UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________to ___________

Commission File Number 001-585002

McGraw-Hill Global Education Intermediate Holdings, LLC
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**80-0899362** (I.R.S. Employer Identification No.)
2 Penn Plaza, New York, New York (Address of principal executive offices)	**10121** (Zip Code)

(646) 766-2000
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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Special Note Regarding Forward-Looking Statements

This report includes statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “intends,” “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results of operations, financial condition and liquidity or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements we make in this report speak only as of the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

McGraw-Hill Global Education Intermediate Holdings, LLC and Subsidiaries
Consolidated Statements of Operations
(Unaudited; dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenue	$ 199,814	$ 204,571
Cost of goods sold	55,459	53,820
Gross profit	144,355	150,751
Operating expenses		
Operating & administration expenses	147,031	168,201
Depreciation	6,884	5,000
Amortization of intangibles	23,395	25,649
Transaction costs	—	2,565
Total operating expenses	177,310	201,415
Operating (loss) income	(32,955)	(50,664)
Interest expense (income), net	34,481	44,319
Other (income) expense	(1,275)	(8,604)
(Loss) income from operations before taxes on income	(66,161)	(86,379)
Income tax (benefit) provision	(21,873)	(29,092)
Net (loss) income	(44,288)	(57,287)
Less: Net (income) loss attributable to noncontrolling interests	—	118
Net (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	**$ (44,288)**	**$ (57,169)**

See accompanying notes to the unaudited consolidated financial statements

McGraw-Hill Global Education Intermediate Holdings, LLC and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited; dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net (loss) income	$ (44,288)	$ (57,287)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(15,037)	(850)
Unrealized gain on investments, net of tax of $0 and $49 in the three months ended March 31, 2015 and March 31, 2014, respectively	—	78
Comprehensive (loss) income	(59,325)	(58,059)
Less: Comprehensive (income) loss attributable to noncontrolling interest	—	118
Comprehensive (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	$ (59,325)	$ (57,941)

See accompanying notes to the unaudited consolidated financial statements

McGraw-Hill Global Education Intermediate Holdings, LLC and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	March 31, 2015 (Unaudited)	December 31, 2014
Current assets		
Cash and equivalents	$ 125,315	$ 232,098
Accounts receivable, net of allowance for doubtful accounts of $12,289 and $13,957 and sales returns of $117,278 and $181,927 at March 31, 2015 and December 31, 2014, respectively	70,795	204,072
Due from related party	18,109	—
Inventories, net	78,924	76,992
Deferred income taxes	31,076	31,538
Prepaid and other current assets	42,439	30,710
Total current assets	366,658	575,410
Prepublication costs, net	78,601	80,980
Property, plant and equipment, net	87,216	91,926
Goodwill	471,055	477,324
Other intangible assets, net	878,916	906,665
Investments	8,794	9,219
Deferred income taxes non-current	63,480	43,440
Other non-current assets	104,680	101,510
Total assets	**$ 2,059,400**	**$ 2,286,474**
Liabilities and equity		
Current liabilities		
Accounts payable	108,284	$ 130,465
Accrued royalties	9,275	101,827
Accrued compensation and contributions to retirement plans	18,440	66,243
Deferred revenue	116,415	124,551
Current portion of long-term debt	6,880	6,880
Due to related parties	—	889
Other current liabilities	112,807	89,160
Total current liabilities	372,101	520,015
Long-term debt	1,446,924	1,447,473
Deferred income taxes	7,206	8,288
Other non-current liabilities	46,450	48,839
Total liabilities	1,872,681	2,024,615
Commitments and contingencies		
Equity		
Member's equity	355,066	370,881
Accumulated deficit	(126,425)	(82,137)
Accumulated other comprehensive loss	(41,922)	(26,885)
Total equity	186,719	261,859
Total liabilities and equity	**$ 2,059,400**	**$ 2,286,474**

See accompanying notes to the unaudited consolidated financial statements

McGraw-Hill Global Education Intermediate Holdings, LLC and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited; dollar in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating activities		
Net (loss) income including noncontrolling interests	$ (44,288)	$ (57,287)
Adjustments to reconcile net loss including noncontrolling interests to net cash provided by operating activities		
Depreciation (including amortization of technology projects)	6,884	5,000
Amortization of intangibles	23,395	25,649
Amortization of prepublication costs	10,103	10,310
Provision for losses on accounts receivable	(81)	(1,305)
Deferred income taxes	(21,122)	(20,679)
Stock-based compensation	2,464	1,693
Amortization of debt discount	1,172	1,353
Amortization of deferred financing costs	3,110	2,642
Restructuring charges	1,217	6,084
Other	3,386	2,530
Changes in operating assets and liabilities, net of the effect of acquisitions		
Accounts receivable	130,472	157,181
Due to/from related party	(17,293)	23,196
Inventories	(6,299)	(8,307)
Prepaid and other current assets	(10,223)	(10,435)
Accounts payable and accrued expenses	(161,239)	(163,741)
Deferred revenue	(7,673)	(18,388)
Other current liabilities	23,472	20,382
Net change in prepaid and accrued income taxes	(2,627)	(2,922)
Net change in operating assets and liabilities	(20,564)	(2,492)
Cash provided by (used for) operating activities	(85,734)	(29,536)
Investing activities		
Investment in prepublication costs	(9,052)	(9,220)
Capital expenditures	(8,372)	(868)
Acquisitions	—	(28,044)
Proceeds from dispositions	89	8,653
Cash provided by (used for) investing activities	(17,335)	(29,479)
Financing activities		
Payment of term loan	(1,720)	(36,720)
Dividends paid to noncontrolling interests	—	(169)
Cash provided by (used for) financing activities	(1,720)	(36,889)
Effect of exchange rate changes on cash	(1,994)	(1,601)
Net change in cash and cash equivalents	(106,783)	(97,505)
Cash and cash equivalents at the beginning of the period	232,098	253,390
Cash and cash equivalents, ending balance	$ 125,315	$ 155,885
Supplemental disclosures		
Interest expense paid	10,090	15,309
Income taxes paid	716	1,226

See accompanying notes to the unaudited consolidated financial statements

1. Basis of Presentation and Accounting Policies

On March 22, 2013, MHE Acquisition, LLC (“AcquisitionCo”), a wholly-owned subsidiary of Georgia Holdings, Inc., acquired all of the outstanding equity interests of certain subsidiaries of The McGraw-Hill Companies, Inc. (“MHC”) for $2,184,071 in cash (the “Acquired Business”). The Acquired Business included all of MHC’s educational materials and learning solutions business, which is comprised of two elements (i) the Higher Education, Professional, and International Group (the “HPI business”), which includes post-secondary education and professional products both in the U.S. and internationally and (ii) the School Education Group business (the “SEG business”), which includes school and assessment products targeting students in the pre-kindergarten through secondary school market. The purchase price was allocated as $1,711,348 and $472,723 to the HPI business and the SEG business, respectively based on their fair values. We refer to the purchase of the Acquired Business as the “Founding Acquisition”.

As of completion of the Founding Acquisition, Apollo Global Management, LLC (the “Sponsor”), certain co-investors and certain members of management directly or indirectly owned all of the equity interests of AcquisitionCo. McGraw-Hill Global Education Intermediate Holdings, LLC (the “Company,” “the Successor” or “MHGE Intermediate”) and its wholly owned subsidiary McGraw-Hill Global Education Holdings, LLC (“MHGE Holdings”) were created to facilitate the Founding Acquisition. In connection with the Founding Acquisition, a restructuring (the “Restructuring”) was completed, the result of which was that the HPI business and the SEG business became held by different legal entities. The HPI business became held by MHGE Holdings, while the SEG business became held by McGraw-Hill School Education Intermediate Holdings, LLC (“MHSE Holdings”), a separate wholly owned subsidiary of MHE US Holdings LLC, our direct parent (“Parent”). In addition, concurrently with the closing of the Founding Acquisition, MHGE Holdings entered into certain credit facilities which are described in Note 2 - The Founding Transactions. MHSE Holdings is financed through separate credit facilities. MHGE Holdings nor its parent companies guarantee or provide any collateral to the financing for MHSE Holdings, and MHSE Holdings does not guarantee or provide collateral to the financing of MHGE Holdings or its parent companies. The terms “we,” “our,” and “us” used herein refer to the Company.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP and all significant intercompany transactions and balances have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation.

We record non-controlling interest in our consolidated financial statements to recognize the minority ownership interest in certain subsidiaries. Non-controlling interest in the earnings and losses of these subsidiaries represent the share of net income or loss allocated to our combined entities.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar, which varies by country. 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 any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

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 the financial statements and accompanying notes. Actual results could differ from those estimates.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts and sales returns, inventories, prepublication costs, accounting for the impairment of long-lived assets (including other intangible assets), goodwill and indefinite-lived intangible assets, stock-based compensation, income taxes and contingencies. Management further considered the accounting policy with regard to the purchase price allocation to assets and liabilities to be critical. This accounting policy, as more fully described in Note 3, encompasses significant judgments and estimates used in the preparation of these financial statements. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

Cash and Cash Equivalents

Cash and cash equivalents include ordinary bank deposits and highly liquid investments with original maturities of three months or less that consist primarily of money market funds with unrestricted daily liquidity and fixed term time deposits. The balance also includes cash that is held by the Company outside the United States to fund international operations or to be reinvested outside of the United States. The investments and bank deposits are stated at cost, which approximates market value and were $125,315 and $232,098 as of March 31, 2015 and December 31, 2014 , respectively. These investments are not subject to significant market risk.

Accounts Receivable

Credit is extended to customers based upon an evaluation of the customer’s financial condition. Accounts receivable are recorded at net realizable value.

Allowance for Doubtful Accounts and Sales Returns

The allowance for doubtful accounts and sales returns reserves methodology is based on historical analysis, a review of outstanding balances and current conditions. In determining these reserves, we consider, among other factors, the financial condition and risk profile of our customers, areas of specific or concentrated risk as well as applicable industry trends or market indicators. The allowance for sales returns is a significant estimate, which is based on historical rates of return and current market conditions. The provision for sales returns is reflected as a reduction to “Revenues” in our consolidated statements of operations. Sales returns are charged against the reserve as products are returned to inventory. Accounts receivable losses for bad debt are charged against the allowance for doubtful accounts when the receivable is determined to be uncollectible. The change in the allowance for doubtful accounts is reflected as part of operating and administrative expenses in our consolidated statement of operations.

