Cengage Learning Holdings II, Inc.

Annual Report for Fiscal Year Ended March 31, 2022

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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," "focus," "grow," "deliver," "achieve," or "anticipate" or similar expressions that concern our strategies, priorities, objectives, plans, or goals. In addition, all statements regarding the anticipated effects of COVID-19 and the responses thereto, including the pandemic's impact on general economic and market conditions, as well as on our business, customers, end markets, results of operations and financial condition and anticipated actions to be taken by management in response to COVID-19 and related governmental and business actions, statements regarding the impact of our restructuring initiatives, our liquidity and capital resources and our expected use of cash, the impact of litigation, as well as other statements that are not strictly historic in nature are forward looking. 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.

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. Readers are directed to risks and uncertainties identified under the "Risk Factors" section of this Annual Report. 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.

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CENGAGE LEARNING HOLDINGS II, INC.

DESCRIPTION OF BUSINESS

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

Our Company

Cengage Group is a global education technology company serving millions of learners with affordable, quality digital products and services that equip students with the skills and competencies needed to be job ready. For more than 100 years, we have enabled the power and joy of learning with trusted, engaging content, and now, integrated digital platforms. We serve the higher education, workforce skills, secondary education, English language teaching and research markets worldwide. Through our scalable technology, including MindTap and Cengage Unlimited, we support all learners who seek to improve their lives and achieve their dreams through education.

For the fiscal year ended March 31, 2022, we had Adjusted Revenues of approximately $1,374.1 million and Adjusted EBITDA less Pre-Publication Costs of approximately $332.3 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for our definition of Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs and a reconciliation of Adjusted Revenues to revenues and Adjusted EBITDA less Pre-Publication Costs to net loss.

COVID-19. The ongoing impact of COVID-19 on our future operational and financial performance will depend on many highly uncertain developments. These include but are not limited to the duration of the pandemic, emergence of new variants, rolling pandemic hotspots, the efficacy of vaccinations, vaccination rates, and impact on our customers, our sales cycle, our partners and employees. The continuing impact and future developments of COVID-19 remain uncertain and difficult to predict. See Risk Factors, "The impact of COVID-19 on our operations, and the operations of our customers, suppliers and print providers, may harm our business," and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Our Strategy

Each business in the Cengage Group portfolio operates in attractive education markets where our products and services are differentiated and satisfy the needs of millions of learners globally. Our market facing strategy is underpinned by our ability to leverage synergistic assets across our portfolio – sharing content, platforms, support services, products, customer insights and best practices to ensure market leading performance.

During fiscal year 2022, we remained focused on our three strategic priorities and made meaningful progress toward achieving our highest order aspiration to help millions of people successfully pursue education to gain meaningful employment and lead choice-filled lives.

Our first priority is to drive digital adoption in our U.S. Higher Education business to capture significant remaining growth opportunity. Based on our market leadership around student affordability and the success of our differentiated digital strategy with Cengage Unlimited, we will leverage our technology platforms, high-quality content, faculty services and commercial innovation in our efforts to ensure continued outperformance of the industry, despite ongoing enrollment challenges.

Our second priority is to rapidly grow our workforce skills business to meet the exploding demand for career-focused learning. We believe this opportunity will be our most prominent area of growth during the next decade. We will seek to capitalize on this opportunity by rapidly growing our already sizable foothold in online skills education by investing in our ed2go business, currently serving the academic channel, and expand our reach to serve employers, governments and learners, directly. In addition, on February 28, 2022, Cengage Group successfully completed the acquisition of Infosec Institute Inc. ("Infosec"), a leading provider of cybersecurity education and training. With our ability to scale our online training across channels, we will help millions of learners reskill and upskill into meaningful employment and simultaneously, close the skills gap in high demand job fields such as allied health and cybersecurity.

Our third priority is to leverage the many synergies across our portfolio to create value in adjacent markets and drive operational efficiency and scale. Our businesses share technology, content and distribution platforms, which we believe positions us for long-term growth and competitive advantage. The shift of all businesses in our portfolio to greater emphasis on digital creates opportunity to further leverage our shared assets, capabilities and learnings based on our successful transformation of the U.S. Higher Education core business. In this context, we made the decision, effective during the first quarter of fiscal 2023, to organize our portfolio of businesses into three core business units. First, we integrated our three course solutions businesses – U.S. Higher Education, International Higher Education and Secondary Education – into one business unit, Cengage Academic. This change is intended to maximize our ability to leverage synergies across these businesses that share content, technology platforms and support services. In addition, the investments we have made in our U.S. Higher Education business during the past five years to effectively migrate that business to over 80% digital, will now be further leveraged with International Higher Education and Secondary Education to power their digital migration. Not only does this integration allow us to deliver digital products faster, but it will also significantly reduce business complexity.

Our second core business unit, Cengage Work serves the workforce skills market, which is becoming a more substantial and valuable part of the Cengage Group portfolio. Under this re-alignment, our ed2go and Infosec businesses will leverage our entire portfolio's relationships, content, and data to drive future growth.

Lastly, our third core business unit, Cengage Select, consists of the remaining four, strong performing businesses, each serving select markets and customers. These are English Language Teaching ("ELT"), Research, Australia K-12 and Milady.

We believe that our three strategic priorities, supported by the realignment of our business units, represent a clear path to achieve our aspiration to help learners become career ready and will position Cengage Group as the leading provider of college and career learning in the next decade. See Note 21 "Subsequent Events" for further details on the impact these changes will have to our reportable segments in fiscal year 2023.

In our core U.S. Higher Education business, COVID-19 accelerated digital growth in FY21 (17% digital unit growth, and more than 10 percentage points improved compared to recent prior years). FY22 witnessed what we believe will be a temporary reduction in digital growth, as the full weight of undergraduate enrollments (down 3.4% versus the prior year) served as a headwind on digital growth, and the pace of new digital adoptions slowed over a period in which our sales organization was unable to be in the field with customers due to COVID-19. Our belief in the temporary nature of reduction in digital growth is supported by feedback from our sales organization which is now back in the field and insights from recent customer surveys, which show:

- Very satisfied digital customers: 8.2 average satisfaction (0-10 scale) among Cengage instructors using courseware in fiscal year 2022 Spring
- High customer intent to stay in digital: +86% of Cengage instructors state they will continue using courseware in fiscal year 2023 Fall
- Positive outlook for digital use from faculty and administrators: 51% of administrators and 46% of faculty are more optimistic about learning materials from pre-pandemic.

Another key trend is the demand for shorter, more flexible, affordable education that is targeted to specific skills and career training pathways. These dynamics have been further accelerated by structural gaps between the supply of qualified candidates and job demand in our target disciplines and are driving significant growth in the workforce skills market.

Amidst these shifting demand drivers, we are proactively positioning our portfolio to become a leader in the large and rapidly growing workforce skills segment by:

- growing our digital user base by broadening our capabilities in the academic, direct to consumer, and employer channels, as well as internationally;
- focusing on market verticals which have unmet structural demand, such as allied health and cybersecurity; and
- leveraging our core assets and capabilities to enable students' choice in how, where and when they pursue education to achieve their goals.

This strategy increasingly meets the needs of students and employers with a sustainable and increasing revenue growth profile. Investment in the workforce skills market is important for learners and we believe unlocks growth opportunities for our shareholders, employees, and other stakeholders in our Company.

Grow our digital user base with high quality and affordable digital solutions. In our core U.S. Higher Education business, which represents approximately 50% of our annual revenues, we continue to focus on the significant digital growth opportunities in the industry, including winning new digital adoptions, moving existing adoptions from print to digital and driving sell-through and usage of existing digital users. To capture these opportunities, we are continuing to invest in our differentiated technology platforms, high quality content and faculty services. In parallel, we will continue to lead the industry in affordability, innovate our commercial models and invest in our go to market capabilities.

Our innovative digital solutions are based on deep research and understanding of today's students and their workflow, which increases the usefulness and desirability of the solutions by both faculty and end users. The growth in our digital business gives us access to a greater number of students in any given classroom and generates new sources of revenue from our existing customers. In contrast to print publications, our digital products cannot be resold or transferred. We therefore realize revenue from every end user, which doubles the value capture of the average class using Cengage materials and results in recurring and predictable revenue streams. Digital formats also free us from traditional publishing cycles, increasing our speed-to-market and affording us greater ability to tailor our offerings by course and even by specific faculty and student preferences.

In recent years, we launched a number of initiatives to lower the barrier of entry to affordable learning while preserving student and instructor choice. The result has been higher digital penetration, shifting users towards the most effective and accessible digital solutions. The key pillar of our affordability strategy is Cengage Unlimited, our subscription service that provides access to our full catalog of digital courseware (when enrolled in a course) and eTextbooks for $124.99 per semester ($189.99 for annual, $249.99 for two-year subscriptions). Cengage Unlimited eTextbook subscription option (which excludes homework solutions) also became available to students for $69.99 per semester in August 2020. We complement our Cengage Unlimited subscription with two fast-growing institutional-bill models:

- **Cengage Unlimited for Institutions:** for schools that want the lowest possible per unit cost, reliable cost visibility, and institutional services, Cengage Unlimited for Institutions is the only publisher-offered, contracted, multi-year school per-seat license model in the industry.
- **Inclusive Access:** for schools that have chosen the Inclusive Access model to increase digital access and reduce cost per unit, Cengage offers a well-established and comprehensive Inclusive Access offering in partnership with institutions and channel partners.

This continuing strategy in U.S. Higher Education has been successful in growing digital users in the face of stiff enrollment headwinds. Over the last four years, our U.S. Higher Education business has grown digital units by a CAGR of 7%, despite a minor and we believe temporary fiscal year 2022 decline of -2% (following a 3-year compound growth of 10%, FY18-21). This digital unit growth has resulted in digital net sales now constituting 84% of our U.S. Higher Education total net sales in the fiscal year ended March 31, 2022.

Courseware solutions (MindTap, WebAssign) include an eTextbook plus critical learning assessments, class activities, quizzes, videos / simulations, etc. All digital solutions (courseware and eTextbooks) include faculty teaching resources, integration into learning management systems and test banks.

Across our International Higher Education and Secondary Education businesses we are following broadly similar strategies to grow digital users, refined to the customer needs and dynamics of each segment. The digital strategies in these segments leverage our core technology capabilities and approach, namely, to build products and platforms with underlying features and functionalities which can be leveraged across our segments to create competitive advantage. For example, in the fiscal year ended March 31, 2021, we launched Cengage Unlimited into certain international higher education geographic markets and we leveraged the U.S. Higher Education MindTap courseware platform to deliver a tailored digital experience in secondary education through our MindTap School solution. We have strong digital momentum across these segments – in the fiscal year ended March 31, 2022, digital net sales were 32% of total net sales in International Higher Education, with the equivalent measures being 61% in Secondary Education.

In ELT, the pandemic has accelerated a global shift towards greater use of digital and hybrid learning materials and we continue to invest in robust digital experiences that complement our distinct National Geographic content. Digital net sales were 43% of total net sales this year.

In the research industry, we have digitized virtually all of our reference content and enhanced it with interactive digital tools. Even with demand for print product rebounding this year, we derive more than 80% of our domestic revenues in this segment from digital solutions.

Be the leading provider of trained Allied Health and Cybersecurity talent for U.S. employers. While growing for years, demand for shorter, affordable and more career-focused alternative training pathways is now very prevalent, with COVID-19 acting as a catalyst.

Our Workforce Skills segment, which includes our ed2go and Infosec businesses, is at the forefront of our efforts to support learners who seek additional education and skills to be successful in their careers. ed2go partners with colleges and universities to offer out-of-the box online certificate training courses in career-focused disciplines, including high-demand Allied Health and Information Technology roles, delivered on the ed2go learning platforms. Benefiting from more learners choosing non-degree, certificate pathways and more institutions opting to deliver these courses online, ed2go grew net Advanced Career Training (“ACT”) sales by 29% during the fiscal year ended March 31, 2022 and strengthened its leading position in the rapidly growing continuing education market. We further extended our reach through the recent acquisition of Infosec, which provides instructor-led bootcamp and proprietary library offerings to enterprise, small and medium-sized businesses (“SMB”), and government organizations in both the general cybersecurity awareness training market and the technical upskill and reskilling markets.

Through ed2go’s partnerships with higher education institutions and now Infosec’s partnerships with employers, we are proud to have lifted thousands of learners into a better career with higher wage potential. Looking ahead, we plan to continue our rapid expansion into high-growth verticals where career-aligned certifications are required or strongly preferred by employers, investing in extension across channels, and building a sustainable consumer marketing and commerce capability to drive scale and profitability.

We will leverage our core content and digital platforms to deliver learning that enables students to grow their careers and that adapts to changes in the job market to further support the robust investment that employers, governments, and learners will make on career-focused training. With the depth and breadth of our content, our digital capabilities, scale and customer reach, we believe Cengage Group is well-positioned to become the leading trainer for career growth in the Allied Health and Information Technology fields in these professions.

Leverage our core assets and capabilities to create value across adjacent markets and through economies of scale. Over the course of many years, we have pursued a corporate portfolio strategy that leverages our core content assets, technology platforms and business-enabling capabilities across industry segments and international geographies where we can hold a leading position. We are further focused on segments where there is underlying demand growth that can be enabled by digital solutions.

In International Higher Education our strategy extends our U.S. Higher Education intellectual property and digital solutions into major English-speaking markets where we have established leading positions, including Canada, Australia and the United Kingdom, as well as selective large and growing markets (e.g., India).

In Secondary Education, our strategy is focused on the career and college-readiness segment and the provision of learning solutions to prepare 6th-12th grade students to be successful post-high school, whether in college or employment. In these segments, we also leverage U.S Higher Education content and digital solutions to serve the growing Advanced Placement & Electives and Career and Technical Education markets, where we have a leading position.

In support of our go to market strategies, we have developed leading capabilities at scale in technology and digital solutions, distribution and customer service, and content development, which together with other corporate enabling functions, we leverage across our industry segments. We believe this approach delivers competitive advantage, improves our speed to market and generates significant economies of scale. Further underpinning our strategy is the progressive evolution of our operating model aligned to the digital transformation of our business, our people, and culture which are key drivers of innovation and performance.

To support the growth of our digital offerings across the Company we employ approximately 950 full-time product development and technology employees who develop innovative digital platforms and solutions. Our digital solutions are designed to enhance and complement our content to improve student engagement and learning outcomes. These digital solutions include courseware solutions, assessment solutions, adaptive tools, and analytics. We have made substantial investments in our technology infrastructure and are a leader in the development of high-quality digital content, pedagogy, and tools in our industry. Over the past few years, Cengage has distinguished itself from competitors by focusing its digital product development on making easy-to-use student and instructor experiences, both native to and outside of the learning management system (“LMS”). For example, MindTap complements traditional faculty tools and assessments with student-centered features such as resource centers, personalized learning tools and proprietary analytics to analyze and help advance each student’s individual learning.

Our strong segment positions are driven by industry-leading distribution and customer service capabilities. In U.S. Higher Education, we have a sales force of over 400 sales consultants who, on a daily basis, directly interact with and maintain long-standing relationships with our adopting instructors and customers. The scope and relationships of our sales force allows us to sell multiple products across our industry and more easily introduce and train customers on our new digital product offerings. In addition, our U.S. customer support and services organization of over 300 employees work directly with customers to support product adoption, customization, and implementation. In any given season, we directly interact with customers in thousands of institutions to introduce and explain our products, secure adoptions, ensure product availability through on-site and off-site channel partners, and support implementation and usage of our solutions. We are a best-in-class provider of services to faculty and institutions to help them set-up, customize and grow usage of their adopted digital solutions. Our distribution network and customer relationships are distinct competitive advantages. Our long-standing relationships with customers also provide a source of stability and are a source of repeat business across the industry. In our other segments we have established and dedicated sales forces, and in Secondary Education and International Higher Education, we leverage our core U.S. customer services organization to provision and support our digital solutions.

Our content strategy is built around industry-leading authors, differentiated content and digital first content development capabilities. One of our core competencies is our ability to develop authoritative, pedagogically-sound content linked to digital solutions and assessments that enable demonstrably better learning outcomes. Our content differentiation is a result of long-term partnerships with authors who are recognized experts in their fields and with third-party licensors of authoritative research materials. We have been successful in attracting talented authors and developing long-term, collaborative relationships. For example, in U.S. Higher Education, two of our leading authors include (1) N. Gregory Mankiw, former Chairman of the President's Council of Economic Advisers and among the most respected authors of texts in introductory economics, and (2) Carl Warren, the author of our well-known accounting franchise now in its 28th edition. We typically own the copyright of the materials our authors produce and our agreements with authors usually include favorable non-compete clauses. In recent years we have accelerated our efforts to develop learning content that is more inclusive and representative of the diverse student and faculty population that we support. We have demonstrated our content development capabilities across disciplines and product formats, including a deep understanding of, and commitment to, the process needed to produce high-quality learning solutions. In the research industry, we also maintain long-term agreements for third-party licensed materials from leading content providers, including the American Antiquarian Society, the Bodleian Library at Oxford, The British Library, The Library of Congress, The National Archives of the U.S. and the U.K. and scores of leading research libraries. In the ELT and secondary markets, we operate as National Geographic Learning, leveraging our exclusive relationship with National Geographic that provides access to the world-class National Geographic brand and content.

We strive to have a best-in-class culture and we have an executive management team with a proven track record of outperformance through innovation in the quickly evolving education market. Led by Chief Executive Officer, Michael E. Hansen, the senior management team has consistently prioritized the development of our culture as a key enabler of our strategy and driver of performance. We seek to have a pragmatic, performance-oriented culture anchored in a shared sense of purpose and trust, and we believe our credo and ethos are enthusiastically owned and embodied by our more than 4,500 employees around the globe. We rely on our culture as a key component of our strong track record of transformation, innovation, and performance.

Segments

During the first quarter of fiscal year 2023, we changed our segment reporting structure to better align with the strategic objectives of the Company. See Note 21 "Subsequent Events" for further detail.

For fiscal year 2022 and previously, we were organized into six reportable segments on the basis of products and services provided by each segment, identified as follows:

U.S. Higher Education

In the United States, we are a leader in higher education providing affordable and easy-to-use quality digital solutions in higher education with differentiated customer service and support. We primarily produce digital courseware solutions, course materials and associated services for the academic markets, serving both nonprofit and for-profit higher education institutions. Our core business is comprised of trusted quality solutions, built around differentiated content from marquee authors, supported by distinguished faculty service, and sold through commercial models which prioritize student affordability. For the fiscal year ended March 31, 2022, our U.S. Higher Education segment generated approximately $688.5 million and $405.5 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Market

The U.S. higher education market is comprised of students, professors, and institutions of higher education, primarily two- and four-year colleges and universities, and vocational programs in both nonprofit and for-profit sectors. The United States has a large and complex higher education system with approximately 4,000 higher education institutions, more than one million active faculty, and approximately 17 million students enrolled in, on average, six courses per year.

In higher education, according to Management Practice Inc. ("MPI") survey results of the top six academic publishers, sales of publisher-created course materials were approximately $2.7 billion in 2021 including new digital and print products, excluding purchases of used and rental print products in the secondary market. Industry estimates and internal research suggest college students spend approximately $7 billion in required course materials, which includes spend on used and rental textbooks. Cengage has minimal presence in used and rental segments, with participation limited to a well-established textbook rental program in conjunction with external partners. Faculty and students have progressively increased the adoption of digital solutions, which provide better outcomes and more effective learning solutions for students at affordable price points, leading to strong and continuing growth in digital sales and decreased impact of the used and rental segment.

The course materials industry is stable with a loyal customer base providing greater than 90% retention rates. Faculty, who are the main decider of which materials to use, tend to build their curriculum and teaching around our products, resulting in an average life per adoption of roughly ten years, with new students coming in every semester. Competition in the segment is based on content (brand, pedagogy, and author relationship), technology and platform capabilities, customer service relationships and distribution, and student affordability. Cengage has over 1,000 U.S. Higher Education sales, marketing, and support employees and is differentiated from large competitors through commercial innovation, service, quality of digital solutions, and trusted content in key discipline areas including Economics, Accounting, and Calculus.

Products and Services

- *Digital Solutions.* Cengage is a leader in providing a broad range of digital solutions to students, faculty, and institutions.
    - *eTextbooks*. Cengage eTextbooks provide a digital version of the textbook and are available for all Cengage titles across more than 700 courses. In addition to providing access to the content, Cengage eTextbooks allow students to make highlights, take notes, and use text-to-speech functionality to increase their engagement with materials. Instructors and students choose Cengage eTextbooks (over traditional print textbooks) to improve student affordability and access. Students can get immediate access to Cengage eTextbooks from anywhere at any time (both online or off) and through any device (computer, tablet, or mobile phone). In addition, Cengage eTextbooks can easily integrate into college and university learning management systems to provide a consistent learning environment for students across courses.
    - *Courseware Solutions.* Cengage courseware combines a Cengage eTextbook with an interactive suite of digital learning solutions designed to engage students and offer instructors choice in content, platforms, devices and learning tools. Born out of industry demand and developed based on pedagogically sound principles, our leading platforms include MindTap, with disciplines such as Business & Economics, Social Sciences, Trades & Skills; WebAssign, with disciplines such as Mathematics and Physics; Skills Assessment Manager ("SAM"), with disciplines such as Introductory Computing; Cengage NOW ("CNOW"), with disciplines such as Accounting; and Online Web-based Learning ("OWL"), with disciplines such as Chemistry. These platforms incorporate customizable apps developed by Cengage and independent developers that actively encourage students to interact with their course content, as well as their peers and instructors. Cengage courseware combines authoritative content with a structured but highly flexible and extensible delivery platform to enable instructors and students to incorporate open content in the context of their coursework. Cengage courseware also allows faculty to see individualized engagement scores per student and identify areas where students require additional support. The platform is scalable and flexible, enabling us to easily add new course platform features and functionality across all of our 700 courses or develop discipline-specific features as needed. Individual adoption analytics, as well as comparative white papers developed over many years, prove that Cengage courseware leads to better learner outcomes.
- *Cengage Unlimited*. Cengage Unlimited is the first-of-its-kind subscription service for digital higher education materials. A subscription provides access to thousands of products across 120 disciplines and more than 700 courses for one price-$124.99 per semester, no matter how many Cengage products are used. Students also have the option

to rent print textbooks. Additionally, students have access to learning materials such as flash cards, test preps, study guides, and support materials to ensure college success. Subscribers can prepare and plan for their careers with dozens of modules on career readiness. We also offer an eTextbook subscription that provides access to all Cengage eTextbooks and the option to rent up to four printed textbooks. This subscription gives students access to thousands of eTextbooks for $69.99 per semester. Since launch in 2018, we have sold 5.9 million subscriptions that have resulted in estimated student savings of nearly $490 million.

- *Cengage Infuse*. Cengage Infuse is a unique offering that provides an embedded course kit with a user experience to serve a large and growing segment of instructors who are increasingly leveraging digital resources to teach their courses but who are not yet ready to move to Courseware. These instructors, who represent around 50% of teaching faculty, leverage their LMS, publisher digital course materials and third party resources to support their students in this hybrid teaching style.
- *Print textbooks and materials*. Cengage publishes a wide variety of print products including textbooks, study guides, laboratory exercises, instructor editions and supplemental products. These materials are based on the same best-in-class authoritative, reliable, and current content that is featured in our digital products. We maintain leading positions in many major disciplines and publish textbooks by several of the most talented and well-known academic authors such as Ron Larson in mathematics and N. Gregory Mankiw in economics. In many cases, our print products are sold together with and complement our digital solutions.
- *Services.* Cengage offers a variety of services to complement our products, and include course development, custom content development and direct assistance to instructors and students to support effective implementation and ongoing use of our digital and print solutions.

International Higher Education

Cengage's International Higher Education business provides learning materials and digital solutions to post-secondary markets outside the United States. Our strategy in International Higher Education is to leverage our leading U.S. Higher Education content and digital solutions into major English-speaking markets where we have established leading positions (Canada, Australia, United Kingdom, South Africa) as well as selective large and growing markets (e.g., India). This segment also includes our Australia/New Zealand primary and secondary businesses. For the fiscal year ended March 31, 2022, our International Higher Education segment generated approximately $161.1 million and $45.2 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Market

We sell our international higher education products and services into more than 160 countries, with the majority of revenues being derived from those large English-speaking countries where we have leading positions. We serve these global territories through over 200 sales professionals based in 32 countries. The international higher education market is estimated to encompass approximately 215 million students in tertiary education outside the U.S., with enrollment projected to grow by more than 3% annually over the medium-term driven by developing countries. In our fiscal year ended March 31, 2022, the business partially rebounded from the impact of COVID-19 and had an increase in sales of 9%. We believe there is still room for continued recovery to get back to pre-COVID-19 figures as enrollment and demand continues to grow. Future growth is also expected to be driven by increased adoption and demand for digital products. Digital billings grew in fiscal year 2022 by 9% and accounted for 42% of total net sales with approximately 700,000 students using courseware solutions.

Products and Services

In the international markets, we primarily provide both print and digital U.S. course materials directly or adaptations thereof for various local institutions and represent approximately 68% of our annual International Higher Education revenues. The balance of our annual revenues is derived from the production and sale of course materials produced by local authors and other in-market services.

Secondary Education

Cengage Secondary Education is a leader in the career and college-readiness segment providing learning platforms and content to prepare 6th-12th grade students to be successful post-high school – whether continuing their education into traditional post-secondary, degree-conferring options or pursuing skills or vocational training. Cengage Secondary Education programs in Science, Technology, Engineering and Math ("STEM"), Social Sciences, Advanced Placement & Electives ("AP&E"), and Career and Technical Education ("CTE") are used in over 15,000 middle and high schools in the United

States. For the fiscal year ended March 31, 2022, our Secondary Education segment generated approximately $147.0 million and $76.7 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Market

The U.S. 6th to 12th grade market is the launch pad into higher education or the labor market. It is driven by open territory sales, where individual public school districts determine which educational products to use, and state adoption sales, wherein states approve certain products for use in public schools statewide. This market is linked, in part, to state and local budget cycles. Within the U.S. secondary education industry, we are focused on providing learning programs that help students develop skills to succeed in their college or professional aspirations through specific disciplines that are closer to our core higher education offering, including AP&E and CTE.

Product and Services

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

Workforce Skills

Through our ed2go and Infosec businesses, Cengage Group provides online continuing education and workforce training courses, offering students the opportunity to upskill and reskill outside the traditional U.S. higher education degree-conferring path.

Our ed2go business builds market-leading experiences with universities to prepare learners for in-demand careers in industries such as Allied Health, Information Technology, Cybersecurity, and other disciplines. Our unique partner model supports career training and growth with many programs leading directly to professional credentials while also granting the learner a choice of formats and instructor models (including instructor moderated and self-paced.) Our ed2go business includes over 1,200 online courses in high-demand subjects with over 150,000 annual paying students and roughly 1,750 colleges, universities, non-profits, and corporate partners.

Our Infosec business, acquired February 28, 2022, provides cybersecurity bootcamp, library, and phishing training offerings to employers and government organizations. The different offerings support career training and growth through instructor-led digital courses leading directly to cybersecurity certifications or hands-on training for teams via cyber labs and ranges (controlled, interactive technology where cybersecurity learners can practice detecting and mitigating cyber attacks). Our Infosec business includes reskilling, upskilling, and awareness solutions with over 3,800 annual enterprise customers. For the fiscal year ended March 31, 2022, our Workforce Skills segment generated approximately $58.3 million and $9.1 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Market

Providers in the workforce skills market create online learning solutions and hands-on opportunities for learners who seek job training, certification, or continuing professional education through academic institutions, online training programs, or employers. The over $13 billion US workforce skills industry spans a wide range of vocational subject areas and customers including academic institutions and learners, employers who provide training to their employees, workforce boards, and individuals who are seeking professional advancement. This market is fueled by employers who look to the private sector to supplement the K-12 and Higher Education talent pools and employees who seek shorter, more flexible, and targeted training and upskilling programs. The workforce skills industry, which we serve through ed2go and Infosec, continues to grow as learners migrate from traditional classrooms to virtual learning environments, an ongoing trend which has sharply accelerated throughout the COVID-19 pandemic.

Product and Services

Through ed2go, Cengage Group provides an online learning platform with more than 1,200 instructor-led and self-paced courses, including certification prep courses designed for people who want to grow their careers or re-enter the workforce. The ed2go catalog is increasingly focused on creating job outcomes in Allied Health and Information Technology and certificate preparation across a wide range of skills. The offering includes short, skills-based courses that cost approximately

$90 and take 6-9 weeks to complete, and instructor-led Advanced Career Training vocational courses that cost approximately $1,800 and take 6-9 months to complete. ed2go partners with roughly 1,750 academic, non-profit, and corporate partners to deliver these courses, which include Continuing Education departments at both 2-year and 4-year colleges and universities. In addition to allowing learners to receive a highly-valued certificate of completion from the partner institution, these partnerships significantly reduce the cost of learner acquisition.

Infosec is a cybersecurity education platform with comprehensive training solutions for businesses, including technical and non-technical roles delivered through boot camps and online libraries to enterprise, small and medium-sized businesses, and government organizations. Infosec provides clients with role-relevant security training tools that support employees across the entire organization. Role-based training ensures learners engage with relevant training content, retain information, and adopt security habits required for their jobs. Infosec's two main products are Infosec IQ, which delivers security awareness training for non-technical learners to recognize, avoid and report cyber-attacks and security incidents, and Infosec Skills, which offers hands-on training for reskilling and upskilling in the cybersecurity profession.

English Language Teaching

Operating under the National Geographic Learning ("NGL") brand, Cengage's ELT business provides a full range of English language curriculum and digital solutions to academic and general English markets. We currently serve over 65 million students and 55,000 institutions globally. Our solutions span across the full spectrum of pre-K-12, higher education and professional/adult training segments. For the fiscal year ended March 31, 2022, our ELT segment generated approximately $95.8 million of our Adjusted Revenues, despite ongoing challenges as global markets experience different paces of recovery from COVID-19, and a contribution of $12.2 million to our total Adjusted EBITDA less Pre-Publication Costs.

Market

As the global economy grows and becomes more interconnected, proficiency in English provides learners worldwide with access to an expanded set of opportunities. We believe that mastery of the English language is a gateway to a more promising life and career for millions of people around the world. We have sales in more than 125 countries through regional sales organizations which serve North America and Latin America; Europe, the Middle East and Africa; China and Asia. The markets for ELT materials in the regions in which we operate is estimated to be $1.9 billion and growing at a long-term rate of around 5% per year as the number of students increases. While the segment was severely disrupted following the onset of the COVID-19 pandemic, the return of students to the classroom in fiscal year 2022 and the continued adoption of digital solutions to support online and hybrid learning settings resulted in a substantial market rebound and validates the growing use-case for technology-enabled learning within ELT. Fiscal year 2022 saw the introduction of policies in China that have had an impact on the education ecosystem and on the operations of several of our customers. While we believe in the long-term potential for China and the continued desire for students to learn English, our revenue from China will be negatively impacted in the short-term. However, new revenue sources in the public and private K-12 sectors globally are expected to fully offset this impact.

Products and Services

Our ELT business serves a broad spectrum of learners from pre-K-12 students to adults in both public and private learning settings. We provide English language curriculum and digital solutions under the globally recognized and admired NGL brand. Our exclusive partnership with NGL provides us with a significantly differentiated position in the language learning market. Whereas English language learning was traditionally taught through the outdated lens of English cultural heritage, NGL reimagined language learning as a means of connecting students to the spectacular natural and social world around them. Through the stories, ideas, photography and video of National Geographic – combined with Cengage's innovative learning platforms – we create English programs that are inspiring, real, and relevant. Using our English language programs, students learn about their world by experiencing it.

Our National Geographic Learning business focuses on expanding Cengage's market share by concentrating investment on flagship products and on go-to-market teams addressing the most profitable segments in Latin America, the Middle East, Europe and Asia.

Research

Through our Gale business, we offer research and learning platforms to libraries around the world, and we publish original content, primary source archives and aggregated periodicals for colleges, universities, schools, and businesses. For the fiscal year ended March 31, 2022, our Research segment generated approximately $204.7 million and $83.2 million of our total Adjusted Revenues and Adjusted EBITDA less Pre-Publication Costs, respectively.

