.4
Other non-current assets	22.9	27.5
Total assets	\$ 3,762.8	\$ 3,895.3
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	\$ 280.0	\$ 256.7
Deferred revenue	144.2	171.6
Current portion of long-term debt	0.3	33.1
Income taxes payable	4.7	3.9
Other current liabilities	8.3	10.8
Total current liabilities	437.5	476.1
Long-term debt	2,246.2	2,239.4
Deferred tax liabilities	147.7	164.6
Other non-current liabilities	61.3	61.0
Total liabilities	2,892.7	2,941.1
Commitments and contingencies (Note 14)		
Preferred stock (\$0.01 par value, 50,000,000 shares authorized, none issued)	—	—
Common stock (\$0.01 par value, 300,000,000 shares authorized, 61,154,050 and 68,029,162 shares issued and outstanding at June 30, 2017 and March 31, 2017, respectively)	0.6	0.7
Additional paid-in capital	1,216.7	1,273.1
Accumulated deficit	(298.2)	(269.1)
Accumulated other comprehensive loss	(49.0)	(50.5)
Total stockholders' equity	870.1	954.2
Total liabilities and stockholders' equity	\$ 3,762.8	\$ 3,895.3

See accompanying notes to the condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, Inc.
Condensed Consolidated Statements of Operations
(UNAUDITED)

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Revenues	\$ 296.0	\$ 307.0
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	139.8	141.5
Amortization of pre-publication costs	26.3	28.7
Amortization of identifiable intangible assets	0.8	0.4
Total cost of revenues, excluding depreciation stated below	166.9	170.6
Selling, general and administrative expenses, excluding depreciation stated below	103.4	94.4
Operational restructuring and other charges, net	(0.2)	15.7
Depreciation	19.8	19.0
Amortization of identifiable intangible assets	22.5	22.5
Other expense, net	(0.2)	—
Total costs and expenses	312.2	322.2
Operating loss	(16.2)	(15.2)
Loss on early extinguishment of debt, net	—	(10.8)
Other income (expense), net	12.2	(2.7)
Interest income	0.5	0.1
Interest expense	(39.6)	(37.7)
Reorganization items, net	—	(0.2)
Loss before taxes	(43.1)	(66.5)
Benefit from income taxes	14.0	24.5
Net loss	\$ (29.1)	\$ (42.0)

See accompanying notes to the condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(UNAUDITED)

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Net loss	\$ (29.1)	\$ (42.0)
Other comprehensive income (loss):		
Foreign currency translation adjustments	1.5	(7.4)
Comprehensive loss	\$ (27.6)	\$ (49.4)

See accompanying notes to the condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, Inc.
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Net loss	\$ (29.1)	\$ (42.0)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of pre-publication costs	26.3	28.7
Depreciation	19.8	19.0
Amortization of identifiable intangible assets	23.3	22.9
Amortization of debt discounts and deferred financing costs	2.1	1.3
Non-cash equity-based compensation expense	2.6	3.3
Operational restructuring and other charges, net	(0.2)	15.7
Cash payments for operational restructuring charges	(5.8)	(8.8)
Reorganization items, net	—	0.2
Cash payments for reorganization items, net	—	(0.1)
Deferred income taxes	(16.9)	(28.6)
Loss on early extinguishment of debt, net	—	10.8
Changes in operating assets and liabilities, net of acquisitions	(36.7)	(34.4)
Other, net	0.3	2.6
Net cash used in operating activities	(14.3)	(9.4)
Cash Flows from Investing Activities		
Acquisitions of businesses and investments in equity method investees, net of cash acquired	—	(0.2)
Additions to pre-publication costs	(25.1)	(30.9)
Additions to property, equipment and capitalized internal-use software	(24.6)	(13.4)
Other, net	(1.0)	(0.2)
Net cash used in investing activities	(50.7)	(44.7)
Cash Flows from Financing Activities		
Proceeds from issuance of debt	—	2,312.9
Repayments of long-term debt	(27.8)	(2,010.5)
Debt issuance costs and other financing fees	—	(34.1)
Share repurchases	(15.8)	(50.2)
Net cash (used in) provided by financing activities	(43.6)	218.1
Impact on Cash and Cash Equivalents from Changes in Foreign Currency	—	(0.3)
Net (Decrease) Increase in Cash and Cash Equivalents	(108.6)	163.7
Cash and Cash Equivalents		
Beginning of period	352.3	253.5
End of period	\$ 243.7	\$ 417.2

See accompanying notes to the condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

1. BASIS OF PRESENTATION

Basis of Presentation

Cengage Learning Holdings II, Inc., together with its consolidated subsidiaries (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 has prepared the accompanying condensed consolidated financial statements and accompanying footnotes in accordance with the accounting policies described in its Annual Report for the fiscal year ended March 31, 2017 (the “2017 Annual Report”). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. You should read these financial statements in conjunction with the consolidated financial statements included in the 2017 Annual Report.

In the opinion of management, the financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary by management to fairly state the financial position, results of operations and cash flows for the periods presented. The results of operations for the three months ended June 30, 2017 are not necessarily indicative of the results for the fiscal year ending March 31, 2018.

The Company revised its previously reported fiscal year 2017 quarterly consolidated statements of cash flows to correct the classification of non-cash investing activities. The revision for this error resulted in a decrease to cash used in operating activities and a corresponding increase to cash used in investing activities of approximately \$5.5 million for the three months ended June 30, 2016. Management concluded that these errors were immaterial to prior period financial statements.

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 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, 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 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 or changes in inventory management practices.