Concentration of Credit Risk

As of March 31, 2015 and December 31, 2014 , two customers comprised approximately 31% of the gross accounts receivable balance, which is reflective of concentration in our industry.

The Company has no single customer that accounted for 10% of our gross revenues for the three months ended March 31, 2015 . The Company had one customer that accounted for approximately 11% of our gross revenues for the three months ended March 31, 2014 , which is included within the MHGE Higher Education and MHGE Professional revenues. The loss of, or any reduction in sales from, a significant customer or deterioration in their ability to pay could harm our business and financial results.

Inventories

Inventories, consisting principally of books, are stated at the lower of cost (first-in, first-out) or market value. The majority of our inventories relate to finished goods. A significant estimate, the reserve for inventory obsolescence, is reflected in operating and administration expenses. In determining this reserve, we consider management’s current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand. The reserves for inventory obsolescence were $39,916 and $38,893 as of March 31, 2015 and December 31, 2014 , respectively.

Prepublication Costs

Prepublication costs include both the cost of developing educational content and the development of assessment solution products. Costs incurred prior to the publication date of a title or release date of a product 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. These costs are capitalized when the costs can be directly attributable to a project or title and the title is expected to generate probable future economic benefits. Capitalized costs are amortized upon publication of the title over its estimated useful life of up to six years , with a higher proportion of the amortization typically taken in the earlier years. Amortization expenses for prepublication costs are charged as a component of operating & administration expenses. In evaluating recoverability, we consider management's current assessment of the marketplace, industry trends and the projected success of programs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation as of March 31, 2015 and December 31, 2014 . Depreciation and amortization are recorded on a straight-line basis, over the assets' estimated useful lives. Buildings have an estimated useful life, for purposes of depreciation, of twenty-eight years. Furniture, fixtures and equipment are depreciated over periods not exceeding seven years . Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances warrant revised estimates of useful lives.

Royalty Advances

Royalty advances are initially capitalized and subsequently expensed as related revenues are earned or when the Company determines future recovery is not probable. The Company has a long history of providing authors with royalty advances, and it tracks each advance earned with respect to the sale of the related publication. Historically, 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, as the related royalties earned are applied first against the remaining unearned portion of the advance. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recovery. Additionally, the Company's editorial staff reviews its portfolio of royalty advances at a minimum quarterly to determine if individual royalty advances are not recoverable for discrete reasons, such as the death of an author prior to completion of a title or titles, a Company decision to not publish a title, poor market demand or other relevant factors that could impact recoverability. Based on this information, the portion of any advance that we believe is not recoverable is expensed.

Deferred Technology Costs

We capitalize certain software development and website implementation costs. Capitalized costs only include incremental, direct costs of materials and services incurred to develop the software after the preliminary project stage is completed, funding has been committed and it is probable that the project will be completed and used to perform the function intended. Incremental costs are expenditures that are out-of-pocket to us and are not part of an allocation or existing expense base. Software development and website implementation costs are expensed as incurred during the preliminary project stage. Capitalized costs are amortized from the year the software is ready for its intended use over its estimated useful life, three to seven years , using the straight-line method. Periodically, we evaluate the amortization methods, remaining lives and recoverability of such costs. Capitalized software development and website implementation costs are included in other non-current assets in the consolidated balance sheets and are presented net of accumulated amortization. Gross deferred technology costs were $49,597 and $42,030 as of March 31, 2015 and December 31, 2014 , respectively. Accumulated amortization of deferred technology costs were $14,487 and $12,433 as of March 31, 2015 and December 31, 2014 .

Accounting for the Impairment of Long-Lived Assets (Including Other Intangible Assets)

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets held for sale are written down to fair value, less cost to sell. Fair value is determined based on market evidence, discounted cash flows, appraised values or management’s estimates, depending upon the nature of the assets. There were no impairments of long-lived assets for the three months ended March 31, 2015 and March 31, 2014 , respectively.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets consist of the Company's acquired brands. Goodwill and indefinite-lived intangible assets are not amortized, but instead are tested for impairment annually during the fourth quarter each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have three reporting units, Higher Education, Professional and International with goodwill and indefinite-lived intangible assets that are evaluated for impairment.

We initially perform a qualitative analysis evaluating whether there are events or circumstances that provide evidence that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount. If, based on our evaluation we do not believe that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount, no quantitative impairment test is performed. Conversely, if the results of our qualitative assessment determine that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their respective carrying amounts we perform a two-step quantitative impairment test.

During the first step, the estimated fair value of the reporting units are compared to their carrying value including goodwill and the estimated fair value of the intangible assets is compared to their carrying value. Fair values of the reporting units are estimated using the income approach, which incorporates the use of a discounted free cash flow analysis, and are corroborated using the market approach, which incorporates the use of revenue and earnings multiples based on market data. The discounted free cash flow analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. Fair values of indefinite-lived intangible assets are estimated using avoided royalty discounted free cash flow analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the discounted free cash flow analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the discounted free cash flow analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks.

If the fair value of the reporting units or indefinite-lived intangible assets are less than their carrying value, a second step is performed which compares the implied fair value of the reporting unit’s goodwill or indefinite-lived intangible assets to the carrying value. The fair value of the goodwill or indefinite-lived intangible assets is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit or carrying value of the indefinite-lived intangible asset. If the implied fair value of the goodwill or indefinite-lived intangible assets is less than the carrying value, the difference is recognized as an impairment charge. Significant judgments inherent in this analysis include estimating the amount and timing of future cash flows and the selection of appropriate discount rates, royalty rate and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and indefinite-lived intangible asset and for some of the reporting units and indefinite-lived intangible assets could result in an impairment charge, which could be material to our financial position and results of operations. There were no impairments of goodwill and indefinite-lived intangible assets for the three months ended March 31, 2015 and March 31, 2014 , respectively.

Fair Value Measurements

In accordance with authoritative guidance for fair value measurements, certain assets and liabilities are required to be recorded at fair value. Fair value is defined as the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants. A fair value hierarchy has been established which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset 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.

Foreign Currency Translation

We have operations in many foreign countries. For most international operations, the local currency is the functional currency. For international operations that are determined to be extensions of the U.S. operations or where a majority of revenue and/or expenses is USD denominated, the United States dollar is the functional currency. For local currency operations, assets and liabilities are translated into United States dollars using end-of-period exchange rates, and revenue and expenses are translated into United States dollars using weighted-average exchange rates. Foreign currency translation adjustments are accumulated in a separate component of equity.

Stock-Based Compensation

The Company issues Georgia Holidings, Inc. stock options and other stock-based compensation to eligible employees, directors and consultants and accounts for these transactions under the provisions of Accounting Standards Codification ("ASC") 718, *Compensation - Stock Compensation* . For equity awards, total compensation cost is based on the grant date fair value. For liability awards, total compensation cost is based on the fair value of the award on the date the award is exercised and delivered. For performance-based options issued, the value of the instrument is measured at the grant date as the fair value of the common stock and expensed over the vesting term when the performance targets are considered probable of being achieved. The Company recognizes stock-based compensation expense for all awards, on a straight-line basis, over the service period required to earn the award, which is typically the vesting period.

Revenue Recognition

Revenue is recognized as it is earned when goods are shipped to customers or services are rendered. We consider amounts to be earned once evidence of an arrangement has been obtained, services are performed, fees are fixed or determinable and collectability is reasonably assured.

Arrangements with multiple deliverables

Revenue relating to products that provide for more than one deliverable is recognized based upon the relative fair value to the customer of each deliverable as each deliverable is provided. Revenue relating to agreements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services’ stand-alone selling price and recognize revenue as earned as the services are delivered. Because we determine the basis for allocating consideration to each deliverable primarily on prices experienced from completed sales, over time the portion of consideration allocated to each deliverable in a multiple deliverable arrangement may increase or decrease depending on the most recent selling price of a comparable product or service sold on a stand-alone basis. For example, as the demand for, and prevalence of, digital products increases, we may be required to increase the amount of consideration allocable to digital products included in multiple deliverable arrangements because the fair value of such products or services may increase relative to other products or services bundled in the arrangement. Conversely, in the event that demand for our print products decreases, thereby causing us to experience reduced prices on our print products, we may be required to allocate less consideration to our print products in our arrangements that include multiple deliverables.

Subscription-based products

Subscription income is recognized over the related subscription period that the subscription is available and is used by the customer. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period. As of March 31, 2015 , no significant changes have been made to the underlying assumptions related to estimates of revenue or the methodologies applied. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the period that our subscriptions are accessed by our customers, the extent of our responsibility to provide access to our subscription-based products, and the extent of complementary support services customers demand to access our products.

Service arrangements

Revenue relating to arrangements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. Such arrangements may include digital products bundled with traditional print products, obligations to provide products and services in the future at no additional cost, and periodic training pertinent to products and services previously provided. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services’ stand-alone selling price and recognize revenue as earned as the services are delivered. Losses on contracts are recognized in the period in which the loss first becomes foreseeable. Contract losses are measured as the amount that the estimated total costs to complete the contract exceed the estimated total revenues that will be generated by the contract.

Shipping and Handling Costs

All amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. Shipping and handling costs are also a component of cost of goods sold.

Income Taxes

The Company’s operations are subject to United States federal, state and local income taxes, and foreign income taxes. The United States federal income tax return is filed as a consolidated group under Georgia Holdings, Inc. Net operating losses and other tax attributes are characterized as realized or realizable by MHGE Holdings when the attributes are utilized by the consolidated federal group following the Company’s “Benefits-for-Loss” allocation method.

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Valuation allowances are established when management determines that it is more-likely-than not that some portion or all of the deferred tax asset will not be realized. Management evaluates the weight of both positive and negative evidence in determining whether a deferred tax asset will be realized. Management will look to a history of losses, future reversal of existing taxable temporary differences, taxable income in carryback years, feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can also be affected by changes in tax laws and changes to statutory tax rates.