Market

Publishers and aggregators in the library research market distribute journals, encyclopedias and directories, periodical databases, primary-source research archives and scholarly monographs. These materials are principally sold to academic, public, K-12, corporate and government libraries. According to a recent industry report, the market size of library spend for Gale products is approximately $1.5 billion. The research industry has experienced increased demand for digital content with enhanced functionality, accessibility, authority, and depth that is differentiated from free content available on the Internet. Increasingly, libraries are investing in technologies to organize and manage vast amounts of digital content and to provide analytical tools for scholarly research. Furthermore, we observe a shift in K-12 research activity from the library to the classroom, providing us another avenue to deliver our content to students.

Product and Services

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

Gale extends its content from the library to the classroom by integrating into learning management systems, as well as Cengage’s courseware. Through innovative digital products that are mobile-responsive and easily adaptable, Gale delivers content and technology that integrates seamlessly with classroom curriculum, driving utilization within student, faculty, and researcher workflows.

Gale sells directly to libraries in communities, schools, and universities as well as to library consortia. Gale has direct representatives in all major developed countries, having expanded its sales presence in the Middle East and Asian markets. In addition to selling to libraries, Gale also licenses its proprietary and third-party content for integration with web-based information providers. Gale currently has strategic business distribution arrangements with many leading information services, including Associated Press, Amazon.com, Inc., Bloomberg, Google, Inc., *The New York Times, The Washington Post, The Financial Times, The Economist, The Times of London,* LexisNexis, National Geographic Society, and The British Library.

Competition

Cengage operates in a highly competitive industry with significant established competitors across all the segments in which it operates. Differentiating factors include quality of content and digital solutions, customer service and support, price and affordability, and reputation. Our traditional competitors in the U.S. and international higher education industry are Pearson, McGraw-Hill, Macmillan, WW Norton, Oxford University Press, John Wiley & Sons, and over 100 smaller traditional content material providers. In addition, in U.S. higher education industry we are increasingly competing with Open Education Resources (“OER”) and self-assembled instructor materials. Competitive positions and players can vary significantly on a discipline-specific basis. We also compete for student share of wallet with alternative options to new course materials, including used and rental options, counterfeit textbooks, illegal PDFs, and students choosing to not purchase textbooks or course materials.

Our secondary education business primarily competes in the U.S. with McGraw Hill, Houghton Mifflin Harcourt and Savvas Learning Company. Our workforce skills competitors include internal Continuing Education departments at academic institutions, CareerStep, Pluralsight, and Trilogy, as well as Knowbe4 and SANS Institute. Globally, our ELT brand competes with Pearson, Cambridge, and Oxford University Press, while our Gale brand competes with ProQuest, EBSCO Information Services and SAGE Publications Inc.

Organization and Operations

Our Sales and Distribution Model

In U.S. Higher Education we sell and distribute our products directly to students through our e-commerce channels, directly to educational institutions and through channel partners and college bookstores. In the majority of cases, the underlying driver of a sale is an instructor's adoption of Cengage solutions to support courses they are teaching. Cengage and our competitors influence the decisions governing the required solution used for a course by marketing directly to the instructors responsible for selecting their course materials and through the extensive and leading services we offer to support faculty in setting up and delivering online courses and digital learning solutions. The selection of course materials is referred to as an "adoption" in the industry. Our professional sales force has well-established relationships with faculty across many colleges and focus on securing adoptions as well as helping faculty and students realize the full potential of the adopted solution.

With the launch of Cengage Unlimited in 2018 and growth in digital solutions, our direct to student sales channel has grown significantly and represented around 29% of total U.S Higher Education net sales in the fiscal year ended March 31, 2022. We sell directly to students through Cengage.com, offering subscriptions to Cengage Unlimited, stand-alone digital solutions, eTextbooks, textbook rentals, print textbooks, study aids, and supplemental materials designed to enable students to choose solutions that have been adopted for their specific course and best satisfy their individual needs. We also employ a sales force that focuses specifically on Cengage Unlimited and other institutional sales opportunities. These sales are typically more consultative than adoptions by individual instructors, but often promise greater unit volume and economic value to Cengage.

Outside our own e-commerce channels and institutional sales processes, we distribute our products primarily through campus college bookstores and online book retailers which sell directly to students.

In International Higher Education and ELT, sales processes are broadly consistent with U.S. Higher Education, with demand driven by adoption decisions by faculty and institutions, and sales and distribution largely made through third party distributors and bookstores. In International Higher Education, we are investing to expand our e-commerce capabilities to support increased demand for our digital solutions and build direct to student sales. In Secondary Education, demand is driven by adoption decisions at the school district or state level, with orders fulfilled by us directly to the educational institution or in certain cases through state depositories.

In Research, we have a dedicated institutional sales force, which has direct sales relationships with academic institutions and libraries. Our Research products are predominantly digital solutions and services, which are delivered on our digital platforms.

Technology, printing and binding and fulfillment

Technology—The transition from print to digital has enabled us to simplify and transform our operating model and changed our cost structure as resources shifted from manufacture and distribution of physical products to the development and maintenance of technology platforms and their underlying technology. The demand for our digital solutions has increased significantly over the past several years and our content and product development processes are aligned to a digital first approach. Our digital products and platforms are designed with our customers' needs in mind, and we seek to optimize user experience, performance, reliability, and security. The underlying technology development of our digital platforms and delivery of our online content is supported by our technology teams whose costs are included in operating costs or capitalized as new capabilities are developed.

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

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

Corporate Responsibility and Human Capital

Our purpose—articulated through our credo established more than 10 years ago - is to improve lives through education. Our employees are guided by our credo and ethos in their day-to-day work - with each other and with the millions of customers we serve.

As of March 31, 2022, we had approximately 4,500 employees. We believe that we have an engaged and active workforce as evidenced by our annual engagement surveys (see discussion below) and that relations with our employees are satisfactory.

We strive to create a trusting, transparent, respectful and inclusive culture that enables employees to feel comfortable bringing their authentic selves to work and contributing new ideas. Cengage Group's leadership and employees are invited to help create and sustain an employee experience that encourages all members of our team to be their whole selves and feel a sense of belonging. We seek to achieve this in part through a variety of programs that create opportunity for learning, listening and involvement, including:

- ***Amplifying diverse voices:*** Employee resource groups are employee-created and -led internal communities created to provide personal connections and affiliations with a goal to promote diversity, openness, understanding, acceptance and inclusiveness, while contributing to the business by providing advocacy for, feedback around and insight into our strategies and plans.

- ***Engaging employees in our success:*** Our CEO, Michael E. Hansen, hosts weekly townhalls, many of which invite employees to "Ask Michael Anything" and encourage employees to participate in peer recognition programs. We also survey employees annually, referred to as our annual engagement survey, to determine their level of engagement, as well as understand how employees perceive the value of Cengage Group employee communications and manager effectiveness. In our most recent survey, 90% of employees indicated they are proud to work at Cengage Group. Employee engagement remained consistent from fiscal year 2021 to fiscal year 2022 (82% favorability score on the Engagement Index) and exceeded the Perceptyx benchmark by 4.8 percentage points, which we believe illustrate the high degree of commitment and engagement Cengage Group employees bring to their work each day. In addition, since fiscal year 2020, employees reported a 12-percentage point increase in feeling valued.

- ***Fueling employee growth and development:*** Through our annual engagement survey, we know that growth and development are the clear drivers of engagement for Cengage Group employees. We are proud of the work we are doing in this important area and know that it is helping us successfully attract, engage and retain our strong talent. Our employees also recognize this – since fiscal year 2020, employees reported statistically significant increases in knowing what they need to do to advance their career, believing there are career opportunities at Cengage Group for them, and that their current responsibilities are positioning them for further success. In addition, employees reported a 16-percentage point increase in their manager 1:1s being effective at addressing professional development. A few highlights from our intentional focus on growth and development and the resulting impact include:
    - Developed and launched a company-wide Professional Development Framework, which provides systematic support for employees to own their development plan; since Fall 2020 launch, we've had 4,200+ unique visitors, 20,000+ site visits, and 1,000+ employees finding advancement
        - In 2021, 670+ employees earned in-line or upward promotions across the organization
        - In 2021, over 240+ (25% of all 2021 hires) secured upward or lateral advancement through an open internal posting
    - Since 2017, we have invested nearly $8 million in employee learning and development through access to our own ed2go courses, third party licenses to access Udemy's catalog of courses and in the future, we will enable employee access to the range of cybersecurity training and education provided by our recent acquisition, Infosec.
        - In 2021, our employees consumed over 15,000 hours of training via ed2go, Udemy, and internal workshops
    - Reimbursed over $500,000 in 2021 tuition costs for our employees,
    - In 2021, over 13,000 hours of required training completed on compliance and progressive business best practices, including cybersecurity, privacy, diversity, inclusion, equity, and belonging (DEIB), preventing harassment and discrimination, unconscious bias, and inclusive leadership.

  - Launched internal mobility and talent marketing programming, including "Talent LIVE!", a monthly global panel featuring Cengage employees providing guidance for internal applicants preparing to advance into in-demand roles as well as general career management guidance, and creating a networking program for hiring managers / employees to connect.
  - Refreshed people leader expectations

- ***Supporting employee health and wellbeing:*** Cengage Group offers a range of wellness benefits beyond standard healthcare offerings. Employee Assistance Program resources, mental health coverage, work-life flexibility options, workplace gender transitioning support and inclusive facilities are just a few of the practices that promote employee satisfaction, wellbeing and retention.

One key component of our corporate social responsibility efforts is to affirm all learners through the products and services we offer. We are committed to creating education materials and learning experiences that affirm all forms of human difference. Our efforts center on recognizing and reducing implicit biases, being intentional in our learning design and including diverse sources of scholarship and authorship. When relevant, we also work to make sure our products and services leverage current events for even greater learning. For instance, Gale, a Cengage Group brand, helps higher education instructors strengthen students' critical thinking around contemporary social justice issues using historical curricula through an innovative online instructional tool. We welcome opportunities like this to develop materials that reflect all identities, experiences and attributes, encouraging thought and dialogue that can advance society during and beyond important events.

Seasonality and comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of our business. For the fiscal years ended March 31, 2022, March 31, 2021, and March 31, 2020, we derived approximately 54.0%, 56.0%, and 55.0% respectively, of our revenues and approximately 55.0%, 59.0%, and 59.0% respectively, of our gross profit in our second and fourth fiscal quarters, which coincide with the academic calendar. See "Selected Quarterly Financial Data," for additional details on gross profit. This seasonality affects our working capital requirements and hence our overall financing needs. For example, we typically incur a net cash deficit from all of our activities in the first quarter of our fiscal year. Changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates or changes in inventory management practices.

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

Intellectual property

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

We have registered certain patents, trademarks, and service marks in connection with our businesses. We also obtain domain name protection for our Internet domains. We believe we have taken, and continue to take, in the ordinary course of business, all appropriate available legal steps to protect our material intellectual property in relevant jurisdictions.

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

Environmental matters

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

RISK FACTORS

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

Industry and Competitive Marketplace Risks

The impact of global public health epidemics, including COVID-19, on our operations, and the operations of our customers, suppliers and print providers, has had and may continue to have material and adverse effects on our business, results of operations, financial condition and cash flows.

COVID-19 created and will likely continue to create significant volatility, uncertainty and economic disruption to the global economy, as well as businesses, supply chains and capital markets around the world.

The extent to which the COVID-19 pandemic continues to impact our business, operations and financial results depends on numerous evolving factors that are beyond our control and that we may not be able to accurately predict. Such factors include the effect on our supply chain, customers and print providers, changes in consumer behavior and preferences, declines in state revenues and related impacts on educational budgets and the demand for, and the ability of our customers to pay for, our products, all of which could have a material adverse impact on our business, results of operations, financial condition and cash flows. Moreover, the decisions various schools, colleges and universities make with regards to their approach to the pandemic may impact demand for our products and services in ways that we cannot predict and may be challenging for us to respond to. Any resurgence of the virus or the emergence of new strains of the virus, particularly any new strains which are easily transmitted or which are resistant to existing vaccines, may require us or our customers to close or partially close operations once again, which could have a material adverse impact on our business, results of operations, financial condition and cash flows.

We operate in a highly competitive and rapidly changing industry.

We operate in a highly competitive industry with significant established competitors across all our segments. Our traditional competitors in the U.S. and international higher education industry are Pearson, McGraw-Hill, Macmillan, WW Norton, Oxford University Press, John Wiley & Sons, and over 100 smaller traditional content material providers. In addition, in U.S. higher education industry we are increasingly competing with Open Education Resources ("OER") and self-assembled instructor materials. Competitive positions and players can vary significantly on a discipline-specific basis. We also compete for student share of wallet with alternative options to new course materials, including used and rental options, counterfeit textbooks, illegal PDFs, and students choosing to not purchase textbooks or course materials.

Our secondary education business primarily competes in the U.S. with McGraw Hill, Houghton Mifflin Harcourt and Savvas Learning Company. Our workforce skills competitors include internal Continuing Education departments at academic institutions, CareerStep, Pluralsight, and Trilogy, as well as Knowbe4 and SANS Institute. Globally, our ELT brand competes with Pearson, Cambridge, and Oxford University Press, while our Gale brand competes with ProQuest, EBSCO Information Services and SAGE Publications Inc.

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

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

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

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

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

The academic used textbook industry is still a large source of low-cost alternatives for students. Our textbook customers are often presented with the option to purchase a new or used textbook, and we do not generate revenues from any sale after the initial sale of our printed textbooks. In addition, almost all bookstores and online companies are offering textbook rental programs. Online retail websites continue to make the used textbook industry more efficient and increase student access to used textbooks. The rental market also increases the efficiency of the used textbook industry by increasing the return rate of used textbooks which are rented multiple times. We primarily compete against used and rental textbooks on the basis of supply and price. If we are unable to effectively compete with competition presented by the used textbook and rental textbook market, we could experience a loss in sales and our business, financial position and results of operations may be materially adversely affected.

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

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

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

The reversal of case law that made it illegal to import into the United States foreign manufactured version of U.S. Copyrighted products (“Foreign-Manufactured Versions”), without the copyright owner’s consent could cause us to experience a loss in domestic sales if increased units of Foreign-Manufactured Versions and other international versions are imported and resold within the United States in competition with our own domestic product offerings. Further, we may experience a loss in sales outside the United States due to increased prices overseas. If we experience a loss of sales domestically due to increased competition from lower priced Foreign-Manufactured Versions or internationally due to lower demand in overseas industries for higher priced products, our business, financial position and results of operations could be adversely affected.

Increases in the cost of third-party printing and other operating costs could negatively affect our results.

We are dependent on third-party suppliers to print and bind our traditional paper-based products. The loss of, or a significant adverse change in our relationship with a key print vendor could negatively impact our business, financial condition and results of operations.

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

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

A reduction in student enrollment at colleges and universities could lead to decreased demand for our products. Increases in tuition rates, decreases in family income and net worth and a perception that higher education is not connected to the economy, among other factors, can adversely affect demand for higher education. Further, enrollment levels at colleges and universities outside the United States are influenced by the global and local economic climate (including any effects from the COVID-19 pandemic), local political conditions and other factors that make predicting foreign enrollment levels difficult. Reductions in expected levels of enrollment at colleges and universities both within and outside the United States could adversely affect demand for our higher education products and, therefore, reduce our revenues or profitability.

Operational and Strategic Risks

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

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

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

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

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

Paper is the principal raw material used in our business. As a result, our business may be negatively impacted by a paper shortage that is attributed to tightening capacity, labor shortages, and strains on supply chain distributions that could create longer production lead times, late deliveries, and volatile pricing. Paper mills and other suppliers may consolidate or shift course to producing other in demand products and as a result, there may be future shortfalls in supplies necessary to meet the demands of the entire marketplace. We may need to find alternative sources for paper from time to time. The price of paper may fluctuate significantly in the future, and changes in the market supply of or demand for paper could affect delivery times and prices. We may not continue to have access to paper in the necessary amounts or at reasonable prices and a material increase in the cost of paper, loss of customers or penalties on non-delivery of contracts may have an adverse effect on our business, financial condition and results of operations.

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

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

In addition to our own sales force, we offer our products through a variety of third-party distributors, representatives and retailers. We do not ultimately control the performance of our third-party distributors, representatives and retailers to perform as required or to our expectations and we do not control these parties' actions. In addition, some of our distributors, representatives or retailers may market other products that compete with our products. The loss of one or more of our distributors, representatives or retailers or their failure to effectively promote our products or otherwise perform in their functions in the expected manner could adversely affect our ability to bring our products to market and impact our revenues. In addition, measures taken by governmental authorities and private actors to limit the spread of COVID-19 may interfere with the performance of third-party distributors, representatives and retailers, which could adversely affect our ability to bring our products to market and impact our revenues.

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

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

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

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

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

While our primary markets are in the United States, we operate globally and have targeted certain markets outside North America for continued growth. For the fiscal year ended March 31, 2022, approximately 80% of our revenues were from the United States and approximately 20% were from markets outside the United States. International operations and any foreign business expansion we may undertake present numerous risks, including:

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

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

On February 24, 2022, Russia launched a military invasion of Ukraine. Our operations in Russia and Ukraine are small and the direct impact of the invasion is currently not expected to be material to our business. However, the uncertain nature, magnitude, and duration of hostilities resulting from the invasion, including the potential effects of sanctions and increased risk of cyber-attacks, have contributed to increased economic uncertainty, which could negatively impact our results of operations.

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

During the fiscal years ended March 31, 2022, 2021, and 2020, we derived approximately 20%, 18% and 22%, respectively, of our revenues from our international operations. The financial condition and results of operations of our international operations are primarily measured using the foreign currency in the jurisdiction of operation of such business as the functional currency. As a result, we are exposed to currency fluctuations both in receiving cash from our international operations and in translating our financial results back into United States dollars. Assets and liabilities of our international operations are translated at the exchange rate in effect at each balance sheet date. Our income statement accounts are translated at the average rate of exchange during the period. A strengthening of the United States dollar against the relevant foreign currency reduces the amount of income we recognize from our international operations.

In addition, certain of our international operations generate a portion of their revenues in the applicable local currency or in currencies other than the United States dollar, but purchase inventory and incur costs primarily in United States dollars or currencies whose exchange rates are mechanically tied to the value of the United States dollar. The results of our international operations may be adversely affected by an increase in the value of the United States dollar and we may experience transactional gains or losses because of volatility in foreign currency exchange rates.

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

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

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. For the fiscal year ended March 31, 2022 and 2021, we derived approximately 54.0% and 56.0%, respectively, of our revenues and approximately 55.0% and 59.0%, respectively, of our gross profit in our second and fourth fiscal quarters, which coincide with the academic calendar. See "Selected Quarterly Financial Data," for additional details on gross profit. This seasonality affects our working capital requirements and hence our overall financing needs. For example, our fiscal year ends March 31 and we typically incur a net cash deficit from all of our activities in the first quarter. If these seasonal fluctuations are greater than anticipated, our business, financial condition and results of operations may be adversely affected. As we continue to migrate our product and service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be deferred and recognized ratably over the applicable subscription period. With the growth of digital products, accelerated with the launch of Cengage Unlimited in fiscal year 2019 offering 4 month, 12 month, and 24 month subscriptions, our revenue will be recognized over longer periods corresponding to the longer subscription periods. This represents a change from traditional print products where revenues are typically recognized upon shipment of the materials to our customer. Consequently, reported revenues may not be comparable to prior periods as a growing proportion of our revenues are deferred and recognized in subsequent periods. In addition, changes in our customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, in a quarter with the consecutive quarter or in a fiscal year with the prior fiscal year. As a result of Cengage Unlimited we expect an increase in direct to student sales and a shift in the timing of sales closer to the start of the semester, which can result in sales shifting quarters compared to historical quarterly sales. The results of a quarter may be materially impacted as our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates and changes in their inventory levels and inventory management practices.

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

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

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

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

We may explore or consummate strategic transactions, including acquisitions and divestitures, and such transactions may introduce significant risks and uncertainties.

We have been exploring and continue to explore acquisitions of new businesses or assets, divestitures of assets or business lines, credit and equity transaction alternatives and other strategic whole company transactions. Acquisitions, divestitures, credit and equity transaction alternatives and other strategic whole company transactions involve significant risks and uncertainties that could adversely affect our business, results of operations and financial condition. These include, among others, the inability to find potential targets, buyers or investors, as applicable, on favorable terms, disruption to our business and/or diversion of management attention from other business concerns, difficulties in integrating an acquired business and the assumption of new liabilities relating to the acquired business or separating the operations of the divested business and retention of certain liabilities related to the divested business. We have not determined that a transaction is desirable or that acceptable terms are available and we have not identified any particular alternative or counterparty and may not ultimately pursue any transaction.

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

Our acquisition strategy involves a number of risks, including:

- our ability to find suitable businesses to acquire at affordable valuations or on other acceptable terms,
- competition for acquisition targets may lead to higher purchase prices or one of our competitors acquiring one of our acquisition targets,
- prohibition of any of our proposed acquisitions under United States or foreign antitrust laws,
- the diversion of management's attention from existing operations to the integration of acquired companies,

- our inability to realize expected cost savings and synergies,
- expenses, delays and difficulties of integrating acquired businesses into our existing business structure,
- privacy, security, or compliance risks that exist in the acquired business, and
- difficulty in retaining key customers and management personnel.

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

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

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

Legal, Intellectual Property, Regulatory and Compliance Risks

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

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

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

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

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

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

In addition, our customers include academic institutions, libraries and government agencies which rely on various sources of governmental funding, primarily from state and local governments, to purchase products and services we offer.

Accordingly, any decreases or delays in government funding for these institutions, decreases in their budgets or changes in their spending patterns could negatively impact our business, financial position and our results of operations.

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

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

Our failure to win state adoptions or to comply with evolving state laws and regulations on K-12 instructional materials could adversely affect our revenue.

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

We have been, and will likely continue to be, subject to state laws which prohibit the adoption or use in certain state public schools of textbooks, instructional materials or supplemental materials that are not, as determined by that state law, age or developmentally appropriate for student in the K-12 market, which may impact our ability to sell our products and services into those states. In addition, having to create state specific materials to meet those state requirements may increase our cost of doing business.

Failure to comply with state regulations relating to career training programs could have an adverse effect on our Workforce Skill segment and result in the interruption of ed2go's and/or Infosec's ability to provide services in certain jurisdictions.

Our ability to deliver course content to students enrolled in ed2go's and Infosec's career training programs may be subject to state oversight including regulatory licenses and approval for the course content, the faculty members teaching the content, and the recruiting, admissions, and marketing activities associated with the businesses. Laws and regulations vary significantly across states and are constantly evolving, with regulatory authority vesting under various state agencies. We are evaluating whether regulatory licenses or approval may be necessary to operate certain career training programs offered by ed2go or Infosec in certain jurisdictions. However, if we do not obtain the appropriate licenses or address evolving state requirements, regulators could take enforcement action against us which may include imposing penalties or prohibiting ed2go or Infosec from offering certain career training programs in the relevant jurisdiction until such business obtains the required license. Failure to obtain appropriate licenses may also result in private litigants bringing claims against us which could potentially harm our business, results of operations, and financial condition.

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

We are subject to a wide array of different privacy laws, regulations and standards in the United States and in foreign jurisdictions where we conduct business, including but not limited to (i) the Children's Online Privacy Protection Act and state student data privacy laws in connection with personally identifiable information of students, (ii) the Payment Card Industry Data Security Standards in connection with collection of credit card information from customers, and (iii) various EU data protection and privacy laws, including a comprehensive General Data Privacy Regulation that became effective in May 2018. There has been increased public attention regarding the use of personal information and data transfer, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop and the changing nature of privacy laws in the U.S., the

European Union and elsewhere could impact our processing of personal and sensitive information for our employees, vendors and customers.

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

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

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

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

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

We may face legal actions against us that could be time-consuming and costly to defend and have other material adverse effects on our business.

The nature of our business exposes us to the potential for claims by our stakeholders, including our authors, customers and suppliers, related to matters such as contract compliance and intellectual property infringement. In particular, our business is at risk for claims regarding copyrights and other intellectual property rights. In addition, our third-party suppliers may also become subject to infringement claims, which in turn could negatively impact our business.

Litigation is expensive and time-consuming and could divert management's attention from our business and litigation could have an adverse effect on our business, financial condition and results of operations. With regard to intellectual property litigation in particular, if there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. All of these requirements could damage our business. We may have to develop non-infringing technology and our failure in doing so or obtaining licenses to the proprietary rights on a reasonable or timely basis could have an adverse effect on our business, financial condition and results of operations.

Additionally, some or all of our expenditures to defend, settle, or litigate any legal proceedings may not be covered by insurance or could impact our cost and ability to obtain insurance in the future. Our business reputation and our relationship with our employees may also be adversely impacted by our involvement in legal proceedings. Even if we are successful in defending a litigation claim, our litigation costs could be significant, and the litigation may divert time and money away from our operations and adversely affect our performance.

The Company is party to various lawsuits from time to time. For information related to the Company's material legal proceedings, see "Legal Proceedings" and Note 17, "Commitments and Contingencies," to our consolidated financial statements.

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 counterclaims, 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.

Information Technology and Cybersecurity Risks

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

As we continue to drive our digital business, our dependence on the capacity, reliability and security of our hosting facilities and electronic delivery systems to provide our online products, including the platforms for content delivery as well as the digital content to our customers continues to grow. Certain events, such as loss of service from third parties, operational failures, sabotage, break-ins, and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss, or computer viruses, could cause our electronic delivery systems to operate slowly or interrupt their availability for periods of time. Any back-up systems or facilities we maintain may also experience interruptions and loss of service. We do not have a back-up facility for some of our online products. If disruptions, failures or slowdowns of our facilities, electronic delivery systems, or back-up systems or facilities occur, our ability to distribute our products and services effectively and to serve our customers may be adversely affected and we may experience loss of revenues and harm to our reputations, resulting in loss of customers.

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

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

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

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

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

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

Our customers rely on our products and services to collect, secure, store and transmit confidential information. We are driving more digital usage resulting in further exposure of our technology infrastructure due to an increased userbase. We have access to, collect, transmit and maintain private or confidential information regarding our customers, employees, and our business. Our customers rely on the data in our systems being secured from exposure and protected from manipulation. The complexity of our information technology systems makes them vulnerable to a cyberattack, malicious intrusion, and other significant disruptions. Additionally, there has been a steep rise in attacks such as denial-of-service attacks and ransomware attacks globally, and although we employ security controls to help prevent this type of attack, there is still risk that we may lose access to critical business data or experience disruption to our systems and security due to a denial-of-service attack or ransomware attack. In addition, we may be unable to identify, or may be significantly delayed in identifying, cyberattacks and incidents due to the increasing use of techniques and tools that are designed to circumvent controls and to avoid detection. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems that meet our customer's needs while also providing security, privacy, and compliance with ever-changing threats, regulatory landscape, and customers' patterns. Third party cyberattacks, malicious intrusions, physical or electronic, or other significant disruptions could lead to interruptions and delays in customer processing, loss of data, or manipulation of data. Any such event for which we are, or perceived to be, responsible, in whole or in part, could subject us to claims that could harm our reputation and result in significant costs to defend, settle or satisfy. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could materially harm our operating results. We might be required to expend significant financial and other resources to protect against further security breaches or improve our technology infrastructure against further security related incidents. As cybersecurity related incidents continue to evolve, and regulatory focus on these issues continues to expand, additional investments may be required.

Financial and Capital Structure Risks

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

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

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

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

As of March 31, 2022, we had goodwill of $958.2 million and identifiable intangible assets, net, of $790.8 million included on our consolidated balance sheet. On an annual basis and whenever events or changes in circumstances indicate that there may be potential indicators of impairment, we are required to perform impairment tests on our goodwill. We test the carrying value of goodwill for impairment at a “reporting unit” level. A goodwill impairment is the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

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

We have incurred significant debt, and there are risks associated with our indebtedness, including restrictions on our business operations, the requirement to use cash to pay principal and interest, and other risks.

As of March 31, 2022, we had senior notes and a senior secured term loan facility with aggregate principal balances of $620.0 million and $1,641.8 million, respectively, excluding amortization of fees and discount. We also have an asset-based revolving credit facility with a maximum availability of $206.5 million. See Note 10, “Debt,” to our consolidated financial statements for further discussion on availability. Availability is recalculated monthly and equals the sum of eligible accounts receivable and inventory, as defined in the asset-based revolving credit facility agreement. Our available borrowing base as of March 31, 2022, was $107.8 million, net of outstanding borrowings and letters of credit.

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

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

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

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

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

Changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, may adversely affect our financial condition and results of operations.

Certain of our financial obligations, including our term loan credit facility, which is LIBOR based, and our asset backed revolving credit facility, which may utilize LIBOR as a benchmark for establishing the interest rate, may be impacted by the announced changes in LIBOR. On July 27, 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. On March 5, 2021, the FCA made another announcement providing clarification that while certain LIBOR rates will cease to be published after December 31, 2021, including the 1-week and 2-month USD LIBOR, it will continue to publish the 1-, 3- and 6- month USD LIBOR rates through June 2023. The revised timeframe outlined by the FCA may not result in the immediate need to transition to The Federal Reserve Bank of New York's Secured Overnight Funding Rate ("SOFR") in our debt instruments, but the declining use of USD LIBOR in the debt capital markets as a primary benchmark rate, may result in volatility in USD LIBOR or illiquidity in markets that rely on LIBOR that cannot be fully predicted, and could have an adverse impact on the market value for or value of LIBOR-linked loans and other financial obligations or extension of credit held by us. Changes in market interest rates may also influence our financing costs and adversely affect our results of operations, cash flows and liquidity.

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

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

PROPERTIES

Our principal executive office is located at 200 Pier Four Boulevard, Boston, Massachusetts. We lease space around the world for the production, delivery, digital hosting services and customer support of our products and services, sales and marketing, and corporate enabling functions. In many locations, our business operations are co-located and utilized for current operations of all segments to achieve synergies and operational efficiencies. For this reason, we generally do not designate our properties to any segment. The following table describes our principal leased properties as of March 31, 2022, including the approximate space, principal uses and lease expiration dates. We will continue to assess the nature of the traditional office structure and flexible work arrangements on our future real estate needs. We believe we will be able to obtain future space as needed on acceptable and commercially reasonable terms.

Location	Owned or Leased (Expiration Date of Leases)	Approximate Square Feet	Principal Use of Space
Andover, England	4/20/2091	160,000	Warehouse/Office
Boston, Massachusetts	11/30/2029	86,529(1)	Office
Farmington Hills, Michigan	10/31/2031	40,000	Office
Independence, Kentucky	9/30/2024	835,000	Warehouse/Office
Mason, Ohio	7/31/2026	12,629	Mixed Use
Mason, Ohio(2)	1/31/2033	43,382	Office
Melbourne, Australia	10/5/2022	33,336	Office
Mexico City, Mexico	3/31/2024	37,975	Warehouse
Temecula, California	3/31/2024	19,486	Office
Washington, D.C.	3/31/2024	14,497	Vacant

(1) Includes approximately 26,000 square feet of vacant space.

(2) Cengage entered into an 11-year lease agreement in November 2021 and the lease commenced in April 2022 when construction of the office space was completed, and Cengage gained control of the space.

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

LEGAL PROCEEDINGS

See Note 17, "Commitments and Contingencies," to our consolidated financial statements for information regarding our legal proceedings, which information is incorporated herein by reference.

MARKET FOR THE ISSUER'S EQUITY

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

Dividends

There were no dividends declared in the fiscal years ended March 31, 2022 and 2021. We may declare cash dividends in the future.

CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Position
Michael E. Hansen	61	Chief Executive Officer and Director
Eric Sondag	46	Chairman and Director
Alexandra Bernadotte	51	Director
John D. Dionne	58	Director
Marcelo Gigliani	47	Director
Michael Lomax	74	Director
Nathaniel ("Nat") Zilkha	46	Director
Alexander Broich	57	Executive Vice President, President, Cengage Select and General Manager for English Language Teaching
Brooke Carey	42	Executive Vice President, Chief Communications Officer
Jim Chilton	57	Executive Vice President, Chief Information Officer and General Manager for Infosec
Kermit Cook	44	Executive Vice President, Chief Operating Officer
Balraj Kalsi	41	Executive Vice President and General Manager, Cengage Work
Nhaim Khoury	38	Executive Vice President and Co-General Manager, Cengage Academic
Bob Munro	56	Executive Vice President, Chief Financial Officer
Laura Stevens	47	Executive Vice President, General Counsel
Chelsea Valentine	49	Executive Vice President, Chief Technology Officer
Morgan Wolbe	41	Executive Vice President and Co-General Manager, Cengage Academic

Directors

Michael E. Hansen became Chief Executive Officer of Cengage in September of 2012 and has been a Director of Cengage since March 2014. He leads the strategy, performance and ongoing evolution of the global business. With the essential focus Cengage has put on the rapidly growing post-secondary and continuing education market to upskill and reskill, Michael was directly overseeing Workforce Skills in an executive capacity until January 2022. Mr. Hansen has extensive experience in leading organizations through business transformations. Mr. Hansen is a thought leader in the information services sector and he has an expansive track record in developing successful business models and high-performing executive teams. Prior to joining Cengage, between 2006 and 2012, Mr. Hansen was the President and Chief Executive Officer of Harcourt Assessment, the educational materials arm of Reed Elsevier and later became the Chief Executive Officer of Elsevier Health Sciences where he led the transformation of a traditional print publisher into an information-services company. Before joining Reed Elsevier, Mr. Hansen served for several years as Executive Vice President of Operational Excellence at Bertelsmann, leading the portfolio transformation of this $20 billion global media company. Earlier in his career Mr. Hansen was the lead partner and Chairman of the digital convergence practice at the Boston Consulting Group. Mr. Hansen sits on the Business Advisory Council for ProPublica. Mr. Hansen holds a Master of Law degree from the University of Bonn in Germany and an MBA from Columbia University in New York.

Eric Sondag has been the Chairman of the Board of Cengage since May 2014 and has been a Director since March 2014. Mr. Sondag has been a Managing Director of Eurazeo's flagship buyout strategy since 2020. In this role Mr. Sondag is responsible for leading Eurazeo's buyout efforts in North America. Between 2011 and 2020, Mr. Sondag was a Partner at

Searchlight Capital Partners, where he played a key role in leading various organizational development initiatives and executing numerous transactions across priority verticals. In his capacity as Chairman of the Board, Mr. Sondag continues to represent Searchlight. Prior to Searchlight, Mr. Sondag was a senior member of the investment team at GTCR, where he worked primarily on investments in the media, information services and consumer industries. He started his career in investment banking at Wasserstein Perella in Chicago in 1998. Mr. Sondag received a BSc from Georgetown University, and completed the Executive Management Program at INSEAD in Singapore. Mr. Sondag serves on the Board of Advisors for Georgetown University's McDonough School of Business and the board of directors for Elemica.

Alexandra Bernadotte has been a Director of Cengage since January 2021. Ms. Bernadotte is the founder and Chief Executive Officer of Beyond 12, a high-tech, high-touch nonprofit that integrates personalized coaching with mobile technology to increase the number of traditionally underserved students who graduate from college and who translate their degrees into meaningful employment and choice-filled lives. She has more than 18 years of executive management and strategic development experience in both the nonprofit and private sectors. Before creating Beyond 12 in 2009, she served as an Associate Partner at NewSchools Venture Fund, where she oversaw the firm's work to build community and share knowledge among its entrepreneurs. Ms. Bernadotte's previous professional experience includes serving as Executive Director of The Princeton Review's Silicon Valley office; Executive Director of Foundation for a College Education, a nonprofit college access program; co-founder and Vice President of marketing at educational travel startup Explorica; Director of Operations at EF Education; and Operations Manager for a youth substance abuse prevention foundation at the World Health Organization in Geneva, Switzerland. Ms. Bernadotte currently serves on the board of directors of Great Oakland Public Schools and the board of advisors of Foundation for a College Education, the Magnuson Center for Entrepreneurship, and the Presidential Commission on Financial Aid at Dartmouth College. Ms. Bernadotte received her undergraduate degree from Dartmouth College and earned a master's degree with a concentration in policy and organizational leadership from Stanford University. She is an Ashoka Fellow, a Jefferson Award for Public Service winner, a Dartmouth College Social Justice Award and Stanford University Alumni Excellence in Education Award honoree.

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

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

Michael Lomax has been a Director of Cengage since January 2021. Dr. Michael Lomax has served as President and CEO of United Negro College Fund ("UNCF"), the nation's largest private provider of scholarships and other educational support to African American students, since 2004. Under his leadership, UNCF has raised more than $3 billion and helped more than 110,000 students earn college degrees and launch careers. At UNCF's helm, Dr. Lomax oversees the organization's 400 scholarship programs, which award 10,000 scholarships a year. He also launched the UNCF Institute for Capacity Building, which helps UNCF's member HBCUs become stronger, more effective, and more self-sustaining. Under Dr. Lomax's leadership, UNCF has fought for college readiness and education reform through partnerships with reform-focused leaders and organizations and worked to further advance HBCUs with Congress, the administration, and the Department of Education. Before joining UNCF, Dr. Lomax was president of Dillard University in New Orleans and a literature professor at UNCF-member institutions Morehouse and Spelman Colleges. He also founded the National Black

Arts Festival, was a founding member of the Smithsonian Institution's National Museum of African American History and Culture (NMAAHC) and served as chairman of the Fulton County Commission in Atlanta, the first African American elected to that post. He serves on the board of directors of the KIPP Foundation, Teach for America, The Studio Museum in Harlem, and Handshake. Dr. Lomax received a Bachelor of Arts from Morehouse College, a Master of Arts in English Literature from Columbia University, and a Doctor of Philosophy from Emory University.

Nathaniel Zilkha has been a Director of Cengage since January 2020. Mr. Zilkha has been the Co-Founder and Executive Chairman of Firebird Music Holdings since 2022. In this role Mr. Zilkha aligns with premium talent and empowers them with modern brand activation capabilities and scale financial capital. Mr. Zilkha partners with artists, managers, independent labels & publishers, and technology providers to create an integrated ecosystem where creatives thrive. In 2022 Mr. Zilkha became a Senior Advisor to KKR, where he formerly served as a partner between 2007 and 2022. In his capacity as Director of Cengage, Mr. Zilkha continues to represent KKR & Co. Mr. Zilkha held various leadership roles across KKR, including Co-Head of Credit, Head of Alternative Credit and Head of Special Situations. He was a member of the Special Situations Investment Committee, Leveraged Credit Investment Committee, Private Credit Investment Committee, Asia Credit Investment Committee, Credit Portfolio Management Committee, and the KKR Investment Heads Committee. Mr. Zilkha formerly worked in the firm's KKR Private Equity business in the United States and Asia. Mr. Zilkha is Chairman of the Board for Gibson Brands and a member of the board of directors of Hilding Anders and Firebird Music Holdings. He also serves as a member of the board of directors of Save The Music, The Apollo Theater, Gibson Gives, Jazz Aspen, Aspen Country Day School and the Mount Sinai Children's Center Foundation. Mr. Zilkha graduated cum laude from Princeton University and attended the Berklee College of Music.

Committees of the Board of Directors

Our board of directors has two committees: the Audit Committee and the Compensation Committee.

The Audit Committee

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

The Compensation Committee

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

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics (the "Code") that applies to all employees, officers and directors. The Code is available without charge by written request to the attention of our General Counsel at Cengage, 200 Pier Four Boulevard, Boston, MA 02210.

Executive Officers

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

Alexander Broich has been President of Cengage Select since 2017 and General Manager of the Company's English Language Teaching ("ELT") business since 2020. In these dual roles, Mr. Broich is responsible for the growth and development of Cengage Select, which is inclusive of ELT, Research, Australia K-12 and most recently, in the first quarter of fiscal year 2023, was joined by Milady. Mr. Broich also headed up International Higher Education from 2013-2022 and Cengage's Secondary business from 2019-2020. Mr. Broich began with Cengage as President of International in 2013. Mr. Broich brings more than 20 years of corporate and operational senior-level management experience. His strategic planning skills and familiarity with intercultural business practices and communications have contributed to a strong track record in building, growing and developing businesses in changing environments. Mr. Broich holds a PhD in Business Administration from Ludwig Maximilians University in Munich.

Brooke Carey has served as the Chief Communications Officer for Cengage since January 2022. In this role, Brooke is responsible for overall corporate communications and brand strategy, positioning Cengage Group as a leader in the education technology marketplace. Prior to her current role, Brooke held several communication roles within Cengage Group since joining in 2017, starting in the Higher Education business, where she was responsible for communications strategy for product and technology teams before shifting to VP of Internal Communications, where she worked closely with company executives to lead employee communications. Most recently, Brooke served as SVP of Corporate Communications where she oversaw integrated internal and external communications, as well as spearheaded the company rebrand to Cengage Group in August 2021. Before joining Cengage Group, Brooke held communications roles at Fidelity Investments and Sappi Fine Paper. Brooke holds an MBA from Northeastern University's D'Amore-McKim School of Business, an MA in Public Relations from Boston University and a bachelor's degree from Bates College.

Jim Chilton joined Cengage in February 2017 as the Chief Information Officer and he has served as the Executive Vice President, since January 2022, and acting General Manager for Infosec, part of the Cengage Work segment, since May 2022. In this role, Jim is responsible for leading all internal business systems in addition to system infrastructure, cybersecurity and compliance, architecture and portfolio management. As acting General Manager, Jim will lead the Infosec team and is focused on providing learning solutions that equip organizations and individuals with the skills and confidence to outsmart cybercrime. Since joining in February 2017, as part of his role, Jim led a comprehensive assessment and transformation of the Global Technology Solutions team – its culture, people, processes and technology – to develop best practices, improve operations and foster innovation that drive business growth. Jim is a seasoned technology and business executive with an extensive background and deep expertise in technology optimization from technical product engineering to business systems management, process management, cybersecurity and customer support. Prior to joining Cengage Group, Jim held executive leadership positions at a broad range of companies in the enterprise software, high tech, and education industries including Dassault Systèmes and SolidWorks. Jim is an active Advisor and Board Member to numerous Boston area efforts and startup companies including Apprenti, MassHire, Actifio, among numerous others. Jim holds an MBA from New Hampshire College (now part of Southern New Hampshire University) and a bachelor's degree in Computer Science from Franklin Pierce University.

Kermit Cook has served as Chief Operating Officer for Cengage since May 2020. In this role, he is responsible for leading critical functions that define how Cengage operates and leverages scale across the organization, including Corporate Strategy, Corporate Development, Supply Chain, Human Resources, Facilities, and Global Technology Services. Prior to the expansion of his current role, for two years, Mr. Cook was responsible for guiding the strategy and operations of Cengage's U.S. School business. Prior to joining Cengage, Mr. Cook worked in a variety of roles globally at KKR Capstone from 2007 to 2020. Most recently, he served as Co-Head of KKR Capstone in the Americas and was a member of KKR's Portfolio Management Committees for Americas Private Equity and Special Situations. Throughout his career, Mr. Cook worked with numerous KKR portfolio companies globally, including GenesisCare, Bis Industries, Unisteel, US Foods, Education Management, Amedisys, and Cengage. Previously he worked for McKinsey & Company in Boston, and he taught high school physics in St. Louis with Teach for America. Mr. Cook holds a B.A and B.E from Dartmouth College, and an M.B.A. and M.A. Ed from Stanford University. Mr. Cook is currently a member of the Board of Trustees at the Linsly School in Wheeling, West Virginia.

Balraj Kalsi has served as the Executive Vice President and General Manager of Cengage Work since January 2022. In this role, Balraj leads the company's online learning business which provides opportunities to upskill and reskill outside the traditional higher education degree-conferring path. Balraj is focused on scaling the business so millions of learners can gain the skills and competencies needed to be job ready or move up in their careers. Prior to leading Cengage Work, Balraj spent three years as a General Manager of Quantitative Disciplines in the U.S. Higher Education group as well as three years as Senior Vice President of Global Technical Product Management where he oversaw all digital platform development for Cengage Group. During his tenure, Balraj helped accelerate the digital transformation of the higher education business, including the launch of Cengage Unlimited. Before joining Cengage Group, Balraj held P&L and Corporate Strategy roles at Skype and Elsevier. Balraj has a bachelor's degree in Economics and Economic History from the London School of Economics and Political Science and he is a board member for the Network of Jewish Human Services Agencies.

Nhaim Khoury has served as the Executive Vice President and Co-General Manager of Cengage Academic, the company's newly created business unit combining its three course solutions-focused businesses – U.S. Higher Education, International Higher Education and Secondary Education – since January 2022. In this role, Nhaim co-leads a cross-functional team driving Cengage Academic commercial strategy and growth, with a specific focus on strategy, sales, marketing and finance functions. Prior to his current role, Nhaim held a number of leadership positions within Cengage Group's U.S. Higher Education business over his seven-year tenure with the company, most recently serving as Senior Vice President of U.S. Higher Education Strategy and Finance. During this time, Nhaim played a central role in shifting the Higher Education business to a digital-first strategy, and the successful launch of Cengage Unlimited. Before joining Cengage Group, Nhaim held several roles at McKinsey & Company, including being a founding member of McKinsey's Fast-Growing Tech initiative. Nhaim holds an MBA from the MIT Sloan School of Management and a bachelor's degree from the Pontifical Catholic University of Peru.

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

Laura Stevens has been the Executive Vice President and General Counsel for Cengage since May 2018. In this role she is responsible for providing legal support for Cengage's business operations, corporate governance, compliance, and litigation. Ms. Stevens and her team provide legal advice, contract negotiation support, dispute management and legal operational support for Cengage's content licensing and acquisition activities. Under her leadership, the realigned Legal team has tackled longstanding challenges of the publishing industry, which enabled the launch of Cengage Unlimited and helped propel the Company's rapid print-to-digital transformation. In addition, Ms. Stevens founded the Cengage Privacy Office to promote industry-leading privacy standards for the responsible use of student data. Playing an essential role at Cengage since 2003, Ms. Stevens joined Thomson Learning, now Cengage, as Publishing Counsel before moving on to the positions of Assistant General Counsel, Intellectual Property and Senior Vice President, Deputy General Counsel before her appointment to General Counsel in 2018. Prior to joining Thomson Learning, Ms. Stevens was an attorney at Brown Raysman in New York City. Ms. Stevens holds a J.D. from Columbia Law School and a bachelor's degree in Political Science and Art History from the University of Rochester.

Chelsea Valentine has served as the Chief Technology Officer since January 2022. In this role, Chelsea is responsible for leading Cengage Group's global technology strategy, driving innovation and creating the company's vision for education technology. Prior to joining Cengage Group, Chelsea served as Chief Technology Officer for Yonder where she worked to build a unified technology and product function that together launched an AI innovation that uses social intelligence to battle misinformation online. Prior to Yonder, Chelsea held a series of technology leadership positions during her seven-year tenure at Macmillan Learning, culminating in her role as the company's first Chief Technology Officer. During her time at Macmillan, Chelsea launched its flagship product line, Achieve, and led the complete revamp of the company's analytical approach to better enable instructor intervention and personalized learning. Chelsea has also held product and technology leadership roles with Sapling Learning (which was acquired by Macmillan) and LibreDigital.

Morgan Wolbe has served as the Executive Vice President and Co-General Manager of Cengage Academic, the company's newly created business unit combining its three course solutions-focused businesses – U.S. Higher Education, International Higher Education and Secondary Education – since January 2022. In this role, Morgan co-leads a cross-functional team focused on delivering high-quality affordable learning products and services. Specifically, Morgan is focused on product development, technology, customer support and operations. From February 2015 until January 2022, Morgan held several leadership positions at Cengage Group, most recently serving as Senior Vice President of Operations, overseeing digital delivery, strategic sourcing, inventory planning, business operations, data management and Cengage Group's creative studio. Prior to joining Cengage Group, Morgan worked at Boston Consulting Group, where he held various roles focused on the consumer and biopharma industries. Morgan holds an MBA from Northwestern University's Kellogg School of Management and a bachelor's degree from Harvard University.

PRINCIPAL STOCKHOLDERS

As of March 31, 2022, there were four beneficial owners with more than 5.0% of Cengage common stock registered in one or more affiliated accounts: Apax Partners, L.P., KKR Asset Management, Searchlight Capital Partners and Monarch Alternative Capital, LP.

Effective March 31, 2014, we adopted an equity incentive plan (the “2014 Equity Incentive Plan”) for certain employees, officers and directors of Cengage, as approved by the Bankruptcy Court, with 4.6 million shares of common stock reserved and available for grant under equity-based awards. Between 2014 and 2017, the number of shares of common stock authorized and available for grant was increased to 7.0 million shares in accordance with the anti-dilution provisions of the 2014 Equity Incentive Plan and an approved increase for the grant of performance-based awards as approved by our Board of Directors and the majority of shareholders. Effective as of November 15, 2018, the Company’s Board of Directors and the majority shareholders adopted an equity incentive plan (the “2018 Equity Incentive Plan”), increasing the aggregate number of common stock available for grant to 9.6 million shares. Following the approval of the 2018 Equity Incentive Plan, the Company does not intend to grant any additional awards under the 2014 Equity Incentive Plan.

As of March 31, 2022, there were approximately 7.1 million shares to be issued upon exercise and vesting of outstanding equity awards and approximately 1.0 million shares of common stock remaining available for future grant under the 2018 Equity Incentive Plan. The stock options outstanding as of March 31, 2022 have a weighted-average exercise price per share of $14.31. See Note 13, “Equity-Based Compensation,” to our consolidated financial statements for additional information.

In August 2014, our shareholders approved and we adopted an equity plan authorizing an aggregate of 100,000 shares of Cengage common stock to be made available for purchase by our officers, employees and directors (the “2014 Equity Purchase Plan”). There have been no shares issued under the 2014 Equity Purchase Plan in the fiscal years succeeding March 31, 2015. As of March 31, 2022, 24,000 shares remain available for issuance under the 2014 Equity Purchase Plan.

We repurchase shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted stock units and delivery of shares. During the fiscal years ended March 31, 2022 and 2021, we spent $1.0 million and $0.7 million, respectively, to acquire shares in connection with net settlement of equity-based awards. As of March 31, 2022, there were approximately 62 million shares of Cengage common stock issued and outstanding.

PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

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

	Fiscal Year Ended March 31,	
(in millions)	**2022**	**2021**
Audit fees	$ 2.3	$ 2.2
Audit-related fees	1.2	—
Tax fees	0.3	0.3
Total	$ 3.8	$ 2.5

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

Audit-Related Fees were for services that are reasonably related to due diligence procedures.

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

It is the policy of the Audit Committee to review in advance and grant any appropriate pre-approvals of all auditing services to be provided by the independent registered public accounting firm and all non-audit services to be provided by the independent registered public accounting firm, and in connection therewith, to approve all fees and other terms of engagement. For the fiscal years ended March 31, 2022 and 2021, the Audit Committee approved all fees billed by PricewaterhouseCoopers LLP prior to the engagement.

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, our fiscal year ends on March 31, and we typically incur a net cash deficit from all activities in the quarter ended June 30. In addition, changes in customer ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates, changes in inventory management practices, and a shift in customer base driven by an increase in direct to student sales of subscription and other products or to institutional sales models. Moreover, the continuing impact and future developments of the COVID-19 pandemic remain uncertain and difficult to predict, which may result in fiscal year 2023 not following historic patterns.

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

The following tables present certain unaudited consolidated quarterly financial information for each of the fiscal quarters during the fiscal years ended March 31, 2022 and 2021. Such information has been prepared on the same basis as the Company's consolidated financial statements and includes all adjustments necessary to state fairly the information for the periods presented.

	Fiscal Year 2022			
(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 301.6	$ 389.2	$ 333.3	$ 347.5
Gross profit[(1)]	140.4	198.5	159.6	171.0
Net (loss) income	(23.0)	1.3	(7.2)	(15.7)

	Fiscal Year 2021			
(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 238.0	$ 376.8	$ 308.6	$ 314.3
Gross profit[(2)]	87.5	177.9	143.8	148.7
Net (loss) income	(63.3)	18.2	(26.0)	(39.0)

(1) Gross profit (defined as net revenues less cost of sales, depreciation and amortization) includes depreciation of $9.8 million, $9.8 million, $9.5 million and $8.7 million for the quarters ended June 30, 2021, September 30, 2021, December 31, 2021 and March 31, 2022, respectively.

(2) Gross profit (defined as net revenues less cost of sales, depreciation and amortization) includes depreciation of $12.2 million, $11.7 million, $11.7 million and $11.7 million for the quarters ended June 30, 2020, September 30, 2020, December 31, 2020 and March 31, 2021, respectively.

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

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

Overview

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

We are a global education technology company serving millions of learners with affordable, quality digital products and services that equip students with the skills and competencies needed to be job ready. For more than 100 years, we have enabled the power and joy of learning with trusted, engaging content, and now, integrated digital platforms. We serve the higher education, workforce skills, secondary education, English language teaching and research markets worldwide. For a full description of our industry, products, services and organizational structure, see "Description of Business."

The ongoing impact of COVID-19 on our future operational and financial performance will depend on many highly uncertain developments. These include but are not limited to the duration of the pandemic, emergence of new variants, rolling pandemic hotspots, the efficacy of vaccinations, vaccination rates, and impact on our customers, our sales cycle, our partners and employees. The continuing impact and future developments of COVID-19 remain uncertain and difficult to predict. As of March 31, 2022, the COVID-19 impact on our consolidated results of operations was modest and we ended the year in a strong liquidity position.

During the first quarter of fiscal year 2023, we changed our segment reporting structure to better align with the strategic objectives of the Company. See Note 21 "Subsequent Events" for further detail.

For fiscal year 2022 and previously, we were organized into six reportable segments on the basis of products and services provided by each segment, identified as follows:

U.S. Higher Education—in the United States, we produce a variety of digital and print educational solutions and associated services for the higher education markets.

International Higher Education - provides learning materials and digital solutions to post-secondary markets outside the United States.

Secondary Education—provides learning platforms and content to prepare 6th-12th grade students to be successful post-high school – whether continuing their education into traditional post-secondary, degree conferring options or pursuing skills or vocational training.

Workforce Skills—through our ed2go and Infosec Institute Inc. ("Infosec") businesses, we provide online continuing education and workforce training courses, offering students the opportunity to upskill and reskill outside the traditional U.S. higher education degree-conferring path. Our ed2go business builds market-leading experiences with universities to prepare learners for in-demand careers in industries such as allied health services, non-coding technology and technical trades. Our Infosec business provides instructor-led bootcamp and proprietary library offerings to enterprise, small and medium-sized businesses ("SMB"), and government organizations in both the general cybersecurity awareness training market and the technical upskill and reskilling markets.

English Language Teaching ("ELT")—operating under the National Geographic Learning brand, provides a full range of English language curriculum and digital solutions to pre-K, primary, secondary and general and academic English markets, globally.

Research—offers research platforms available globally which provide access to our original content, collections of primary source materials and aggregated periodicals to learners at libraries, colleges, universities, schools and businesses.

The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in evaluating performance and determining how to allocate resources.

Throughout the MD&A, our discussion of revenues may include "net sales" which represents gross sales less actual returns of products.

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

To supplement our consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America ("U.S GAAP"), we have presented certain non-U.S. GAAP financial measures in addition to our GAAP results. We believe that these non-U.S. GAAP financial measures provide useful information for evaluating our business performance. We believe that the presentation of Adjusted Revenues and Adjusted EBITDA is appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future as well as other items. Further, we believe Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance and understanding certain significant items. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP. In addition, these non-U.S. GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

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

We present the following non-U.S. 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 profit or (loss) before: provision for income taxes; interest expense, net; other (loss) income, net; goodwill impairment charges; amortization of identifiable intangible assets; depreciation; operational restructuring and other charges, net; amortization of pre-publication costs; loss on early extinguishment of debt; right-of-use asset impairment charges; merger and acquisition-related costs; non-core other operating expenses, and equity-based compensation expense. 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-U.S. GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with U.S. GAAP.

Sources of Revenues

We offer a broad portfolio of products, including digital and print solutions. We compete primarily on the basis of quality of content and digital solutions, customer service and support, price and affordability, and reputation.

- Within the higher education market, we primarily produce digital courseware solutions, course materials and associated services for the academic markets, serving nonprofit and for-profit higher education institutions. Our product offerings to customers include technology and academic services, such as digital homework solutions and support services for use of our digital products, in response to market demand for fully integrated solutions. We distribute our products primarily through traditional campus college bookstores, institutions, online intermediaries and directly to students. We also offer Cengage Unlimited, a digital subscription service for our U.S. higher education business. Cengage Unlimited provides access to all of our digital learning platforms, eTextbooks, online homework and study tools as well as free print for a fixed price that can be subscribed to for one semester, one year, or two years. We also offer an eTextbook subscription that provides access to all Cengage eTextbooks, and the option to rent up to four printed textbooks. We also produce a wide variety of print products including textbooks, study guides, laboratory exercises, instructor editions and supplemental products. Our higher education offerings also include a broad range of digital and print-digital hybrid products.
- Within the secondary education market, we compete in select elective disciplines, including Advanced Placement & Electives ("AP&E"), Career and Technical Education ("CTE"), Science, Technology, Engineering and Math ("STEM"), Social Sciences and English Language Teaching ("ELT"). The school market is composed of state adoption sales, where states approve certain products for use in public schools statewide, and open territory sales, where individual public school districts determine which educational products to use. New product introductions focus on core, on-level, product in largest total addressable market segments to increase the number of opportunities in large districts. Leveraging national editions provide increased opportunity and scale to participate in key state adoptions.
- Within the workforce skills market, we provide online continuing education and workforce training courses, offering students the opportunity to upskill and reskill outside the traditional U.S. higher education degree-conferring path. Our ed2go business builds market-leading experiences with universities to prepare learners for in-demand careers in industries such as Allied Health, Information Technology, Cybersecurity, and other disciplines. Our Infosec business provides cybersecurity training to employers and government organizations through bootcamps, subscription-based course libraries and services focused on broader employee cybersecurity awareness and threat mitigation
- Within the ELT market, through the stories, ideas, photography and video of National Geographic – combined with Cengage's innovative learning platforms – we create English programs that are inspiring, real and relevant. Using our English language programs, students learn about their world by experiencing it.
- Within the research market, we operate principally under our Gale brand. Gale offers research and learning platforms to libraries around the world, publishes original content, primary source archives and aggregated periodicals for colleges, universities, schools and businesses. Gale differentiates itself as a humanities and social sciences publisher and education-focused company serving lifelong learning needs through K-12, public and academic libraries. It holds a unique position within the research space as both a producer of original content in predominantly digital form, and an aggregator of primary source journals and databases. In addition to selling to libraries, we also license our content for integration within web-based information services.

Operating Expenses

Our operating expenses are principally the following:

- Cost of revenues includes both fixed and variable costs directly related to producing our digital products, textbooks and printed proprietary reference materials. This includes fixed and variable costs related to activation fees/royalties on third party technology, royalty payments to our authors, cost of paper, printing and binding, and distribution costs, all of which vary as revenues increase or decrease. Also included in cost of revenues are fixed direct and indirect costs incurred for the production, delivery, digital hosting services and customer support of our products and services such as occupancy and employee-related costs associated with editorial, product management, digital content development, customer service, technical product support and distribution. In addition, cost of revenues includes amortization of pre-publication costs, which are costs related to the development and creation of a book, reference material or other digital and print content, as well as amortization of certain technology-related and author content right identifiable intangible assets;

- Selling, general and administrative expenses include salaries of our sales, marketing and administrative personnel, equity-based compensation expense, marketing and advertising expenses and other costs of operating our business which typically do not vary as revenues increase or decrease. Also classified within selling, general, and administrative expense are other technology costs, which are increasing as our digital transformation continues and we continue to invest in technology;
- Merger-related costs include integration planning costs, legal fees, rating agency fees, and professional services and pertained to the proposed McGraw-Hill merger that was terminated on May 3, 2020;
- Acquisition-related costs include legal fees, professional services and technology integration costs associated with the July 2020 acquisition of certain Nelson Canada assets and the February 2022 acquisition of Infosec;
- Operational restructuring and other charges includes costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with approved restructuring plans, facility closures or other similar activities, knowledge transfer costs, and business strategic consulting costs that are directly related to the restructuring initiatives; and
- Depreciation represents the depreciation of our property, equipment and capitalized internal-use software.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. This seasonality affects our working capital requirements and hence our overall financing needs. For example, our fiscal year ends on March 31, and we typically incur a net cash deficit from all activities in the quarter ended June 30. In addition, changes in customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates, changes in inventory management practices, and a shift in customer base driven by an increase in direct to student sales of subscription and other products or to institutional sales models. Moreover, the continuing impact and future developments of the COVID-19 pandemic remain uncertain and difficult to predict, which may result in fiscal year 2023 not following historic patterns.

As we continue to migrate our service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be recognized ratably over the applicable subscription period, with amounts billed in excess of revenues recognized as deferred revenue. This represents a change from traditional print products where revenues are typically recognized upon shipment of the material to the customer. Reported revenues will continue to shift from being driven by sales in the same period to deferred recognition as revenues attributable to hosted digital solutions are recognized in subsequent periods. Deferred revenue represents amounts billed in advance from our customers that will be recognized as revenues in subsequent periods as products and services are delivered to customers. See Note 3, "Revenue Recognition," to our consolidated financial statements for additional information.

Operational Restructuring, Other Charges and Right-of-Use Asset Impairments

Operational Restructuring and Other Charges

Fiscal Year 2022

During the fiscal year ended March 31, 2022, we implemented restructuring initiatives to support the long-term growth strategy in Secondary Education, implemented a new market-focused operating model in our Research segment and changed our segment reporting structure, effective in the first quarter of fiscal year 2023, to align with our strategic objectives. As a result of these actions in fiscal year 2022 we:

- incurred $8.7 million of severance related costs; and
- incurred $1.7 million of strategic consulting costs as part of the go-to-market strategy implementation which were expensed as incurred.

During the fiscal year ended March 31, 2022, we recorded charges to Corporate Enabling Functions of $0.7 million related to ongoing facility related costs for vacated properties that were expensed as incurred. Additionally, for a prior year initiative, the International Higher Education segment released $0.4 million of severance related costs.

Fiscal Year 2021

During the fiscal year ended March 31, 2021, in connection with the continued evolution of our operating model and our real estate needs with regard to changing working practices, we:

- incurred $6.4 million of severance related costs;
- incurred strategic consulting costs of $1.0 million which were expensed as incurred; and
- incurred $1.1 million of facility exit costs associated with the traditional office structure and remote work evaluation of our real estate portfolio which were expensed as incurred.

Fiscal Year 2020

During the fiscal year ended March 31, 2020, we announced several restructuring cost savings initiatives that were designed to streamline operations and improve our cost structure. These initiatives included actions across our segments and corporate functions, such as streamlining our organizational structure and spending at the functional, business and geographic levels. As a result of these actions in fiscal year 2020 we:

- incurred $18.4 million of severance related costs;
- incurred $1.3 million of strategic consulting costs that were expensed as incurred;
- recorded facility exit charges of $1.3 million associated with vacating and ceasing-use of certain office space which were expensed as incurred.

Right-of-Use Asset Impairments

During the fiscal year ended March 31, 2022, no impairment charges were recorded. During the fiscal years ended March 31, 2021 and 2020, we vacated and ceased use of multiple properties and recorded impairment charges totaling $7.7 million and $2.7 million, respectively.

See Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," to our consolidated financial statements for additional details.

Acquisitions

From time to time, we may complete acquisitions that are complementary to our business strategy and underlying operational plans.

On February 28, 2022, we acquired all of the issued and outstanding equity interests of Infosec for aggregate cash consideration of $190.8 million, subject to customary working capital and certain other adjustments. The acquisition was paid for utilizing cash on hand and included $102.2 million of goodwill and $96.3 million of identifiable intangible assets with a weighted-average useful life of 11.7 years.