As the Company continues to migrate its 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 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 materials to the customer. Consequently, at this time, reported revenues may not be comparable to prior periods 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 \$144.2 million and \$171.6 million at June 30, 2017 and March 31, 2017, respectively, and the non-current portion of deferred revenue was \$28.9 million and \$28.5 million at June 30, 2017 and March 31, 2017, respectively.

Concentration of Credit Risk

At June 30, 2017 and March 31, 2017, there was one customer that accounted for approximately 12% of the Company’s gross accounts receivable.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

New Accounting Standards and Accounting Changes

In November 2016, the Financial Accounting Standards Board (“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 are an improvement to GAAP because they 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 March 2016, the FASB issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also simplifies withholding of taxes on employees’ behalf upon exercise of stock options or vesting of nonvested shares without resulting in liability classification as long as the amounts withheld do not exceed the maximum statutory tax rates in the employees’ applicable jurisdictions. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, 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 February 2016, the FASB issued an updated standard to add Accounting Standards 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 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. The amendments in this update are effective for the Company for fiscal years beginning after April 1, 2019 and interim periods within those fiscal years. The Company is evaluating the impact of this update on its consolidated financial position, 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. 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 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

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

consolidated financial position, results of operations and cash flows. The Company plans to utilize the modified retrospective approach in implementing the new standard.

2. INVENTORIES

Inventories consisted of the following:

<i>(in millions)</i>	<u>June 30, 2017</u>	<u>March 31, 2017</u>
Raw materials	\$ 0.8	\$ 1.1
Work-in-progress	0.4	0.1
Finished goods, net	111.4	111.3
Inventories	<u>\$ 112.6</u>	<u>\$ 112.5</u>

3. OTHER BALANCE SHEET ACCOUNTS

The sales returns reserve and allowance for doubtful accounts included in accounts receivable, net, in the accompanying condensed consolidated balance sheets were as follows:

<i>(in millions)</i>	<u>June 30, 2017</u>	<u>March 31, 2017</u>
Sales returns reserve	\$ 59.5	\$ 75.8
Allowance for doubtful accounts	10.4	9.5

The provision for estimated sales returns is reflected as a reduction of revenue during the period in which the revenue is recognized. The Company records the returns against its sales returns reserve in the period of receipt. The decrease in the sales returns reserve from March 31, 2017 reflects the seasonality of the Company's business, as a higher proportion of its annual revenues is recognized during the fiscal second and third quarters due to sales in advance of the Fall and Spring school semesters, respectively. Correspondingly, a higher proportion of returns are received in the fiscal first and fourth quarters. The Company records the returns against its sales returns reserve in the period of receipt.

Accounts payable and accrued expenses consisted of the following:

<i>(in millions)</i>	<u>June 30, 2017</u>	<u>March 31, 2017</u>
Accounts payable	\$ 83.6	\$ 90.0
Accrued royalties	66.0	61.3
Share repurchases payable	43.3	—
Accrued bonuses	20.8	23.5
Accrued interest payable	8.6	23.8
Other accrued expenses	57.7	58.1
	<u>\$ 280.0</u>	<u>\$ 256.7</u>

4. IDENTIFIABLE INTANGIBLE ASSETS

The Company's identifiable intangible assets were as follows:

<i>(in millions)</i>	<u>June 30, 2017</u>			<u>March 31, 2017</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Copyrights and content rights	\$ 729.9	\$ (162.1)	\$ 567.8	\$ 728.4	\$ (149.5)	\$ 578.9
Customer relationships	367.2	(79.1)	288.1	366.9	(72.9)	294.0
Trademarks	232.9	(50.2)	182.7	232.8	(46.3)	186.5
Technology	24.2	(4.0)	20.2	24.2	(3.2)	21.0
Total identifiable intangible assets	<u>\$ 1,354.2</u>	<u>\$ (295.4)</u>	<u>\$ 1,058.8</u>	<u>\$ 1,352.3</u>	<u>\$ (271.9)</u>	<u>\$ 1,080.4</u>

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
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5. GOODWILL

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

<i>(in millions)</i>	Learning	Gale	International	Total
Balance at March 31, 2017	\$ 1,326.1	\$ 203.3	\$ 98.5	\$ 1,627.9
Foreign currency translation adjustments	—	0.4	0.8	1.2
Balance at June 30, 2017	<u>\$ 1,326.1</u>	<u>\$ 203.7</u>	<u>\$ 99.3</u>	<u>\$ 1,629.1</u>

6. OPERATIONAL RESTRUCTURING AND OTHER CHARGES

During the first quarter of fiscal year 2018, the Company initiated a restructuring program (the “2018 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 \$0.6 million of severance related costs, with related cash payments expected to be made through the fourth quarter of fiscal year 2018. In connection with these initiatives, the Company incurred \$2.8 million and \$2.7 million of process reengineering consulting costs during the fourth quarter of fiscal 2017 and first quarter of fiscal 2018, respectively. These charges are expensed as incurred, with related cash payments of \$3.9 million during the first quarter of fiscal 2018.

Also during the first quarter of fiscal 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 condensed consolidated statement of operations.

During the first quarter of fiscal year 2017, the Company initiated a restructuring program (the “2017 Program”) designed to streamline operations and improve its cost structure. The 2017 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 \$23.6 million associated with these actions. As of June 30, 2017, this program had been substantially completed, with the related cash payments expected to be made through the fourth quarter of fiscal year 2018.