We prepare and file tax returns based on management’s interpretation of tax laws and regulations. As with all businesses, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax assessments based on differences in interpretation of the tax law and regulations. We adjust our estimated uncertain tax positions reserves based on audits by and settlements with various taxing authorities as well as changes in tax laws, regulations, and interpretations. We recognize interest and penalties on uncertain tax positions as part of interest expense and operating expenses, respectively.

Contingencies

We accrue for loss contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. When we accrue for loss contingencies and the reasonable estimate of the loss is within a range, we record its best estimate within the range. We disclose an estimated possible loss or a range of loss when it is at least reasonably possible that a loss may have been incurred. Neither an accrual nor disclosure is required for losses that are deemed remote.

Recent Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03 - *Simplifying the Presentation of Debt Issuance Costs* . This ASU changes the presentation of debt issuance costs by requiring an entity to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated balance sheets.

In January 2015, the FASB issued ASU No. 2015-01 (Topic 225-20) - *Income Statement—Extraordinary and Unusual Items* which eliminates the concept of extraordinary items. This guidance removes the requirement to assess whether an event or transaction is both unusual in nature and infrequent in occurrence and to separately present any such items on the statement of operations after income from continuing operations. Rather, such items will either be presented as a separate component of income from continuing operations or disclosed in the notes to the financial statements. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In December 2014, the FASB issued ASU No. 2014-17 (Topic 805) - *Business Combinations* , which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting as a change in accounting principal in the reporting period in which the change in control event occurs and use the new basis to measure its assets, liabilities and equity. The guidance is effective on November 18, 2014 and will not have any impact on consolidated financial position or results of operations. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 - *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* to provide guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and to provide related footnote disclosures. This update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12 (Topic 718) - *Compensation-Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after* *the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force). This ASU clarifies that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is evaluating the impact that this update will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 - *Revenue from Contracts with Customers* , which supersedes most of the current revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. This guidance is effective for the Company in the first quarter of 2017 and early application is not permitted. Entities must adopt the new guidance using one of two retrospective application methods. On April 29, 2015, the FASB issued an exposure draft to defer the effective date by one year. The Company is currently evaluating the standard to determine the impact of its adoption on the consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08 - *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The revised guidance is effective for annual fiscal periods beginning after December 15, 2014 . Early adoption is permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

2. The Founding Transactions

As discussed in Note 1, the Founding Acquisition was completed on March 22, 2013 and financed by:

- Borrowings under MHGE Holdings senior secured credit facilities (the “Senior Facilities”), consisting of a $810,000 , 6 -year senior secured term loan credit facility (the “term loan facility”), all of which was drawn at closing and a $240,000 , 5 -year senior secured revolving credit facility (“revolving credit facility”), $35,000 of which was drawn at closing;

- Issuance by MHGE Holdings and McGraw-Hill Global Education Finance, Inc., a wholly owned subsidiary of MHGE (together with MHGE Holdings, the “Issuers”) of $800,000 , 9.75% first-priority senior secured notes due 2021 (the “Notes”); and

- Equity contribution of $950,000 from Parent funded by the Sponsor, co-investors and management.

The Founding Acquisition occurred simultaneously with the closing of the financing transactions and equity investments described above.

The Founding Acquisition, related financing and payment of any costs related to these transactions are collectively herein referred to as the Founding Transactions.

(Unaudited, in thousands, unless otherwise indicated)

3. The Founding Acquisition

The Founding Acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations* . The Founding Acquisition and the determination of fair value of the assets acquired and liabilities assumed was recorded as of March 22, 2013 based on the purchase price of $1,711,348 . As a result of the Founding Acquisition, goodwill of $350,050 was recorded on the Successor's balance sheet. The Company has finalized the allocation of goodwill to each of its reporting units.

The sources and uses of funds in connection with the Founding Transactions are summarized below:

Sources		
Proceeds from term loan facility	$	785,700
Proceeds from revolving credit facility		35,000
Proceeds from Notes		789,096
Proceeds from equity contributions		950,000
Total sources	**$**	**2,559,796**
Uses		
Equity purchase price	$	1,711,348
Transaction fees and expenses		131,339
Cash to balance sheet		88,255
Distribution to Parent		628,854
Total uses	**$**	**2,559,796**

Purchase Price

The Founding Acquisition has been accounted for using the acquisition method of accounting which requires assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date, with any excess of the purchase price attributed to goodwill. The fair values have been determined based upon assumptions related to the future cash flows, discount rates and asset lives utilizing currently available information. On October 16, 2013 the working capital adjustment was finalized with MHC and the Company's share of the proceeds of the working capital adjustment was $28,099 .

(Unaudited, in thousands, unless otherwise indicated)

The table below summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash and equivalents	$	19,633
Accounts receivable and other current assets		132,750
Inventory		235,608
Prepublication costs		109,064
Property, plant and equipment		102,836
Identifiable intangible assets		998,007
Other noncurrent assets		56,226
Accounts payable and accrued expenses		(143,076)
Deferred revenue		(42,339)
Other current liabilities		(49,767)
Deferred income tax liability		(15,846)
Other long-term liabilities		(19,573)
Noncontrolling interests		(22,225)
Goodwill		350,050
Purchase price	**$**	**1,711,348**

Residual goodwill consists primarily of intangible assets related to the knowhow and design of the Company's products that do not qualify for separate recognition as well as assembled work force.

The fair values of the finite acquired intangible assets will be amortized over their useful lives, which is consistent with the estimated useful life considerations used in determining their fair values. Customer and technology intangibles are amortized on a straight-line basis while content intangibles are amortized using the sum of the years digits method.

		Fair Value	Useful Lives
Brands	$	283,000	Indefinite
Customers		140,000	11 - 14 years
Content		566,007	8 - 14 years
Technology		9,000	5 years

The Founding Acquisition was a taxable acquisition of the assets of domestic subsidiaries and a non-taxable acquisition of the stock of international subsidiaries for U.S. income tax purposes. Deferred income tax liability of $15,846 has been provided for the difference in fair value of international assets and liabilities over the carryover tax basis.

Distribution to Parent

The total amount of $628,854 allocated to MHSE Holdings includes purchase price as well as the working capital adjustment made at closing and is classified as "Distribution to Parent" in the consolidated financial statements. MHSE Holdings is not included in these consolidated financial statements.

4. ALEKS Acquisition

On August 1, 2013, the Company acquired all of the outstanding shares of ALEKS Corporation, a developer of adaptive learning technology for the higher education and K-12 education markets. Prior to the acquisition, the Company had a long-term royalty-based partnership with ALEKS where ALEKS technology solutions were incorporated into the Company's Higher Education's products.

(Unaudited, in thousands, unless otherwise indicated)

ALEKS was acquired for a purchase price of $103,500 ; of which $50,000 was paid in cash at closing. The remaining $53,500 was paid one year after closing on August 1, 2014 of which $15,000 was held in escrow for six months. As of December 31, 2013, $53,500 was included in other current liabilities in the consolidated balance sheet. The Company has finalized the determination of the fair values of the assets acquired and liabilities assumed upon acquisition. On October 31, 2013, the working capital adjustment was finalized and the Company's share of the proceeds of the working capital adjustment was $1,422 . The $50,000 paid at closing and subsequent payments were financed by a combination of cash on hand and borrowing under the revolving credit facility. Costs incurred in connection with the acquisition for the year ended December 31, 2013 were $2,549 and are included in operating and administrative expenses in the consolidated statements of operations.

Subsequent to the closing, the ALEKS Corporation entered into a reseller agreement with McGraw-Hill School Education Holdings, LLC ("MHSE"), which is a separate wholly owned subsidiary of our Parent, granting MHSE exclusive rights to sell ALEKS products in the K-12 market. MHSE paid $25,500 to ALEKS Corporation for the exclusivity provision, which is being recognized over five years and renewable for no additional fee after five years , and paid a royalty advance of $12,500 . The royalty rate is 15% on net sales.

The companies received a fairness opinion from a third party valuation firm on the terms of the transaction.

The table below summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Tangible assets		9,365
Identifiable intangible assets		40,700
Deferred revenue		(2,754)
Other liabilities		(23,083)
Goodwill		79,272
Purchase price	**$**	**103,500**

Residual goodwill consists primarily of intangible assets related to the knowhow and design of the Company's products that do not qualify for separate recognition as well as assembled work force. The amount of goodwill is not considered deductible for tax purposes.

The fair values of the acquired intangible assets will be amortized on a straight-line basis over their useful lives which is consistent with the estimated useful life considerations used in determining their fair values.

		Fair Value	**Useful Lives**
Trade Name	$	5,300	10 years
Customers		7,100	7 years
Technology		28,300	7 years

Amortization expense of $1,397 and $2,927 was recorded in the three months ended March 31, 2015 and March 31, 2014 , respectively.

5. Area 9 Acquisition

On February 6, 2014 the Company acquired the remaining 80% that it did not already own of Area 9, a Danish Company and developer of adaptive learning technology for the higher education market for total consideration of $78,049 . Prior to the acquisition, the Company had a long-term royalty-based relationship with Area 9. The Company had purchased the other 20% stake in Area 9 in January 2013. Consideration for the acquisition of the remaining 80% was $29,003 in cash at closing, with the remainder in shares of Georgia Holdings common stock, including shares held in escrow, and shares subject to an earn-out based on several financial measures which we expect to be met and therefore all earn out shares have been valued in member's equity.

(Unaudited, in thousands, unless otherwise indicated)

Pursuant to the purchase agreement, consulting payments are due to the founders of Area 9 of $9,800 for a designated project and deliverable, of which $2,700 is contingent upon a successful completion of a project deliverable and $5,000 expense reimbursement over a four year period. These costs are expensed as incurred.

There is a gain of $7,329 in other income reflecting a fair value adjustment based on the purchase price of the additional 80% interest on the original 20% stake which fair value is $15,866 , making the total transaction value equal to $93,915 . The Company determined the acquisition date fair value of the previously held equity interest in Area 9 using the income approach, including consideration of a control premium, which requires the Company to make estimates and assumptions regarding future cash flows. The Company has finalized the determination of the fair values of the assets acquired and liabilities assumed upon acquisition. On July 18, 2014, the working capital adjustment was finalized and the Company's payment for the working capital adjustment was $959 .