On July 7, 2020, we agreed with Nelson Education Ltd. ("Nelson"), our longtime partner in Canada, to terminate Nelson's exclusive distribution rights for our academic product into the Canadian market and to acquire certain assets and assumed liabilities related to Nelson's Canadian adaptations of our titles. The total purchase consideration was $8.8 million, consisting of $5.3 million and $3.5 million of non-cash and cash considerations, respectively. The transaction included $3.5 million of goodwill and $4.8 million of identifiable intangible assets with a weighted-average useful life of 5 years.

See Note 2, "Acquisition," to our consolidated financial statements for additional information on these transactions.

Financial Performance

Consolidated Results of Operations

Fiscal Year Ended March 31, 2022 Compared with Fiscal Year Ended March 31, 2021

	Fiscal Year Ended March 31,		Change	
(in millions)	2022	2021	$	%
Revenues	$ 1,371.6	$ 1,237.7	$ 133.9	10.8 %
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	575.4	537.9	37.5	7.0 %
Amortization of pre-publication costs	81.2	89.1	(7.9)	(8.9)%
Amortization of identifiable intangible assets	7.7	5.5	2.2	40.0 %
Total cost of revenues, excluding depreciation stated below	664.3	632.5	31.8	5.0 %
Selling, general and administrative expenses, excluding depreciation stated below	413.0	376.1	36.9	9.8 %
Merger and acquisition-related costs	3.8	2.5	1.3	52.0 %
Right-of-use asset impairment charges	—	7.7	(7.7)	NM
Operational restructuring and other charges, net	10.7	8.5	2.2	25.9 %
Depreciation	50.5	59.5	(9.0)	(15.1)%
Amortization of identifiable intangible assets	78.6	77.5	1.1	1.4 %
Goodwill impairment charges	—	9.7	(9.7)	(100.0)%
Other expense (income), net	11.3	(0.7)	12.0	NM
Total costs and expenses	1,232.2	1,173.3	58.9	5.0 %
Operating income	139.4	64.4	75.0	116.5 %
Loss on early extinguishment of debt, net	(11.4)	—	(11.4)	NM
Other income (expense), net	1.1	(6.8)	7.9	NM
Interest income	0.5	0.8	(0.3)	(37.5)%
Interest expense	(161.7)	(156.0)	(5.7)	3.7 %
Loss before taxes	(32.1)	(97.6)	65.5	(67.1)%
Provision for income taxes	(12.5)	(12.5)	—	— %
Net loss	$ (44.6)	$ (110.1)	$ 65.5	(59.5)%
Adjusted Revenues(1)(2)(3)	$ 1,374.1	$ 1,244.0	$ 130.1	10.5 %
Adjusted EBITDA(1)(2)(3)	$ 404.9	$ 335.5	$ 69.4	20.7 %
Adjusted EBITDA less Pre-Publication Costs(1)(2)(3)	$ 332.3	$ 262.8	$ 69.5	26.4 %
Adjusted EBITDA less Capital Expenditures(1)(2)(3)	$ 300.4	$ 224.9	$ 75.5	33.6 %

(1) See "Overview" for the definition of this non-U.S. GAAP financial measure.

(2) "Segment Operating Results" for discussion and "Reconciliations of Non-U.S. GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with U.S. GAAP.

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

NM = Not meaningful

Revenues

Revenues for the fiscal year ended March 31, 2022 increased by $133.9 million, or 10.8%, to $1,371.6 million. Across all business segments, the ongoing recovery from COVID-19 has continued to have a significant influence on the environment in which we operate and on customer demand, which has recovered well in many businesses.

- U.S. Higher Education increased $37.3 million, primarily driven by the continued growth in Institutional models (Inclusive Access and Cengage Unlimited for Institutions) and recognition of previously deferred digital revenue which grew significantly in the prior year offsetting the impact of lower enrollments in US higher education institutions;
- International Higher Education increased $16.1 million, with the majority of regions delivering growth, as demand continues to recover compared to the prior year period which was heavily impacted by COVID-19;
- Secondary Education increased $15.2 million, following the strategic shift to focus on AP&E and CTE products at the start of the year, and as a result of normalization of demand and ordering patterns strengthened by the US Elementary and Secondary School Emergency Relief Fund ("ESSER") established to address the prior year impact of COVID-19 on elementary and secondary schools;
- Workforce Skills increased $14.3 million, due to continued growth in Advanced Career Training ("ACT") courses, reflecting the strong underlying demand for online skills training;
- ELT increased $26.2 million, largely related to large orders associated with the commencement of a long-term partnership with new Ministry of Education customer, as well as increases in Asia and Latin America as the international markets continued to recover from the prior year COVID-19 impacts;
- Research increased $18.5 million, led by an increase in eBook, archive, and large print sales in the United States, as libraries re-opened following-COVID-19 shutdowns and ESSER funding provided resources to K-12 academic libraries;
- Corporate Enabling increased $2.5 million, as a result of growth from new customers in our third-party warehousing and distribution services; and
- Favorable foreign exchange fluctuations resulted in a $3.8 million increase in revenue.

See the "Segment Operating Results" below for additional details on each Segment's Adjusted Revenue and Adjusted EBITDA less Pre-Publication performance.

Operating Costs and Expenses

Cost of Revenues

Total cost of revenues, excluding amortization of prepublication costs, amortization of intangible assets and depreciation increased $37.5 million, or 7.0%, primarily related to higher sales volume as institutions and schools reopened following COVID-19 shutdowns. Details of these changes were as follows:

- royalty expense increased by $23.3 million driven by sales growth and product mix effects;
- employee compensation and related expense increased by $11.0 million reflecting temporary compensation deferment measures taken in the prior year to mitigate the uncertainty of COVID-19 and a decrease in capitalized employee related costs due to a higher focus on technology integrations, migrations and proof of concept work;
- paper, print and binding costs grew by $9.3 million and distribution related expenses increased by $3.4 million related to higher sales volume;
- outside services increased by $5.6 million in comparison to the prior year period in which temporary COVID-19 measures impacted certain projects;
- technology infrastructure maintenance increased by $4.6 million largely due to new global technology infrastructure initiatives;
- equity-based compensation expense increased $1.1 million primarily related to timing of new grants under the 2018 Equity Incentive Plan; and

- travel expenses increased $1.0 million compared to the prior year period where travel and events were severely restricted due to COVID-19; partially offset by
- inventory obsolescence expense decreased $21.8 million reflecting prior period inventory obsolescence charges in Secondary Education for products nearing the end of their life cycle as the business pivoted to focus on AP&E and CTE products for high schools.

Amortization of prepublication costs decreased $7.9 million, or 8.9%, as a result of assets fully depreciating in the period, a decrease in pre-publication spend, and accelerated amortization of products at the end of their useful operating life in the prior year period.

Amortization of intangible assets increased $2.2 million, or 40.0%, due to the acquisition of certain author content rights which increased amortization expense $1.2 million and the addition of exclusivity rights that were acquired under a strategic partnership increased amortization expense $0.9 million. For additional details see Note 6, "Identifiable Intangible Assets," to our consolidated financial statements.

<u>Operating Expenses</u>

Selling, general and administrative expenses, excluding depreciation increased $36.9 million, or 9.8%, to $413.0 million for the fiscal year ended March 31, 2022, primarily due to the following:

- employee compensation and related expense increased by $18.8 million reflecting salary increases, investments in Workforce Skills, and normalization of temporary COVID-19 benefits in the prior year from measures taken to mitigate the uncertainty of COVID-19, partially offset by savings from restructuring initiatives;
- sales, marketing and travel expenses increased by $9.7 million compared to the prior year period where travel, trade shows and events were severely restricted due to COVID-19;
- outside services increased by $6.0 million primarily related to non-recurring strategic initiatives;
- third party commissions increased $2.5 million related to an increase in channel partner sales volume; and
- technology infrastructure maintenance increased by $2.0 million largely due to new global technology infrastructure initiatives and laptop purchases; partially offset by
- equity-based compensation expense decreased $3.1 million primarily related to the prior year equity plan modification that resulted in incremental fair value recorded over the remaining vesting of certain equity awards, partially offset by timing of new grants under the 2018 Equity Incentive Plan.

Merger and acquisition-related costs for the fiscal years ended March 31, 2022 and 2021, were $3.8 million and $2.5 million, respectively. In the fiscal year ended March 31, 2022, charges of $3.8 million were related to legal fees and professional services associated with the acquisition of Infosec. In the fiscal year ended March 31, 2021, charges of $1.2 million were related to legal fees and technology integration costs associated with the acquisition of certain Nelson Canada assets and charges of $1.3 million were associated with the proposed merger with McGraw-Hill Education, Inc. that was terminated on May 3, 2020. For additional details on the acquisition of Infosec, see Note 2, "Acquisition," to our consolidated financial statements.

Right-of-use asset impairment charges, in the fiscal year ended March 31, 2022, no impairment charges were recorded, whereas in the fiscal year ended March 31, 2021, multiple properties were vacated and ceased use resulting in the recording of $7.7 million in impairment charges. Refer to Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," to our consolidated financial statements for additional details on these charges.

Operational restructuring, and other charges, net increased $2.2 million to $10.7 million in the fiscal year ended March 31, 2022. The $10.7 million charges included $8.3 million of severance related costs, $1.7 million of strategic consulting costs, and $0.7 million facility exit costs. Charges of $8.5 million in the prior period included $6.4 million of severance related costs, $1.0 million of strategic consulting costs and $1.1 million of facility exit costs. Refer to Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," to our consolidated financial statements for additional details on these charges.

Depreciation decreased $9.0 million, or 15.1%, during the fiscal year ended March 31, 2022, compared with the prior year period. The decrease was primarily due to certain assets becoming fully depreciated, partially offset by an increase related to certain assets being placed in service and the acceleration of depreciation for assets affiliated with a vacated floor within one of our offices.

Amortization of identifiable intangible assets increased $1.1 million, or 1.4%, for the fiscal year ended March 31, 2022. The increase is primarily related to the timing of acquisition-related assets in the current and prior fiscal year.

Goodwill impairment charges, no impairment charges were recorded in the fiscal year ended March 31, 2022.

Other expense (income), net included expense of $11.3 million and income of $0.7 million for the fiscal years ended March 31, 2022 and 2021, respectively. In the fiscal year ended March 31, 2022, a net loss of $15.1 million was recorded as the result of the sale of the owned land and property located in Farmington Hills, Michigan. Additionally, a net gain of $3.8 million was recorded as a result of a lease modification to our original Boston office lease. The same prior year period included a $0.7 million gain on the sale of an equity investment. For additional details on the lease transactions, see Note 18, "Leases," to our consolidated financial statements.

Non-Operating Items

Loss on extinguishment of debt of $11.4 million for the fiscal year ended March 31, 2022 represents accelerated amortization of the remaining unamortized debt issuance costs and discount costs related to the early extinguishment of the $1.6 billion 2016 Term Loan Facility.

Other income (expense), net for the fiscal year ended March 31, 2022 reflects income of $1.1 million primarily related to a gain on the sale of an equity investment and foreign currency transaction gains. In the same prior year period, $6.8 million of expense was recorded primarily related to foreign currency transaction losses.

Interest expense increased $5.7 million, or 3.7%, to $161.7 million for the fiscal year ended March 31, 2022. The primary drivers were a higher average principal balance on the Term Loan Facility and a higher interest rate on the refinanced 2026 Term Loan resulting in a year-over-year increase of $6.7 million, partially offset by $0.6 million lower interest expense on the ABL and $0.7 million lower amortization of deferred financing costs.

Income Tax

Provision for income taxes was $12.5 million for both fiscal years ended March 31, 2022 and 2021. Although the provision for income taxes did not change year-over-year, the split between current and deferred taxes changed primarily relating to increased current tax expense in non-U.S. jurisdictions and decreased deferred U.S. state income taxes. See Note 14, "Income Taxes," to our consolidated financial statements for additional details.

Fiscal Year Ended March 31, 2021 Compared with Fiscal Year Ended March 31, 2020

	Fiscal Year Ended March 31,		Change	
(in millions)	2021	2020	$	%
Revenues	$ 1,237.7	$ 1,327.0	$ (89.3)	(6.7)%
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	537.9	589.5	(51.6)	(8.8)%
Amortization of pre-publication costs	89.1	99.1	(10.0)	(10.1)%
Amortization of identifiable intangible assets	5.5	4.9	0.6	12.2 %
Total cost of revenues, excluding depreciation stated below	632.5	693.5	(61.0)	(8.8)%
Selling, general and administrative expenses, excluding depreciation stated below	376.1	387.1	(11.0)	(2.8)%
Merger and acquisition-related costs	2.5	44.1	(41.6)	(94.3)%
Right-of-use asset impairment charges	7.7	2.7	5.0	NM
Operational restructuring and other charges, net	8.5	21.0	(12.5)	(59.5)%
Depreciation	59.5	64.2	(4.7)	(7.3)%
Amortization of identifiable intangible assets	77.5	76.6	0.9	1.2 %
Goodwill impairment charges	9.7	767.8	(758.1)	(98.7)%
Other income, net	(0.7)	—	(0.7)	NM
Total costs and expenses	1,173.3	2,057.0	(883.7)	(43.0)%
Operating income	64.4	(730.0)	794.4	(108.8)%
Other income, net	(6.8)	3.0	(9.8)	NM
Interest income	0.8	4.5	(3.7)	(82.2)%
Interest expense	(156.0)	(174.6)	18.6	(10.7)%
Loss before taxes	(97.6)	(897.1)	799.5	(89.1)%
Provision for income taxes	(12.5)	(11.8)	(0.7)	5.9 %
Net loss	$ (110.1)	$ (908.9)	$ 798.8	(87.9)%
Adjusted Revenues(1)(2)	$ 1,244.0	$ 1,337.4	$ (93.4)	(7.0)%
Adjusted EBITDA(1)(2)	$ 335.5	$ 362.6	$ (27.1)	(7.5)%
Adjusted EBITDA less Pre-Publication Costs(1)(2)	$ 262.8	$ 283.4	$ (20.6)	(7.3)%
Adjusted EBITDA less Capital Expenditures(1)(2)	$ 224.9	$ 222.6	$ 2.3	1.0 %

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

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

NM = Not meaningful

Revenues

Revenues for the fiscal year ended March 31, 2021 decreased $89.3 million, or 6.7%, to $1,237.7 million. The challenges as a result of COVID-19 continued as the markets are just beginning to stabilize and recover at a varied pace. The pace of the recovery will vary by business and geography.

- U.S. Higher Education increased $6.0 million primarily related to continued digital sales growth driven by the performance of Cengage Unlimited, eTextbooks, and courseware;

- International Higher Education decreased $39.5 million primarily due to the impact of the COVID-19 pandemic containment measures and restrictions;
- Secondary Education decreased $26.2 million primarily driven by a weakness in the school channel attributable to COVID-19 related school budget constraints and lower adoption performance;
- Workforce Skills increased $11.6 million primarily driven by the workforce challenges created by the COVID-19 pandemic that increased demand for online career training courses to upskill and reskill;
- ELT decreased $32.5 million primarily related to shortfalls across all regions resulting from the closure of institutions due to the COVID-19 pandemic;
- Research decreased $13.3 million primarily driven by a decrease in print sales in the United States related to customer budget constraints due to the COVID-19 pandemic, which negatively impacted direct and wholesale orders;
- Corporate Enabling increased $0.5 million, driven by an increase in revenue earned from third-party warehousing and distribution services; and
- There was a $4.1 million increase in revenue due to favorable foreign exchange fluctuations.

See the "Segment Operating Results" below for additional details on each Segment's Adjusted Revenue and Adjusted EBITDA less Pre-Publication performance.

Operating Costs and Expenses

<u>Cost of Revenues</u>

Total cost of revenues, excluding amortization of prepublication costs, amortization of intangible assets and depreciation decreased $51.6 million, or 8.8%, primarily related to the decline in revenues resulting mainly from the COVID-19 pandemic containment measures and restrictions which resulted in the closure of institutions and schools and a shift to an increase in higher margin digital sales, which resulted in the following factors:

- revenue declines contributed to a $27.4 million decrease in paper, print and binding costs;
- product mix and revenue declines contributed to a $14.3 million decrease of royalty expense;
- a $2.6 million decrease in distribution related expenses;
- a $14.6 million reduction, net of employee compensation and related costs primarily attributable to the fiscal year 2020 restructuring cost savings initiative; a reduction in headcount; and an increase in annual incentive costs;
- a $7.0 million decrease related to reduced travel resulting from the COVID-19 pandemic; partially offset by
- an increase of $11.6 million in inventory obsolescence expense primarily related to products nearing the end of their life cycle;
- a $1.7 million increase in software hosting services; and
- a $1.0 million increase in technology infrastructure maintenance.

Amortization of prepublication costs decreased $10.0 million, or 10.1%, primarily related to certain assets becoming fully amortized and a decrease in prepublication spend costs.

Amortization of intangible assets decreased $0.6 million, or 12.2%, primarily attributable to a $0.2 million increase related to fiscal years 2021 and 2020 timing of the acquisition of certain author content rights and a $0.5 million increase related to the prior year non-monetary exchange of an existing identifiable technology and trademark for a perpetual license of the same technology. These increases were partially offset by a decrease of $0.2 million related to a technology asset becoming fully amortized.

<u>Operating Expenses</u>

Selling, general and administrative expenses, excluding depreciation decreased $11.0 million, or 2.8%, to $376.1 million for the fiscal year ended March 31, 2021, primarily due to the following:

- a decrease of $32.5 million related to reduced travel, trade shows, events and marketing resulting from the COVID-19 pandemic restrictions;
- a $4.0 million reduction of real estate and occupancy expense related to vacated office space and temporary office closures during the COVID-19 pandemic; partially offset by
- a $9.4 million increase, net of employee compensation and related costs primarily attributable to an increase in annual incentive costs; and the fiscal year 2020 restructuring cost saving initiative;
- a $9.1 million increase in professional services expenses;
- an increase of $2.1 million in third party commissions;
- a $1.5 million increase in equity-based compensation expenses substantially due to an equity plan modification; refer to Note 13, "Equity-Based Compensation," to our consolidated financial statements for additional details on these charges;
- a $1.3 million increase in credit card transaction fees related to direct to customer sales; and
- the comparison to a $2.7 million write off of deferred rent as a result of a lease buyout of the vacated San Francisco office in the prior year.

Merger and acquisition-related costs for the fiscal years ended March 31, 2021 and 2020, were $2.5 million and $44.1 million, respectively. In fiscal year 2021, charges of $1.2 million were related to legal fees and technology integration costs associated with the acquisition of certain Nelson Canada assets. In the fiscal years 2021 and 2020, charges of $1.3 million and $44.1 million, respectively, were associated with the proposed merger with McGraw-Hill Education, Inc. that was terminated on May 3, 2020.

Right-of-use asset impairment charges for the fiscal year ended March 31, 2021 and 2020 were $7.7 million and $2.7 million, respectively. Refer to Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," to our consolidated financial statements for additional details on these charges.

Operational restructuring and other charges, net decreased $12.5 million to $8.5 million in the fiscal year ended March 31, 2021. The $8.5 million charges, net, in 2021 included $6.4 million of severance related costs, $1.0 million of strategic consulting costs, and $1.1 million facility exit costs. Charges in the prior period of $21.0 million included $18.4 million related to severance related costs, $1.3 million of strategic consulting costs, and $1.3 million of facility exit costs. Refer to Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," to our consolidated financial statements for additional details on these charges.

Depreciation decreased $4.7 million, or 7.3%, during the fiscal year ended March 31, 2021, primarily related to certain assets becoming fully depreciated, partially offset by an increase related to certain assets being placed in service and the acceleration of assets affiliated with vacated space within several of our office locations.

Amortization of identifiable intangible assets increased $0.9 million, or 1.2%, for the fiscal year ended March 31, 2021. An increase of $1.0 million is directly attributable to the Nelson Canada acquisition-related intangible assets.

Goodwill impairment charges of $9.7 million for the fiscal year ended March 31, 2021 related to our North America reporting unit and primarily due to our previously reported International reportable segment, which was significantly impacted by the COVID-19 pandemic. Refer to Note 7, "Goodwill," to our consolidated financial statements for additional details on these charges.

Non-Operating Items

Other (expense) income, net for the fiscal year ended March 31, 2021 was expense of $6.8 million primarily related to foreign currency transaction losses, partially offset by a gain on the sale of an equity investment. The same prior year period income of $3.0 million primarily related to foreign currency transaction gains.

Interest expense decreased $18.6 million, or 10.7%, to $156.0 million for the fiscal year ended March 31, 2021, primarily due to an $18.9 million decrease in the 2016 Term Loan Facility interest driven by a decline in the London Interbank Offered Rate ("LIBOR"), which is mainly attributable to actions taken by central banks around the world in response to the economic crisis related to the COVID-19 pandemic. The decrease was partially offset by a $0.5 million increase in interest expense related to outstanding borrowings under the ABL Facility.

Income Tax

Provision for income taxes was $12.5 million and $11.8 million for the fiscal years ended March 31, 2021 and March 31, 2020, respectively. The current year provision for income taxes is primarily attributable to current tax expense in non-U.S. jurisdictions and an increase in deferred tax expense due to the U.S. valuation allowance being applied to the full year. The increase in expense compared to the same prior period is primarily related to the increase in the U.S. valuation allowance, partially offset by a decrease in tax in non-U.S. jurisdictions.

Segment Operating Results

Fiscal Year Ended March 31, 2022 Compared with Fiscal Year Ended March 31, 2021

	Fiscal Year Ended March 31,		Change	
(in millions)	2022	2021[1]	$	%
Adjusted Revenues[2]				
U.S. Higher Education	$ 688.5	$ 651.2	$ 37.3	5.7 %
International Higher Education	161.1	145.0	16.1	11.1 %
Higher Education	849.6	796.2	53.4	6.7 %
Secondary Education	147.0	131.8	15.2	11.5 %
Workforce Skills	58.3	44.0	14.3	32.5 %
ELT	95.8	69.6	26.2	37.6 %
Research	204.7	186.2	18.5	9.9 %
Total Segments	1,355.4	1,227.8	127.6	10.4 %
Corporate Enabling Functions[3]	18.7	16.2	2.5	15.4 %
Total Consolidated	$ 1,374.1	$ 1,244.0	$ 130.1	10.5 %
Adjusted EBITDA[2][4]				
U.S. Higher Education	$ 433.5	$ 390.2	$ 43.3	11.1 %
International Higher Education	51.2	41.1	10.1	24.6 %
Higher Education	484.7	431.3	53.4	12.4 %
Secondary Education	84.8	55.5	29.3	52.8 %
Workforce Skills	10.3	12.3	(2.0)	(16.3)%
ELT	23.0	7.1	15.9	223.9 %
Research	101.7	93.6	8.1	8.7 %
Total Segments	704.5	599.8	104.7	17.5 %
Corporate Enabling Functions[3]	(299.6)	(264.3)	(35.3)	13.4 %
Total Consolidated	$ 404.9	$ 335.5	$ 69.4	20.7 %
Adjusted EBITDA less Pre-Publication Costs[2][4]				
U.S. Higher Education	$ 405.5	$ 363.8	$ 41.7	11.5 %
International Higher Education	45.2	33.9	11.3	33.3 %
Higher Education	450.7	397.7	53.0	13.3 %
Secondary Education	76.7	46.3	30.4	65.7 %
Workforce Skills	9.1	11.1	(2.0)	(18.0)%
ELT	12.2	(5.2)	17.4	334.6 %
Research	83.2	77.2	6.0	7.8 %
Total Segments	631.9	527.1	104.8	19.9 %
Corporate Enabling Functions[3]	(299.6)	(264.3)	(35.3)	13.4 %
Total Consolidated	$ 332.3	$ 262.8	$ 69.5	26.4 %
Adjusted EBITDA less Capital Expenditures[2][4]				
U.S. Higher Education	$ 405.5	$ 363.8	$ 41.7	11.5 %
International Higher Education	43.9	32.4	11.5	35.5 %
Higher Education	449.4	396.2	53.2	13.4 %
Secondary Education	76.7	46.3	30.4	65.7 %
Workforce Skills	9.1	11.1	(2.0)	(18.0)%
ELT	12.0	(5.9)	17.9	303.4 %
Research	83.1	77.1	6.0	7.8 %
Total Segments	630.3	524.8	105.5	20.1 %
Corporate Enabling Functions[3]	(329.9)	(299.9)	(30.0)	10.0 %
Total Consolidated	$ 300.4	$ 224.9	$ 75.5	33.6 %

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

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

(3) Corporate enabling functions include our corporate and shared services, general & administrative costs which are not allocated to our segments, as well as revenue earned from our warehouse and distribution fulfillment services.

(4) In the second quarter of fiscal year 2022 management identified certain costs, historically included within the Corporate Enabling Function, that are now managed within the various applicable segments. Accordingly, we recast certain prior period amounts to conform to the current year presentation.

U.S. Higher Education Adjusted Revenues for the fiscal year ended March 31, 2022 increased $37.3 million, or 5.7%, due to:

- continued growth in Inclusive Access and Cengage Unlimited sales, increased recognition of deferred billings which offset the impact of lower enrollments in US higher education institutions; and
- growth in our career-focused products and services in our Milady business.

International Higher Education Adjusted Revenues for the fiscal year ended March 31, 2022 increased $16.1 million, or 11.1%, as a result of:

- a majority of regions delivered growth, as demand continued to recover compared to the prior year period which was heavily impacted by COVID-19;
- a significant increase in export sales for the Australian K-12 business, which outweighed the declines from the Australia higher education business which continued to be affected by lower demand due to weak international enrollments; and
- the migration of students to institutional purchases improved sell through in Europe, the Middle East and Canada, with Canada also benefiting from strong eTextbook sales.

Secondary Education Adjusted Revenues for the fiscal year ended March 31, 2022 increased $15.2 million, or 11.5%, as a result of the following:

- the strategic shift to focus on AP&E and CTE products at the start of the year,
- as a result of normalization of demand and ordering patterns strengthened by the U.S. ESSER Fund established to address the prior year impact of COVID-19 on elementary and secondary schools; and
- strong performance from Big Ideas Learning driven by an Alabama adoption.

Workforce Skills Adjusted Revenues for the fiscal year ended March 31, 2022 increased $14.3 million, or 32.5%, primarily driven by the following:

- an increase in ACT sales underpinned by continued strong demand for online skills training; and
- the inclusion of Infosec following the acquisition, increased revenue $2.3 million.

ELT Adjusted Revenues for the fiscal year ended March 31, 2022 increased $26.2 million, or 37.6%, as a result of:

- large orders associated with the commencement of a long-term partnership with a new Ministry of Education customer; and
- increases in sales attributable to growth in Latin America, as schools reopen and demand continues to recover from the prior year which was heavily impacted by COVID-19.

Research Adjusted Revenues for the fiscal year ended March 31, 2022 increased $18.5 million, or 9.9%, led by the following:

- an increase in eBooks, archive, and large print sales in the United States, as libraries reopened following COVID-19 shutdowns, along with additional ESSER funding;
- higher subscription renewals over the prior year period; and
- stronger archive sales performance in EMEA, Asia and Australia as the international markets continued to recover from prior year COVID-19 impacts.

U.S. Higher Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 increased $41.7 million, or 11.5%, to $405.5 million, primarily due to the flow through growth in U.S. Higher Education Adjusted Revenue. Additionally, there was a decrease in annual incentive costs partially offset by an increase in travel expenses and pre-publication spend in comparison to the same prior year period in which temporary measures including reduced travel and delayed projects were taken to mitigate the uncertainty from COVID-19.

International Higher Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 increased $11.3 million, or 33.3%, to $45.2 million, driven by the gross margin benefit of increased International Higher Education Adjusted Revenue. In addition, there was a decline in transition service costs related to the same prior year period acquisition of certain Nelson Canada assets; partially offset by an increase in employee compensation and related costs as the prior year included temporary compensation deferments to mitigate the uncertainty from COVID-19 in the prior year period.

Secondary Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 increased $30.4 million, or 65.7%, to $76.7 million, primarily reflecting higher sales, a decrease in inventory obsolescence expense, which in the prior year was largely impacted by product which was nearing the end of its life cycle, and a decrease in employee compensation and related costs due to business in the first quarter of fiscal year 2022.

Workforce Skills Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 decreased $2.0 million, or 18.0%, to $9.1 million. The gross margin flow through from the Workforce Skills Adjusted Revenue was largely offset by increased employee compensation and related costs driven by the headcount associated with the acquisition of Infosec as well as the expansion of the workforce in line with business growth as well as increased bad debt expense.

ELT Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 increased $17.4 million, or 334.6%, to $12.2 million, primarily driven by the flow through of the strong growth in ELT Adjusted Revenue.

Research Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2022 increased $6.0 million, or 7.8%, to $83.2 million, primarily driven by the gross margin benefit attributable to an increase in Research Adjusted Revenue, partially offset by an increase in employee compensation and related costs and pre-publication spend in comparison to the same prior year period in which temporary measures were taken to mitigate the uncertainty from COVID-19.

Fiscal Year Ended March 31, 2021 Compared with Fiscal Year Ended March 31, 2020

	Fiscal Year Ended March 31,		Change	
(in millions)	2021[1]	2020[1]	$	%
Adjusted Revenues[2]				
U.S. Higher Education	$ 651.2	$ 645.2	$ 6.0	0.9 %
International Higher Education	145.0	184.5	(39.5)	(21.4)%
Higher Education	796.2	829.7	(33.5)	(4.0)%
Secondary Education	131.8	158.0	(26.2)	(16.6)%
Workforce Skills	44.0	32.4	11.6	35.8 %
ELT	69.6	102.1	(32.5)	(31.8)%
Research	186.2	199.5	(13.3)	(6.7)%
Total Segments	1,227.8	1,321.7	(93.9)	(7.1)%
Corporate Enabling Functions[3]	16.2	15.7	0.5	3.2 %
Total Consolidated	$ 1,244.0	$ 1,337.4	$ (93.4)	(7.0)%
Adjusted EBITDA[2][4]				
U.S. Higher Education	$ 390.2	$ 356.1	$ 34.1	9.6 %
International Higher Education	41.1	70.0	(28.9)	(41.3)%
Higher Education	431.3	426.1	5.2	1.2 %
Secondary Education	55.5	76.6	(21.1)	(27.5)%
Workforce Skills	12.3	6.5	5.8	89.2 %
ELT	7.1	32.7	(25.6)	(78.3)%
Research	93.6	93.8	(0.2)	(0.2)%
Total Segments	599.8	635.7	(35.9)	(5.6)%
Corporate Enabling Functions[3]	(264.3)	(273.1)	8.8	(3.2)%
Total Consolidated	$ 335.5	$ 362.6	$ (27.1)	(7.5)%
Adjusted EBITDA less Pre-Publication Costs[2][4]				
U.S. Higher Education	$ 363.8	$ 325.3	$ 38.5	11.8 %
International Higher Education	33.9	63.0	(29.1)	(46.2)%
Higher Education	397.7	388.3	9.4	2.4 %
Secondary Education	46.3	68.5	(22.2)	(32.4)%
Workforce Skills	11.1	5.4	5.7	105.6 %
ELT	(5.2)	20.6	(25.8)	(125.2)%
Research	77.2	73.7	3.5	4.7 %
Total Segments	527.1	556.5	(29.4)	(5.3)%
Corporate Enabling Functions[3]	(264.3)	(273.1)	8.8	(3.2)%
Total Consolidated	$ 262.8	$ 283.4	$ (20.6)	(7.3)%
Adjusted EBITDA less Capital Expenditures[2][4]				
U.S. Higher Education	$ 363.8	$ 325.3	$ 38.5	11.8 %
International Higher Education	32.4	61.4	(29.0)	(47.2)%
Higher Education	396.2	386.7	9.5	2.5 %
Secondary Education	46.3	68.5	(22.2)	(32.4)%
Workforce Skills	11.1	5.4	5.7	105.6 %
ELT	(5.9)	19.7	(25.6)	(129.9)%
Research	77.1	73.5	3.6	4.9 %
Total Segments	524.8	553.8	(29.0)	(5.2)%
Corporate Enabling Functions[3]	(299.9)	(331.2)	31.3	(9.5)%
Total Consolidated	$ 224.9	$ 222.6	$ 2.3	1.0 %

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

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

(3) Corporate enabling functions include our corporate and shared services, general & administrative costs which are not allocated to our segments, as well as revenue earned from our warehouse for third-party distribution services.