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

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Learning	\$ 0.1	\$ 11.0
Gale	—	0.5
International	—	—
Corporate	(0.3)	4.2
Total operational restructuring and other charges, net	<u>(0.2)</u>	<u>15.7</u>
Less: non-cash write-off	(3.5)	—
Total charges expected to be settled in cash	<u>\$ 3.3</u>	<u>\$ 15.7</u>

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

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

<i>(in millions)</i>	Severance	Process reengineering consulting	Other⁽¹⁾	Total
2018 Program:				
Balance at March 31, 2017	\$ —	\$ 2.6	\$ —	\$ 2.6
Charges, net	0.6	2.7	(3.5)	(0.2)
Non-cash write-off			3.5	3.5
Cash payments	(0.1)	(3.9)	—	(4.0)
Balance at June 30, 2017	<u>\$ 0.5</u>	<u>\$ 1.4</u>	<u>\$ —</u>	<u>\$ 1.9</u>
2017 Program:				
Balance at March 31, 2017	\$ 3.0	\$ 0.2	\$ —	\$ 3.2
Charges	—	—	—	—
Cash payments	(1.8)	—	—	(1.8)
Balance at June 30, 2017	<u>\$ 1.2</u>	<u>\$ 0.2</u>	<u>\$ —</u>	<u>\$ 1.4</u>

⁽¹⁾ Represents the write-off of a landlord inducement liability in connection with exiting a leased facility.

7. DEBT

Debt, related maturities and interest rates were as follows as of June 30, 2017 and March 31, 2017:

<i>(in millions)</i>	Original Maturity	Interest Rate at		June 30, 2017	March 31, 2017
Current portion:					
Term Loan	2023	5.34%	5.25%	\$ —	\$ 32.8
Capital lease	2019			0.3	0.3
Total current portion of long-term debt				<u>0.3</u>	<u>33.1</u>
Non-current portion:					
Senior Notes	2024	9.50%	9.50%	620.0	620.0
Term Loan	2023	5.34%	5.25%	1,669.5	1,664.4
Capital lease	2019			0.2	0.3
Unamortized Term Loan discount				(14.5)	(15.1)
Unamortized deferred financing costs				(29.0)	(30.2)
Total non-current portion of long-term debt				<u>2,246.2</u>	<u>2,239.4</u>
Total debt				<u>\$ 2,246.5</u>	<u>\$ 2,272.5</u>

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

Scheduled principal payments due on the Company’s debt as of June 30, 2017 for each of the years ended March 31 are as follows:

(in millions)

Fiscal Years Ending March 31,	
Remainder of fiscal year 2018	\$ 0.2
2019	6.7
2020	17.2
2021	17.1
2022	17.1
Thereafter	2,231.7
Total	<u>\$ 2,290.0</u>

On June 7, 2016, Cengage Learning, Inc., a wholly-owned subsidiary of the Company, issued 9.5% 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. 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 8, “Equity,” for additional details on the share repurchase program. During the three months ended June 30, 2016, the Company recorded a charge of \$10.8 million in loss on early extinguishment of debt, net for accelerated amortization of debt issuance costs and investor 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 Senior Notes and/or 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 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, 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, under the terms of the Senior Notes 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 certain 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 June 30, 2017, 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

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

June 30, 2017, the Company elected to carry the Term Loan as a Eurocurrency Rate Loan with an effective interest rate of 5.34%.

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. Based on the Company's March 31, 2017 consolidated financial statements, the Company calculated the prepayment due under the Excess Cash Flow provision to be approximately \$27.8 million. Under the Term Loan, the debt holders may opt to decline the Excess Cash Flow prepayment at their discretion. On June 8, 2017, of the \$27.8 million Excess Cash Flow prepayment, the Company paid \$27.7 million to debt holders and the remainder was declined. 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 previous term loan facility, the Company made a \$25.6 million principal payment on June 2, 2016, which was reimbursed to the Company using net proceeds of the issuance of debt. The Company may prepay or repurchase the Term Loan, in whole or in part, at any time, without penalty.

ABL Revolving Credit Facility

The availability of credit under the amended and restated five-year ABL Revolving Credit Facility 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 June 30, 2017 and March 31, 2017, the ABL Revolving Credit Facility had no outstanding borrowings and \$7.6 million and \$6.0 million, respectively, in issued and outstanding letters of credit. The Company's available borrowing base at June 30, 2017, which is based on the balance sheet at May 31, 2017, was \$102.0 million, net of letters of credit.

The Company paid an unused commitment fee of 0.375% for the three months ended June 30, 2017. Going forward, 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 was 1.75% for the three months ended June 30, 2017, and will vary between 1.75% and 2.25%, depending on the average daily availability. For the three months ended June 30, 2017, the Company incurred approximately \$0.2 million of commitment fees and less than \$0.1 million of letter of credit participation fees, respectively.

8. EQUITY

Share Repurchase Programs

On June 20, 2016, the Company announced a share repurchase program under which the Company was 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 its current \$65.0 million share repurchase program until May 31, 2018. The shares may be repurchased from time to time in accordance with federal securities laws. Repurchased shares will be retired and returned to the status of authorized but unissued. As of June 30, 2017, the Company had repurchased 7,038,913 shares under this program for \$63.2 million in the aggregate, of which approximately \$4.1 million was paid in fiscal year 2017, \$15.8 million was paid in the first quarter of fiscal 2018, and \$43.3 million was unpaid and accrued in shares repurchases payable as of June 30, 2017.

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 under each program. 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.