The table below summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Tangible assets	$	1,969
Identifiable intangible assets		44,800
Other liabilities		(6,740)
Goodwill		53,886
Purchase price	**$**	**93,915**

Residual goodwill consists primarily of intangible assets related to the knowhow and design of the Company’s products that do not qualify for separate recognition as well as assembled work force. The amount of goodwill is not considered deductible for tax purposes.

The fair values of the acquired intangible assets will be amortized on a straight-line basis over their useful lives of four and seven years, which is consistent with the estimated useful life considerations used in determining their fair values. Amortization expense of $1,225 and $1,148 was recorded in the three months ended March 31, 2015 and March 31, 2014 , respectively.

6. Ryerson Acquisition

On June 17, 2014, the Company acquired the remaining 30% interest in McGraw-Hill Ryerson, its Canadian subsidiary, and now owns all of the outstanding shares of the operation. The aggregate purchase price was approximately $27,450 . The excess of the purchase price over the value of the non-controlling interest of $4,815 was recognized as an adjustment to member's equity. The Company determined the fair value of the previously held equity interest in Ryerson using an active market price on the date of acquisition.

(Unaudited, in thousands, unless otherwise indicated)

7. Inventories

Inventories consist of the following:

	At	
	March 31, 2015	December 31, 2014
Raw materials	$ 1,819	$ 1,160
Work-in-progress	2,634	3,380
Finished goods	114,387	111,345
	118,840	115,885
Reserves	(39,916)	(38,893)
Inventories, net	**$ 78,924**	**$ 76,992**

8. Debt

Long-term debt consisted of the following:

	At	
	March 31, 2015	December 31, 2014
Term loan facility	$ 662,745	$ 663,555
Notes	791,059	790,798
Less current portion of long term debt	(6,880)	(6,880)
Long Term Debt (1)	**$ 1,446,924**	**$ 1,447,473**

(1) Long term debt balances reflect face value of debt less the unamortized discount.

Senior Facilities

In connection with the Founding Transactions, on March 22, 2013, MHGE Holdings, our wholly owned subsidiary, together with the Company, entered into the Senior Facilities, which are governed by a first lien credit agreement as amended and restated, with Credit Suisse AG, as administrative agent, and the other agents and lenders, as parties thereto, that provided senior secured financing of up to $1,050,000 , consisting of:

- the term loan facility in an aggregate principal amount of $810,000 with a maturity of six years ; and
- the revolving credit facility in an aggregate principal amount of up to $240,000 with a maturity of five years , including both a letter of credit sub-facility and a swingline loan sub-facility. The amount available under the revolving credit facility at March 31, 2015 was $240,000 .

On March 24, 2014, the Company made a voluntary principal payment of $35,000 and refinanced the term loan facility in the aggregate principal of $687,925 . The revised terms reduce the LIBOR floor from 1.25% to 1.0% and the applicable LIBOR margin from 7.75% to 4.75% . The maturity date did not change but quarterly principal payments were reduced from $2,025 to $1,720 , maintaining the amortization rate at ¼ of 1% of the refinanced principal amount.

The interest rate on the borrowings under the Senior Facilities is based on LIBOR or Prime, plus an applicable margin. The interest rate was 5.75% at March 31, 2015 for the term loan facility and there were no outstanding borrowings under the revolving credit facility. The term loan facility and the revolving credit facility were issued at a discount of 3% and 2% , respectively. Debt issuance costs and the discount are amortized over the term of the respective facility using the effective interest method and are included in interest expense, net within the consolidated statements of operations. The amount of amortization included in interest expense, net was $3,137 and $2,497 for the three months ended March 31, 2015 and March 31, 2014 , respectively.

The term loan facility requires quarterly amortization payments totaling 1% per annum of the refinanced principal amount of the facility, with the balance payable on the final maturity date. The term loan facility also includes customary mandatory prepayments requirements based on certain events such as asset sales, debt issuances, and defined levels of free cash flows.

All obligations under the Senior Facilities are guaranteed by the Parent, the Company and each of MHGE Holdings existing and future direct and indirect material, wholly owned domestic subsidiaries and are secured by first priority lien on substantially all tangible and intangible assets of MHGE Holdings and each subsidiary guarantor, all of the MHGE Holdings capital stock and the capital stock of each subsidiary guarantor and 65% of the capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions.

The revolving credit facility includes a springing financial maintenance covenant that requires MHGE Holdings net first lien leverage ratio not to exceed 7.00 to 1.00 (the ratio of consolidated net debt secured by first-priority liens on the collateral to EBITDA, as defined in the First Lien Credit Agreement, of MHGE Holdings and its consolidated subsidiaries). The covenant will be tested quarterly when the revolving credit facility is more than 20% drawn (including outstanding letters of credit), beginning with the fiscal quarter ended June 30, 2013, and will be a condition to drawings under the revolving credit facility (including for new letters of credit) that would result in more than 20% drawn thereunder. As of March 31, 2015 , the borrowings under the revolving credit facility were less than 20% , and so the covenant was not in effect.

Post-Plate Adjusted EBITDA reflects EBITDA as defined in the First Lien Credit Agreement. Solely for the purpose of calculating the springing financial covenant, plate investments should be excluded from the calculation of EBITDA.

The fair value of the term loan facility was approximately $682,722 and $677,640 as of March 31, 2015 and December 31, 2014 , respectively. The Company estimates the fair value of the term loan facility utilizing the market quotations for debt that have quoted prices in active markets. Since the term loan facility does not trade of a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities, based on fair value hierarchy established in accordance with authoritative guidance for fair value measurements (Level 2).

9.75% First-Priority Senior Secured Notes due 2021

In connection with the Founding Acquisition, on March 22, 2013 , the Issuers issued $800,000 in principal amount of the Notes in a private placement. The Notes bear interest at a rate of 9.75% per annum, payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. The Notes were issued at a discount of 1.36% . Debt issuance costs and the discount are amortized over the term of the Notes using the effective interest method and are included in interest expense, net within the consolidated statements of operations. The amount of amortization included in interest expense, net was $1,145 and $1,498 for the three months ended March 31, 2015 and March 31, 2014 , respectively.

The Issuers may redeem the Notes at its option, in whole or in part, at any time on or after April 1, 2016, at certain redemption prices.

The Notes are fully and unconditionally guaranteed by the Parent, the Company and each of MHGE Holdings domestic restricted subsidiaries that guarantee the Senior Facilities. In addition, the Notes and the related guarantees are secured by first priority lien on the same collateral that secure the Senior Facilities, subject to certain exclusions.

The Senior Facilities and the Notes contain certain customary affirmative covenants and events of default. In addition, the negative covenants in the Senior Facilities and the Notes limit MHGE Holdings and its restricted subsidiaries’ ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage into transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries or restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Holdings assets.

(Unaudited, in thousands, unless otherwise indicated)

The Parent and the Company are not bound by any financial or negative covenants in the Senior Facilities and the notes, other than, in the case of the Company prior to an IPO, with respect to incurrence of liens on and the pledge of MHGE Holdings capital stock and with respect to the maintenance of its existence.

On March 24, 2014, the Company began paying an incremental 0.25% interest rate on the 9.75% First-Priority Senior Secured Notes because a registration statement for an exchange offer to exchange the initial Notes for registered Notes had not been declared effective prior to that date. The incremental interest continued to accrue until the exchange offer had been consummated. The Company's registration statement for the exchange offer was declared effective on May 14, 2014, and the exchange offer was completed on June 19, 2014 ending the incremental 0.25% accrual on that date.

The fair value of the Notes was approximately $884,000 and $890,000 as of March 31, 2015 and December 31, 2014 , respectively. The Company estimates the fair value of its Notes based on trades in the market. Since the Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2).

Scheduled principal Payments

The scheduled principal payments required under the terms of the Senior Facilities and the Notes as of March 31, 2015 were as follows:

	March 31, 2015
2015 Q2 to Q4	$ 5,160
2016	6,880
2017	6,880
2018	6,880
2019	653,525
2020 and beyond	800,000
	1,479,325
Less: Current portion	6,880
	$ 1,472,445

9. Segment Reporting

The Company manages and reports its businesses in the following four segments:

- **MHGE Higher Education** ***:*** Provides instructional content, adaptive learning, assessment and institutional services to students, professors, provosts and presidents in the college, university and postgraduate markets in the United States and around the world.

- **MHGE Professional** ***:*** Provides content and subscription-based information services for the professional business, medical, technical and education/test-preparation communities, including for professionals preparing for entry into graduate programs.

- **MHGE International** ***:*** Leverages our global scale, brand recognition and extensive product portfolio to serve educational and professional markets around the world. MHGE International pursues numerous product models to drive growth, ranging from reselling primarily MHGE Higher Education and MHGE Professional offerings to creating locally developed product suites customized for each region.

(Unaudited, in thousands, unless otherwise indicated)

- **MHGE Other** : Includes certain transactions or adjustments that our Chief Operating Decision Maker ("CODM") considers to be unusual and/or non-operational.

The Company's business segments are consistent with how management views the markets served by the Company. The CODM reviews their separate financial information to assess performance and to allocate resources. We measure and evaluate our reportable segments based on segment Cash Revenues and Post-Plate Adjusted Cash EBITDA and believe they provide additional information to management and investors to measure our performance and evaluate our ability to service our indebtedness. We include the change in deferred revenue to GAAP revenue to arrive at Cash Revenues. We exclude from segment Post-Plate Adjusted Cash EBITDA: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and prepublication amortization and certain transactions or adjustments that our CODM does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. Although we exclude these amounts from segment Post-Plate Adjusted Cash EBITDA, they are included in reported consolidated net income (loss) and are included in the reconciliation below.

Cash Revenues and Post-Plate Adjusted Cash EBITDA are not presentations made in accordance with U.S. GAAP and the use of the terms, Cash Revenues and Post-Plate Adjusted Cash EBITDA, varies from others in our industry. Cash Revenues and Post-Plate Adjusted Cash EBITDA should be considered in addition to, not as a substitute for, revenue and net income (loss), or other measures of financial performance derived in accordance with U.S. GAAP as measures of operating performance or cash flows as measures of liquidity.

Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by Post-Plate Adjusted Cash EBITDA. As such, segment assets are not disclosed in the notes to the accompanying consolidated financial statements. The following tables set forth information about the Company's operations by its four segments:

	Three Months Ended March 31,	
	2015	**2014**
Cash Revenues:		
MHGE Higher Education	$ 118,981	$ 115,082
MHGE Professional	22,079	23,543
MHGE International	42,969	48,137
Total Cash Revenues (1)	184,029	186,762
Change in deferred revenue	15,785	17,809
Total Consolidated Revenue	**$ 199,814**	**$ 204,571**

(1) The elimination of inter-segment revenues was not significant to the revenues of any one segment.

Segment Post-Plate Adjusted Cash EBITDA:		
MHGE Higher Education	$ 465	$ (2,442)
MHGE Professional	761	2,529
MHGE International	(9,533)	(11,690)
MHGE Other	587	(112)
Total Segment Post-Plate Adjusted Cash EBITDA	**$ (7,720)**	**$ (11,715)**

(Unaudited, in thousands, unless otherwise indicated)

Reconciliation of Segment Post-Plate Adjusted Cash EBITDA to the consolidated statements of operations is as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Total Segment Post-Plate Adjusted Cash EBITDA	$ (7,720)	$ (11,715)
Interest (expense) income, net	(34,481)	(44,319)
Benefit (provision) for taxes on income	21,873	29,092
Depreciation, amortization and plate investment amortization	(40,382)	(40,959)
Deferred revenue	15,785	17,809
Restructuring and cost savings implementation charges	(4,150)	(9,200)
Sponsor fees	(875)	(875)
Transaction costs	—	(2,565)
Acquisition costs	—	(2,410)
Physical separation costs	—	(5,108)
Other	(3,390)	3,743
Plate investment cash costs	9,052	9,220
Net (loss) income	(44,288)	(57,287)
Less: Net (income) loss attributable to noncontrolling interests	—	118
Net (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	**$ (44,288)**	**$ (57,169)**

The following is a schedule of revenue and long-lived assets by geographic region:

	Revenue (1) Three Months Ended March 31, 2015	Revenue (1) Three Months Ended March 31, 2014	Long -lived Assets (2) At March 31, 2015	Long -lived Assets (2) At December 31, 2014
United States	$ 150,884	$ 152,491	$ 192,978	$ 191,745
International	48,930	52,080	17,633	19,667
Total	**$ 199,814**	**$ 204,571**	**$ 210,611**	**$ 211,412**

(1) Revenues are attributed to a geographic region based on the location of customer.
(2) Reflects total assets less current assets, goodwill, intangible assets, investments, deferred financing costs and non-current deferred tax assets.

10. Taxes on Income

For the three months ended March 31, 2015 and March 31, 2014 , the effective tax rate was 33.1% and 33.7% , respectively. At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect, and are individually computed, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

As of March 31, 2015 and December 31, 2014 , the total amount of federal, state and local, and foreign unrecognized tax benefits was $1,011 and $1,164 , respectively, exclusive of interest and penalties, substantially all of which, if recognized, would impact the effective tax rate. We recognize accrued interest and penalties related to unrecognized tax benefits in interest expense and operating expense, respectively. In addition to the unrecognized tax benefits, as of March 31, 2015 and December 31, 2014 , we had $1,154 and $1,158 , respectively, of accrued interest and penalties associated with uncertain tax positions.

Under the terms of the Founding Acquisition, MHC is contractually liable for income tax assessments for Predecessor periods through March 22, 2013. An indemnification receivable from MHC of $1,806 and $1,825 has been recorded in non-current assets as of March 31, 2015 and December 31, 2014 , respectively, for the unrecognized tax benefit, interest, and penalties related to controlled foreign corporations as taxpayers of record.

11. Employee Benefits

Defined Contribution Plans

A majority of employees of the Company are participants in voluntary 401(k) plans sponsored by the Company under which the Company may match employee contributions up to certain levels of compensation.

Pension Plans

A majority of employees of the Company were participants in various defined benefit pension plans as well as post-retirement plans administered and sponsored by MHC. Benefits under the pension plans are based primarily on years of service and employees’ compensation. The Company has no liability for these plans.

12. Stock-Based Compensation

In the quarter ended June 30, 2013, Georgia Holdings, Inc., adopted the Management Equity Plan whereby Georgia Holdings, Inc., the parent of our Parent, can issue stock options, restricted stock, restricted stock units, and other equity based awards. As of March 31, 2015 , the Board of Directors of Georgia Holdings, Inc. has authorized up to 1,009,186 shares under the plan.

In the three months ended March 31, 2015 and March 31, 2014 , the Company issued no Georgia Holdings, Inc. stock options to employees of the Company. Stock options may not be granted at a price less than the fair market value of common stock on the grant date. The options terminate on the earliest of the tenth year from the date of the grant or other committee action, as defined in the plan documents. As of March 31, 2015 , the weighted average grant date fair value of outstanding options were $68.83 . We use a Black-Scholes closed form option pricing model to estimate the fair value of options granted.

The options vest over five years with 50% vesting on cumulative financial performance measures in the Plan and the remaining 50% vest evenly over five years, in each case subject to continued service.

(Unaudited, in thousands, unless otherwise indicated)

Stock-based compensation for the periods presented was as follows:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Stock option expense	$ 1,502	$ 1,387
Restricted stock and unit awards expense	962	306
Total stock-based compensation expense	**$ 2,464**	**$ 1,693**

As of March 31, 2015 and March 31, 2014 there was approximately $11,688 and $14,475 , respectively, of total unrecognized compensation costs related to non-vested stock-based employee compensation arrangements granted under the Management Equity Plan. The Company expects to recognize those costs over a weighted average period of 3.5 years.

13. Restructuring

In order to contain costs and mitigate the impact of current and expected future economic conditions, as well as a continued focus on process improvements, we have initiated various restructuring plans over the last several years. The charges for each restructuring plan are classified as operating and administration expenses within the consolidated statements of operations.

In certain circumstances, reserves are no longer needed because of efficiencies in carrying out the plans, or because employees previously identified for separation resigned from the Company and did not receive severance or were reassigned due to circumstances not foreseen when the original plans were initiated. In these cases, we reverse reserves through the consolidated statements of operations when it is determined they are no longer needed.

During the fourth quarter of 2013 and in 2014, the Company initiated restructuring plans across several of its business units to review its business models and operating methods for opportunities to increase efficiencies and/or align costs with business performance.

The following table summarizes restructuring information by reporting segment:

	MHGE Higher Education	MHGE Professional	MHGE International	MHGE Other	Total
Balance at December 31, 2014	**$ 11,218**	**$ 1,490**	**$ 5,864**	**$ —**	**$ 18,572**
Charges:					
Employee severance and other personal benefits	1,180	37	—	—	1,217
Lease termination costs	—	—	1,515	—	1,515
Payments:					
Employee severance and other personal benefits	(3,860)	(1,236)	(4,429)	—	(9,525)
Lease termination costs	—	—	(1,515)	—	(1,515)
Balance at March 31, 2015	**$ 8,538**	**$ 291**	**$ 1,435**	**$ —**	**$ 10,264**

The Company expects to utilize the remaining reserves of $10,264 in 2015.

14. Guarantor Financial Information

On March 22, 2013, in connection with the Founding Acquisition, MHGE Holdings issued $800,000 aggregate principal amount of Notes as described in Note 2. The Notes and the Senior Facilities are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis subject to certain exceptions, by the Company and each of the Company’s direct and indirect wholly owned domestic subsidiaries (the “Guarantors”). Each of the

(Unaudited, in thousands, unless otherwise indicated)

Guarantors is 100 percent owned, directly or indirectly, by the Company. All other subsidiaries of the Company, either direct or indirect, do not guarantee the Notes and Senior Facilities ("Non-Guarantors").

The following consolidated financial statements are presented for the information of the holders of the Notes and present the consolidated balance sheets as of March 31, 2015 and December 31, 2014 and the consolidated statements of operations and condensed consolidated statements of cash flows for the three months ended March 31, 2015 and March 31, 2014 of the Company. The consolidated financial statements present MHGE Intermediate, which is a Guarantor of the Notes, the Guarantor subsidiaries of MHGE Intermediate, the Non-Guarantor subsidiaries of MHGE Intermediate and the elimination entries necessary to combine and consolidate MHGE Intermediate with the Guarantor and Non-Guarantor subsidiaries.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidated presentation. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. Additionally, substantially all of the assets of the Guarantor subsidiaries are pledged under the Notes and, consequently, will not be available to satisfy the claims of the Company's general creditors.