(4) In the second quarter of fiscal year 2022 management identified certain costs, historically included within the Corporate Enabling Function, that are now managed within the various applicable segments. Accordingly, we recast certain prior period amounts to conform to the current year presentation.

U.S. Higher Education Adjusted Revenues for the fiscal year ended March 31, 2021 increased $6.0 million, or 0.9%, primarily driven by the following:

- digital sales growth driven by the performance of Cengage Unlimited, eTextbooks, and courseware; and
- lower price attrition compared to prior years, primarily caused by consumer purchase shifts toward lesser priced formats.

International Higher Education Adjusted Revenues for the fiscal year ended March 31, 2021 decreased $39.5 million, or 21.4%, primarily driven by the following:

- declines of higher education product sales across Asia, Australia and Latin America primarily due to the impact of the COVID-19 pandemic containment measures and restrictions;
- a decrease related to a few large non-repeated sales orders when compared to the same prior year period; and
- lower sales of Australian school products; partially offset by
- an increase in sales in higher education products in Canada.

Secondary Education Adjusted Revenues for the fiscal year ended March 31, 2021 decreased $26.2 million, or 16.6%, primarily driven by the following:

- a weakness in the school channel attributable to COVID-19 related school budget constraints; lower adoption performance; and
- deferred product launches.

Workforce Skills Adjusted Revenues for the fiscal year ended March 31, 2021 increased $11.6 million, or 35.8%, primarily driven by the following:

- the workforce challenges created by the COVID-19 pandemic that increased demand for online career training courses to upskill and reskill;
- organizational investment to enhance capability to assist more learners; and
- shift from offline continuing education to online continuing education.

ELT Adjusted Revenues for the fiscal year ended March 31, 2021 decreased $32.5 million, or 31.8%, primarily driven by the following:

- sales declines in ELT products across EMEA, Latin America and the United States resulting from the closure of institutions due to the COVID-19 pandemic.

Research Adjusted Revenues for the fiscal year ended March 31, 2021 decreased $13.3 million, or 6.7%, primarily driven by the following:

- a decrease in print sales in the direct and wholesale markets related to customer budget constraints due to the COVID-19 pandemic; and
- archive sales declined in EMEA and Australia due to COVID-19 travel restrictions and shutdown

U.S. Higher Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 increased $38.5 million, or 11.8%, to $363.8 million primarily due to an increase in U.S. Higher Education Adjusted Revenue, a decrease in paper, print and binding costs, and a decrease in royalty expense. Additionally, there were declines in employee compensation and related costs as a result of the prior year implementation of an initiative to structurally lower our cost base and headcount reductions; reduced travel, trade shows and events spend resulting from the COVID-19 pandemic restrictions; and delayed pre-publication spend project timelines. These decreases were partially offset by an increase in third party commissions and professional services expenses.

International Higher Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 decreased $29.1 million, or 46.2%, to $33.9 million primarily due to the flow through of decreased International Higher Education Adjusted Revenues mostly attributable to the COVID-19 pandemic global isolation containment measures which resulted in the closure of institutions and schools. Additionally, there was an increase in employee compensation and related costs and transition services as a result of the acquisition of certain Nelson Canada assets and an increase in inventory obsolescence expense. These increases were partially offset by decreases in paper, print and binding costs; decreases in royalty expense; and reduced travel, trade shows and events spend resulting from the COVID-19 pandemic restrictions.

Secondary Education Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 decreased $22.2 million, or 32.4%, to $46.3 million primarily due to the decline in Secondary Education Adjusted Revenues that were impacted by a weakness in the school channel attributable to COVID-19 related school budget constraints and lower adoption performance. There was an increase in inventory obsolescence expense related to the decline in sales of products nearing the end of their life cycle, partially offset by decreases in the following: paper, print, and binding costs, royalty expense and reduced travel, trade shows and events spend resulting from the COVID-19 pandemic restrictions.

Workforce Skills Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 increased $5.7 million, to $11.1 million primarily due to an increase in Workforce Skills Adjusted Revenue, partially offset by increases in royalty expense and employee compensation and related costs.

ELT Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 decreased $25.8 million, primarily due to the flow through of decreased ELT Adjusted Revenues and an increase in inventory obsolescence expense, partially offset by decreases in the following: paper, print and binding costs, royalty expense, and reduced travel, trade shows and events spend resulting from the COVID-19 pandemic restrictions.

Research Adjusted EBITDA less Pre-Publication Costs for the fiscal year ended March 31, 2021 increased $3.5 million, or 4.7%, to $77.2 million, primarily due to a decrease in employee compensation and related costs; reduced travel, trade shows and events spend resulting from the COVID-19 pandemic restrictions; delayed pre-publication spend project timelines; and a decrease in royalty expense. These decreases were partially offset by the lower contribution of Research Adjusted Revenues that were negatively impacted by the COVID-19 pandemic.

Reconciliations of Non-U.S. GAAP Financial Measures

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021(1)**	**2020(1)**
Total Consolidated Revenues	$ 1,371.6	$ 1,237.7	$ 1,327.0
Corporate Enabling Functions	(18.7)	(16.2)	(15.7)
Impact of foreign currency	2.5	6.3	10.4
Total Segment Adjusted Revenues	$ 1,355.4	$ 1,227.8	$ 1,321.7

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

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021[(1)]**	**2020[(1)]**
Net loss	$ (44.6)	$ (110.1)	$ (908.9)
Impact of foreign currency	0.9	1.6	4.8
Equity-based compensation expense	5.0	6.9	5.4
Non-core other operating expenses[(2)]	15.8	3.3	2.0
Merger and acquisition-related costs	3.8	2.5	44.1
Right-of-use asset impairment charges	—	7.7	2.7
Loss on early extinguishment of debt	11.4	—	—
Amortization of pre-publication costs	81.2	89.1	99.1
Operational restructuring and other charges, net	10.7	8.5	21.0
Depreciation	50.5	59.5	64.2
Amortization of identifiable intangible assets	86.3	83.0	81.5
Goodwill impairment charges	—	9.7	767.8
Other loss (income), net	10.2	6.1	(3.0)
Interest expense, net	161.2	155.2	170.1
Provision for income tax	12.5	12.5	11.8
Adjusted EBITDA	404.9	335.5	362.6
Additions to pre-publication costs[(3)]	(72.6)	(72.7)	(79.2)
Adjusted EBITDA less Pre-Publication Costs	332.3	262.8	283.4
Additions to property, equipment and capitalized internal-use software[(3)]	(31.9)	(37.9)	(60.8)
Adjusted EBITDA less Capital Expenditures	$ 300.4	$ 224.9	$ 222.6

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

(2) Non-core other operating expenses includes primarily outside service fees related to non-recurring strategic initiatives, bank fees, vacated facilities lease expenses, and management fees.

(3) Additions to pre-publication costs and property, equipment and capitalized internal-use software are excluded from segment Adjusted EBITDA less Pre-Publication Costs on a constant currency and accrual basis. The impact of foreign currency exchange related to additions to pre-publication costs was $0.1 million, $0.4 million and $0.6 million for the fiscal years ended March 31, 2022, 2021 and 2020, respectively. The impact of foreign currency exchange related to property, equipment and capitalized internal-use software was less than $0.1 million for all periods presented.

Liquidity and Capital Resources

	March 31,	
(in millions)	**2022**	**2021**
Cash and cash equivalents	$ 348.0	$ 457.5
Debt:		
Current portion of long-term debt[(1)]	16.5	39.4
Long-term debt[(1)]	2,216.5	2,192.6

(1) Both periods presented include original issue discounts.

Our principal sources of liquidity have historically been cash flows from operations and borrowings under our revolving credit facilities. Our cash flows from operations are impacted by the inherent seasonality of our business, whereby we typically utilize cash for operating activities in the first quarter of our fiscal year and generate operating cash during the remaining quarters of our fiscal year. 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 were able to fund our acquisition of Infosec in the fourth quarter of fiscal year 2022 for $190.8 million utilizing cash on hand.

As of March 31, 2022, we had $348.0 million of cash and cash equivalents, of which approximately $153.3 million was held in our foreign subsidiaries. We may be required to incur United States and foreign tax liabilities if we repatriate these funds. We consider the earnings of our foreign subsidiaries to be permanently reinvested and based on our historical earnings, we believe any changes to this assertion would not have a material impact on our tax provision.

After reviewing whether conditions and/or events raise substantial doubt about our ability to meet future financial obligations over the next twelve months, including remaining uncertainty over the COVID-19 pandemic (particularly in international regions) we have concluded our net cash provided by operations combined with our cash and cash equivalents and borrowing availability under our revolving credit facility will provide sufficient liquidity to fund our current obligations, capital spending, debt service requirements and working capital requirements over at least the next twelve months.

Our liquidity and the ability to service our debt, as well as fund future acquisitions, share repurchases, other purchase commitments, operating leases, working capital and capital expenditure requirements, is dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. There can be no assurance that our business will generate sufficient cash flows from operations, that anticipated net sales growth and operating improvements will be realized or that future borrowings will be available under our revolving credit facility, or any other facility, in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2022, 2021 or 2020. We may declare additional dividend payments in the future using either cash from operations, long-term borrowings, or a combination of both.

Long-term Debt

On June 7, 2016, Cengage Learning, Inc., our wholly-owned subsidiary, issued senior notes ("Senior Notes") and amended and restated its senior secured term loan facility ("2016 Term Loan Facility") and its asset-based lending revolving line of credit ("2016 ABL Facility"). On October 29, 2020, we entered into Amendment No. 1 (the "2020 ABL Facility Amendment") to the 2016 ABL Facility (as amended by the 2020 ABL Facility Amendment, the "ABL Facility"). On July 14, 2021, Cengage Learning, Inc. and Cengage Learning Holdco, Inc. entered into Amendment No. 3 ("2021 Term Loan Facility Amendment") to the 2016 Term Loan Facility (as amended and restated by the 2021 Term Loan Facility Amendment, the "Term Loan Facility"). The net proceeds from the Term Loan Facility, after deducting underwriting discounts and offering expenses, were approximately $1.6 billion and were used to repay our $1.6 billion aggregate outstanding principal amount of the 2016 Term Loan Facility.

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.

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. We also have the option to redeem the Senior Notes, in whole or in part, at any time, 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.

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

The indenture related to the Senior Notes contains certain covenants that we may be subject to which restrict our and our subsidiaries' ability to, among other things: incur additional indebtedness or issue certain disqualified shares and preferred shares; create liens; pay dividends or distributions or redeem or repurchase equity; prepay subordinated debt or make certain investments; transfer and sell assets; engage in a consolidation or merger or sell, transfer or otherwise dispose of all or substantially all of our assets; and enter into certain transactions with affiliates. We will not be subject to these covenants if (i) the Senior Notes have Investment Grade Ratings from the relevant rating agencies, as defined in the terms of the Senior Notes, and (ii) no default has occurred and is continuing under the indenture. As of March 31, 2022, no default has occurred and we are compliant with all of the covenants of the indenture.

Term Loan

On July 14, 2021, Cengage Learning, Inc. entered into Amendment No. 3 ("2021 Term Loan Facility Amendment") to the 2016 Term Loan Facility (as amended and restated by the 2021 Term Loan Facility Amendment, the "Term Loan Facility").

The Term Loan Facility provides for senior secured term loans in an aggregate principal amount of $1,650.0 million and matures on July 14, 2026. In addition, we may request one or more incremental credit facilities in an aggregate amount equal to the greater of $236.0 million and 0.75 times the EBITDA calculated on a Pro Forma Basis for the most recently ended Test Period, plus additional amounts subject to certain requirements. Borrowings under the Term Loan Facility bear interest at a rate equal to, at our option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor ("Eurocurrency Rate Loan"), or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. As of March 31, 2022, we elected to carry the Term Loan Facility as a Eurocurrency Rate Loan which has an initial effective interest rate of 5.75% comprised of the LIBOR floor of 1.00% plus an applicable margin of 4.75%. See Note 1, "Basis of Presentation," to our consolidated financial statements for additional details on new accounting standards and accounting changes for LIBOR rate reform.

We are required to repay 0.25% of the original principal amount of the Term Loan Facility on the last business day of each quarter commencing with the quarter ending December 31, 2021. Following the end of each fiscal year, we must prepay a percentage between 0% and 50%, based on our total net first lien leverage ratio, of our Excess Cash Flow, as defined in the Term Loan Facility agreement. Prepayment is made once the calculation, which must be delivered to the administrative agent within five business days after delivery of the financial statements, is agreed and accepted by the lender. Based on our March 31, 2022 consolidated financial statements, we determined there is no prepayment due under the Excess Cash Flow provision. Prepayments made under the Excess Cash Flow provision are used to satisfy prospective mandatory quarterly principal repayments. We may prepay outstanding loans under the Term Loan Facility at any time, without prepayment premium or penalty, except in connection with a repricing event, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing through the issuance or repricing amendment of any debt that results in a repricing event applicable to borrowings under the Term Loan Facility resulting in a lower yield occurring at any time during the first twelve months after the effective date of the Term Loan Facility will be accompanied by a 1.00% prepayment premium or fee, as applicable. 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 2016 Term Loan Facility, on July 1, 2021, we made a $22.3 million principal payment representing fiscal year 2021. Based on our consolidated financial statements as of March 31, 2020 it was determined there was no prepayment due under the Excess Cash Flow provision for fiscal year 2020.

The obligations under the Term Loan Facility 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").

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

ABL Facility

On October 29, 2020, we entered into Amendment No. 1 ("2020 ABL Facility Amendment") to the 2016 ABL Facility (as amended by the 2020 ABL Facility Amendment, the "ABL Facility").

The availability of credit under the ABL Facility, which expires on October 29, 2023 is equal to the lesser of (i) $206.5 million or (ii) our borrowing base. The borrowing base equals the sum of (i) 90% of eligible credit card receivables, plus (ii) 85% of eligible receivables, plus (iii) 85% of the orderly liquidation value of eligible inventory, plus (iv) 100% of cash not to exceed $35.0 million. As of March 31, 2022 and March 31, 2021, the ABL facility had no outstanding borrowings and $10.3 million and $10.6 million, respectively, in issued and outstanding letters of credit. Our available borrowing base, as of March 31, 2022, which is based on the balance sheet at February 28, 2022, was $107.8 million, net of letters of credit. The ABL Facility has a fixed charge coverage ratio covenant if availability falls below a defined threshold. Based on availability under the ABL Facility as of March 31, 2022, we were not subject to the covenant.

The unused commitment fee on the ABL Facility is a fixed rate of 0.50%. Depending on the average daily availability outstanding letters of credit are also subject to a quarterly letter of credit participation fee which will vary between 2.25% and 2.75% on the ABL Facility. During the fiscal year ended March 31, 2022 we incurred approximately $1.0 million of unused commitment fees and $0.3 million of letter of credit participation fees.

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

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

Summary of Cash Flows

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Net cash provided by (used in):			
Operating activities	$ 205.9	$ 273.3	$ 154.4
Investing activities	(296.3)	(113.5)	(150.4)
Financing activities	(18.7)	(70.3)	27.2
Impact on cash and cash equivalents from changes in foreign currency	(0.4)	2.0	(1.5)
Net (decrease) increase in cash and cash equivalents	$ (109.5)	$ 91.5	$ 29.7

Operating activities

In the fiscal year ended March 31, 2022, cash provided by operating activities decreased $67.4 million compared to the same prior year period. This decrease was primarily due to a normalization of working capital dynamics compared to the prior year, which benefited from wide reaching measures taken to mitigate the potential impacts of the COVID-19 pandemic.

In the fiscal year ended March 31, 2021, cash provided by operating activities increased $118.9 million compared to the same prior year period. This increase was due to a higher contribution from working capital largely driven by the temporary actions taken to mitigate the uncertainty around the COVID-19 pandemic and a shift in timing of interest payments on our Term Loan. As a result of the ongoing uncertainty, duration, and potential rate of economic recovery around the COVID-19 pandemic, the continued focus on liquidity and temporary actions taken to mitigate the risk to the business significantly improved the cash flow position when compared to the prior year.

Investing activities

In the fiscal year ended March 31, 2022, net cash used in investing activities increased $182.8 million compared to the same prior year period primarily due to the $190.8 million of cash payment to acquire Infosec.

In the fiscal year ended March 31, 2021, net cash used in investing activities decreased $36.9 million primarily due to lower capital expenditures as the prior year period included significant costs for the build-out of our Boston headquarters.

Financing activities

In the fiscal year ended March 31, 2022, net cash used in financing activities decreased $51.6 million compared to the same prior year period. This decrease is primarily attributable to the repayment of the $50.0 million of borrowing under the ABL Facility in fiscal year 2021. Additionally, in fiscal year 2022, we refinanced our 2016 Term Loan, see Note 10, "Debt," to our consolidated financial statements for additional details.

In the fiscal year ended March 31, 2021, net cash used in financing activities increased $97.5 million compared to the same prior year period. The change to the prior year largely is due to the $50.0 million borrowing under the ABL Facility in fiscal year 2020 and the subsequent $50 million repayment in fiscal year 2021.

Contractual Obligations and Commitments

The following table summarizes our future contractual obligations as of March 31, 2022:

(in millions)	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Long-term debt[(1)]	$ 16.5	$ 653.0	$ 1,592.3	$ —	$ 2,261.8
Interest payments on outstanding debt[(2)]	162.5	370.1	200.4	—	733.0
Operating lease obligations[(3)]	16.9	27.6	14.2	32.0	90.7
Purchase obligations[(4)]	17.3	6.6	—	—	23.9
Total	$ 213.2	$ 1,057.3	$ 1,806.9	$ 32.0	$ 3,109.4

(1) See Note 10, "Debt," to our consolidated financial statements for additional information.

(2) Interest on variable rate debt is estimated based upon the benchmark forward interest rates as of March 31, 2022. We expect our cash flows from operations, combined with availability of funds under our ABL Facility, to pay for these obligations.

(3) See Note 18, "Leases," to our consolidated financial statements for additional information on operating lease payments.

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

In addition, we anticipate capital expenditures, including pre-publication costs, in the range of $105.0 million to $130.0 million in the fiscal year ending March 31, 2023.

Off-Balance Sheet Transactions

In the ordinary course of business, we may engage in financial transactions that are not recorded, or may be recorded, on the consolidated balance sheets in amounts that are different than the full contract or notional amount of the transactions. With the exception of the contractual obligations and purchase commitments described in Note 17, "Commitments and Contingencies," to our consolidated financial statements and in the "Contractual Obligations and Commitments" section above, we do not currently have any material off-balance sheet transactions.

Application of Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in conformity with U.S. GAAP. In preparing our consolidated financial statements, we apply various accounting policies and are required to use estimates and assumptions. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

We consider our accounting estimates to be critical to the consolidated financial statements if (i) the estimate requires significant judgment or is complex in nature and (ii) if different estimates and assumptions were used, the results could have a material impact on our consolidated financial statements. We evaluate our estimates and the application of our policies on an ongoing basis.

We base our estimates on our historical experience, current market and economic conditions, industry trends, and other assumptions that we believe are reasonable. Actual results could differ from these estimates. Changes in estimates are recorded in the period in which they become known.

We believe that, of the significant accounting policies discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated financial statements, the following accounting policies require our most subjective or complex judgments:

Revenue Recognition: We deliver digital, print and hybrid educational solutions for universities, students, professors, libraries, professionals and corporations around the world. These solutions are delivered through specialized content, applications and services. While printed materials continue to be a solid learning resource, we are increasingly providing customers with digital resources and a significant portion of our revenues is derived from sales of digital solutions, including digital versions of our print products. Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as we satisfy a performance obligation.

We allocate the transaction price of the arrangement based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. In determining SSP, we maximize observable inputs and consider a number of data points, including:

- the pricing of standalone sales (in the instances where available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

We reduce transaction prices for estimated returns and other allowances that represent variable consideration which is estimated based on historical return experience and other relevant factors and record a reduction to revenue and accounts receivable. Other forms of contingent revenue or variable consideration are infrequent.

We assess the timing of the transfer of products or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. We do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist.

Shipping and handling activities are not considered a contract performance obligation. We record shipping and handling costs billed to customers as revenue with offsetting costs recorded as cost of revenue. Taxes collected from the customer and remitted to government entities are not included as part of the transaction price.

Digital Content—Revenue from sales of digital content without any future service obligations for us is recognized upon activation. Revenue from sales of digital solutions that contain future service obligations by us is deferred and recognized ratably as control of the promised product transfers to the customer. Incremental costs that are directly related to the deferred digital revenues are deferred and amortized over the subscription period. For incremental costs, we immediately expense internal and third party sales commissions on contracts with a duration of twelve months or less.

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

Subscription-Based Products—We recognize revenues from sales of subscription-based products, including hosted digital solutions, ratably over the term of the subscription. Subscription revenues received or receivable in advance of the delivery of services or publications are included in deferred revenue. Incremental costs that are directly related to the subscription revenues are deferred and amortized over the subscription period. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the extent of our responsibility to provide access and support services to our subscription-based products.

Arrangements with multiple performance obligations —When a sales arrangement requires the delivery of more than one product or service, the individual performance obligations are accounted for separately if applicable criteria are met. Specifically, the revenues are allocated to each performance obligation based on the relative stand-alone selling price of each element. The amount allocated to each obligation is then recognized as each obligation is fulfilled, provided that all other relevant revenue recognition criteria are met.

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

Deferred Commission Costs—Our incremental costs of obtaining a contract, which consist of internal and third party sales commissions, are deferred and amortized over the expected period of benefit or the related contract renewal period, depending on whether the contract is an initial or renewed contract, respectively. A portfolio approach is used to determine a commission rate for capitalization, as we expect that the effects on the financial statements of applying this rate would not differ materially from applying detailed commission plan rates to individual contracts within the portfolio. We immediately expense commissions on contracts with durations twelve months or less. We classify deferred commission costs as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commission costs are included in prepaid and other current assets, and other non-current assets, respectively, in the consolidated balance sheets.

Reserve for Sales Returns: Accounts receivable are reflected net of a reserve for sales returns. The reserve for sales returns is based on a review of our historical sales returns experience and our estimate of future returns associated with various product types and sales channels, as well as current industry trends in the businesses in which we operate. A change in the pattern or trends in returns could affect our estimated reserve for sales returns. If our estimate does not reflect actual returns in future periods, revenues could be understated or overstated for a particular period by the difference between actual returns and our original estimate. Actual sales returns are charged against the reserve as products are returned to inventory. In conjunction with the sales return reserve, we also record estimated increases in inventory, to the extent that product returns are resalable, and estimated recoupable royalty costs. The sales returns reserve as of March 31, 2022 and 2021 was $48.0 million and $54.9 million, respectively.

Reserve for Inventory Obsolescence: Inventories, which are principally comprised of textbooks and other print products, are stated at the lower of cost or net realizable value, with cost determined generally using the weighted average method. Reserves are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value. The reserve is based upon our historical unit sales by title as compared to the number of units on hand, and considers our assessment of current industry conditions, including estimates of customer demand, and publication revision cycles. A change in sales trends could affect our estimated reserve. We periodically assess the obsolescence reserve by evaluating general factors such as inventory levels, historical sales, and the expected remaining life of our products. Inventory losses and destroys are charged against the reserve. The reserve for inventory obsolescence as of March 31, 2022 and 2021 was $43.2 million and $61.3 million, respectively.

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

Goodwill: We test the carrying value of goodwill for impairment at a reporting unit level annually in the fourth quarter of each fiscal year and whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A goodwill impairment is the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

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

In the fourth quarter of fiscal year 2022, we performed our annual goodwill impairment testing by performing a qualitative assessment or step zero assessment on certain of our reporting units. For the remaining reporting units we did complete a quantitative or step one impairment test and concluded that the fair value of those reporting units was greater than their respective carrying values and no impairments were identified.

In order to estimate the fair value of each reporting unit, we used an equal-weighted application of the discounted cash flow and market approach methodologies. The discounted cash flow method estimates the value of a reporting unit by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such reporting unit. This methodology requires the use of significant estimates, including discount rates, estimated residual growth rates, and projections of revenue growth, profit margins, and working capital. The projections underlying the valuation were based on our internal strategic forecasts for each reporting unit. Discount rates were calculated using the capital asset pricing model based on a weighted average cost of capital of comparable companies. The estimated residual growth rate was developed considering the long-term economic outlook of the industry and geographical region in which each reporting unit operates. The discount rate assumptions used in our fourth quarter goodwill impairment review ranged from 10.5% to 12.5% and residual growth rate assumptions used in our fourth quarter goodwill impairment review ranged from 2.5% to 4.0%. In addition to the discounted cash flow analysis, we perform the market approach which is a comparison of both trailing and forward financial multiples implied by the estimated reporting unit fair value to a range of multiples of publicly held companies with similar characteristics. If recent merger and acquisition transactions for industry or peer companies are available, the financial multiples implied by the estimated reporting unit fair value are also compared to the range of multiples from such precedent transactions. We apply comparable revenue and EBITDA multiples under this methodology as we consider these measures the most relevant to our business. For the impairment test performed in the fourth quarter of fiscal year 2022, we applied forward multiples of projected revenues in a range of 0.5x - 2.2x and forward multiples of projected EBITDA in a range of 8.5x - 10.0x.

The estimated fair value of our Asia ELT reporting unit exceeded its carrying value by 3.7%. The discount rate applied to the Asia ELT reporting unit discounted cash flow was 11.5% and the residual growth rate was 4.0%. We performed a sensitivity analysis on the significant assumptions used to determine the fair value of the Asia ELT reporting unit and determined that a more than nominal change to our significant assumptions, for example, a 1.0% increase in the discount rate or a 1.0% decrease in the residual growth rate, could result in a different conclusion. If actual results differ from the projections and assumptions used in the calculation of the Asia ELT reporting unit fair value, we could be required to record future non-cash impairment charges. Total goodwill attributable to the Asia ELT reporting unit was $35.0 million as of March 31, 2022.

We will continue to evaluate goodwill on an annual basis and whenever events or changes in circumstances indicate that there may be potential indicators of impairment. If expectations for revenues and cash flows decline or if actual results are less than our revised forecasts, we may not be able to realize the carrying value of our goodwill and could be required to record future impairment charges.

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

Equity-Based Compensation: We account for our equity-based compensation plan under the fair value recognition provisions for share-based payments. We adopted the 2014 Cengage Learning Equity Incentive Plan (the "2014 Equity Incentive Plan") on March 31, 2014, and effective as of November 15, 2018, our Board of Directors and the majority shareholders adopted an equity incentive plan (the "2018 Equity Incentive Plan"). Under the 2014 Equity Incentive Plan and the 2018 Equity Incentive Plans, we have granted awards in the form of restricted stock units ("RSUs"), incentive stock options ("ISOs"), non-qualified stock options ("NQSOs") and performance-based awards.

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

The following table summarizes the weighted-average grant date fair value of RSUs and performance-based RSUs granted under both the 2014 Equity Incentive Plan and the 2018 Equity Incentive Plan in the periods presented:

	Fiscal Year Ended March 31,		
	2022	2021	2020
Weighted-average grant date fair value	$ 16.34	$ 8.03	$ 17.86

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

	Fiscal Year Ended March 31,		
	2022	2021	2020
Weighted-average grant date fair value	$ 6.32	$ 4.22	$ 6.74
Weighted-average assumptions:			
Risk-free interest rate	1.2 %	0.4 %	2.5 %
Dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility	45.0 %	65.0 %	40.0 %
Expected life (years)	4.75	4.75	4.75

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

As of March 31, 2022, there was aggregate unrecognized compensation cost of $15.1 million related to outstanding stock option and RSU awards, granted under the 2014 Equity Incentive Plan and 2018 Equity Incentive Plan, that is expected to be recognized over a remaining weighted-average period of 3.0 years. As of March 31, 2022, there was aggregate unrecognized compensation cost of $2.6 million related to performance-based RSUs granted under the 2014 Equity Incentive Plan. No compensation cost related to the performance-based RSUs under any equity incentive plan will be recognized until it is probable that the performance condition will be met. For additional information, see Note 13, "Equity-Based Compensation," to our consolidated financial statements.

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

New Accounting Standards and Accounting Changes

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

For the fiscal years ended March 31, 2022, 2021, and 2020, we derived approximately 20%, 18% and 22%, respectively, of our Revenues from countries outside of the United States, with a significant portion of the related costs based in United States dollars, British pounds and Australian dollars. We anticipate that our future results will continue to be affected by market risks, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the British pound and Australian dollar. A hypothetical 10% adverse change in foreign currency rates relative to the United States dollar during fiscal year 2022 would not have had a material impact on our net loss.

As of March 31, 2022, we had $1,641.8 million in outstanding variable rate debt under our Term Loan Facility at face value. The current effective interest rate for our Term Loan Facility variable rate borrowing arrangements is 5.75% based on a contractual minimum base interest rate, or London Interbank Offered Rate (“LIBOR”) floor of 1.00%, plus the applicable margin which is currently 4.75%. Currently, LIBOR is below the LIBOR floor and our debt is not subject to variable rates. A 50 basis point increase in LIBOR on our current Term Loan Facility balance would have no impact on our annual interest expense due to the current LIBOR rate being below the LIBOR floor. Additionally, as of March 31, 2022, we had $620.0 million in outstanding debt at a fixed rate of 9.50%.

CENGAGE LEARNING HOLDINGS II, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Cengage Learning Holdings II, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive loss, stockholders' (deficit) equity and cash flows for each of the three years in the period ended March 31, 2022, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with US GAAS, we:

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

PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Suite 500, Boston, MA 02210
T: (617) 530-5000, F:(617) 530-5001, www.pwc.com/us

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the Cengage Learning Holdings II, Inc. Annual Report for Fiscal Year Ended March 31, 2022, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
June 16, 2022

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Balance Sheets

(in millions)	March 31, 2022	March 31, 2021
Assets		
Cash and cash equivalents	$ 348.0	$ 457.5
Accounts receivable, net	162.3	147.8
Inventories	54.3	63.9
Prepaid expenses and other current assets	56.3	57.4
Total current assets	620.9	726.6
Property, equipment and capitalized internal-use software, net	80.8	121.2
Pre-publication costs, net	170.6	179.7
Author advances	9.4	10.2
Identifiable intangible assets, net	790.8	761.5
Goodwill, net	958.2	858.3
Deferred tax assets	14.9	12.4
Deferred financing costs	1.2	2.0
Right-of-use lease assets	47.2	46.6
Other non-current assets	36.7	24.9
Total assets	$ 2,730.7	$ 2,743.4
Liabilities and Stockholders' Deficit		
Accounts payable and accrued expenses	$ 331.3	$ 297.8
Deferred revenue	250.0	240.7
Current portion of long-term debt	16.5	39.4
Operating lease liabilities	12.3	13.0
Other current liabilities	13.4	18.5
Total current liabilities	623.5	609.4
Long-term debt	2,216.5	2,192.6
Deferred tax liabilities	43.3	39.4
Non-current operating lease liabilities	50.4	59.8
Other non-current liabilities	55.2	54.5
Total liabilities	2,988.9	2,955.7
Commitments and contingencies (Note 17)		
Preferred stock ($0.01 par value, 50.0 shares authorized, none issued)	—	—
Common stock ($0.01 par value, 300.0 shares authorized, 62.3 and 62.1 shares issued and outstanding as of March 31, 2022 and 2021, respectively)	0.6	0.6
Additional paid-in capital	1,239.0	1,235.0
Accumulated deficit	(1,447.2)	(1,402.6)
Accumulated other comprehensive loss	(50.6)	(45.3)
Total stockholders' deficit	(258.2)	(212.3)
Total liabilities and stockholders' deficit	$ 2,730.7	$ 2,743.4

See accompanying notes to the consolidated financial statements.