In addition, the Company repurchases shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted stock units. During the three months ended June 30, 2017 and 2016, the Company spent less than \$0.1 million and \$0.2 million, respectively, to acquire shares in connection with equity-based awards.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

9. EQUITY-BASED COMPENSATION

The following table summarizes the Company's equity-based compensation expense recognized in selling, general and administrative expenses, excluding depreciation in the accompanying condensed consolidated statements of operations:

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Stock options	\$ 1.0	\$ 1.3
Restricted stock units	1.6	2.0
Equity-based compensation expense	<u>\$ 2.6</u>	<u>\$ 3.3</u>

As of June 30, 2017, there was approximately \$20.8 million of total unrecognized compensation cost related to stock options and restricted stock units (RSUs) expected to be recognized over a weighted-average vesting period of 2.3 years. In addition, there was approximately \$3.8 million of unrecognized compensation cost related to non-vested performance-based RSUs at June 30, 2017. No compensation cost related to the performance-based RSUs will be recognized until it is probable that the performance condition will be met.

10. INCOME TAXES

For interim income tax reporting, the Company estimates its annual effective tax rate and applies it to year-to-date ordinary income (loss). Tax jurisdictions with a projected or year-to-date loss for which a tax benefit cannot be realized are excluded. The tax effects of unusual or infrequently occurring items are reported in the interim period in which they occur.

The benefit from income taxes was \$14.0 million and \$24.5 million for the three months ended June 30, 2017 and 2016, respectively with a corresponding effective income tax rate of 32.5% and 36.8%, respectively. The decrease in the effective tax rate for the three months ended June 30, 2017 compared with the same prior year period was primarily attributable to the projected tax expense recognized upon settlement of stock-based awards and projected U.S. income tax expense recognition on foreign earnings that are not deferred for U.S. tax purposes.

11. FAIR VALUE MEASUREMENTS

Recurring Measurements

As of June 30, 2017 and March 31, 2017, 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, intangible assets, property, equipment and 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 the three months ended June 30, 2016, 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 the three months ended June 30, 2016, which was included in other expense, net, below operating income in the accompanying condensed consolidated statement of operations.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

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 carrying value and estimated fair value of long-term debt, including the current portion, is as follows:

<i>(in millions)</i>	June 30, 2017		March 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes ⁽¹⁾	\$ 612.0	\$ 535.5	611.7	\$ 553.6
Term Loan ⁽²⁾	1,634.0	1,544.0	1,660.2	1,581.3

⁽¹⁾ The carrying amount for the Senior Notes is presented net of the unamortized deferred financing costs of \$8.0 million and \$8.3 million as of June 30, 2017 and March 31, 2017, respectively.

⁽²⁾ The carrying amount for the Term Loan as of June 30, 2017 and March 31, 2017 is presented net of the unamortized original issue discount and deferred financing costs of \$35.5 million and \$37.0 million, respectively.

The estimated fair values of the Company's Senior Notes and Term Loan are based on information from a pricing service or broker quotes and may not represent prices on which such debt may be transacted. Therefore, the debt is classified as Level 3 in the fair value hierarchy. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximated their fair values at June 30, 2017 and March 31, 2017 due to the short-term nature of these instruments.

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Accounts receivable, net	\$ (9.8)	\$ (16.4)
Inventories	0.2	(1.4)
Prepaid expenses and other current assets	(1.1)	3.4
Author advances	3.1	4.7
Accounts payable and accrued expenses	12.0	(10.4)
Accrued interest payable	(15.2)	9.5
Deferred revenue	(28.8)	(27.7)
Income taxes payable	0.9	3.1
Other, net	2.0	0.8
	\$ (36.7)	\$ (34.4)

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:

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016
Additions to pre-publication costs	\$ 5.3	\$ 7.0
Additions to property, equipment and capitalized internal-use software	0.8	1.8

Non-cash Financing Activities

Non-cash financing activities for the three months ended June 30, 2017, included a share repurchase accrual of \$43.3 million for shares acquired in accordance with our current repurchase program, but unpaid as of June 30, 2017.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

13. 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, 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 30 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, including restricting the former affiliate's ability to adapt certain texts, limiting the dollar amount of sales of "first edition" texts and restricting the former affiliate from marketing adaptations or translations it has created outside of Canada. 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 has an 11-year term that will end on January 1, 2018, 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.

The Company's total revenues from the former affiliate were \$2.9 million and \$3.5 million for the three months ended June 30, 2017 and 2016, respectively. Expenses incurred to the former affiliate were \$0.5 million and \$0.3 million for the three months ended June 30, 2017 and 2016, respectively. Outstanding receivables and payables with the former affiliate as of June 30, 2017 were \$3.1 million and \$0.2 million, respectively. Outstanding receivables and payables with the former affiliate as of March 31, 2017 were \$2.5 million and \$0.3 million, respectively.

14. 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 and are related to contractual and other obligations. The Company assesses its potential contingent and other liabilities by analyzing 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.

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 condensed consolidated financial position, results of operations or cash flows.

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

Warranties

Under the Company's standard terms and conditions of sale, it warrants ownership of and/or licensing rights to its products and may provide certain other 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 condensed consolidated financial statements.

15. SEGMENT INFORMATION

The Company's three operating segments, which are consistent with its reportable business segments are:

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 markets.

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 products and adapts its Learning offerings for use in multiple countries and territories around the world.

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 the deferred revenue reduction recorded on March 31, 2014 in connection with the adoption of fresh start accounting upon emergence from bankruptcy and 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, the impact of fresh start accounting; other income (expense), net, below operating income (loss); equity-based compensation expense and non-core other operating expenses in the accompanying condensed consolidated statements of operations, less additions to pre-publication costs on an accrual basis. 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.