	Three Months Ended March 31, 2015				
	MHGE Intermediate	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**MHGE Intermediate (Consolidated)**
Revenue	$ —	$ 155,122	$ 44,692	$ —	$ 199,814
Cost of goods sold	—	36,118	19,341	—	55,459
Gross profit	—	119,004	25,351	—	144,355
Operating expenses					
Operating & administration expenses	875	105,753	40,349	54	147,031
Depreciation	—	6,884	—	—	6,884
Amortization of intangibles	—	21,838	1,557	—	23,395
Total operating expenses	875	134,475	41,906	54	177,310
Operating (loss) income	(875)	(15,471)	(16,555)	(54)	(32,955)
Interest expense (income), net	33,873	—	608	—	34,481
Equity in (income) loss of subsidiaries	31,413	—	—	(31,413)	—
Other (income)	—	(1,275)	—	—	(1,275)
Income (Loss) from operations before taxes on income	(66,161)	(14,196)	(17,163)	31,359	(66,161)
Income tax (benefit) provision	(21,873)	(3,729)	(4,495)	8,224	(21,873)
Net (loss) income	**$ (44,288)**	**$ (10,467)**	**$ (12,668)**	**$ 23,135**	**$ (44,288)**
Comprehensive (loss) income	**$ (44,288)**	**$ (10,467)**	**$ (27,705)**	**$ 23,135**	**$ (59,325)**

(Unaudited, in thousands, unless otherwise indicated)

	Three Months Ended March 31, 2014				
	MHGE Intermediate	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**MHGE Intermediate (Consolidated)**
Revenue	$ —	$ 155,518	$ 49,053	$ —	$ 204,571
Cost of goods sold	—	32,031	21,789	—	53,820
Gross profit	—	123,487	27,264	—	150,751
Operating expenses					
Operating & administration expenses	875	122,101	46,686	(1,461)	168,201
Depreciation	—	4,123	877	—	5,000
Amortization of intangibles	—	21,403	4,246	—	25,649
Transaction costs	2,565	—	—	—	2,565
Total operating expenses	3,440	147,627	51,809	(1,461)	201,415
Operating (loss) income	(3,440)	(24,140)	(24,545)	1,461	(50,664)
Interest expense (income), net	44,415	—	(96)	—	44,319
Equity in (income) loss of subsidiaries	38,406	—	—	(38,406)	—
Other (income)	—	(8,604)	—	—	(8,604)
(Loss) income from operations before taxes on income	(86,261)	(15,536)	(24,449)	39,867	(86,379)
Income tax (benefit) provision	(29,092)	(3,866)	(7,628)	11,494	(29,092)
Net (loss) income	(57,169)	(11,670)	(16,821)	28,373	(57,287)
Less: Net (income) loss attributable to noncontrolling interests	—	—	118	—	118
Net (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	**$ (57,169)**	**$ (11,670)**	**$ (16,703)**	**$ 28,373**	**$ (57,169)**
Comprehensive (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	**$ (57,169)**	**$ (11,670)**	**$ (17,475)**	**$ 28,373**	**$ (57,941)**

(Unaudited, in thousands, unless otherwise indicated)

	March 31, 2015				
	MHGE Intermediate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	MHGE Intermediate (Consolidated)
ASSETS					
Current assets:					
Cash and equivalents	$ —	$ 364,753	$ 55,753	$ (295,191)	125,315
Accounts receivable	—	19,018	51,777	—	70,795
Related party receivable	—	275,401	—	(257,292)	18,109
Inventories, net	—	52,022	26,956	(54)	78,924
Deferred income taxes	—	22,744	8,332	—	31,076
Prepaid and other current assets	97,325	19,089	20,725	(94,700)	42,439
Total current assets	97,325	753,027	163,543	(647,237)	366,658
Prepublication costs, net	—	62,622	15,979	—	78,601
Property, plant and equipment, net	—	87,216	—	—	87,216
Goodwill	—	425,181	45,874	—	471,055
Other intangible assets, net	—	822,359	56,557	—	878,916
Investments	1,811,139	103	8,691	(1,811,139)	8,794
Deferred income taxes non-current	—	62,354	1,126	—	63,480
Other non-current assets	59,886	43,140	1,654	—	104,680
Total assets	**$ 1,968,350**	**$ 2,256,002**	**$ 293,424**	**$ (2,458,376)**	**$ 2,059,400**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable	$ 297,816	$ 94,268	$ 11,390	$ (295,190)	$ 108,284
Accrued royalties	—	4,065	5,210	—	9,275
Accrued compensation and contributions to retirement plans	—	9,912	8,528	—	18,440
Deferred revenue	—	110,703	5,712	—	116,415
Current portion of long-term debt	6,880	—	—	—	6,880
Related party	—	—	253,963	(253,963)	—
Other current liabilities	50,681	131,733	25,089	(94,696)	112,807
Total current liabilities	355,377	350,681	309,892	(643,849)	372,101
Long-term debt	1,446,924	—	—	—	1,446,924
Deferred income taxes	—	—	7,206	—	7,206
Other non-current liabilities	—	43,607	2,843	—	46,450
Total liabilities	1,802,301	394,288	319,941	(643,849)	1,872,681
Commitments and contingencies					
Equity					
Member's equity	292,474	1,771,435	31,986	(1,740,829)	355,066
Accumulated deficit	(126,425)	90,279	(16,581)	(73,698)	(126,425)
Accumulated other comprehensive loss	—	—	(41,922)	—	(41,922)
Total equity	166,049	1,861,714	(26,517)	(1,814,527)	186,719
Total liabilities and equity	**$ 1,968,350**	**$ 2,256,002**	**$ 293,424**	**$ (2,458,376)**	**$ 2,059,400**

(Unaudited, in thousands, unless otherwise indicated)

	December 31, 2014				
	MHGE Intermediate	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**MHGE Intermediate (Consolidated)**
ASSETS					
Current assets:					
Cash and equivalents	$ —	$ 466,617	$ 49,737	$ (284,256)	232,098
Accounts receivable	—	122,047	82,025	—	204,072
Related party	—	253,071	—	(253,071)	—
Inventories, net	—	50,330	27,164	(502)	76,992
Deferred income taxes	—	22,745	8,793	—	31,538
Prepaid and other current assets	74,577	11,925	17,036	(72,828)	30,710
Total current assets	74,577	926,735	184,755	(610,657)	575,410
Prepublication costs, net	—	63,130	17,850	—	80,980
Property, plant and equipment, net	—	91,926	—	—	91,926
Goodwill	—	423,629	53,695	—	477,324
Other intangible assets, net	—	842,907	63,758	—	906,665
Investments	1,842,551	104	9,115	(1,842,551)	9,219
Deferred income taxes non-current	—	42,242	1,198	—	43,440
Other non-current assets	63,004	36,689	1,817	—	101,510
Total assets	**$ 1,980,132**	**$ 2,427,362**	**$ 332,188**	**$ (2,453,208)**	**$ 2,286,474**
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable	$ 284,256	$ 115,594	$ 14,871	$ (284,256)	$ 130,465
Accrued royalties	—	89,796	12,031	—	101,827
Accrued compensation and contributions to retirement plans	—	50,615	15,628	—	66,243
Deferred revenue	—	117,211	7,340	—	124,551
Current portion of long-term debt	6,880	—	—	—	6,880
Related party	—	889	253,071	(253,071)	889
Other current liabilities	31,186	98,036	32,766	(72,828)	89,160
Total current liabilities	322,322	472,141	335,707	(610,155)	520,015
Long-term debt	1,447,473	—	—	—	1,447,473
Deferred income taxes	—	—	8,288	—	8,288
Other non-current liabilities	—	45,244	3,595	—	48,839
Total liabilities	1,769,795	517,385	347,590	(610,155)	2,024,615
Commitments and contingencies					
Equity					
Member's equity	292,474	1,809,231	15,396	(1,746,220)	370,881
Accumulated deficit	(82,137)	100,746	(3,913)	(96,833)	(82,137)
Accumulated other comprehensive loss	—	—	(26,885)	—	(26,885)
Total equity	210,337	1,909,977	(15,402)	(1,843,053)	261,859
Total liabilities and equity	**$ 1,980,132**	**$ 2,427,362**	**$ 332,188**	**$ (2,453,208)**	**$ 2,286,474**

(Unaudited, in thousands, unless otherwise indicated)

	Three Months Ended March 31, 2015				
	MHGE Intermediate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	MHGE Intermediate (Consolidated)
Operating activities					
Cash provided by operating activities	$ 1,720	$ (86,108)	$ 9,589	$ (10,935)	$ (85,734)
Investing activities					
Investment in prepublication costs	—	(7,686)	(1,366)	—	(9,052)
Capital expenditures	—	(8,159)	(213)	—	(8,372)
Proceeds from dispositions	—	89	—	—	89
Cash used for investing activities	—	(15,756)	(1,579)	—	(17,335)
Financing activities					
Payment of term loan	(1,720)	—	—	—	(1,720)
Cash provided by (used for) financing activities	(1,720)	—	—	—	(1,720)
Effect of exchange rate changes on cash	—	—	(1,994)	—	(1,994)
Net change in cash and cash equivalents	—	(101,864)	6,016	(10,935)	(106,783)
Cash and cash equivalents at the beginning of the period	—	466,617	49,737	(284,256)	232,098
Cash and cash equivalents, ending balance	**$ —**	**$ 364,753**	**$ 55,753**	**$ (295,191)**	**$ 125,315**

	Three Months Ended March 31, 2014				
	MHGE Intermediate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	MHGE Intermediate (Consolidated)
Operating activities					
Cash provided by operating activities	$ 36,720	$ (54,894)	$ 33,791	$ (45,153)	$ (29,536)
Investing activities					
Investment in prepublication costs	—	(6,856)	(2,364)	—	(9,220)
Capital expenditures	—	236	(1,104)	—	(868)
Acquisitions and investments	—	—	(28,044)	—	(28,044)
Proceeds from dispositions	—	—	8,653	—	8,653
Cash used for investing activities	—	(6,620)	(22,859)	—	(29,479)
Financing activities					
Payment of term loan	(36,720)	—	—	—	(36,720)
Dividends paid to noncontrolling interests	—	—	(169)	—	(169)
Cash provided by (used for) financing activities	(36,720)	—	(169)	—	(36,889)
Effect of exchange rate changes on cash	—	—	(1,601)	—	(1,601)
Net change in cash and cash equivalents	—	(61,514)	9,162	(45,153)	(97,505)
Cash and cash equivalents at the beginning of the period	—	301,985	67,429	(116,024)	253,390
Cash and cash equivalents, ending balance	**$ —**	**$ 240,471**	**$ 76,591**	**$ (161,177)**	**$ 155,885**

15. Transactions with Sponsors

In connection with the Founding Transactions, MHGE Holdings, our wholly owned subsidiary, entered into a management fee agreement with Apollo Management VII, L. P. (the “Advisor”), an affiliate of our Sponsor pursuant to which the Advisor will provide management consulting services to Parent and its direct and indirect divisions and subsidiaries, including the Company and MHGE Holdings. In exchange for these services, the Advisor will receive an aggregate annual management fee of $3,500 and reimbursement of out-of-pocket expenses incurred in connection with the provision of such services. We recorded an expense of $875 for management fees for both the three months ended March 31, 2015 and March 31, 2014 , respectively. In connection with the Founding Transactions, Apollo Global Securities, LLC, an affiliate of our Sponsor (the “Affiliate”), entered into a transaction fee agreement with Parent relating to the provision of certain structuring, financial, investment banking and other similar advisory services in connection with the Founding Transactions and future transactions. We paid the Affiliate a one-time transaction fee of $25,000 in exchange for services rendered in connection with the structuring of the Founding Transactions, arranging financing and performing other services with the Founding Transactions. Also, subject to the terms and conditions of the agreement, an additional transaction fee equal to 1% of the aggregate enterprise value will be payable to Affiliate for investment banking, financing and other financial advisory services related to any merger, acquisition, disposition, financing or any similar transaction in the future.

