CURRENT REPORT
Pursuant to the Company Shareholder Agreement, dated as of March 31, 2014
and consistent with Section 13 of 15(d) of The Securities Exchange Act of 1934

Date of Report: June 7, 2016

CENGAGE LEARNING HOLDINGS II, INC.
20 Channel Center Street
Boston, Massachusetts 02210

Item 1.01 Entry into a Material Definitive Agreement

Overview of Transactions

On June 7, 2016, Cengage Learning, Inc. (“Cengage”), a direct wholly owned subsidiary of Cengage Learning Holdco, Inc. (“Holdco”) and an indirect wholly owned subsidiary of Cengage Learning Holdings II, Inc. (“Parent”) and, collectively with its subsidiaries, including Holdco and Cengage, the “Company”), announced that (i) Cengage has closed its previously announced offering (the “Notes Offering”) of $620 million aggregate principal amount of 9.500% Senior Notes due 2024 (the “Notes”) in a private placement that is exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and, outside the United States, to non-U.S. investors pursuant to Regulation S under the Securities Act, (ii) Cengage, Holdco and Parent entered into an amendment agreement giving effect to an amended and restated five-year $250 million senior secured asset-based revolving credit facility (the “ABL facility”), which remained undrawn at closing, and (iii) Cengage, Holdco and Parent entered into an amendment agreement giving effect to an amended and restated seven-year $1,710 million senior secured term loan facility (the “term loan facility” and, together with the ABL facility, the “Senior Facilities”).

The net proceeds from the Notes Offering, together with the proceeds from the term loan facility were used on the date hereof: (i) to refinance outstanding debt of the Company under Cengage’s existing term loan facility, (ii) to fund a distribution to Parent, which will be used to repurchase shares of common stock of Parent and/or to fund a dividend to the shareholders of Parent, and (iii) for general corporate purposes, including the payment of financing costs and other expenses in connection with the transactions.

Indenture

The Notes were issued pursuant to an Indenture, dated as of June 7, 2016 (the “Indenture”), by and among Cengage and Wilmington Trust, National Association, as trustee. The Notes are the senior unsecured obligations of Cengage and any future subsidiary guarantor of Cengage.

The Notes will mature on June 15, 2024. Interest on the Notes will accrue at 9.500% per annum and will be paid semi-annually, in arrears, on June 15 and December 15 of each year, beginning December 15, 2016.

On or after June 15, 2019, Cengage may redeem the Notes at its option, in whole at any time or in part from time to time, at the redemption prices set forth in the Indenture. In addition, prior to June 15, 2019, Cengage may redeem the Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a “make-whole” premium and accrued and unpaid interest. Notwithstanding the foregoing, at any time and from time to time on or prior to June 15, 2019, Cengage may redeem in the aggregate up to 40% of the original aggregate principal amount of the Notes (calculated after giving effect to any issuance of additional notes) in an aggregate amount equal to the net cash proceeds of one or more equity offerings at a redemption price equal to 109.500%, plus accrued and unpaid interest, so long as at least 50% of the original aggregate principal amount of the Notes (calculated after giving effect to any issuance of additional notes) remains outstanding after each such redemption.
The Indenture contains covenants that limit Cengage’s and its restricted subsidiaries’ ability to, among other things: (i) incur additional debt or issue certain disqualified stock and preferred stock; (ii) create liens; (iii) pay dividends or distributions or redeem or repurchase equity; (iv) prepay subordinated debt or make certain investments; (v) create or permit to exist dividend and/or payment restrictions affecting its restricted subsidiaries; (vi) transfer and sell assets; (vii) engage in a consolidation or merger, or sell, transfer or otherwise dispose of all or substantially all of their assets; and (viii) enter into certain transactions with affiliates. Additionally, upon the occurrence of specified change of control events, Cengage must offer to repurchase the Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The Indenture also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes to be due and payable immediately.

Senior Facilities

Concurrently with the completion of the Notes Offering, Cengage, Holdco and Parent entered into an amendment agreement giving effect to an amended and restated senior secured term loan facility in an aggregate principal amount of $1,710 million with a maturity of 7 years. Cengage may request one or more incremental term loan facilities and/or revolving loan facilities in an aggregate amount of up to the sum of (x) $500 million plus (y) any additional amounts so long as Cengage would maintain certain pro forma leverage ratios, subject to certain conditions and receipt of commitments by existing or additional lenders.