Segment Adjusted Revenues, which only includes revenues from external customers and is presented by country of origin, and the reconciliation to total revenues per the condensed consolidated statements of operations is as follows:

	Three Months Ended June 30,	
	2017	2016⁽¹⁾
<i>(in millions)</i>		
Learning	\$ 185.0	\$ 197.3
Gale	54.3	56.5
International	57.1	52.0
Segment Adjusted Revenues	296.4	305.8
Impact of foreign currency	(0.4)	1.2
Total Revenues	<u>\$ 296.0</u>	<u>\$ 307.0</u>

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

CENGAGE LEARNING HOLDINGS II, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

Segment Adjusted EBITDA less Pre-Publication Costs and the reconciliation to net loss per the condensed consolidated statements of operations is as follows:

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016⁽¹⁾
Learning	\$ 14.7	\$ 29.5
Gale	14.2	16.7
International	6.4	3.0
Total Segment Adjusted EBITDA less Pre-Publication Costs	35.3	49.2
Additions to pre-publication costs ⁽²⁾	21.6	26.1
Impact of foreign currency	(0.2)	0.2
Equity-based compensation expense	(2.6)	(3.3)
Non-core other operating expenses ⁽³⁾	(1.3)	(1.1)
Loss on early extinguishment of debt, net	—	(10.8)
Amortization of pre-publication costs	(26.3)	(28.7)
Operational restructuring and other charges	0.2	(15.7)
Depreciation	(19.8)	(19.0)
Amortization of identifiable intangible assets	(23.3)	(22.9)
Other expense, net	12.4	(2.7)
Interest expense, net	(39.1)	(37.6)
Reorganization items, net	—	(0.2)
Benefit from income taxes	14.0	24.5
Net loss	\$ (29.1)	\$ (42.0)

⁽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 less than \$0.1 million in both the three months ended June 30, 2017 and 2016.

⁽³⁾ For the three months ended June 30, 2017 and 2016, non-core other operating expenses includes primarily bank fees, management fees and relocation costs.

16. SUBSEQUENT EVENTS

There were no material subsequent events identified through August 2, 2017, the date these financial statements were issued.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to facilitate an understanding of the results of operations and financial condition of Cengage Learning Holdings II, Inc. and its consolidated subsidiaries ("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.

Our operations are comprised of three reportable business segments:

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.

This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes and our Annual Report for the fiscal year ended March 31, 2017 (the "2017 Annual Report"). The following discussion and analysis of our financial condition and results of operations may contain forward-looking statements about our business, operations and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations and intentions. Our future results and financial condition may differ materially from those we currently anticipate. See "Special Note Regarding Forward-Looking Statements" earlier in this report. We refer to our fiscal year ended March 31, 2017, as fiscal year 2017, and fiscal year ended March 31, 2018, as fiscal year 2018.

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 condensed 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 are 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.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

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; 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.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of our business, which is aligned 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 the activities in our 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, specifically in cases 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 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 materials to our customer. Consequently, at this time, reported revenues may not be comparable to prior periods as revenues attributable to hosted digital solutions are recognized in subsequent periods. Deferred revenue represents amounts billed in advance from our 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 \$144.2 million and \$171.6 million at June 30, 2017 and March 31, 2017, respectively, and the non-current portion of deferred revenue was \$28.9 million and \$28.5 million at June 30, 2017 and March 31, 2017, respectively.

Operational Restructuring and Other Charges

During the first quarter of fiscal year 2018, we initiated a restructuring program (the "2018 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. We incurred \$0.6 million of severance related costs, with related cash payments expected to be made through the fourth quarter of fiscal year 2018. In connection with these initiatives, we incurred \$2.8 million and \$2.7 million of process reengineering consulting costs during the fourth quarter of fiscal 2017 and first quarter of fiscal 2018, respectively. These charges are expensed as incurred, with related cash payments of \$3.9 million during the first quarter of fiscal 2018.

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

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

existing space, we received a \$12 million incentive payment from a third party that was included in other income (expense), net, in the accompanying condensed consolidated statement of operations.

During the first quarter of fiscal year 2017, we initiated a restructuring program (the "2017 Program") designed to streamline operations and improve our cost structure. The 2017 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. As of June 30, 2017, we had incurred \$23.6 million of operational restructuring and other charges under this program, primarily related to severance costs and process reengineering consulting. We expect the related cash payments to be made through the fourth quarter of fiscal 2018. Management is estimating cost savings from this program of approximately \$37 million on an annualized basis. As of June 30, 2017, this program had been completed, with the related cash payments expected to be made through the fourth quarter of fiscal year 2018. Additional information on operational restructuring and other charges is provided in Note 6, "Operational Restructuring and Other Charges."

Critical Accounting Policies

There were no significant changes to our critical accounting policies during the three months ended June 30, 2017. For further information on our critical accounting policies, refer to our 2017 Annual Report.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Financial Performance