CENGAGE LEARNING HOLDINGS II, INC.
Consolidated Statements of Operations

	Fiscal Year Ended March 31,		
(in millions)	2022	2021	2020
Revenues	$ 1,371.6	$ 1,237.7	$ 1,327.0
Cost of revenues, excluding amortization of pre-publication costs and identifiable intangible assets and depreciation stated below	575.4	537.9	589.5
Amortization of pre-publication costs	81.2	89.1	99.1
Amortization of identifiable intangible assets	7.7	5.5	4.9
Total cost of revenues, excluding depreciation stated below	664.3	632.5	693.5
Selling, general and administrative expenses, excluding depreciation stated below	413.0	376.1	387.1
Merger and acquisition-related costs	3.8	2.5	44.1
Right-of-use asset impairment charges	—	7.7	2.7
Operational restructuring and other charges, net	10.7	8.5	21.0
Depreciation	50.5	59.5	64.2
Amortization of identifiable intangible assets	78.6	77.5	76.6
Goodwill impairment charges	—	9.7	767.8
Other expense (income), net	11.3	(0.7)	—
Total costs and expenses	1,232.2	1,173.3	2,057.0
Operating income (loss)	139.4	64.4	(730.0)
Loss on early extinguishment of debt, net	(11.4)	—	—
Other income (expense), net	1.1	(6.8)	3.0
Interest income	0.5	0.8	4.5
Interest expense	(161.7)	(156.0)	(174.6)
Loss before taxes	(32.1)	(97.6)	(897.1)
Provision for income taxes	(12.5)	(12.5)	(11.8)
Net loss	$ (44.6)	$ (110.1)	$ (908.9)

See accompanying notes to the consolidated financial statements.

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Net loss	$ (44.6)	$ (110.1)	$ (908.9)
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(5.3)	25.4	(16.7)
Comprehensive loss	$ (49.9)	$ (84.7)	$ (925.6)

See accompanying notes to the consolidated financial statements.

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

(in millions)	Fiscal Year Ended March 31, 2022	2021	2020
Cash Flows from Operating Activities			
Net loss	$ (44.6)	$ (110.1)	$ (908.9)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of pre-publication costs	81.2	89.1	99.1
Depreciation	50.5	59.5	64.2
Amortization of identifiable intangible assets	86.3	83.0	81.5
Amortization of operating lease assets	9.7	12.0	13.8
Goodwill impairment charges	—	9.7	767.8
Right-of-use asset impairment charges	—	7.7	2.7
Amortization of debt discounts and deferred financing costs	8.0	8.1	8.2
Non-cash equity-based compensation expense	5.0	6.9	5.4
Operational restructuring and other charges	10.7	8.5	21.0
Cash payments for operational restructuring charges	(11.6)	(8.0)	(26.3)
Cash payments for rent on vacated facilities	(3.2)	(2.5)	(6.5)
Merger and acquisition-related charges	3.8	2.5	44.1
Cash payments for merger and acquisition-related charges, net	(1.4)	(16.4)	(37.4)
Loss on early extinguishment of debt, net	11.4	—	—
Loss on sale of property and equipment	15.1	—	—
Gain on lease modification and termination	(3.8)	—	—
Deferred income taxes	1.2	4.1	(2.1)
Changes in operating assets and liabilities, net of acquisitions	(10.1)	118.0	29.3
Other, net	(2.3)	1.2	(1.5)
Net cash provided by operating activities	205.9	273.3	154.4
Cash Flows from Investing Activities			
Acquisitions of businesses, net of cash acquired	(190.8)	(2.9)	—
Acquisition of author content rights	(12.3)	(3.5)	(2.8)
Acquisition of exclusivity rights	(1.3)	—	—
Additions to pre-publication costs	(71.8)	(70.0)	(79.9)
Additions to property, equipment and capitalized internal-use software	(27.2)	(38.1)	(67.2)
Proceeds from disposition of property and equipment	7.1	—	—
Proceeds from sale of equity investments	—	1.0	—
Other, net	—	—	(0.5)
Net cash used in investing activities	(296.3)	(113.5)	(150.4)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	1,633.5	—	—
Repayments of long-term debt	(1,637.0)	(17.1)	(17.2)
Borrowings under the ABL Facility	—	—	50.0
Repayments under the ABL Facility	—	(50.0)	—
Debt issuance costs and other financing fees	(14.2)	(1.7)	—
Deferred payment, acquisition of businesses	—	(0.7)	—
Dividend equivalents paid	—	(0.1)	(3.7)
Proceeds from the exercise of stock options	—	—	0.1
Common stock repurchases for tax withholding for net settlement of equity awards	(1.0)	(0.7)	(2.0)
Net cash (used in) provided by financing activities	(18.7)	(70.3)	27.2
Impact on Cash and Cash Equivalents from Changes in Foreign Currency	(0.4)	2.0	(1.5)
Net (Decrease) Increase in Cash and Cash Equivalents	(109.5)	91.5	29.7
Cash and Cash Equivalents			
Beginning of year	457.5	366.0	336.3
End of year	$ 348.0	$ 457.5	$ 366.0

See accompanying notes to the consolidated financial statements.

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

(in millions)	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' (Deficit) Equity
Balance at March 31, 2019	61.5	$ 0.6	$ 1,225.3	$ (383.6)	$ (54.0)	$ 788.3
Net loss	—	—	—	(908.9)	—	(908.9)
Foreign currency translation adjustment	—	—	—	—	(16.7)	(16.7)
Proceeds from exercise of stock options	—	—	0.1	—	—	0.1
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.5	—	(2.0)	—	—	(2.0)
Equity-based compensation	—	—	5.4	—	—	5.4
Balance at March 31, 2020	62.0	0.6	1,228.8	(1,292.5)	(70.7)	(133.8)
Net loss	—	—	—	(110.1)	—	(110.1)
Foreign currency translation adjustment	—	—	—	—	25.4	25.4
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.1	—	(0.7)	—	—	(0.7)
Equity-based compensation	—	—	6.9	—	—	6.9
Balance at March 31, 2021	62.1	0.6	1,235.0	(1,402.6)	(45.3)	(212.3)
Net loss	—	—	—	(44.6)	—	(44.6)
Foreign currency translation adjustment	—	—	—	—	(5.3)	(5.3)
Issuance of common stock under share based compensation plan and shares withheld to cover tax withholding requirements	0.2	—	(1.0)	—	—	(1.0)
Equity-based compensation	—	—	5.0	—	—	5.0
Balance at March 31, 2022	62.3	$ 0.6	$ 1,239.0	$ (1,447.2)	$ (50.6)	$ (258.2)

See accompanying notes to the consolidated financial statements.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Cengage Learning Holdings II, Inc., together with its consolidated subsidiaries ("Cengage Group," "Cengage," or the "Company") is a global education technology company serving millions of learners with affordable, quality digital products and services that equip students with the skills and competencies needed to be job ready. We serve the higher education, workforce skills, secondary education, English language teaching and research markets worldwide.

Basis of Presentation

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

COVID-19

The ongoing impact of COVID-19 on the Company's future operational and financial performance will depend on many highly uncertain developments. These include but are not limited to the duration of the pandemic, emergence of new variants, rolling pandemic hotspots, the efficacy of vaccinations, vaccination rates, and impact on our customers, our sales cycle, our partners and employees. The continuing impact and future developments of COVID-19 remain uncertain and difficult to predict.

Concentration of Credit Risk

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

	As of	
	March 31, 2022	**March 31, 2021**
Customer A	10 %	N/A

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

The Company's top three customers accounted for approximately 19% and 18% of the Company's total gross accounts receivable as of March 31, 2022 and 2021, respectively. Additionally, no customer was individually greater than 10% of the Company's consolidated revenues in the periods presented. The Company's top three customers accounted for approximately 15%, 13%, and 12% of the Company's consolidated revenues in fiscal years 2022, 2021, and 2020 respectively.

Use of Estimates

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

The ongoing impact of COVID-19 on the Company's future operational and financial performance will depend on many highly uncertain developments. These include but are not limited to the duration of the pandemic, emergence of new variants, rolling pandemic hotspots, the efficacy of vaccinations, vaccination rates, and impact on our customers, our sales cycle, our partners and employees. The continuing impact and future developments of COVID-19 remain uncertain and difficult to predict.

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’s fiscal year ends on March 31, and the Company typically incurs a net cash deficit from all activities in the quarter ended June 30. 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 customers may shift the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates, changes in inventory management practices, and a shift in customer base driven by an increase in direct to student sales of subscription and other products or to institutional sales models. Moreover, the continuing impact and future developments of the COVID-19 pandemic remain uncertain and difficult to predict, which may result in fiscal year 2023 not following historic patterns.

As the Company continues to migrate its service offerings towards hosted digital solutions that are delivered over a period of time, the associated revenues will be recognized ratably over the applicable subscription period, with amounts billed in excess of revenues recognized as deferred revenue. This represents a change from traditional print products where revenues are typically recognized upon shipment of the material to the customer. Reported revenues will continue to shift from being driven by sales in the same period to deferred recognition as revenues attributable to hosted digital solutions are recognized in subsequent periods. Deferred revenue represents amounts billed in advance to customers, customer payments of consideration that precede the Company’s performance, or includes consideration in which the Company has an unconditional right to such consideration that will be recognized as revenues in subsequent periods as products and services are delivered to customers. See Note 3, “Revenue Recognition,” for additional information.

Summary of Significant Accounting Policies

Revenue Recognition

The Company delivers digital, print and hybrid educational solutions for universities, students, professors, libraries, professionals, and corporations around the world. These solutions are delivered through specialized content, applications and services. A significant portion of the Company’s revenues is derived from sales of digital solutions, including digital versions of its print products. Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as we satisfy a performance obligation.

Allocation of the transaction price of the arrangement is based on the relative estimated standalone selling price ("SSP") of each distinct performance obligation. SSP is determined by maximizing observable inputs and considering a number of data points, including:

- the pricing of standalone sales (in the instances where available);
- the pricing established by management when setting prices for deliverables that are intended to be sold on a standalone basis;
- contractually stated prices for deliverables that are intended to be sold on a standalone basis; and
- other pricing factors, such as the geographical region in which the products are sold and expected discounts based on the customer size and type.

Reduced transaction prices for estimated returns and other allowances that represent variable consideration is estimated based on historical return experience and other relevant factors and is recorded as a reduction to revenue and accounts receivable. Other forms of contingent revenue or variable consideration are infrequent.

The timing of the transfer of products or services to the customer is assessed as compared to the timing of payments to determine whether a significant financing component exists. The Company does not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or the Company, no financing component is deemed to exist.

Shipping and handling activities are not considered a contract performance obligation. Shipping and handling costs billed to customers are recorded as revenue with offsetting costs recorded as cost of revenue. Taxes collected from the customer and remitted to government entities are not included as part of the transaction price.

Digital Content—Revenue from sales of digital content without any future service obligations for the Company is recognized upon activation. Revenue from sales of digital solutions that contain future service obligations by the Company is deferred and recognized ratably as control of the promised product transfers to the customer. Incremental costs that are directly related to the deferred digital revenues are deferred and amortized over the subscription period. For incremental costs, the Company immediately expenses internal and third party sales commissions on contracts with a duration of twelve months or less.

Print and Other Materials—The Company recognizes revenues from the sale of print and other materials, less estimated returns, when the product is delivered and title, including the risks and rewards of ownership, passes to the customer.

Subscription-Based Products—The Company recognizes revenues from the sale of subscription-based products, including hosted digital solutions, ratably over the term of the subscription. Consideration due for subscription-based products received or billed in advance of the delivery of services or publications, or in which the Company has an unconditional right to such consideration, are included in deferred revenue. Incremental costs that are directly related to the subscription revenues are deferred and amortized over the subscription period.

Arrangements with multiple performance obligations —When a sales arrangement requires the delivery of more than one product or service, the individual performance obligations are accounted for separately if applicable criteria are met. Specifically, the revenues are allocated to each performance obligation based on the relative stand-alone selling price of each element. The amount allocated to each obligation is then recognized as each obligation is fulfilled, provided that all other relevant revenue recognition criteria are met.

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

Deferred Commission Costs—The Company's incremental costs of obtaining a contract, which consist of internal and third party sales commissions, are deferred and amortized over the expected period of benefit or the related contract renewal period, depending on whether the contract is an initial or renewed contract, respectively. A portfolio approach is used to determine a commission rate for capitalization, as the Company expects that the effects on the financial statements of applying this rate would not differ materially from applying detailed commission plan rates to individual contracts within the portfolio. The Company immediately expenses commissions on contracts with durations of twelve months or less. We classify deferred commission costs as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commission costs are included in prepaid and other current assets, and other non-current assets, respectively, in the consolidated balance sheets.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred and recorded within selling, general and administrative expense in the consolidated statement of operations. Advertising expenses, which include the cost of complimentary print products provided to professors in advance of a title release, amounted to the following:

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Advertising costs	$ 19.7	$ 12.8	$ 21.1

Cash and Cash Equivalents

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

Accounts Receivable, Allowance for Credit Losses and Reserve for Sales Returns

Accounts receivable include amounts billed and currently due from customers and are recorded net of allowance for credit losses and reserves for sales returns. Most of the Company's accounts receivable are due from universities, bookstores, wholesalers, libraries, professionals, and corporations. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable are reflected net of an allowance for credit losses of $22.8 million and $16.9 million as of March 31, 2022 and 2021, respectively, and a reserve for sales returns of $48.0 million and $54.9 million as of March 31, 2022 and 2021, respectively. 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.

In the normal course of business, we extend credit to customers that satisfy predefined criteria. The Company estimates the collectability of its receivables and develops those estimates to reflect the risk of credit loss. The Company establishes an allowance for credit losses by evaluating the length of time individual receivables are past due, historical collection experience, industry and geographic concentrations of credit risk and credit evaluations of its customers as well as the economic and competitive environments. The Company monitors its ongoing credit exposure through an active review of collections trends and specific facts and circumstances. Accounts receivable losses for bad debt are written-off against the allowance when all collection efforts have been exhausted and the receivable is determined to be uncollectible.

Inventories

Inventories, which are principally comprised of textbooks and other print products, are stated at the lower of cost or net realizable value, with cost determined using the weighted-average method. Reserves are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value and are reflected in cost of revenues in the consolidated statements of operations. The Company assesses the obsolescence reserve quarterly by evaluating factors such as inventory levels, historical sales, and the remaining life of its products. Inventory losses and destroys are written-off against the reserve. The inventory obsolescence reserve is reported as a reduction of the inventory balance in the consolidated balance sheets and was $43.2 million and $61.3 million as of March 31, 2022 and 2021, respectively.

Consigned Inventory

Consigned inventory consists mainly of textbooks available through our formal rental program stated at the lower of cost or net realizable value, with cost determined using the weighted-average method. At the time a transfer of stock to the partner is completed, the book is then moved from inventories, net to non-current assets. The cost of the book is amortized down over the expected rental usage period, with the related amortization expense included within cost of sales in the consolidated statement of operations. Returns are moved back into inventories, and buyouts are expensed, net at the current residual value.

Leases

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed to the Company in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company recognizes right-of-use ("ROU") assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date, and are reduced by any lease incentives. Where leases contain escalation clauses, rent abatement, or concessions, such as rent holidays and landlord or tenant incentives or allowances, we apply them in the determination of straight-line operating lease cost over the lease term.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes to an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. The Company does not record leases on our consolidated balance sheet with a term of one year or less.

The Company accounts for lease and non-lease components in its contracts as a single lease component for all asset classes. The non-lease components typically represent additional services transferred to the Company, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

The Company uses its incremental borrowing rate to determine the present value of lease payments, as the Company's leases do not have a readily determinable implicit discount rate. The incremental borrowing rate is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term and amount in a similar economic environment. Judgment is applied in assessing factors such as Company-specific credit risk, lease term, nature and quality of the underlying collateral, currency and economic environment in determining the incremental borrowing rate to apply to each lease.

The Company evaluates ROU assets for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amounts of the lowest level asset grouping for which identifiable cash flows are independent of other assets, may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. The Company considers factors such as decreases in market prices, changes in the manner in which the floor is being used or physical condition, changes in legal factors or business climate, accumulations of costs significantly in excess of the amount originally expected, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection that demonstrates continuing losses, changes in the expected utilization of an asset, and significant declines in stock price or fair value. For purposes of recognizing and measuring impairment of long-lived leasing assets, the Company considers the individual floor of a real estate building as the lowest level for which cash flows are identifiable. Assets being tested for recoverability include the related tangible long-lived assets and right-of-use assets for leased floors.

See Note 18, "Leases," for further detail.

Property, Equipment and Capitalized Internal-Use Software

Property, equipment and capitalized internal-use software is stated at cost less accumulated depreciation and amortization. Internal-use software includes customer-facing platforms used to deliver certain of the Company's digital products and services. Major updates and improvements are capitalized, while maintenance and repairs, which do not extend functionality or useful life, are expensed as incurred.

Costs incurred for computer software developed or obtained for internal use are expensed during the preliminary project stage, which includes conceptual formation of ideas and review of alternatives. Once that stage is complete, the application development stage, which includes design, coding and testing, begins. Direct internal and external costs incurred during this stage are capitalized. Internal costs that are capitalized represent amounts paid to employees through wages, salaries and salary-related costs. Capitalization of costs ceases when the software is ready for its intended use and all substantial testing is completed. Upgrades and enhancements which provide significant added functionality are accounted for in the same manner. Amortization expense on capitalized internal-use software was $38.9 million, $46.7 million, and $50.4 million for the fiscal years ended March 31, 2022, 2021 and 2020, respectively.

Upon disposal of property, equipment and capitalized internal-use software, the cost of the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. The Company periodically evaluates the depreciation methods, rates, and remaining lives of such assets, which are dependent upon the economic useful life of the asset. When the Company determines to abandon an asset that is in use, the Company will first test the asset for impairment under the held-and-used impairment guidance at the asset group level. After recognizing any resulting impairment, if necessary, the Company will record accelerated depreciation through the date of abandonment to reflect the use of the asset over its shortened remaining useful life. An asset to be abandoned is disposed of when it ceases to be used. During fiscal years 2022, 2021 and 2020, the amount of accelerated depreciation associated with the abandonment of certain projects was inconsequential.

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

Purchased and internally-developed software	3–10 years
Computer hardware	3–5 years
Buildings and building improvements	10–50 years
Furniture and equipment	3–10 years
Leasehold improvements	Lesser of lease term or estimated useful life

Pre-publication Costs

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

The Company periodically evaluates the amortization methods, rates and remaining amortization periods of such costs, which are dependent on its forecast of sales throughout the operating life cycle of the title. The Company also considers current assessments of the industry, industry trends and the projected success of programs. When the Company determines to abandon an asset that is in use, the Company will first test the asset for impairment under the held-and-used impairment guidance at the asset group level. After recognizing any resulting impairment, if necessary, the Company will record accelerated depreciation through the date of abandonment to reflect the use of the asset over its shortened remaining useful life. An asset to be abandoned is disposed of when it ceases to be used. During fiscal years 2022, 2021, and 2020 the Company recorded accelerated amortization of prepublication costs of approximately $1.2 million, $2.4 million, and $1.9 million, respectively, associated with the abandonment of certain content projects during the fiscal year.

Author Advances

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

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

Identifiable Intangible Assets

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

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

Trademarks and tradenames	1–15 years
Copyrights	3–24 years
Customer relationships	3–20 years
Technology	2–8 years
Author content rights	4–25 years
Exclusivity rights	Period of economic benefit

Goodwill

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

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

Under certain circumstances, the Company may elect to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. For reporting units in which the qualitative assessment indicates it is more likely than not that the fair value is more than its carrying value, the Company would not be required to perform further quantitative goodwill impairment testing. See Note 7, "Goodwill," for further information related to the Company's goodwill and impairment testing.

Impairment of Long-Lived Assets

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

Operational Restructuring and Other Charges

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

Legal Contingencies

From time to time, the Company may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. The Company assesses its potential contingent and other liabilities by analyzing its claims, disputes and legal and regulatory matters using all available information, and develops its views on estimated losses in consultation with its legal and other advisors. The Company determines whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a material loss may be incurred. See Note 17, "Commitments and Contingencies," for further information. Proceeds from legal settlements are gain contingencies and are recognized in the income statement when all contingencies have been resolved. As such, gains from legal settlements are recorded once they are received.

Fair Value Measurements

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants. Authoritative guidance specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Company's own assumptions of market participant valuation (unobservable inputs). The fair value hierarchy consists of three levels:

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

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

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

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

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

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

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

Equity-Based Compensation

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

Foreign Currency

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Foreign currency transaction gains (losses), net	$ 0.7	$ (6.9)	$ 3.1

Taxes Collected from Customers and Remitted to Governmental Agencies

The Company records taxes on customer transactions due to governmental agencies as a receivable and a liability on the consolidated balance sheets.

Income Taxes

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

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

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of cumulative foreign currency translation adjustments at both March 31, 2022 and 2021.

Merger and Acquisition-Related Costs

In the fiscal year ended March 31, 2022, acquisition-related costs of $3.8 million for the February 2022 acquisition of Infosec Institute Inc. ("Infosec") were expensed as incurred and consisted of legal fees and professional services.

Acquisition-related costs for the July 2020 acquisition of certain Nelson Canada assets were expensed as incurred and consisted of legal fees and technology integration costs and were $1.2 million in the fiscal year ended March 31, 2021.

Merger related costs associated with the proposed McGraw-Hill merger that was terminated on May 3, 2020 were expensed as incurred and consisted of integration planning costs, legal fees, rating agency fees, and professional services and were $1.3 million and $44.1 million for the fiscal years ended March 31, 2021, and 2020, respectively.

New Accounting Standards and Accounting Changes

Recently Adopted Accounting Standards

In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-08, Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers ("ASU 2021-08"). Under current GAAP, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers and other similar contracts that are accounted for in accordance with Topic 606, Revenue from Contracts with Customers, at fair value on the acquisition date. ASU 2021-08 requires acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. ASU 2021-08 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments in ASU 2021-08 should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption is permitted, including adoption in an interim period. ASU 2021-08 is effective for the Company in the first quarter of fiscal 2025. The Company adopted this updated authoritative guidance during the quarter ended March 31, 2022 and applied Topic 606 to recognize and measure the contract liabilities acquired in the acquisition of Infosec.

In March 2020, the FASB issued guidance on reference rate reform. The update contains optional expedients for when the London Interbank Offered Rate ("LIBOR") is discontinued. These expedients apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance allows for prospective treatment of interest rate changes for contract modifications due to reference rate reform. Modification of leases due to reference rate reform should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate or remeasurement of lease payments that otherwise would be required for modifications not accounted for as separate contracts under Topic 842, Leases. Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging-Embedded Derivatives. The amendments in this update are effective for all entities as of March 31, 2020 through December 31, 2022 and can be adopted at the beginning of or prospectively within any interim period including or subsequent to March 31, 2020. Once elected, the amendments must be applied prospectively for all eligible contract modifications. The Company expects that if required over the next 18 months, the base rate will be adjusted to neutralize any impact from the discontinuation of LIBOR. The Company adopted this guidance during the quarter ended March 31, 2022. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The guidance removes exceptions around deferred tax liability recognition when moving foreign subsidiaries to and from equity method investments. The guidance also removes exceptions for calculating income taxes in interim periods when there is a loss from continuing operations. The amendment also simplifies the accounting for income taxes by clarifying the requirements around franchise taxes, goodwill, legal entities not subject to tax in financial statements, and employee stock ownership plans. In addition, the amendment requires that an entity reflect the impact of a change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including adoption in any periods for which financial statements have not yet been issued. Additionally, an entity that elects early adoption must adopt all of the amendments in the same period. The amendments are applied on a retrospective basis for financial statements of entities not subject to tax, on a modified retrospective basis for changes in ownership of foreign equity method investments, and on either a retrospective or modified retrospective basis for franchise taxes. All other amendments should be applied on a prospective basis. The Company adopted this guidance with an adoption date of April 1, 2021. The adoption of this guidance did not have a material impact on our consolidated financial statements.

2. ACQUISITION

Fiscal Year 2022 Acquisition

On February 28, 2022, the Company acquired all of the issued and outstanding equity interests of Infosec Institute Inc. ("Infosec") for aggregate cash consideration of $190.8 million, subject to customary working capital and certain other adjustments. The acquisition was paid for utilizing cash on hand.

The acquisition was accounted for using the purchase method of accounting in accordance with the FASB's guidance regarding business combinations. The Company's financial statements include the results of operations of Infosec subsequent to the acquisition date and are not material. The pro forma impact of the acquisition was not significant to the Company's results for any period presented.

A summary of the preliminary purchase price allocation of the identifiable assets acquired and liabilities assumed at the date of acquisition is as follows:

(in millions)		
Asset purchased:		
Accounts receivable, net	$	6.0
Prepaid expenses and other current assets		1.9
Right-of-use lease assets		1.1
Identifiable intangible assets		96.3
Goodwill		102.2
Other non-current assets		2.4
Total identifiable assets purchased	$	209.9
Liabilities assumed:		
Accounts payable and accrued expenses	$	1.9
Deferred revenue[(1)]		8.1
Other current liabilities		4.5
Operating lease liabilities		1.1
Other non-current liabilities[(1)]		3.5
Total liabilities assumed		19.1
Net assets acquired	$	190.8

(1) The Company accounted for the acquisition in accordance with ASC 805, *Business Combinations*, which was amended by ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities From Contracts With Customers*, which now requires the acquiring Company to apply Topic 606, *Revenue From Contracts With Customers*, to recognize and measure contract liabilities in a business combination. Refer to Note 1, "Basis of Presentation and Recently Adopted Accounting Standards," for details on the adoption of ASU 2021-08.

The Company has engaged a third-party valuation firm to assist in the valuation of Infosec's identifiable intangible assets consisting of intellectual property such as tradenames, technology, copyrights and customer relationships. The Company has reflected preliminary fair values of these assets. The estimated fair values of intangible assets of $96.3 million were developed by management based on their estimates, assumptions and acquisition history, including preliminary reports from a third-party valuation firm. The estimated fair values of the intangible assets will be supported by the valuations performed by the third-party valuation firm. It is possible that once the Company receives the completed valuations on the intangible assets, the final purchase price accounting may be different than what is presented above.

The preliminary fair values for specifically identifiable intangible assets acquired, by major asset class, are as follows:

(in millions)		**Fair Value**	**Weighted-average amortization period (in years)**
Customer relationships	$	71.8	12.5
Tradenames		10.3	15.0
Copyrights		7.9	5.0
Technology		6.3	5.0
	$	96.3	11.7

The preliminary purchase price for the acquisition was allocated to assets acquired and liabilities assumed based on their estimated fair values. The Company then allocated the purchase price in excess of net tangible assets acquired to identifiable intangible assets, based on the valuation from the Company's third-party valuation firm and management. The valuation of the acquired intangible assets is inherently subjective and relies on significant estimates and judgments. The fair value of the intangible assets was derived using the income approach and was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumption takes into consideration the Company's estimates of revenue growth projections.

Any excess purchase price over the fair value of the net tangible and intangible assets acquired was allocated to goodwill and assigned to the Infosec reporting unit. The $102.2 million of goodwill was recognized as the transaction expanded the Company's Workforce Skills portfolio to now include the cyber-security market. The transaction was structured as an asset acquisition for tax purposes, and the goodwill created by the transaction is deductible for tax purposes. The operations of Infosec have been integrated into the Workforce Skills reporting segment.

The fair values of the remaining Infosec assets and liabilities noted above approximate their carrying values as of the acquisition date.

The Company utilized accounting guidance related to intangible assets which lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors include, in part, a review of the expected use by the Company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets and legal, regulatory, or other contractual provisions that may limit the useful life of an acquired asset. The Company amortizes these intangible assets over their estimated useful lives which is consistent with the estimated undiscounted future cash flows of these assets.

As part of the preliminary purchase price allocation, identifiable intangible assets include intellectual property such as tradenames, technology, copyrights and customer relationships. Amortization expense related to these intangible assets was $0.8 million for the year ended March 31, 2022.

Infosec's revenues and net income included in the Company's consolidated operating results from February 28, 2022, the acquisition date, through March 31, 2022 were immaterial.

Fiscal Year 2021 Acquisition

On July 7, 2020, the Company agreed with Nelson Education Ltd. ("Nelson"), its longtime partner in Canada, to terminate Nelson's exclusive distribution rights for Cengage's academic product into the Canadian market and to acquire certain assets and assumed liabilities related to Nelson's Canadian adaptations of our titles. The total purchase consideration was $8.8 million, consisting of $5.3 million and $3.5 million of non-cash and cash considerations, respectively, and was accounted for as a business combination.

The operating results of certain Nelson Canada assets were included in the operating results of the Company's International Higher Education segment from the acquisition date and were not material for the fiscal year ended March 31, 2021. The pro forma impact of the acquisition was not significant to the Company's results for the fiscal years ended March 31, 2021 and 2020.

As a result of the purchase price allocation, the Company recognized $3.5 million of goodwill. This was primarily due to the expected synergies from the reversion of distribution rights to Cengage product, and an enhanced overall customer and product proposition from the combination with the adapted product in the important Canadian market. The transaction was structured as an asset acquisition for tax purposes, and the goodwill created by the transaction is deductible for tax purposes.

3. REVENUE RECOGNITION

Disaggregation of Revenue

The following tables provide details of revenue from contracts with customers disaggregated by major product types, by segment, by geography and by type of performance obligation:

	Fiscal Year Ended March 31, 2022		
(in millions)	**Print**	**Digital**[2]	**Total**
U.S. Higher Education[1]	$ 142.2	$ 546.3	$ 688.5
International Higher Education	112.3	46.8	159.1
Higher Education	254.5	593.1	847.6
Secondary	63.2	83.8	147.0
Workforce Skills	—	58.3	58.3
ELT	55.0	40.5	95.5
Research	31.5	173.0	204.5
Total revenue by segment	404.2	948.7	1,352.9
Corporate Enabling Functions[1]	18.7	—	18.7
Total consolidated revenue by product type	$ 422.9	$ 948.7	$ 1,371.6

	Fiscal year ended March 31, 2021		
(in millions)	**Print**	**Digital**[2]	**Total**
U.S. Higher Education[1]	$ 117.2	$ 534.0	$ 651.2
International Higher Education	100.4	39.7	140.1
Higher Education	217.6	573.7	791.3
Secondary Education	56.1	75.7	131.8
Workforce Skills	—	44.0	44.0
ELT	37.3	31.6	68.9
Research	26.3	159.2	185.5
Total revenue by segment	337.3	884.2	1,221.5
Corporate Enabling Functions[1]	16.2	—	16.2
Total consolidated revenue by product type	$ 353.5	$ 884.2	$ 1,237.7

	Fiscal Year Ended March 31, 2020		
(in millions)	**Print**	**Digital**[2]	**Total**
U.S. Higher Education[1]	$ 149.0	$ 496.2	$ 645.2
International Higher Education	137.0	37.5	174.5
Higher Education	286.0	533.7	819.7
Secondary Education	70.6	87.4	158.0
Workforce Skills	—	32.4	32.4
ELT	70.2	32.7	102.9
Research	32.7	165.6	198.3
Total revenue by segment	459.5	851.8	1,311.3
Corporate Enabling Functions[1]	15.7	—	15.7
Total consolidated revenue by product type	$ 475.2	$ 851.8	$ 1,327.0

(1) Includes warehouse and distribution fulfillment services (within Corporate Enabling Functions) and consignment rental revenue (within U.S. Higher Education), which is not material for the Company.

(2) Digital includes eTextbooks and bundled products.

Revenue by Geography:[(1)]

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
United States	$ 1,095.1	$ 1,009.5	$ 1,037.2
Europe/Middle East/Africa	83.0	61.4	78.2
Asia Pacific	67.9	61.8	76.4
Australia	58.0	52.1	77.6
Canada	38.3	33.3	19.4
Latin America	29.3	19.6	38.2
Total revenue by geography	$ 1,371.6	$ 1,237.7	$ 1,327.0

(1) No individual country other than the United States contributed more than 10% of the Company's total revenue during any of the periods presented.