In addition, Cengage, Holdco and Parent entered into an amendment agreement giving effect to an amended and restated asset-based revolving credit facility in an aggregate principal amount of up to $250 million with a maturity of 5 years. Cengage may request one or more incremental revolving commitments in an aggregate amount of up to the greater of (x) $100 million and (y) the excess (if any) of the borrowing base over the total revolving commitments at such time, subject to certain conditions and receipt of commitments by existing or additional lenders. The ABL facility includes borrowing capacity available for letters of credit and for borrowings on same day notice, referred to as swingline loans.

Interest Rates and Fees

Borrowings under the term loan facility will bear interest at a rate equal to, at Cengage’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, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Credit Suisse AG, Cayman Islands Branch, and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. The initial applicable margin for borrowings is 4.25% with respect to LIBOR rate borrowings and 3.25% with respect to base rate borrowings. In addition, Cengage paid lenders upfront fees equal to 1.00% of the aggregate principal amount of term loans funded on the closing date.

Borrowings under the ABL facility will bear interest at a rate equal to, at Cengage’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 or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Citibank, N.A. or one of its affiliates and (iii) the one-month adjusted LIBOR rate plus 1.00%, in each case plus an applicable margin. The initial applicable margin for borrowings is 1.75% with respect to LIBOR rate borrowings and 0.75% with respect to base rate borrowings.

In addition to paying interest on outstanding principal under the ABL facility, Cengage is required to pay a commitment fee of 0.375% per annum to the lenders under the ABL facility in respect of the unutilized commitments thereunder. From and after October 1, 2016, the commitment fee may be subject to a 0.125% step-down if our average daily utilization of the ABL facility is greater than or equal to 50%. Cengage is also required to pay customary agency fees as well as letter of credit participation fees computed
at a rate per annum equal to the applicable margin for LIBOR rate borrowings on the dollar equivalent of the daily stated amount of outstanding letters of credit, plus such letter of credit issuer’s customary documentary and processing fees and charges and a fronting fee computed at a rate equal to 0.125% per annum on the daily stated amount of each letter of credit.

Amortization and Prepayments

The term loan facility will require scheduled quarterly payments in amounts equal to 0.25% of the original principal amount of the term loans commencing with the end of the first full fiscal quarter ending after the closing date, with the balance paid at maturity. In addition, Cengage is required to prepay outstanding term loan borrowings, subject to certain exceptions, with:

- 50% (which percentage will be reduced to 25% and further reduced to 0% if Cengage attains certain leverage ratios) of Cengage’s annual excess cash flow (as defined under the Term loan facility);
- 100% of the net cash proceeds of all non-ordinary course asset sales or other non-ordinary course dispositions of property or certain casualty events, in each case subject to certain exceptions and provided that Cengage may (a) reinvest within 12 months or (b) commit to reinvest those proceeds and so reinvest such proceeds within 18 months in assets to be used in its business, or certain other permitted investments; and
- 100% of the net cash proceeds of any issuance or incurrence of debt, other than proceeds from debt permitted under the term loan facility.

The foregoing mandatory prepayments will generally be applied pro rata among the term loans.

Cengage may voluntarily repay outstanding loans under the Senior Facilities at any time, without prepayment premium or penalty except in connection with a repricing event as described below, 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 six months after the closing date of the term loan facility will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Collateral and Guarantors

All obligations under the term loan facility will be unconditionally guaranteed by (prior to an IPO) Holdco on a limited recourse basis and each of Cengage’s future direct and indirect material, wholly owned domestic 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 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 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 Cengage’s capital stock (prior to an IPO), the capital stock of future subsidiary guarantors and 65% of the voting capital stock of first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions (collectively, the “Non-ABL priority collateral”), with the ABL Facility secured by second-priority security interests therein.

All obligations under the ABL facility will be unconditionally guaranteed by (prior to an IPO) Holdco on a limited recourse basis and each of our future direct and indirect material, wholly owned domestic restricted subsidiaries, subject to certain exceptions. The obligations will be secured by 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.

Restrictive Covenants and Other Matters

The Senior Facilities contain certain customary affirmative covenants and events of default. The negative covenants in the Senior Facilities include, among other things, limitations (none of which are absolute) on the ability of Cengage and its restricted subsidiaries to: (i) incur additional debt or issue certain preferred shares; (ii) create liens on certain assets; (iii) make certain loans or investments (including acquisitions); (iv) pay dividends on or make distributions in respect of its capital stock or make other restricted payments; (v) consolidate, merge, sell or otherwise dispose of all or substantially all of the assets; (vi) sell assets; (vii) enter into certain transactions with affiliates; (viii) enter into sale-leaseback transactions; (ix) change its lines of business; (x) restrict dividends from their subsidiaries or restrict liens; (xi) change Cengage’s fiscal year; and (xii) modify the terms of certain debt or organizational agreements.