Consolidated Results of Operations

The Three Months Ended June 30, 2017 Compared with June 30, 2016

<i>(in millions)</i>	Three Months Ended June 30,		Change	
	2017	2016	\$	%
Revenues	\$ 296.0	\$ 307.0	\$ (11.0)	(3.6)%
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	139.8	141.5	(1.7)	(1.2)%
Amortization of pre-publication costs	26.3	28.7	(2.4)	(8.4)%
Amortization of identifiable intangible assets	0.8	0.4	0.4	100.0 %
Total cost of revenues, excluding depreciation stated below	166.9	170.6	(3.7)	(2.2)%
Selling, general and administrative expenses, excluding depreciation stated below	103.4	94.4	9.0	9.5 %
Operational restructuring and other charges, net	(0.2)	15.7	(15.9)	(101.3)%
Depreciation	19.8	19.0	0.8	4.2 %
Amortization of identifiable intangible assets	22.5	22.5	—	— %
Other expense, net	(0.2)	—	(0.2)	NM
Total costs and expenses	312.2	322.2	(10.0)	(3.1)%
Operating loss	(16.2)	(15.2)	(1.0)	6.6 %
Loss on early extinguishment of debt, net	—	(10.8)	10.8	(100.0)%
Other income (expense), net	12.2	(2.7)	14.9	(551.9)%
Interest income	0.5	0.1	0.4	400.0 %
Interest expense	(39.6)	(37.7)	(1.9)	5.0 %
Reorganization items, net	—	(0.2)	0.2	(100.0)%
Loss before taxes	(43.1)	(66.5)	23.4	(35.2)%
Benefit from income taxes	14.0	24.5	(10.5)	(42.9)%
Net loss	\$ (29.1)	\$ (42.0)	\$ 12.9	(30.7)%
Adjusted Revenues ⁽¹⁾⁽²⁾	\$ 296.4	\$ 305.8	\$ (9.4)	(3.1)%
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 56.9	\$ 75.3	\$ (18.4)	(24.4)%
Adjusted EBITDA less Pre-Publication Costs ⁽¹⁾⁽²⁾	\$ 35.3	\$ 49.2	\$ (13.9)	(28.3)%
Adjusted EBITDA less Capital Expenditures ⁽¹⁾⁽²⁾	\$ 24.2	\$ 36.6	\$ (12.4)	(33.9)%

(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 three months ended June 30, 2017 decreased \$11.0 million, or 3.6%, to \$296.0 million, compared to the prior year period. The decrease was primarily due to lower Adjusted Revenues from our Learning and Gale segments, which decreased \$12.3 million and \$2.2 million, respectively, and unfavorable foreign currency exchange fluctuations of approximately \$1.6 million. These decreases were partially offset by growth in our International business. The decrease in Learning and Gale revenues was primarily related to the continued decline of print products.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Costs and Expenses

Total cost of revenues, excluding depreciation decreased approximately \$3.7 million, or 2.2%, primarily due to a \$3.2 million reduction in print, paper and binding costs and \$0.6 million of lower obsolescence expense, partially offset by a \$2.6 million increase in employee compensation and related costs. Additionally, amortization of pre-publication costs decreased \$2.4 million and amortization costs increased \$0.4 million during the three months ended June 30, 2017.

Selling, general and administrative expenses, excluding depreciation increased \$9.0 million, or 9.5%, to \$103.4 million for the three months ended June 30, 2017, primarily due to a \$3.2 million increase in employee compensation and related costs, a \$1.3 million increase in travel costs, and a \$0.8 million increase in consulting costs. Additionally, during the prior year period, we recorded a \$3.5 million aggregate reduction to our property and sales and use tax reserves as a result of the expiration of statute of limitations for certain periods.

Operational restructuring and other charges, net was \$0.2 million in the three months ended June 30, 2017. The \$0.2 million includes \$0.6 million related to severance costs incurred under the 2018 Program, as well as \$2.7 million related to process reengineering consulting fees incurred under the 2018 Program and a \$3.5 million non-cash write-off of a lease inducement liability in connection with the termination of an existing lease. Charges in the prior year period of \$15.7 million includes \$10.7 million of severance costs, primarily incurred under the 2017 Program, as well as \$4.7 million related to process reengineering consulting fees incurred under the 2017 Program.

Depreciation increased \$0.8 million, or 4.2%, during the three months ended June 30, 2017, compared with the prior year period.

Amortization of identifiable intangible assets remained constant at \$22.5 million for the three months ended June 30, 2017 and 2016.

Non-Operating Items

Loss on early extinguishment of debt, net of \$10.8 million for the three months ended June 30, 2016 represents accelerated amortization of debt issuance costs and discount costs related to the early extinguishment of the \$2.0 billion term loan during the three months ended June 30, 2016.

Other income (expense), net was \$12.2 million and \$2.7 million for the three months ended June 30, 2017 and 2016, respectively. Other income for the three months ended June 30, 2017 was primarily an incentive payment received from a third party in connection with exiting an existing facility. Other expense for the three months ended June 30, 2016 was 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 \$1.9 million, or 5.0%, to \$39.6 million for the three months ended June 30, 2017, primarily due to timing and mix of interest rates on debt issuance in the three months ended June 30, 2016.

Reorganization items, net were \$0.2 million for the three months ended June 30, 2016 and consisted of professional and administrative fees associated with our Chapter 11 reorganization efforts.

Benefit from income taxes was \$14.0 million and \$24.5 million for the three months ended June 30, 2017 and 2016, respectively. The decrease of the effective income tax rate to 32.5% compared with 36.8% in the prior year period was primarily attributable to the projected tax expense recognized upon settlement of stock-based awards and projected U.S. income tax expense recognition on foreign earnings that are not deferred for U.S. tax purposes. For interim income tax reporting, we estimate our annual effective tax rate and apply it to year-to-date ordinary income (loss).