16. Commitments and Contingencies

Legal Matters

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company’s financial condition.

17. Related Party Transactions

Other Transactions and Arrangements

On July 17, 2014 the Company’s parent company, MHGE Parent, LLC (“MHGE Parent” and, together with its subsidiaries, “McGraw-Hill Global Education”) and MHGE Parent Finance, Inc. (“MHGE Parent Finance” and, together with MHGE Parent, the “Issuers”), issued $400,000 aggregate principal amount of Senior PIK Toggle Notes due 2019 (the “Notes”) in a private placement. The notes were issued at a discount of 1% . The proceeds from this private offering were used to make a return of capital to the equity holders of MHGE Parent and pay certain related transaction costs and expenses.

The Notes bear interest at 8.5% for interest paid in cash and 9.25% for in-kind interest, “PIK”, by increasing the principal amount of the Notes by issuing new notes. Interest is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2015. The first semi-annual interest payment due must be paid in cash and was paid on February 2, 2015 in the amount of $18,322 . The determination as to whether interest is paid in cash or PIK is determined based on restrictions in the Company’s borrowing agreements for payments to the Company’s parent. Interest paid in cash will be funded by the Company via a distribution to MHGE Parent. PIK may be paid either 0% , 50% or 100% of the amount of interest due, dependent on the amount of any restriction. The Notes are junior to the debt of all of the Company's subsidiaries, are not guaranteed by any of the parent company’s subsidiaries and are a contractual obligation of MHGE Parent.

On April 1, 2015, additional aggregate principal amount of $100,000 was issued under the same indenture, and part of the same series, as the outstanding $400,000 of the Notes previously issued by the Issuers. The proceeds from this private offering were used to make a return of capital to the equity holders of MHGE Parent and pay certain related transaction costs and expenses.

Employee Loans

During the second quarter of 2013, the Company made unsecured loans to two employees in the amount of $175 for the employees to invest in the Company's parent common stock. Interest was payable at the federal short-term rate under the Internal Revenue Code, and the loans and accrued interest were repayable in cash in full from any after tax long-term incentive award payments but in no case later than February 15, 2015. There was no outstanding balance as of March 31, 2015 .

MHC Service Charges and Allocations & Transition Services

Effective January 1, 2013, in connection with the Transactions, MHGE Holdings, our wholly owned subsidiary, entered into transition services agreement with MHC, pursuant to which MHC provided MHGE Holdings and us with certain corporate services, including corporate accounting, treasury, global procurement and manufacturing, facilities, human resources and information technology during 2013. The transition services agreement with MHC ended during 2014. The expenses included in the consolidated financial statements were $1,170 for the three months ended March 31, 2014 .

Payment of Acquisition Costs on Behalf of Parent

At the closing of the Founding Transactions MHGE Holdings paid $28,672 for costs related to the Founding Acquisition on behalf of Parent.

Reseller Agreement with MHSE

As disclosed in Note 4, the ALEKS Corporation entered into a reseller agreement with MHSE, which is a separate wholly owned subsidiary of our Parent, granting MHSE exclusive rights to sell ALEKS products in the K-12 market. MHSE paid $25,500 to ALEKS Corporation for the exclusivity provision, which is being recognized over five years and renewable for no additional fee after five years , and paid a royalty advance of $12,500 . The royalty rate is 15% on net sales.

Quest Agreement

Leader's Quest Ltd ("Quest") is a UK-based non-profit enterprise at which Lindsay Levin is the founder and managing partner. Ms. Levin is the spouse of David Levin, who serves as our President and Chief Executive Officer. In 2014, the Company entered into an agreement with Quest pursuant to which Quest provided leadership workshops and other leadership training for twelve members of the Company's executive leadership team. The Company paid Quest total fees of $133 in connection with the Quest agreement. In 2015, the Company entered into an agreement which Quest will provide additional leadership workshops and other leadership training for additional members of the Company's leadership team. The Company will pay Quest total fees of $248 in connection with the agreement. As Quest is a non-profit enterprise, Ms. Levin does not stand to benefit financially from the transaction with the Company.

(Unaudited, in thousands, unless otherwise indicated)

18. Supplemental Parent Company Equity Information

Parent Company equity is summarized as follows:

	Total Parent Company Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2013	$ 199,778	$ 23,490	$ 223,268
Comprehensive loss, net of tax	(12,851)	(686)	(13,537)
Capital contribution	42,500	—	42,500
Georgia Holdings shares for acquisition earn out	8,500	—	8,500
Acquisition of non-controlling interest	(4,815)	(22,635)	(27,450)
Stock-based compensation	7,288	—	7,288
Dividend on restricted stock units	(1,189)	—	(1,189)
Non-cash capital contribution	22,648	—	22,648
Dividends paid to non-controlling interests	—	(169)	(169)
Balance at December 31, 2014	**$ 261,859**	**$ —**	**$ 261,859**
Comprehensive loss, net of tax	(59,325)	—	(59,325)
Stock-based compensation	2,464	—	2,464
Non-cash capital distribution	(17,867)	—	(17,867)
Dividend on restricted stock units	(412)	—	(412)
Balance at March 31, 2015	**$ 186,719**	**$ —**	**$ 186,719**

19. Subsequent Event

On May 4, 2015, the Company refinanced the term loan facility. The revised terms reduce the applicable LIBOR margin from 4.75% to 3.75% . The LIBOR floor remains at 1% . All other terms remain unchanged.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the interim unaudited consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and the related notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2014. In addition to historical information, this discussion contains forward-looking statements that are subject to risks and uncertainties including, but not limited to, those described in " *Risk Factors"* and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2014. Actual results may differ substantially from those contained in any forward-looking statements.

Overview

We are a learning science company and leading global provider of world-class educational materials and learning solutions that drive outcomes through adaptive technology targeted to the higher education (two- and four-year college and university) and professional markets. We believe that harnessing technology will enhance learning, both inside and outside of the classroom, and will deepen the connections between students and educators to empower greater success. Our understanding of learning is what enables us to build technology based resources that know how individuals learn and also adapt to their own needs and learning styles. We deliver what students and educators want: an experience that combines content and technology from multiple providers in a way that is seamless, elegant and tailored to personal needs. We believe we have industry-leading content curation capabilities, proven digital platforms, brand recognition and global scale to be well positioned in the ongoing industry transformation from print products to digital based learning solutions. We currently distribute our educational materials and learning solutions in nearly 60 languages globally.

Our Business

Our three businesses are:

- MHGE Higher Education: (63% of total revenue for the three months ended March 31, 2015) Provides post-secondary students and professors with high-quality adaptive digital learning solutions, eBooks, custom publishing solutions, and traditional printed textbook products.

- MHGE Professional: (13% of total revenue for the three months ended March 31, 2015) Provides instructional content and subscription-based information services for professionals and the education/test prep communities when, where and through whichever medium they prefer.

- MHGE International: (23% of total revenue for the three months ended March 31, 2015) Leverages our global scale, brand recognition and extensive product portfolio to serve educational and professional markets around the world.

The Founding Acquisition

On March 22, 2013, AcquisitionCo, a wholly-owned subsidiary of Georgia Holdings, Inc., acquired all of the outstanding equity interests of certain subsidiaries of MHC. The acquired subsidiaries included all of MHC’s educational materials and learning solutions business, which is comprised of two elements (i) the HPI business which includes post-secondary education and professional products both in the U.S. and internationally and (ii) SEG business, which includes school and assessment products targeting students in the pre-kindergarten through secondary school market.

AcquisitionCo was formed and is owned by investment funds affiliated with Apollo Global Management, LLC (“Apollo” or the “Sponsor”). The Company and its wholly owned subsidiary MHGE Holdings were created to facilitate the Founding Acquisition. The terms “we,” “our,” and “us” used herein refer to the Company. In connection with the Founding Acquisition, the Restructuring was completed, the result of which was that the HPI business and the SEG business were separated under two legal entities. The HPI business is now owned by MHGE

Holdings, and the SEG business is owned by MHSE Holdings, a separate wholly owned subsidiary of the Parent. MHSE Holdings is financed through a separate debt structure. Neither MHGE Holdings nor its parent companies guarantee or provide any collateral to the financing for MHSE Holdings, and MHSE Holdings does not guarantee or provide collateral to the financing for MHGE Holdings or its parent companies.

Overall Operating Results

The following table sets forth certain historical consolidated financial information for the three months ended March 31, 2015 and March 31, 2014 . The following table and discussion should be read in conjunction with the information contained in our historical consolidated financial statements and the notes thereto included elsewhere in this document. However, our historical results of operations set forth below and elsewhere in this document may not necessarily reflect what would have occurred if we had been a separate, stand-alone entity during the periods presented or what will occur in the future.

	Three Months Ended March 31,	
	2015	**2014**
Revenue	$ 199,814	$ 204,571
Cost of goods sold	55,459	53,820
Gross profit	144,355	150,751
Operating expenses		
Operating & administration expenses	147,031	168,201
Depreciation	6,884	5,000
Amortization of intangibles	23,395	25,649
Transaction related expenses	—	2,565
Total operating expenses	177,310	201,415
Operating (loss) income	(32,955)	(50,664)
Interest expense (income), net	34,481	44,319
Other (income) expense	(1,275)	(8,604)
(Loss) income from operations before taxes on income	(66,161)	(86,379)
Income tax (benefit) provision	(21,873)	(29,092)
Net (loss) income	(44,288)	(57,287)
Less: net (income) loss attributable to noncontrolling interests	—	118
Net (loss) income attributable to McGraw-Hill Global Education Intermediate Holdings, LLC	**$ (44,288)**	**$ (57,169)**

Revenue

Revenue for the three months ended March 31, 2015 and March 31, 2014 was $199,814 and $204,571 , respectively, a decrease of $4,757 or 2% . The decrease from 2014 to 2015 was primarily due to a decrease in MHGE International revenue and Higher Education revenue, partially offset by purchase accounting adjustments to decrease reported revenue balances of $683 for the three months ended March 31, 2015 compared to the same adjustment of $1,336 made for the three months ended March 2014. Growth in digital sales of $13,351 and custom print sales of $2,782 was offset by decrease in traditional print sales of $21,567.