Parent and Holdco will not be bound by any financial or negative covenants contained in the Senior Facilities, other than, in the case of Holdco prior to an IPO, with respect to the incurrence of liens on and the pledge of our capital stock and with respect to the maintenance of its existence. In addition, the ABL facility will require Cengage to maintain a minimum fixed charge coverage ratio at any time when (i) availability is less than the greater of (a) 10% of the maximum availability at such time and (b) $25 million or (ii) an event of default shall have occurred and be continuing. In that event, we must satisfy a minimum fixed charge coverage ratio of 1.00 to 1.00 until availability exceeds the thresholds described above for a period of 30 consecutive calendar days. For purposes of determining compliance with the fixed charge coverage ratio maintenance covenant for any applicable fiscal quarter, we may exercise an equity cure by issuing certain permitted securities for cash or otherwise receive cash contributions to capital that will, upon the receipt of such cash by us, be included in the calculation of consolidated adjusted EBITDA.

Item 1.02 Termination of a Material Definitive Agreement

The information set forth under Item 1.01 above is incorporated by reference into this Item 1.02.

Item 2.03 Creation of a Direct Financial Obligation

The information set forth under Item 1.01 above is incorporated by reference into this Item 2.03.

Additional Information

This Current Report shall not constitute an offer to sell or a solicitation of an offer to buy any securities, nor shall there by any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

Cautionary Information Regarding Forward-Looking Statements

This Current Report contains forward-looking statements including statements about the proposed Senior Debt and the use of proceeds thereof. The Company assumes no obligation to update the information contained herein. These forward-looking statements involved known and unknown risks, uncertainties and other factors, some of which are beyond the Company’s control that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially are described in the Company’s Quarterly and Annual Reports.
About Cengage Learning

Cengage Learning is a leading educational content, technology, and services company for the higher education and K-12, professional, library and workforce training markets worldwide. The company provides superior content, personalized services and course-driven digital solutions that accelerate student engagement and transform the learning experience. Cengage Learning is headquartered in Boston, MA with an office hub located in San Francisco, CA. Cengage Learning employees reside in nearly 40 different countries with company sales in more than 125 countries around the world. www.cengage.com.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

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Cengage Learning, Inc. Announces Closing of Notes Offering and Debt Refinancing

Boston, MA, June 7, 2016 — Cengage Learning, Inc. (“Cengage”) announced today that it closed its previously announced offering of $620 million aggregate principal amount of 9.500% Senior Notes due 2024 (the “Notes”) in a private placement (the “Notes Issuance”).

The Notes were offered in a private offering that is exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and, outside the United States, to non-U.S. investors pursuant to Regulation S under the Securities Act. The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold in the United States absent an effective registration statement or an applicable exemption from registration requirements or a transaction not subject to the registration requirements of the Securities Act or any state securities laws.

Concurrently with the closing of the Notes Issuance, Cengage and Cengage Learning Holdco, Inc., the direct parent of Cengage (“Holdco”), entered into an amended and restated seven-year $1,710 million senior secured term loan facility (the “Term Loan Facility”) and an amended and restated five-year $250 million senior secured asset-based revolving credit facility, which was undrawn at closing. The net proceeds from the Notes Issuance, together with the proceeds from the borrowings under the Term Loan Facility were used on the date hereof: (i) to repay in full all indebtedness outstanding under Cengage’s existing term loan facility, (ii) to fund a distribution to Cengage Learning Holdings II, Inc., the indirect parent of Cengage (“Parent”), which will be used to repurchase shares of common stock of Parent and/or to fund a dividend to the shareholders of Parent, and (iii) for general corporate purposes, including the payment of financing costs and other expenses in connection with the transactions.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offering, solicitation or sale would be unlawful.

About Cengage Learning

Cengage Learning is a leading educational content, technology, and services company for the higher education and K-12, professional, library and workforce training markets worldwide. The company provides superior content, personalized services and course-driven digital solutions that accelerate student engagement and transform the learning experience. Cengage Learning is headquartered in Boston, MA with an office hub located in San Francisco, CA. Cengage Learning employees reside in nearly 40 different countries with company sales in more than 125 countries around the world.
Cautionary Information Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of applicable federal securities laws, including statements about the Notes Issuant, the new credit facilities and the use of proceeds thereof. Cengage assumes no obligation to update the information contained herein. These forward-looking statements involved known and unknown risks, uncertainties and other factors, some of which are beyond Cengage’s control that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially are described in Cengage’s Quarterly and Annual Reports.

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