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Segment Operating Results

The Three Months Ended June 30, 2017 Compared with June 30, 2016

<i>(in millions)</i>	Three Months Ended June 30,		Change	
	2017	2016 ⁽¹⁾	\$	%
Adjusted Revenues ⁽²⁾				
Learning	\$ 185.0	\$ 197.3	\$ (12.3)	(6.2)%
Gale	54.3	56.5	(2.2)	(3.9)%
International	57.1	52.0	5.1	9.8 %
Total	\$ 296.4	\$ 305.8	\$ (9.4)	(3.1)%
Adjusted EBITDA ⁽²⁾⁽³⁾				
Learning	\$ 26.5	\$ 45.4	\$ (18.9)	(41.6)%
Gale	20.4	22.4	(2.0)	(8.9)%
International	10.0	7.5	2.5	33.3 %
Total	\$ 56.9	\$ 75.3	\$ (18.4)	(24.4)%
Adjusted EBITDA less Pre-Publication Costs ⁽²⁾⁽³⁾				
Learning	\$ 14.7	\$ 29.5	\$ (14.8)	(50.2)%
Gale	14.2	16.7	(2.5)	(15.0)%
International	6.4	3.0	3.4	113.3 %
Total	\$ 35.3	\$ 49.2	\$ (13.9)	(28.3)%
Adjusted EBITDA less Capital Expenditures ⁽²⁾⁽³⁾				
Learning	\$ 4.7	\$ 18.3	\$ (13.6)	(74.3)%
Gale	13.4	15.7	(2.3)	(14.6)%
International	6.1	2.6	3.5	134.6 %
Total	\$ 24.2	\$ 36.6	\$ (12.4)	(33.9)%

(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 three months ended June 30, 2017 decreased \$12.3 million, or 6.2%, primarily driven by the continued decline of print products, partially offset by growth associated with our core digital product sales.

Gale Adjusted Revenues for the three months ended June 30, 2017 decreased \$2.2 million, or 3.9%, primarily due to declines in the U.S. archives and print businesses, partially offset by increases in Latin America.

International Adjusted Revenues for the three months ended June 30, 2017 increased \$5.1 million, or 9.8%, primarily due to increased sales of our higher education products in Australia and ELT products in Asia, partially offset by lower sales in our Australian school business.

Learning Adjusted EBITDA less Pre-Publication Costs for the three months ended June 30, 2017 decreased \$14.8 million, or 50.2%, to \$14.7 million due to the contribution of lower Learning Adjusted Revenues and operating expenses associated with our acquisition of WebAssign in September 2016. Additionally, during the first three months of June 30, 2016, we recorded a \$3.5 million aggregate reduction to our property and sales and use tax reserves as a result of the expiration of statute of limitations for certain periods. These decreases were partially offset by lower pre-publication costs due to the timing of spending.

Gale Adjusted EBITDA less Pre-Publication Costs for the three months ended June 30, 2017 decreased \$2.5 million, or 15.0%, as a result of the flow through of decreased Gale Adjusted Revenues and increased spending on pre-publication costs.

International Adjusted EBITDA less Pre-Publication Costs for the three months ended June 30, 2017 increased \$3.4 million, or 113.3%, primarily as a result of the flow through of increased International Adjusted Revenues and timing related lower spending on pre-publications costs.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Reconciliations of Non-GAAP Financial Measures

The following table reconciles revenues to Adjusted Revenues:

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016⁽¹⁾
Revenues	\$ 296.0	\$ 307.0
Impact of foreign currency	0.4	(1.2)
Adjusted Revenues	<u>\$ 296.4</u>	<u>\$ 305.8</u>

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

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

<i>(in millions)</i>	Three Months Ended June 30,	
	2017	2016⁽¹⁾
Net loss	\$ (29.1)	\$ (42.0)
Impact of foreign currency	0.2	(0.2)
Equity-based compensation expense	2.6	3.3
Non-core other operating expenses ⁽²⁾	1.3	1.1
Loss on early extinguishment of debt, net	—	10.8
Amortization of pre-publication costs	26.3	28.7
Operational restructuring and other charges	(0.2)	15.7
Depreciation	19.8	19.0
Amortization of identifiable intangible assets	23.3	22.9
Other expense, net	(12.4)	2.7
Interest expense, net	39.1	37.6
Reorganization items, net	—	0.2
Benefit from income taxes	(14.0)	(24.5)
Adjusted EBITDA	<u>56.9</u>	<u>75.3</u>
Additions to pre-publication costs ⁽³⁾	(21.6)	(26.1)
Adjusted EBITDA less Pre-Publication Costs	<u>35.3</u>	<u>49.2</u>
Additions to property, equipment and capitalized internal-use software ⁽³⁾	(11.1)	(12.6)
Adjusted EBITDA less Capital Expenditures	<u>\$ 24.2</u>	<u>\$ 36.6</u>

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

⁽²⁾ For the three months ended June 30, 2017 and 2016, non-core other operating expenses includes primarily bank fees, management fees and relocation costs.

⁽³⁾ Additions to pre-publication costs and property, equipment and capitalized internal-use software are excluded from segment Adjusted EBITDA less Pre-Publication Costs and Adjusted EBITDA less Capital Expenditures on a constant currency basis and accrual basis. The impact of foreign currency exchange related to additions to pre-publication and additions to property, equipment and capitalized internal-use software costs were immaterial in both the three months ended June 30, 2017 and 2016.

Liquidity and Capital Resources

<i>(in millions)</i>	As of	
	June 30, 2017	March 31, 2017
Cash and cash equivalents	\$ 243.7	\$ 352.3
Current portion of long-term debt	0.3	33.1
Long-term debt	2,246.2	2,239.4

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Our principal sources of liquidity have historically been cash flows from operations and borrowings under our revolving credit facilities. Since 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, the borrowings under our revolving credit facility may vary accordingly.