Revenue Recognized Point in Time and Over Time:

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Revenue recognized at a point in time	$ 710.4	$ 612.6	$ 765.3
Revenue recognized over time	661.2	625.1	561.7
Total revenue	$ 1,371.6	$ 1,237.7	$ 1,327.0

Our revenue recognition is consistent across our segments and primarily driven by product type:

Digital

For digital products that are internally hosted, the Company recognizes revenue over time, as the performance obligation is satisfied over the contractual term of the product. For subscriptions, the performance obligation is satisfied over the life of the subscription. For digital products where content is delivered up-front, or where the product is third-party hosted, revenue is recognized upon delivery of the access codes. Revenue for services such as curriculum development or third-party fulfillment services is recognized as the service is performed. Revenue from online skills solutions is recognized over the average length of the course. Revenue for license and technology fees is recognized upon execution of the license and delivery of the content. For archives and databases, revenue is recognized upon delivery of the content.

Print

For the Company's print products, the performance obligation is typically satisfied upon shipment to the customer.

In addition, revenue is impacted by the Company's reserve for sales returns. The Company reserves a percentage of its gross sales, based on a review of its historical sales returns experience and its estimate of future returns, by reducing revenue during the period in which it is recognized. The returns are then recorded against the sales returns reserve in the period of receipt.

Significant Judgments

Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. In order to be distinct, the customer must be able to benefit from the service on its own or with readily available resources, and the promise to transfer the good or service must be separately identifiable from other goods and services in the contract. For digital products, hosting is considered distinct when it is offered as a separate service. For products where hosting is not offered separately, it is not considered a distinct performance obligation.

Judgments are required to determine the SSP for each distinct performance obligation. When SSP is directly observable, we estimate SSP based upon the historical transaction prices, adjusted for geographic considerations and customer class. In instances where SSP is not directly observable, the Company determines SSP using information that may include market conditions and other observable inputs. The Company may have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such as the size of the customer and geographic region in determining SSP. Determining SSP for performance obligations which the Company never sells separately also requires significant judgment. In estimating the SSP, the Company considers the likely price that would have resulted from established pricing practices had the deliverable been offered separately and the prices a customer would likely be willing to pay.

From time to time, the Company may enter into arrangements with third party suppliers to resell products or services. In such cases, the Company evaluates whether it is the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis). In doing so, the Company first evaluates whether it controls the good or service before it is transferred to the customer. If the Company controls the good or service before it is transferred to the customer, the Company is the principal; if not, it is the agent. Determining whether the Company controls the good or service before it is transferred to the customer may require judgment. Generally, the Company controls a promised good or service before transferring that good or service to the customer and acts as the principal to the transaction. The Company has a limited number of agency relationships, which it accounts for on a net revenue basis.

Deferred Commission Costs

The Company capitalizes certain internal and third-party contract acquisition costs that are primarily related to paid commissions. A portfolio approach is used to determine a commission rate for capitalization, as the effects on the financial statements of applying this rate are not expected to differ materially from applying detailed commission plan rates to individual contracts within the portfolio. The Company immediately expenses commissions on contracts with durations of twelve months or less.

The Company’s total deferred commission costs were reported in the accompanying consolidated balance sheets as follows:

	As of	
(in millions)	March 31, 2022	March 31, 2021
Prepaid and other current assets	$ 3.2	$ 2.6
Other non-current assets	2.4	1.7
Total deferred commission costs	$ 5.6	$ 4.3

The Company recognized amortization expense related to deferred commission costs within the accompanying consolidated statement of operations.

	Fiscal Year Ended March 31,		
(in millions)	2022	2021	2020
Amortization of deferred commission costs recognized within cost of revenues	$ 0.1	$ 0.1	$ 0.1
Amortization of deferred commission costs recognized within selling, general and administrative expenses	$ 3.8	$ 3.3	$ 2.4

Contract Assets and Contract Liabilities

Contract assets consist of receivables that are recorded for contracts with performance obligations that have been partially satisfied but not yet billed. As of March 31, 2022 and 2021, the Company had no contract assets.

Contract liabilities consist of revenues from our digital and subscription products that are deferred at the time of sale and recognized as the performance obligations are fulfilled, over the term of the subscription or contract. The current and non-current portions of deferred revenue are included in deferred revenue and other non-current liabilities, respectively, in the accompanying consolidated balance sheets as follows:

	As of	
(in millions)	March 31, 2022	March 31, 2021
Deferred revenue	$ 250.0	$ 240.7
Other non-current liabilities	54.1	47.2
Total deferred revenue	$ 304.1	$ 287.9

The change in deferred revenue as of March 31, 2022 was primarily due to new billing and $248.1 million of revenue recognized during the fiscal year that was included in deferred revenue as of March 31, 2021. The change in deferred revenue as of March 31, 2021 was primarily due to new billing and $211.5 million of revenue recognized during the fiscal year that was included in deferred revenue as of March 31, 2020.

Remaining Performance Obligations

The remaining performance obligation disclosure provides the aggregate amount of the transaction price yet to be recognized as of the end of the reporting period and an explanation as to when the Company expects to recognize these amounts in revenue. Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts and adjustments for currency. The following table includes aggregate estimated revenue of the transaction price allocated to the remaining performance obligation related to customer contracts that are unsatisfied or partially satisfied as of March 31, 2022:

(in millions)	Within One Year	Two to Five Years	Greater than Five Years	Total
Total Revenue	$ 250.0	$ 52.0	$ 2.1	$ 304.1

4. INVENTORIES

Inventories consist of the following:

	As of March 31,	
(in millions)	2022	2021
Work-in-progress	$ 0.4	$ 0.4
Finished goods	53.9	63.5
Total inventories	$ 54.3	$ 63.9

5. PROPERTY, EQUIPMENT AND CAPITALIZED INTERNAL-USE SOFTWARE

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

	As of March 31,	
(in millions)	2022	2021
Purchased and internally-developed software	$ 438.5	$ 424.3
Computer hardware	38.4	42.1
Leasehold improvements	30.7	28.7
Buildings and building improvements	2.6	27.6
Furniture and equipment	29.7	29.0
Land and land improvements	—	3.0
Total property, equipment and capitalized internal-use software, gross	539.9	554.7
Less: Accumulated depreciation and amortization	(459.1)	(433.5)
Total property, equipment and capitalized internal-use software, net	$ 80.8	$ 121.2

6. IDENTIFIABLE INTANGIBLE ASSETS

Identifiable intangible assets, net consist of the following:

	As of March 31, 2022			As of March 31, 2021		
(in millions)	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Copyrights(3)	$ 738.2	$ (360.5)	$ 377.7	$ 731.4	$ (324.1)	$ 407.3
Customer relationships(3)	442.6	(197.4)	245.2	371.3	(171.6)	199.7
Trademarks and tradenames(3)	240.3	(122.9)	117.4	230.4	(107.6)	122.8
Technology, author content rights and other(1)(2)(3)	76.1	(25.6)	50.5	49.6	(17.9)	31.7
Total identifiable intangible assets	$ 1,497.2	$ (706.4)	$ 790.8	$ 1,382.7	$ (621.2)	$ 761.5

(1) During the fiscal year ended March 31, 2022, the Company recorded $6.8 million of certain exclusivity rights assets that were acquired under a strategic partnership and will be amortized over the period of economic benefit.

(2) During the fiscal year ended March 31, 2022, the Company acquired approximately $13.4 million of certain author content rights that will be amortized over their estimated useful life, up to a maximum of 10 years.

(3) During the fiscal year ended March 31, 2022, the Company recorded $96.3 million of identifiable intangible assets related to the acquisition of Infosec. For additional details on this transaction, refer to Note 2, "Acquisition."

As of March 31, 2022, estimated annual amortization expense for each of the next five fiscal years is as follows:

(in millions)	
Fiscal Years Ending March 31,	
2023	$ 94.6
2024	93.3
2025	92.1
2026	91.1
2027	89.9

7. GOODWILL

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

(in millions)	U.S. Higher Education	International Higher Education	Secondary Education	Workforce Skills	ELT	Research	Total
Balance at March 31, 2020	$ 388.1	$ 36.7	$ 147.6	$ 32.1	$ 49.4	$ 203.1	$ 857.0
Foreign currency translation and other	—	2.6	—	—	3.5	1.4	7.5
Goodwill resulting from acquisition	—	3.5	—	—	—	—	3.5
Goodwill impairment charges	—	(6.1)	—	—	(3.6)	—	(9.7)
Balance at March 31, 2021	$ 388.1	$ 36.7	$ 147.6	$ 32.1	$ 49.3	$ 204.5	$ 858.3
Foreign currency translation	—	(1.0)	—	—	(0.7)	(0.6)	(2.3)
Goodwill resulting from acquisition[(1)]	—	—	—	102.2	—	—	102.2
Balance at March 31, 2022	$ 388.1	$ 35.7	$ 147.6	$ 134.3	$ 48.6	$ 203.9	$ 958.2

(1) Goodwill resulting from acquisition during the fiscal year ended March 31, 2022, was related to the Company's acquisition of Infosec. See Note 2, "Acquisition" for additional information

Fiscal Year 2022

In the fourth quarter of fiscal year 2022, the Company performed a qualitative assessment or step zero assessment on certain of its reporting units. For the remaining reporting units, the Company did complete a quantitative or step one impairment test and concluded that the fair value of those reporting units was greater than their respective carrying value and no impairments were identified.

In order to estimate the fair value of each reporting unit, the Company used an equal-weighted application of the discounted cash flow and market approach methodologies. The discounted cash flow method estimates the value of a reporting unit by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such reporting unit. This methodology requires the use of significant estimates, including discount rates, estimated residual growth rates, and projections of revenue growth and profit margins. The projections underlying the valuation were based on the internal strategic forecasts for each reporting unit. Discount rates were calculated using the capital asset pricing model based on a weighted-average cost of capital of comparable companies. The estimated residual growth rate was developed considering the long-term economic outlook of the industry and geographical region in which each reporting unit operates. The fourth quarter goodwill impairment review discount rate assumptions ranged from 10.5% to 12.5% and residual growth rate assumptions ranged from 2.5% to 4.0%. In addition to the discounted cash flow analysis, the Company performs the market approach, which is a comparison of both trailing and forward financial multiples implied by the estimated reporting unit fair value to a range of multiples of publicly held companies with similar characteristics. If recent merger and acquisition transactions for industry or peer companies are available, the financial multiples implied by the estimated reporting unit fair value are also compared to the range of multiples from such precedent transactions. The Company applies comparable revenue and EBITDA multiples under this methodology as it considers these measures the most relevant to its business. For the annual impairment test performed in the fourth quarter of 2022, the Company applied forward multiples of projected revenues in a range of 0.5x - 2.2x and forward multiples of projected EBITDA in a range of 8.5x - 10.0x.

The estimated fair value of the Company's Asia ELT reporting unit exceeded its carrying value by 3.7%. The discount rate applied to the Asia ELT reporting unit discounted cash flow was 11.5% and the residual growth rate was 4.0%. The Company performed a sensitivity analysis on its significant assumptions used to determine the fair value of the Asia ELT reporting unit and determined that a more than nominal change to our significant assumptions, for example, a 1.0% increase in the discount rate or a 1.0% decrease in the residual growth rate, could result in a different conclusion. If actual results differ from the projections and assumptions used in the calculation of the Asia ELT reporting unit fair value, the Company could be required to record future non-cash impairment charges. Total goodwill attributable to the Asia ELT reporting unit was $35.0 million as of March 31, 2022.

Fiscal Year 2021

The Company conducted its annual impairment test of goodwill for each reporting unit during the fourth quarter of fiscal year 2021. In order to estimate the fair value of each reporting unit, the Company used an equal-weighted application of the discounted cash flow and market approach methodologies. The discounted cash flow method estimates the value of a reporting unit by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such reporting unit. This methodology requires the use of significant estimates, including discount rates, estimated residual growth rates, and projections of revenue growth and profit margins. The projections underlying the valuation were based on the internal strategic forecasts for each reporting unit. Discount rates were calculated using the capital asset pricing model based on a weighted-average cost of capital of comparable companies. The estimated residual growth rate was developed considering the long-term economic outlook of the industry and geographical region in which each reporting unit operates. The fourth quarter goodwill impairment review discount rate assumptions ranged from 10.5% to 14.5% and residual growth rate assumptions ranged from 1.0% to 4.0%. In addition to the discounted cash flow analysis, the Company performs the market approach, which is a comparison of both trailing and forward financial multiples implied by the estimated reporting unit fair value to a range of multiples of publicly held companies with similar characteristics. If recent merger and acquisition transactions for industry or peer companies are available, the financial multiples implied by the estimated reporting unit fair value are also compared to the range of multiples from such precedent transactions. The Company applies comparable revenue and EBITDA multiples under this methodology as it considers these measures the most relevant to its business. For the annual impairment test performed in the fourth quarter of 2021, the Company applied forward multiples of projected revenues in a range of 0.3x - 2.1x and forward multiples of projected EBITDA in a range of 7.5x - 9.0x.

Based on the quantitative test for the fiscal year 2021 annual impairment tests, the Company concluded that the fair value of the North America reporting unit was less than its respective carrying value, resulting in a goodwill impairment charge of $9.7 million. This impairment was driven primarily from a reduction in projections due to the higher-than-expected impact of the COVID-19 pandemic on our previously reported International reportable segment.

During the fourth quarter of fiscal year 2021, subsequent to the completion of the annual impairment test of goodwill, the Company changed its segment reporting structure to better align with the strategic objectives of the Company. The change in the Company's reporting structure resulted in a change in the composition of its reporting units for goodwill impairment testing purposes. The Company determined its new reporting units, effective in the fourth quarter of fiscal year 2021, to be U.S. Higher Education and Milady, comprising the U.S. Higher Education reportable segment, Canada, EMEA, Asia, Latin America and Australia, within the International Higher Education reportable segment, Secondary Education, Workforce Skills and Research, all individual reportable segments, and North America, EMEA, Asia, Latin America and Australia, within the ELT reportable segment. To determine the amount of goodwill within its new reporting units the Company reallocated the goodwill, previously allocated to its former reporting units, to its new reporting units on a relative fair value basis as of March 31, 2021 (refer to Note 19, "Segment Information," for additional details).

As a result of the change in reporting unit structure, the Company reallocated goodwill as of March 31, 2021 to our reporting units using a relative fair value approach and we performed a "before and after" test of the reporting units. The Company followed the same methodology, as described above for the annual impairment review, for the impairment review of the new reporting units. The Company's discount rate assumptions ranged from 10.5% to 15.0% and residual growth rate assumptions ranged from 2.0% to 4.0%. The Company applied forward multiples of projected revenues in a range of .5x – 3.25x and forward multiples of projected EBITDA in a range of 8.0x – 13.0x. For this impairment test, the Company concluded that the fair values of the reporting units exceeded their respective carrying values.

Fiscal Year 2020

For the Company's fiscal year 2020 annual goodwill impairment review, the reporting units were Higher Ed (representing the academic and skills markets) and School, who together comprised the Learning reportable segment, the Gale reportable segment, and North America, EMEA (Europe, Middle East and Africa), Asia, Latin America and Australia, within the International reportable segment. The Company performed its annual goodwill impairment testing on its reporting units in the fourth quarter of fiscal year 2020. The Company then determined as of March 31, 2020, the COVID-19 pandemic was a triggering event and performed an additional quantitative test. In order to estimate the fair value of each reporting unit, the Company followed the same methodology as above. The Company's discount rate assumptions ranged from 11.5% to 16.0% and residual growth rate assumptions ranged from 1.0% to 4.0%. The Company applied forward multiples of projected revenues in a range of 0.5x - 2.2x and forward multiples of projected EBITDA in a range of 5.0x - 10.0x.

Based on the quantitative test for the fiscal year 2020 annual impairment tests, the Company concluded that the fair values of Higher Ed, School and North America reporting units were less than their respective carrying values, resulting in a goodwill impairment charge of $729.6 million, $28.7 million, and $9.5 million, respectively. These impairments were driven primarily from a reduction in projections due to the higher-than-expected overall industry decline during the year compared to prior years, as noted in the fourth quarter, compounded with the estimated impact of the COVID-19 pandemic on student enrollments and school budgets. In the fourth quarter of fiscal year 2021, as the result of the change in segment reporting, the Company restated the fiscal year 2020 impairments based on the new segment reporting. The full amount of the charge to Higher Ed is now included in U.S. Higher Education. The full amount of the charge to School is now included in Secondary Education. The amount charged to the North America reporting unit was reallocated from the International segment to International Higher Education and ELT.

There were no goodwill impairment charges recorded during the fiscal year ended March 31, 2022. Total goodwill impairment charges recorded during the fiscal years ended March 31, 2021 and 2020 were $9.7 million and $767.8 million, respectively. Accumulated goodwill impairment charges were $777.5 million as of March 31, 2022 and 2021.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of March 31,	
(in millions)	2022	2021
Accounts payable	$ 120.6	$ 94.7
Accrued royalties	48.3	48.0
Accrued incentive compensation	60.2	64.7
Accrued employee compensation and related expenses	34.3	32.3
Other accrued expenses	30.1	25.7
Accrued interest payable	37.8	32.4
Total accounts payable and accrued expenses	$ 331.3	$ 297.8

9. OPERATIONAL RESTRUCTURING, OTHER CHARGES, AND RIGHT-OF-USE ASSET IMPAIRMENTS

Operational Restructuring and Other Charges, net

Fiscal Year 2022

During the fiscal year ended March 31, 2022, the Company implemented a restructuring program that included actions across the Company's segments and its corporate functions to align with the Company's strategic objectives.

- As a result, the Company incurred severance related costs of $1.3 million within the U.S. Higher Education segment, $0.4 million within the Secondary Education segment, $0.9 million within the International Higher Education segment and $1.6 million within the Corporate Enabling Functions. All cash payments are expected to be made by March 31, 2023. This initiative was substantially complete as of March 31, 2022.

- As a result, the Company implemented a restructuring program to support the long-term growth strategy in Secondary Education, which is focused on serving the career and college readiness segment in the high school setting. As a result, the Company incurred $2.5 million of severance related costs, of which $2.1 million, $0.2 million and $0.2 million were recorded within the Secondary Education segment, U.S. Higher Education segment and Corporate Enabling Functions, respectively. All cash payments are expected to be made by the end of the first quarter of fiscal year 2023. In addition, as part of the go to market strategy implementation, in its Secondary Education segment the Company incurred $0.8 million of strategic consulting costs, which were expensed as incurred. This initiative was substantially complete as of March 31, 2022.

- As a result, the Company announced a restructuring initiative in its Research segment implementing a new market-focused operating model that the Company believes will position the business to better serve customers. As a result, the Company incurred $2.0 million of severance related costs, with substantially all cash payments expected to be made by the end of the third quarter of fiscal year 2023, with the remaining inconsequential cash payments completed by the end of fiscal 2023. This initiative was substantially complete as of March 31, 2022.

- During the fiscal year ended March 31, 2022, the Company recorded charges to Corporate Enabling Functions of $0.9 million related to strategic consulting and $0.7 million related to ongoing facility related costs for vacated properties that were expensed as incurred. Additionally, for a prior year initiative, the Company released $0.4 million of severance related costs that were recorded within the International segment.

Fiscal Year 2021

During the fiscal year ended March 31, 2021, in connection with continued cost structure improvements, the Company incurred cumulative severance related costs of $6.4 million, with related cash payments completed as of March 31, 2022. The Company also incurred $1.1 million of facility exit costs associated with the traditional office structure and remote work evaluation of the Company’s real estate portfolio, which were expensed as incurred. In addition, the Company incurred strategic consulting costs of $1.0 million, which were expensed as incurred. As of March 31, 2022, the program was complete.

Fiscal Year 2020

During the fiscal year ended March 31, 2020, the Company announced a restructuring cost savings initiative designed to streamline operations and improve its cost structure. This initiative includes actions across the Company’s segments and its corporate functions, such as streamlining the Company’s organizational structure and spending at the functional, business and geographic levels. As a result of this action, the Company incurred cumulative severance related costs totaling $15.6 million, with the related cash payments that were completed as of March 31, 2021. In addition, the Company recorded facility exit charges of $1.3 million associated with vacating and ceasing use of certain office space, which were expensed as incurred. As of March 31, 2021, the program was complete.

During the fiscal year ended March 31, 2020, the Company incurred additional restructuring charges in its U.S. Higher Education segment and Corporate Enabling Functions related to an initiative to streamline operations. In the fiscal year ended March 31, 2020, the Company incurred $0.6 million and $4.2 million in the aggregate, of severance related costs in connection with this program, with related cash payments completed as of March 31, 2021. As of March 31, 2021, the program was complete.

During the fiscal year ended March 31, 2020, the Company incurred additional restructuring charges across its segments related to an initiative to continue the alignment of its operations to support the evolution of the changing business models in those segments, including Cengage Unlimited and its customer-focused approach. In the fiscal year ended March 31, 2020, the Company incurred $2.2 million and $10.2 million in the aggregate, of severance related costs in connection with this program, with related cash payments completed as of March 31, 2021. Additionally, during the fiscal year ended March 31, 2020, the Company incurred $1.3 million and $1.9 million in the aggregate of strategic consulting costs, which were expensed as incurred. As of March 31, 2021, the program was complete.

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

(in millions)	Fiscal Year Ended March 31, 2022	2021	2020
U.S. Higher Education	$ 1.5	$ 1.8	$ 5.5
International Higher Education	0.5	2.3	1.1
Higher Education	2.0	4.1	6.6
Secondary Education	3.3	1.6	1.1
ELT	—	0.3	—
Research	2.0	0.1	1.3
Total segment operational restructuring and other charges, net	7.3	6.1	9.0
Corporate Enabling Functions	3.4	2.4	12.0
Total consolidated operational restructuring and other charges, net	$ 10.7	$ 8.5	$ 21.0

The Company's total restructuring liability is recorded in other current liabilities in the accompanying consolidated balance sheets. The following table summarizes the movements for restructuring reserves:

(in millions)	Severance	Strategic Consulting	Facility Exit and Other[1]	Total
Balance at March 31, 2019	$ 10.0	$ —	$ 7.0	$ 17.0
Charges, net	18.4	1.3	1.3	21.0
Cash Payments	(24.0)	(1.3)	(1.0)	(26.3)
Lease adoption adjustments	—	—	(7.2)	(7.2)
Balance at March 31, 2020	$ 4.4	$ —	$ 0.1	$ 4.5
Charges, net	6.4	1.0	1.1	8.5
Cash Payments	(6.0)	(1.0)	(1.0)	(8.0)
Balance at March 31, 2021	$ 4.8	$ —	$ 0.2	$ 5.0
Charges, net	8.3	1.7	0.7	10.7
Cash Payments	(9.0)	(1.7)	(0.9)	(11.6)
Balance at March 31, 2022	$ 4.1	$ —	$ —	$ 4.1

(1) These charges relate to ongoing facility related costs for vacated properties that are expensed as incurred.

Right-of-Use Asset Impairments

During the fiscal year ended March 31, 2022, no impairment charges were recorded. During the fiscal years ended March 31, 2021 and 2020, the Company vacated and ceased use of multiple properties and recorded impairment charges totaling $7.7 million and $2.7 million, respectively, with the largest portion relating to the Company's Boston, Massachusetts corporate Headquarters. For purposes of calculating impairment on right-of-use assets the Company uses Level 3 inputs as defined in the fair value hierarchy (refer to Note 1, "Basis of Presentation and Summary of Significant Accounting Policies").

10. DEBT

Debt, related maturities and interest rates were as follows as of March 31, 2022 and 2021:

		Interest Rate at March 31,		March 31,	
(in millions)	Maturity	2022	2021	2022	2021
Current portion:					
Term Loan Facility	2026	5.75%	—%	$ 16.5	$ —
2016 Term Loan Facility[1]	2023	—%	5.25%	—	39.4
Total current portion of long-term debt				16.5	39.4
Non-current portion:					
Senior Notes	2024	9.50%	9.50%	620.0	620.0
Term Loan Facility	2026	5.75%	—%	1,625.3	—
2016 Term Loan Facility	2023	—%	5.25%	—	1,589.4
Unamortized Term Loan discount				(14.1)	(5.3)
Unamortized deferred financing costs				(14.7)	(11.5)
Total non-current portion of long-term debt				2,216.5	2,192.6
Total debt				$ 2,233.0	$ 2,232.0

(1) The 2016 Term Loan Facility was repaid using the proceeds from the issuance of the Term Loan Facility on July 14, 2021.

Scheduled principal payments due on the Company's debt as of March 31, 2022 are as follows:

(in millions)	
Fiscal Years Ending March 31,	
2023	$ 16.5
2024	16.5
2025	636.5
2026	16.5
2027	1,575.8
Total	$ 2,261.8

On June 7, 2016, Cengage Learning, Inc., a wholly-owned subsidiary of the Company, issued 9.50% Senior Notes ("Senior Notes") and amended and restated its senior secured term loan facility ("2016 Term Loan Facility") and its asset-based lending revolving line of credit ("2016 ABL Facility").

In February 2017, the Company's board of directors approved an authorization of up to $100 million to purchase in the open market its 9.50% Senior Notes and/or 2016 Term Loan Facility.

On October 29, 2020, the Company entered into Amendment No. 1 ("2020 ABL Facility Amendment") to the 2016 ABL Facility (as amended by the 2020 ABL Facility Amendment, the "ABL Facility"). In connection with the 2020 ABL Facility Amendment, the Company incurred fees with the arrangers, along with legal and other professional costs of approximately $1.7 million, which were included in other non-current assets in the accompanying consolidated balance sheet.

On July 14, 2021, Cengage Learning, Inc. entered into Amendment No. 3 ("2021 Term Loan Facility Amendment") to the 2016 Term Loan Facility (as amended and restated by the 2021 Term Loan Facility Amendment, the "Term Loan Facility").

In connection with the Term Loan Facility, the Company incurred fees with arrangers, along with legal and other professional costs, of approximately $14.2 million, which were capitalized as deferred financing costs. The net proceeds from the Term Loan Facility, after deducting underwriting discounts and offering expenses, were approximately $1.6 billion and were used to repay the Company's $1.6 billion aggregate outstanding principal amount of the 2016 Term Loan Facility. During the fiscal year ended March 31, 2022, the Company recorded an $11.4 million loss on the early extinguishment of debt related to the accelerated amortization of the remaining unamortized deferred debt issuance costs and discount costs related to the 2016 Term Loan Facility.

Senior Notes

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

The indenture related to the Senior Notes contains certain covenants that the Company may be subject to which restrict its and its subsidiaries' ability to, among other things: incur additional indebtedness or issue certain disqualified shares and preferred shares; create liens; pay dividends or distributions or redeem or repurchase equity; prepay subordinated debt or make certain investments; transfer and sell assets; engage in a consolidation or merger or sell, transfer or otherwise dispose of all or substantially all of its assets; and enter into transactions with affiliates. The Company will not be subject to these covenants if (i) the Senior Notes have Investment Grade Ratings from the relevant rating agencies, as defined in the terms of the Senior Notes, and (ii) no default has occurred and is continuing under the indenture. As of March 31, 2022, no default has occurred and the Company is compliant with all of the covenants of the indenture.

Term Loan

The Term Loan Facility provides for senior secured term loans in an aggregate principal amount of $1,650.0 million and matures on July 14, 2026. In addition, the Company may request one or more incremental credit facilities in an aggregate amount equal to the greater of $236.0 million and 0.75 times the EBITDA calculated on a Pro Forma Basis for the most recently ended Test Period, plus additional amounts subject to certain requirements. Borrowings under the Term Loan Facility bear interest at a rate equal to, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor ("Eurocurrency Rate Loan"), or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. As of March 31, 2022, the Company elected to carry the Term Loan Facility as a Eurocurrency Rate Loan which has an initial effective interest rate of 5.75% comprised of the LIBOR floor of 1.00% plus an applicable margin of 4.75%. See Note 1, "Basis of Presentation," for additional details on new accounting standards and accounting changes for LIBOR rate reform.

The Company is required to repay 0.25% of the original principal amount of the Term Loan Facility on the last business day of each quarter commencing with the quarter ending December 31, 2021. Following the end of each fiscal year the Company must prepay a percentage between 0% and 50%, based on the Company's total net first lien leverage ratio, of its Excess Cash Flow, as defined in the Term Loan Facility agreement. Prepayment is made once the calculation, which must be delivered to the administrative agent within five business days after delivery of the financial statements, is agreed and accepted by the lender. Prepayments made under the Excess Cash Flow provision are used to satisfy prospective mandatory quarterly principal repayments. Based on our March 31, 2022 consolidated financial statements, the Company determined there is no prepayment due under the Excess Cash Flow provision. 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. The Company may prepay outstanding loans under the Term Loan Facility at any time, without prepayment premium or penalty, except in connection with a repricing event, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing through the issuance or repricing amendment of any debt that results in a repricing event applicable to borrowings under the Term Loan Facility resulting in a lower yield occurring at any time during the first twelve months after the effective date of the Term Loan Facility will be accompanied by a 1.00% prepayment premium or fee, as applicable. In accordance with the Excess Cash Flow provisions of the 2016 Term Loan Facility, the Company made the fiscal year 2021 principal payment of $22.3 million to debt holders in July 2021. Based on the Company's consolidated financial statements as of March 31, 2020 it was determined there was no prepayment due under the Excess Cash Flow provision for fiscal year 2020.

ABL Facility

The availability of credit under the ABL Facility, which expires on October 29, 2023 is equal to the lesser of (i) $206.5 million or (ii) the Company's borrowing base. The borrowing base equals the sum of (i) 90% of eligible credit card receivables, plus (ii) 85% of eligible receivables, plus (iii) 85% of the orderly liquidation value of eligible inventory, plus (iv) 100% of cash not to exceed $35.0 million. As of March 31, 2022 and March 31, 2021, the ABL Facility had no outstanding borrowings and $10.3 million and $10.6 million, respectively, in issued and outstanding letters of credit. The Company's available borrowing base, as of March 31, 2022, which is based on the balance sheet at February 28, 2022, was $107.8 million, net of letters of credit. The ABL Facility has a fixed charge coverage ratio covenant if availability falls below a defined threshold. Based on availability under the ABL Facility as of March 31, 2022, the Company was not subject to the covenant.

The unused commitment fee on the ABL Facility is a fixed rate of 0.50%. Depending on the average daily availability outstanding letters of credit are also subject to a quarterly letter of credit participation fee which will vary between 2.25% and 2.75% on the ABL Facility. During the fiscal year ended March 31, 2022 the Company incurred approximately $1.0 million of unused commitment fees and $0.3 million of letter of credit participation fees.

11. BENEFIT PLANS

The Company maintains a defined contribution 401(k) Savings Plan in the United States. The United States plan covers substantially all United States based employees who meet minimum service requirements and allows participants to defer a portion of their annual compensation on a pre-tax, Roth, or post-tax basis. The Company does a discretionary match of 100% of employee contributions up to 4% of the employee's compensation, as defined in the plan. These matching contributions vest based upon an employee's years of service and become fully vested after four years of service. The Company also has similar defined contribution plans for certain employees outside the United States. The Company's contributions to all plans, net of plan forfeitures, were $12.5 million, $4.7 million, and $13.2 million for the fiscal years ended March 31, 2022, 2021 and 2020, respectively.

12. EQUITY

Pursuant to the Company's Certificate of Incorporation, the Company is authorized to issue an aggregate of 350,000,000 shares of capital stock, of which 300,000,000 shares were designated as common stock and 50,000,000 shares designated as preferred stock, each class having a par value of $0.01. Holders of common stock are entitled to one vote per share on all matters to be voted upon by stockholders and shall vote together as a single class. The Company's board of directors is authorized to issue shares of one or more series of preferred stock and establish the designation, powers, preferences, and rights of the shares of each series and any qualifications, limitations, or restrictions thereof. As of March 31, 2022, the Company has not issued any shares of preferred stock.

Equity Purchase Plan

The Company adopted an equity purchase plan during fiscal year 2015 (the "Equity Purchase Plan") which allows the compensation committee of its board of directors to designate directors, officers and employees of Cengage to purchase newly issued equity securities for fair value based on the Company's reorganization value on the Effective Date. The sale of these securities is not intended to raise capital for Cengage. Rather, the purpose of the plan is to provide additional opportunities to further align the interests of the Company's directors, officers and employees with the interests of its shareholders. As the shares are issued at fair value, the Company considers the Equity Purchase Plan to be non-compensatory. The compensation committee may impose certain sale and transfer restrictions on securities purchased under the Equity Purchase Plan. The board of directors authorized 100,000 shares of the Company's common stock to be reserved for issuance under the Equity Purchase Plan. There were no shares issued under the Equity Purchase Plan in the fiscal years ended March 31, 2022, 2021, and 2020. As of March 31, 2022, 24,000 shares remain available for issuance under the Equity Purchase Plan.