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, to provide sufficient liquidity to fund our current obligations, debt service requirements, share repurchase program, projected working capital requirements, restructuring 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.

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 the three months ended June 30, 2017, we repurchased \$59.1 million shares, of which \$15.8 million was paid and \$43.3 million was unpaid and accrued in share repurchases payable as of June 30, 2017. On March 14, 2016, we announced a \$50.0 million share repurchase program, all of which was completed in the three months ended June 30, 2016.

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, any time on or after June 15, 2019, at certain redemption prices as defined in the indenture. In addition, under the terms of the Senior Notes we may repurchase the Senior Notes in part, at any time, in the open market, in accordance with federal securities regulations.

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 June 30, 2017, 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 June 30, 2017, we elected to carry the Term Loan as a Eurocurrency Rate Loan with an effective interest rate of 5.34%.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

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, we must prepay a percentage between 0% and 50%, based on our total leverage ratio, of our Excess Cash Flow, as defined in the Term Loan agreement, within five business days after delivery of the financial statements. 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. 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 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 June 30, 2017 and March 31, 2017, the ABL Revolving Credit Facility had no outstanding borrowings and \$7.6 million and \$6.0 million, respectively, in issued and outstanding letters of credit. Our available borrowing base at June 30, 2017, which is based on the balance sheet at May 31, 2017, was \$102.0 million, net of letters of credit.

We paid an unused commitment fee of 0.375% for the three months ended June 30, 2017. Going forward, 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 was 1.75% for the three months ended June 30, 2017, and will vary between 1.75% and 2.25%, depending on the average daily availability. For the three months ended June 30, 2017, we incurred approximately \$0.2 million of commitment fees. For the three months ended June 30, 2017, we incurred less than \$0.1 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.

CENGAGE LEARNING HOLDINGS II, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Summary of Cash Flows

The following table sets forth our cash flows from operating, investing and financing activities:

<i>(in millions)</i>	Three Months Ended June 30,		Change	
	2017	2016	\$	%
Net cash provided by (used in)				
Operating activities	\$ (14.3)	\$ (9.4)	\$ (4.9)	52.1 %
Investing activities	(50.7)	(44.7)	(6.0)	13.4 %
Financing activities	(43.6)	218.1	(261.7)	(120.0)%
Impact on cash and cash equivalents from changes in foreign currency	—	(0.3)	0.3	(100.0)%
Net (decrease) increase in cash and cash equivalents	\$ (108.6)	\$ 163.7	\$ (272.3)	(166.3)%

We revised our previously reported fiscal year 2017 quarterly consolidated statements of cash flows to correct the classification of non-cash investing activities, resulting in a decrease to cash used in operating activities and a corresponding increase to cash used in investing activities of approximately \$5.5 million for the three months ended June 30, 2016. See Note 12, "Supplemental Cash Flow Information", for additional details on non-cash investing activities for each period presented.

Operating activities. Net cash used in operating activities for the three months ended June 30, 2017 increased \$4.9 million, primarily due to an increased use of cash for net working capital and the extinguishment of debt in the prior year period. The increased use of cash for net working capital of \$2.3 million was primarily driven by an increase in accrued interest payable.

Investing activities. Net cash used in investing activities for the three months ended June 30, 2017 increased \$6.0 million primarily driven by the timing of capital expenditures.

Financing activities. Net cash used by financing activities for the three months ended June 30, 2017 was \$43.6 million, compared with net cash provided by financing activities of \$218.1 million for the prior year period. This change is primarily due to the prior year issuance of debt of \$2,312.9 million, partially offset by the repayment of our prior term loan for \$2,010.5 and \$35.4 million of capitalized debt issuance costs and deferred financing fees related to the new debt, with the remainder of the proceeds to be used to fund our \$65 million share repurchase program and \$200 million one-time dividend. Additionally, we made \$15.8 million of share repurchases in the current year period, a decrease of \$34.4 million compared with the prior year period.

New Accounting Standards and Accounting Changes

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2017, we had \$1,669.5 million in outstanding variable rate debt at face value. The current effective interest rate for our variable rate borrowing arrangements is based on a contractual minimum base interest rate, or floor, of 1.0% that currently exceeds the applicable market rate, plus the applicable margin. Accordingly, our variable rate debt is only sensitive to future increases in the applicable interest rate once it exceeds this contractual floor. Additionally, at June 30, 2017, we had \$620.0 million in outstanding debt at a fixed rate of 9.5%.

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 Note 14, "Commitments and Contingencies".

RISK FACTORS

We encourage you to carefully consider the risk factors identified in the "Risk Factors" section in our 2017 Annual Report. These risk factors could materially affect our business, financial condition, and future results and could cause our actual business and financial results to differ materially from those contained in forward-looking statements made in this Quarterly Report or elsewhere by management from time to time. There have been no material changes during the three months ended June 30, 2017 to the risk factors disclosed in our 2017 Annual Report, other than the risk factor disclosed below.

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.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The following table presents information regarding the Company's purchases of common stock during the first quarter of fiscal year 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs
4/1/17 - 4/30/17	—	\$ —	—	\$ 60,948,286
5/1/17 - 5/31/17	120,000	\$ 5.52	120,000	\$ 60,285,886
6/1/17 - 6/30/17	6,756,974	\$ 8.65	6,756,974	\$ 1,830,724

The shares included in the table above were repurchased under our \$65.0 million share repurchase program which expires on May 31, 2018. See Note 8, "Equity," to our financial statements for additional information. The shares may be repurchased from time to time until May 31, 2018 in accordance with federal securities laws. Repurchased shares are retired and returned to the status of authorized but unissued.