Dividends

There were no dividends declared in the fiscal years ended March 31, 2022 and 2021. We may declare cash dividends in the future.

Purchases of Company Common Stock

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

In addition, the Company also repurchases shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted stock units and delivery of shares. During the fiscal years ended March 31, 2022, 2021 and 2020, the Company spent $1.0 million, $0.7 million, and $2.0 million, respectively, to acquire shares in connection with net settlement of equity-based awards.

13. EQUITY-BASED COMPENSATION

Share-based compensation plans

2014 Cengage Learning Equity Incentive Plan

On the Effective Date, the Company adopted the 2014 Cengage Learning Equity Incentive Plan (the "2014 Equity Incentive Plan"). The 2014 Equity Incentive Plan was approved by the Bankruptcy Court and the Company's Board of Directors and is administered by the Compensation Committee to the board of directors. Directors, officers, and employees of the Company were eligible to receive awards under the 2014 Equity Incentive Plan. The awards could be granted in the form of incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), restricted stock units ("RSUs"), restricted stock, stock appreciation rights or performance awards. Upon the occurrence of a change in capital structure, as defined by the 2014 Equity Incentive Plan, the board of directors is required to modify affected awards to preserve their value, including adjusting the number of shares for awards then outstanding or to be granted, adjusting the exercise price (or base price in the case of stock appreciation rights), or providing for an immediate cash payment to the holders of awards in consideration for cancellation of the awards.

Stock options vest in 25% increments annually on the last day of the first four fiscal years following the grant date, and expire seven years after the date of grant. RSUs vest in 20% increments annually on the last day of the first five fiscal years following the grant date. Shares are delivered to the RSU recipients upon the earliest of a change in control, as defined in the 2014 Equity Incentive Plan; termination, to the extent vested; or 50% on the fourth anniversary of the date of grant and the remaining 50% on the fifth anniversary. The Company recognizes equity-based compensation expense on a straight-line basis over the applicable vesting period.

2018 Cengage Learning Equity Incentive Plan

Effective as of November 15, 2018, the Company's Board of Directors and the majority shareholders adopted an equity incentive plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors. The plan provides for the grant of incentive stock options (the "ISOs"), certain other options, restricted stock units (the "RSUs"), restricted stock, and other stock-based awards to directors, officers, and employees of the Company. Upon the occurrence of a change in capital structure, as defined by the 2018 Equity Incentive Plan, the Board of Directors is required to modify affected awards to preserve their value, including adjusting the number of shares for awards then outstanding or to be granted, adjusting the exercise price, or modifying applicable financial or other performance targets. Upon the occurrence of change in control, as defined by the 2018 Equity Incentive Plan, the Company has the authority to cancel affected awards and pay to each affected 2018 Equity Incentive Plan participant a cash amount equivalent to the award's fair value. Following the approval of the 2018 Equity Incentive Plan, the Company does not intend to grant any additional awards under the 2014 Equity Incentive Plan.

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

Shares Available for Grant or Issuance

As of March 31, 2022, there were approximately a total of 1.0 million shares currently available for grant in respect of awards under the 2018 Equity Incentive Plan. In addition, as of March 31, 2022, under the 2014 Equity Incentive Plan, there were approximately awards of 2.9 million shares of stock options, performance-based RSUs and RSUs outstanding. Should the 2.9 million shares again become available for grant, the shares would be available for grant under the 2018 Equity Incentive Plan.

Modification of Awards

On February 1, 2021, the Company modified certain non-vested performance-based stock options and RSUs under the 2018 Equity Incentive Plan to become only time-based service requirement awards and removed the performance-based requirement for vesting. This modification resulted in immediate vesting of certain awards and approximately $2.0 million of equity-based compensation to be recognized. In addition, the Company modified certain options outstanding under the 2014 Equity Incentive Plan to extend their expiration date from seven years to ten years from the date of grant. As a result of these modifications, the Company recognized $2.1 million of expense immediately and added incremental equity-based compensation expense to be recognized over the remaining service period.

Presented below is a summary of the compensation cost recognized in selling, general and administrative expenses, excluding depreciation in the Consolidated Statements of Operations:

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Restricted stock units	$ 1.5	$ 2.2	$ 3.5
Stock options	3.5	4.7	1.9
Equity-based compensation expense	$ 5.0	$ 6.9	$ 5.4

The Company did not record any expense related to its 2018 Equity Incentive Plan non-vested performance-based awards during the fiscal year ended March 31, 2020, as it was not probable that the performance condition would be met. See above, Modification of Awards, for the expense associated with modification of awards in fiscal year 2021.

Stock Units

The following table summarizes the weighted-average grant date fair value of RSUs and performance-based RSUs granted under our equity-based compensation plans in the periods presented:

	Fiscal Year Ended March 31,		
	2022	**2021**	**2020**
Weighted-average grant date fair value	$ 16.34	$ 8.03	$ 17.86

The following table summarizes the RSU and performance-based RSU activity under our equity-based compensation plans:

	Shares	**Weighted-Average Grant Date Fair Value**
Non-vested as of March 31, 2021	780,019	$ 11.12
Granted	71,520	16.34
Vested	(164,785)	10.20
Forfeited	(127,127)	10.89
Non-vested as of March 31, 2022	559,627	$ 12.11

The fair value of RSUs vested in fiscal years ended March 31, 2022, 2021, and 2020 was approximately $2.6 million, $1.3 million, and $4.0 million, respectively.

Total unrecognized compensation costs related to the 2014 Equity Incentive Plan and 2018 Equity Incentive Plan non-vested RSUs as of March 31, 2022 were $3.6 million, which is expected to be recognized over a weighted-average period of 1.8 years. Total unrecognized compensation costs related to the 2014 Equity Incentive Plan non-vested performance-based RSUs as of March 31, 2022 were approximately $2.6 million, the majority of which will expire unrecognized if the performance condition is not achieved by the fourth quarter of fiscal year 2023. No compensation cost related to the performance-based RSUs will be recognized until it is probable that the performance condition will be met.

Stock Options

The following table summarizes the weighted-average grant date fair value of stock options granted under our equity-based compensation plans in the periods presented as well as the weighted average of the applicable assumptions used to value the stock options:

	Fiscal Year Ended March 31,		
	2022	**2021**	**2020**
Weighted-average grant date fair value	$ 6.32	$ 4.22	$ 6.74
Weighted-average assumptions:			
Risk-free interest rate	1.2 %	0.4 %	2.5 %
Dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility	45.0 %	65.0 %	40.0 %
Expected life (years)	4.75	4.75	4.75

The following table summarizes the stock option activity under our equity-based compensation plans:

	Shares	**Weighted-Average Exercise Price**
Outstanding at March 31, 2021	6,596,758	$ 13.83
Granted	664,000	16.03
Exercised	(2,094)	17.14
Forfeitures and cancellations	(724,427)	11.54
Outstanding as of March 31, 2022	6,534,237	$ 14.31
Options vested and expected to vest as of March 31, 2022	6,534,237	$ 14.31
Vested and exercisable at March 31, 2022	3,816,378	$ 16.53

As of March 31, 2022, vested and non-vested stock options outstanding have a weighted-average remaining contractual life of 3.9 and 4.9 years, respectively. The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the option as of the balance sheet date. The aggregate intrinsic value of options outstanding, options vested and expected to vest, and options exercisable was $18.7 million, $18.7 million and $5.0 million as of March 31, 2022, respectively. Total unrecognized compensation costs related to our equity-based compensation plans non-vested stock options as of March 31, 2022 was $11.5 million, which is expected to be recognized over a weighted-average period of 3.1 years.

14. INCOME TAXES

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
United States	$ (55.0)	$ (98.6)	$ (931.0)
Other jurisdictions	22.9	1.0	33.9
Loss before taxes	$ (32.1)	$ (97.6)	$ (897.1)

The (provision for) benefit from income taxes by jurisdiction is as follows:

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Current:			
United States—Federal	$ (1.2)	$ (1.0)	$ (1.6)
United States—State	(0.3)	(0.6)	0.3
Other jurisdictions	(9.8)	(6.8)	(12.6)
Total current	(11.3)	(8.4)	(13.9)
Deferred:			
United States—Federal	(0.1)	(0.3)	15.9
United States—State	(4.3)	(7.1)	(15.8)
Other jurisdictions	3.2	3.3	2.0
Total deferred	(1.2)	(4.1)	2.1
Provision for income taxes	$ (12.5)	$ (12.5)	$ (11.8)

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

(in millions)	As of March 31, 2022	As of March 31, 2021
Deferred tax assets:		
Net operating losses	$ 279.3	$ 253.3
Accrued expenses and reserves	41.0	46.8
Author advances	10.4	9.4
Deferred revenue	13.4	10.8
Research and development credit carryforwards	6.5	6.2
Lease liability	17.3	18.4
Pre-publication costs	9.4	3.2
Equity compensation	5.5	5.3
Fixed assets	10.9	7.3
Other	5.4	2.2
Total deferred tax assets	399.1	362.9
Deferred tax liabilities:		
Intangibles	(258.5)	(234.3)
Right-of-use asset	(14.1)	(12.8)
Other	(2.0)	(2.1)
Total deferred tax liabilities	(274.6)	(249.2)
Net deferred tax asset	124.5	113.7
Less: Valuation allowance	(152.9)	(140.7)
Total net deferred tax liability	$ (28.4)	$ (27.0)

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted and signed into law. The CARES Act includes several tax related provisions that benefit corporations, including increasing the amount of deductible interest, allowing companies to carryback certain net operating losses ("NOLs") and increasing the amount of NOLs that corporations can use to offset income. The CARES Act modified the interest limitation for the Company's fiscal tax years 2021 and 2020 and, as a result, the Company was able to increase its fiscal year 2021 interest deduction by $22.4 million.

As of March 31, 2022, the Company had estimated federal NOL carryforwards of $1,073.2 million that will begin to expire in 2035 if not utilized and estimated state NOL carryforwards of $1,250.3 million that will begin to expire in 2029 if not utilized. In addition, the Company estimated its federal and state research and development income tax credit carryforwards to be $6.5 million for tax years ended March 31, 2015 through March 31, 2022, which will begin to expire in 2030 if not utilized. These NOL and research and development income tax credit carryforwards can be used to offset taxable income in future periods and reduce the Company's income taxes payable in those future periods.

The Company records valuation allowances against deferred tax assets when it determines that it is more likely than not based upon all available evidence, both positive and negative, that such deferred tax assets will not be realized. Given that the Company is in a three year cumulative loss, Management considered future taxable income in the form of reversals of existing temporary differences as a source of positive evidence. After evaluation, Management determined it more likely than not that a portion of the Company's U.S. deferred tax assets would not be realizable. As a result, the Company recorded a valuation allowance on a portion of its federal and state deferred tax assets. The Company also determined its valuation allowance related to Cengage Brazil was no longer needed, and thus, the valuation allowance was reduced in the third quarter of the fiscal year ended March 31, 2022.

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

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

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021**	**2020**
Benefit at the statutory rate	$ 6.6	$ 20.5	$ 188.4
State taxes, net of federal benefit	2.1	3.9	37.4
Return-to-provision adjustments	(4.4)	(0.2)	4.3
Non-deductible goodwill impairment	—	(1.9)	(129.3)
Change in valuation allowance	(12.0)	(29.8)	(106.7)
Withholding tax	(3.2)	(3.9)	(4.2)
Foreign tax rate differential	(1.2)	0.3	(1.6)
Change in tax rate	(1.5)	(2.4)	—
Other	1.1	1.0	(0.1)
Provision at the effective income tax rate	$ (12.5)	$ (12.5)	$ (11.8)

There was no unrecognized tax benefit ("UTB") balance for the fiscal years ended March 31, 2022, 2021 and 2020.

There was no expense or benefit related to UTBs during the fiscal years ended March 31, 2022, 2021 and 2020 and no accrued interest and penalties.

The Company's income tax returns are currently under examination in some foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations for the tax year ended March 31, 2018, and state tax examinations for the tax year ended March 31, 2017, all preceding tax years and, with limited exceptions, for periods preceding 2013 for foreign tax examinations.

15. FAIR VALUE MEASUREMENTS

Recurring Measurements

As of March 31, 2022 and 2021, the Company had no assets and liabilities measured at fair value on a recurring basis.

Non-Recurring Measurements

Non-financial assets and liabilities, which include goodwill, identifiable intangible assets, property and equipment, capitalized internal-use software, net, right-of-use assets 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 for impairment. If impairment is determined to have occurred, the asset is required to be written down to its estimated fair value. During fiscal years 2022, 2021 and 2020 the Company did not recognize any impairments of its non-financial assets and liabilities, except for certain leases as disclosed in Note 9, "Operational Restructuring, Other Charges and Right-of-Use Asset Impairments," and goodwill disclosed in Note 7, "Goodwill."

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 amount and estimated fair value of long-term debt was as follows:

	As of March 31, 2022		As of March 31, 2021	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes[1]	$ 617.5	$ 611.3	$ 616.3	$ 625.5
Term Loan Facility[2]	1,615.5	1,599.3	N/A	N/A
2016 Term Loan Facility[3]	N/A	N/A	1,615.7	1,599.5

(1) The carrying amount for the Senior Notes is presented net of the unamortized deferred financing costs of $2.5 million and $3.7 million as of March 31, 2022 and March 31, 2021, respectively.

(2) The carrying amount for the Term Loan Facility as of March 31, 2022 is presented net of the unamortized original issue discount and deferred financing costs of $26.3 million.

(3) The carrying amount for the 2016 Term Loan Facility as of March 31, 2021, is presented net of the unamortized original issue discount and deferred financing costs of $13.1 million.

The estimated fair value of the Company's Senior Notes and Term Loan Facility is based on information from a pricing service or broker quotes and may not represent prices that can be transacted. Therefore, the debt is classified as Level 3 in the fair value hierarchy. The carrying value of cash and cash equivalents approximated their fair values as of March 31, 2022 and 2021 due to the short-term nature of these instruments. The assets acquired and liabilities assumed during fiscal year 2022 were recorded at their respective fair values as of the acquisition date.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Fiscal Year Ended March 31,		
(in millions)	2022	2021	2020
Accounts receivable, net	$ (13.0)	$ 33.6	$ 12.4
Inventories	8.6	28.2	17.8
Prepaid expenses and other current assets	(7.7)	10.7	12.2
Author advances, net	0.6	(0.7)	7.3
Accounts payable and accrued expenses	12.3	12.2	(23.3)
Accrued interest payable	5.4	14.3	(2.4)
Operating lease liabilities	(10.3)	(12.8)	(8.1)
Deferred revenue	4.7	31.8	22.1
Current taxes payable	0.7	(0.3)	(3.0)
Other, net	(11.4)	1.0	(5.7)
Changes in operating assets and liabilities, net of acquisitions	$ (10.1)	$ 118.0	$ 29.3

Cash paid for interest and income taxes was:

	Fiscal Year Ended March 31,		
(in millions)	2022	2021	2020
Net cash interest paid	$ 147.8	$ 132.8	$ 164.3
Income taxes paid, net of refunds	9.1	8.1	14.7

Non-cash Investing Activities

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

	Fiscal Year Ended March 31,		
(in millions)	2022	2021	2020
Additions to pre-publication costs	$ 10.4	$ 9.7	$ 7.4
Additions to property, equipment and capitalized internal-use software	5.6	0.9	1.2

During the fiscal year ended March 31, 2022, the Company recorded $6.8 million of certain exclusivity rights assets that were acquired under a strategic partnership. Related to this transaction, $1.3 million was paid in the second quarter of fiscal year 2022. Additionally, reclassified to the exclusivity rights asset was a payment of $5.5 million that was made in the fourth quarter of fiscal year 2021, of which $4.8 million and $0.7 million was recorded in other non-current assets and prepaid expenses and other current assets, respectively, in the consolidated balance sheet.

During the fiscal year ended March 31, 2022, the Company acquired certain author content rights and recorded $1.4 million of payments to authors in accounts payable and accrued expenses in the consolidated balance sheet. Cash payments are expected to be made through the fourth quarter of fiscal year 2023.

17. COMMITMENTS AND CONTINGENCIES

Commitments

See Note 18, “Leases,” for additional information.

Claims, Disputes and Legal and Regulatory Actions

Along with many of the Company’s competitors in the publishing industry, the Company faces putative class action litigation relating to the industry’s shift to digital product offerings.

On August 12, 2019, a putative class action was filed against the Company in the United States District Court for the Southern District of New York by a group of six named author plaintiffs: Douglas Bernstein, Terry Halbert, Elaine Ingulli, Ross Parke (as personal representative of The Estate of Alison Clarke-Stewart), Louis Penner, and Edward Roy. The Complaint alleges that the royalty allocation methodologies the Company applies to certain digital products are “unfair” and “inaccurate” and a breach of the authors’ publishing agreements. Plaintiffs are seeking unspecified damages. Certain of the Company’s competitors face similar litigation. On September 29, 2020, the Court granted in part and denied in part the Company’s motion to dismiss, such that only one claim relating to MindTap royalties remained in the case. On April 22, 2021, the Magistrate Judge granted in part Plaintiffs’ motion to amend their Complaint to add a new claim for breach of the implied covenant of good faith and fair dealing as to the Company’s allocation of Cengage Unlimited revenues. On September 28, 2021, the Court adopted the Magistrate Judge’s Report and Recommendation in full. The Company believes that it has good and meritorious defenses and intends to defend against all of the claims vigorously.

The Company is one of several named defendants, along with McGraw Hill and Pearson, in a Canadian putative class action lawsuit (filed September 10, 2020) brought by name student plaintiff, Kyle Harman Singh Dhamrait, alleging that Cengage’s (and its competitors’) Inclusive Access model violates antitrust laws by reducing competition from the secondary market and off-campus bookstores. Plaintiff is seeking unspecified damages, as well as injunctive and declaratory relief.

These allegations are nearly identical to litigation brought in the United States, which was dismissed in its entirety on June 14, 2021. The Company believes that the asserted claims in this litigation lack merit, and intends to defend against all of the claims vigorously.

On February 14, 2022 a putative class action was filed against the Company in the United States District Court for the District of Massachusetts by named author plaintiff Fred Kleiner. The Complaint alleges that the Company engages in unfair and deceptive royalty-reporting practices. Based on this allegation, the named plaintiff has alleged claims pursuant to the Massachusetts Consumer Protection Act, M.G.L. Chapter 93A. Plaintiff is seeking unspecified damages, as well as injunctive and declaratory relief. The Company filed a motion to dismiss the Complaint on April 11, 2022 and on May 25, 2022 the Court granted the motion and dismissed the case in its entirety. On June 3, 2022 Plaintiff filed a notice of appeal as to the dismissal. The Company believes that the asserted claim in this litigation lacks merit, and intends to defend against the claim vigorously.

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/or may be related to contractual and other obligations of the Company. The Company assesses its potential contingent and other liabilities by analyzing its claims, disputes and legal and regulatory matters using all available information and develops its views on estimated losses, if any, in consultation with its legal and other advisors. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the litigation described herein at this time. The Company does not expect that the total cost of resolving current claims, disputes and legal or regulatory proceedings will have a material adverse effect on the consolidated financial statements.

Other Commitments

As of March 31, 2022 and 2021, the Company had approximately $23.9 million and $26.2 million, respectively, of outstanding purchase commitments that were not recorded in the consolidated financial statements. Such agreements entered into with third parties primarily consisted of outsourcing arrangements related to general accounting, fixed asset and accounts payable functions, as well as purchased or licensed content to be used in the Company's educational products and royalty guarantees derived from minimum usage requirements in agreements with content providers.

As of March 31, 2022, the committed purchase amounts by year were as follows:

(in millions)		
Fiscal Years Ending March 31,		
2023	$	17.3
2024		6.2
2025		0.4
Total outstanding purchase commitments	$	23.9

Warranties

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

18. LEASES

The Company leases office facilities and vehicles from unrelated parties under operating lease agreements that have initial terms ranging from 1 to 99 years. The Company leases office equipment under an operating lease agreement with a term of 9 years. Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term up to 7 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option. The Company's leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term and is included in selling, general and administrative expenses.

During the second quarter of fiscal year 2022, the Company entered into a Second Amendment to the lease of its Boston office location whereby the landlord exercised its termination right, which included termination and other fees of $4.4 million, with respect to a portion of the leased property. As a result of this lease modification, the Company recorded a gain of $3.8 million which was recorded in other expense, net, above operating income within the consolidated statement of operations during the year ended March 31, 2022.

The Company owned land and an office building located in Farmington Hills, Michigan which was utilized as employee office space. During the second quarter of fiscal year 2022, the Company executed a sale-and-partial-leaseback of this property, resulting in a net loss of $15.1 million, which was recorded in other expense, net, above operating income, within the consolidated statement of operations during the year ended March 31, 2022.

Supplemental balance sheet information related to leases is as follows:

	As of March 31,	
(in millions)	**2022**	**2021**
Operating Leases		
Right-of-use assets	$ 47.2	$ 46.6
Operating lease liabilities, current	12.3	13.0
Operating lease liabilities, long-term	50.4	59.8
Total operating lease liabilities	$ 62.7	$ 72.8

The components of lease expense are as follows:

	As of March 31,	
(in millions)	**2022**	**2021**
Operating lease cost	$ 15.5	$ 19.1
Short-term lease cost	3.0	0.6
Variable lease cost	8.7	10.9
Sublease income, gross	(0.2)	(0.5)
Total lease cost	$ 27.0	$ 30.1

As of March 31, 2022, future minimum lease payments under these leases were as follows:

	As of March 31,
(in millions)	**2022**
Operating Leases	
2023	$ 16.9
2024	16.2
2025	11.4
2026	7.3
2027	6.9
Thereafter	32.0
Total lease payments	$ 90.7
Less imputed interest	(28.0)
Total present value of lease liabilities	$ 62.7

The future minimum lease payments exclude lease payments for leases that are less than one year.

Subleases and consignment rental revenues are not material to the Company, and therefore are not disclosed.

Supplemental cash flow information related to leases is as follows:

(in millions)	As of March 31, 2022		As of March 31, 2021	
Cash paid for amounts included in measurement of lease liabilities:				
Operating cash outflows - payments on operating leases	$	18.1	$	21.1
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	$	12.6	$	6.3

	As of March 31, 2022	As of March 31, 2021
Weighted-average remaining lease term:		
Operating leases	7.9 years	8.1 years
Weighted-average discount rate		
Operating leases	8.6 %	9.2 %

Cengage entered into an 11-year lease agreement in November 2021 with a third party to lease office space in Mason, Ohio. The lessor and its agents were building out this office space as of March 31, 2022. This lease commenced in April 2022 when construction of the office space was completed, and Cengage gained control of the space. The future rent commitment in relation to this lease is approximately $6.8 million.

19. SEGMENT INFORMATION

During the first quarter of fiscal year 2023, the Company changed its segment reporting structure to better align with the strategic objectives of the Company. See Note 21 “Subsequent Events” for further detail.

For fiscal year 2022 and in prior years, the Company was organized into six reportable segments on the basis of products and customers provided by each segment, identified as follows:

U.S. Higher Education—in the United States, the Company produces a variety of digital and print educational solutions and associated services for the higher education markets.

International Higher Education—provides learning materials and digital solutions to post-secondary markets outside the United States.

Secondary Education—provides learning platforms and content to prepare 6th - 12th grade students to be successful post-high school – whether continuing their education into traditional post-secondary, degree-conferring options or pursuing skills or vocational training.

Workforce Skills—the Company’s ed2go and Infosec businesses provide online continuing education and workforce training courses, offering students the opportunity to upskill and reskill outside the traditional U.S. higher education degree-conferring path. The Company’s ed2go business builds market-leading experiences with universities to prepare learners for in-demand careers in industries such as allied health services, non-coding technology and technical trades. The Company’s Infosec business provides instructor-led bootcamp and proprietary library offerings to enterprise, small and medium-sized businesses (“SMB”), and government organizations in both the general cybersecurity awareness training market and the technical upskill and reskilling markets.

English Language Teaching—operating under the National Geographic Learning brand, provides a full range of English language curriculum and digital solutions to pre-K, primary, secondary and general and academic English markets, globally.

Research—offers research platforms available globally which provide access to the Company’s original content, collections of primary source materials and aggregated periodicals to learners at libraries, colleges, universities, schools and businesses.

The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the Company's chief operating decision maker in evaluating performance and determining how to allocate resources.

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 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 United States dollars using standard internal currency exchange rates held constant for each year. As needed, the Company recasts segment information for the prior period based on its internally-derived standard currency exchange rates used for the current period in order to remove the impact of foreign currency exchange fluctuation.

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

Adjusted Revenues for the Company's reportable segments only include revenue from external customers. A reconciliation of the totals for the Company's reportable segments to the applicable line item in its accompanying consolidated statement of operations is as follows:

	Adjusted Revenues		
	Fiscal Year Ended March 31,		
(in millions)	2022	2021[1]	2020[1]
U.S. Higher Education	$ 688.5	$ 651.2	$ 645.2
International Higher Education	161.1	145.0	184.5
Higher Education	849.6	796.2	829.7
Secondary Education	147.0	131.8	158.0
Workforce Skills	58.3	44.0	32.4
ELT	95.8	69.6	102.1
Research	204.7	186.2	199.5
Total Segment Adjusted Revenues	1,355.4	1,227.8	1,321.7
Corporate Enabling Functions[2]	18.7	16.2	15.7
Impact of foreign currency	(2.5)	(6.3)	(10.4)
Total Consolidated Revenues	$ 1,371.6	$ 1,237.7	$ 1,327.0

	Additions to Pre-Publication Costs		
	Fiscal Year Ended March 31,		
(in millions)	2022	2021[1]	2020[1]
U.S. Higher Education	$ 28.0	$ 26.4	$ 30.8
International Higher Education	6.0	7.2	7.0
Higher Education	34.0	33.6	37.8
Secondary Education	8.1	9.2	8.1
Workforce Skills	1.2	1.2	1.1
ELT	10.8	12.3	12.1
Research	18.5	16.4	20.1
Segment additions to pre-publication costs	72.6	72.7	79.2
Impact of foreign currency	(0.1)	(0.4)	(0.6)
Impact of cash investing activities[3]	(0.7)	(2.3)	1.3
Total additions to pre-publication costs	$ 71.8	$ 70.0	$ 79.9

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

(2) Corporate enabling functions include our corporate and shared services, general & administrative costs which are not allocated to our segments, as well as revenue earned from our warehouse and distribution fulfillment service.

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

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

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

	Fiscal Year Ended March 31,		
(in millions)	**2022**	**2021[1][2]**	**2020[1][2]**
U.S. Higher Education	$ 405.5	$ 363.8	$ 325.3
International Higher Education	45.2	33.9	63.0
Higher Education	450.7	397.7	388.3
Secondary Education	76.7	46.3	68.5
Workforce Skills	9.1	11.1	5.4
ELT	12.2	(5.2)	20.6
Research	83.2	77.2	73.7
Total Segment Adjusted EBITDA less Pre-Publication Costs	631.9	527.1	556.5
Corporate enabling functions, net[3]	(299.6)	(264.3)	(273.1)
Additions to pre-publication costs[4]	72.6	72.7	79.2
Impact of foreign currency	(0.9)	(1.6)	(4.8)
Equity-based compensation expense	(5.0)	(6.9)	(5.4)
Non-core other operating expenses[5]	(15.8)	(3.3)	(2.0)
Merger and acquisition-related costs	(3.8)	(2.5)	(44.1)
Right-of-use asset impairment charges	—	(7.7)	(2.7)
Loss on early extinguishment of debt, net	(11.4)	—	—
Amortization of pre-publication costs	(81.2)	(89.1)	(99.1)
Operational restructuring and other charges	(10.7)	(8.5)	(21.0)
Depreciation	(50.5)	(59.5)	(64.2)
Amortization of identifiable intangible assets	(86.3)	(83.0)	(81.5)
Goodwill impairment charges	—	(9.7)	(767.8)
Other (loss) income, net	(10.2)	(6.1)	3.0
Interest expense, net	(161.2)	(155.2)	(170.1)
Provision for income taxes	(12.5)	(12.5)	(11.8)
Net loss	$ (44.6)	$ (110.1)	$ (908.9)

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

(2) In the second quarter of fiscal year 2022 management identified certain costs, historically included within the Corporate Enabling Function, that are now managed within the various applicable segments. Accordingly, the Company has recast certain prior period amounts to conform to the current year presentation.

(3) Corporate enabling functions include our corporate and shared services, general & administrative costs which are not allocated to our segments, as well as revenue earned from our warehouse for third-party distribution services.

(4) Additions to pre-publication costs are excluded from segment Adjusted EBITDA less Pre-Publication Costs on a constant currency and accrual basis. The impact of foreign currency exchange related to additions to pre-publication costs was $0.1 million, $0.4 million, and $0.6 million for the fiscal years ended March 31, 2022, 2021 and 2020, respectively.

(5) Non-core other operating expenses includes primarily outside service fees related to non-recurring strategic initiatives, bank fees, vacated facilities lease expenses, and management fees.

Geographic Information

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

(in millions)	Fiscal Year Ended March 31, 2022	2021
Long-lived assets:		
United States	$ 227.4	$ 275.2
Rest of world	24.0	25.7
Total long-lived assets	$ 251.4	$ 300.9

For revenue detail by geographic region, see Note 3, "Revenue Recognition."

20. VALUATION AND QUALIFYING ACCOUNTS

(in millions)		Additions				
Description	**Balance at Beginning of Period**	**Charge to Costs and Expenses**	**Charge to Other Accounts**	**Write Offs**	**Translation**	**Balance at End of Period**
Fiscal Year Ended March 31, 2022						
Allowance for credit losses	$ 16.9	$ 7.3	$ —	$ (1.4)	$ —	$ 22.8
Sales return reserves	54.9	95.4	(2.7)	(99.1)	(0.5)	48.0
Deferred tax valuation allowance	140.7	12.0	—	—	0.2	152.9
Fiscal Year Ended March 31, 2021						
Allowance for credit losses	$ 14.6	$ 7.4	$ (1.7)	$ (3.8)	$ 0.4	$ 16.9
Sales return reserves	36.3	149.9	3.0	(135.5)	1.2	54.9
Deferred tax valuation allowance	111.0	29.8	—	—	(0.1)	140.7
Fiscal Year Ended March 31, 2020						
Allowance for credit losses	$ 12.6	$ 7.2	$ —	$ (4.1)	$ (1.1)	$ 14.6
Sales return reserves	42.8	156.0	0.6	(161.8)	(1.3)	36.3
Deferred tax valuation allowance	4.9	106.7	—	—	(0.6)	111.0

21. SUBSEQUENT EVENTS

During the first quarter of fiscal year 2023, the Company reorganized its portfolio into three core business units: Cengage Academic, Cengage Work and Cengage Select. In the Cengage Academic business unit, the Company integrated its three course solutions businesses – U.S. Higher Education, International Higher Education and Secondary Education. This change is intended to maximize our ability to leverage synergies across these businesses that share content, technology platforms and support services. The Cengage Work business unit will service the workforce skills market and includes the Company's ed2go and Infosec businesses that will leverage all of the Company's relationships, content, and data to drive future growth. Our third core business unit, Cengage Select, consists of four businesses, English Language Teaching ("ELT"), Research, Australia K-12 and Milady, each serving select markets and customers.

Based on the information reviewed by the Company's chief operating decision maker, under this new operating model, the Company has identified the following reportable segments effective in the first quarter of fiscal year 2023: Cengage Academic (U.S. Higher Education, International Higher Education and Secondary Education), Cengage Work (ed2go and Infosec) and Research, ELT and Other (Australia K-12 and Milady), together reported as Cengage Select.

There were no additional material subsequent events identified through June 16, 2022, the date these financial statements were available to be issued.