MHGE *Higher Education*

MHGE Higher Education revenue for the three months ended March 31, 2015 and March 31, 2014 was $126,228 and $128,101 , respectively, a decrease of $1,873 or 1% . Decreases in MHGE Higher Education revenue were primarily due to decrease in traditional print sales of $15,850, partially offset by growth in both digital sales of $11,286 and custom print sales of $2,782. In addition, within our digital adaptive learning products, unique users for

McGraw-Hill Connect and unique users of *LearnSmart* increased 13% and 29%, respectively, for the three months ended March 31, 2015 reflecting increased demand for both product lines.

MHGE *Professional*

MHGE Professional revenue for the three months ended March 31, 2015 and March 31, 2014 was $26,092 and $25,784 , respectively, an increase of $308 or 1% . Growth in digital sales of $1,372 was partially offset by lower traditional print sales of $1,129.

MHGE *International*

MHGE International revenue for the three months ended March 31, 2015 and March 31, 2014 was $44,692 and $49,057 , respectively, a decrease of $4,365 or 9% . The decrease was primarily driven by unfavorable foreign exchange rates on revenue of $3,176 and $1,898 for the three months ended March 31, 2015 and March 31, 2014 , respectively. This impact refers to constant currency comparisons estimated by re-calculating current year results of foreign operations using the average exchange rate from the prior year. In addition, MHGE International has experienced continued market challenges in Latin America partially offset by stronger sales in Australia and traditional print sales decreased $5,741 partially offset by growth in digital sales of $693.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2015 and March 31, 2014 was $55,459 , and $53,820 , respectively. This increase of $1,639 in 2015 was primarily driven by higher royalties and higher direct charges due to platform spending partially offset by lower manufacturing cost due to lower print sales. As a percentage of revenue, cost of goods sold for the three months ended March 31, 2015 and March 31, 2014 were 28% and 26% , respectively. Manufacturing costs as a percentage of revenue for the three months ended March 31, 2015 and March 31, 2014 were 11% for both periods, while royalty expenses as a percentage of revenue for the three months ended March 31, 2015 and March 31, 2014 were 14% and 13%, respectively. The variance in the percentage for royalty expense is impacted by higher digital custom sales which carries a higher royalty rate.

Operating & Administration Expenses

Operating & administration expenses for the three months ended March 31, 2015 and March 31, 2014 were $147,031 and $168,201 , respectively. The decrease of $21,170 in 2015 was primarily as a result of cost savings initiatives taken in 2014. As a percentage of revenue, operating & administration expenses for the three months ended March 31, 2015 and March 31, 2014 were 74% and 82% , respectively.

Depreciation & Amortization of Intangibles

Total depreciation and amortization expenses for the three months ended March 31, 2015 and March 31, 2014 were $30,279 and $30,649 , respectively.

Transaction related expenses

Transaction related expenses for the three months ended March 31, 2014 were $2,565 . There were no transaction related expenses in the three months ended March 31, 2015 . These amounts represent the transaction costs associated with the Founding Acquisition which include external legal and consulting expenses.

Interest expense, net

Interest expenses, net, for the three months ended March 31, 2015 and March 31, 2014 were $34,481 and $44,319 , respectively. Interest expense is primarily a result of the debt incurred to finance the Founding Acquisition. Interest expenses were favorably impacted by the voluntary principal payment of the term loan facility of $35,000 on March 24, 2014, and the refinancing of the term loan facility to the aggregate principal amount of $687,925 on March 24, 2014. In addition, the revised terms reduced the LIBOR floor from 1.25% to 1.0% and the applicable LIBOR margin from 7.75% to 4.75%. As discussed in Note 2 - The Founding Transactions to the combined consolidated financial statements, our Founding Acquisition was financed by borrowings consisting of an initial $810,000 6-year senior secured term loan credit facility, all of which was drawn at closing, $240,000 5-year senior secured revolving credit facility, of which $35,000 was drawn at closing, and an issuance of $800,000, 9.75% first-priority senior secured notes.

Provision for Taxes on Income

Taxes on income for the three ended March 31, 2015 and March 31, 2014 were benefits of $21,873 and $29,092 , respectively. For the three months ended March 31, 2015 and March 31, 2014 , the effective tax rate was 33.1% and 33.7% , respectively.

Non-GAAP Financial Measures

Net Income Reconciliation to EBITDA, Adjusted EBITDA and Post-Plate Adjusted Cash EBITDA

EBITDA, a measure used by management to assess operating performance, is defined as income from continuing operations plus interest, income taxes, depreciation and amortization, including amortization of prepublication costs (“plate investment”). Adjusted EBITDA is defined as EBITDA adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under the indenture governing our senior secured notes and/or our senior secured credit facilities. Post-Plate Adjusted Cash EBITDA reflects the impact of cash spent for plate investment. Plate investment costs, reflecting the cost of developing education content, are capitalized and amortized. These 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 useful life of up to six years. Post-Plate Adjusted Cash EBITDA reflects EBITDA as defined in the First Lien Credit Agreement and the Bond Indenture.

Each of the above described EBITDA-based measures is not a recognized term under U.S. GAAP and does not purport to be an alternative to income from continuing operations as a measure of operating performance or to cash flows from operations as a measure of liquidity. Additionally, each such measure is not intended to be a measure of free cash flows available for management’s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, these EBITDA-based measures may not be comparable to other similarly titled measures of other companies.

Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax rules in the jurisdictions in which companies operate, and capital investments. In addition, EBITDA provides more comparability between the historical operating results and operating results that reflect purchase accounting and the new capital structure.

Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA and Post-Plate Adjusted Cash EBITDA are appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future.

(Unaudited, in thousands, unless otherwise indicated)

EBITDA, Adjusted EBITDA and Post-Plate Adjusted Cash EBITDA are calculated as follows:

	Three Months Ended March 31,		Year Ended December 31,	LTM March 31,
	2014	**2015**	**2014**	**2015**
Net income (loss)	$ (57,287)	$ (44,288)	$ 3,526	$ 16,525
Interest (income) expense, net	44,319	34,481	146,124	136,286
Provision for (benefit from) taxes on income	(29,092)	(21,873)	(11,447)	(4,228)
Depreciation, amortization and plate investment amortization	40,959	40,382	183,034	182,457
EBITDA	**(1,101)**	**8,702**	**321,237**	**331,040**
Deferred revenue (a)	(17,809)	(15,785)	10,875	12,899
Restructuring and cost savings implementation charges (b)	9,200	4,150	30,600	25,550
Sponsor fees (c)	875	875	3,500	3,500
Purchase accounting (d)	—	—	(2,600)	(2,600)
Transaction costs (e)	2,565	—	3,931	1,366
Acquisition costs (f)	2,410	—	2,833	423
Physical separation costs (g)	5,108	—	24,202	19,094
Other (h)	(3,743)	3,390	14,976	22,109
Adjusted EBITDA	**(2,495)**	**1,332**	**409,554**	**413,381**
Plate investment cash costs (i)	(9,220)	(9,052)	(50,263)	(50,095)
Post-Plate Adjusted Cash EBITDA	**$ (11,715)**	**$ (7,720)**	**$ 359,291**	**$ 363,286**

Notes:

(a) We receive cash for certain digital products up front but recognize revenue over time. We record a liability for deferred revenue when we receive the cash. This adjustment represents the net effect of converting deferred revenues (inclusive of deferred royalties) on digital sales to a cash basis assuming the collection of all receivable balances. For the three months ended March 31, 2015 , this adjustment was $16,468 , and there was also purchase accounting adjustments that decreased reported revenues by $683 .

(b) Represents run-rate cost savings, non-recurring severance and other expenses associated with headcount reductions and other cost savings initiated in 2014 as part of our formal restructuring initiatives to create a flatter and more agile organization.

(c) Beginning in 2014, $3,500 of annual management fees was recorded and payable to the Sponsor.

(d) Represents the effects of the application of purchase accounting associated with the acquisition of MHC's educational materials and learning solutions business on March 22, 2013, driven by the step-up of acquired inventory. The deferred revenue adjustment recorded as a result of purchase accounting has been considered in the deferred revenue adjustment.

(e) The amount represents the transaction costs associated with the acquisition of MHC's educational materials and learning solutions business on March 22, 2013.

(f) The amount represents costs incurred for acquisitions subsequent to the Founding Acquisition for ALEKS and Area 9.

(g) The amount represents costs incurred to physically separate our operations from MHC. These physical separation costs were incurred subsequent to the Founding Acquisition.

(h) For the three months ended March 31, 2015 , the amount represents (i) non-cash incentive compensation expense; and (ii) other adjustments permitted and/or required under the indentures governing MHGE's notes and the credit agreement governing MHGE's senior credit facilities. For the three months ended March 31, 2014, the amount represents (i) cash distributions to noncontrolling interest holders of $169 ; (ii) non-cash incentive compensation expense; (iii) elimination of non-cash gain of $7,329 in Area 9; and (iv) other adjustments permitted and/or required under the indentures governing MHGE's notes and the credit agreement governing MHGE's senior credit facilities.

(i) Represents cash spent for plate investment during the period.

Debt and Liquidity

Historically, we have generated operating cash flows sufficient to fund our seasonal working capital, capital requirements, expenditure and financing requirements. We use our cash generated from operating activities for a variety of needs, including among others: working capital requirements, investments in plate investment, capital expenditures and strategic acquisitions.

Our operating cash flows are affected by the inherent seasonality of the academic calendar. This seasonality also impacts cash flow patterns as investments are typically made in the first half of the year to support the strong selling period that occurs in the second half of the year. As a result, our cash flow is typically lower in the first half of the year and higher in the second half.

Going forward, we may need cash to fund operating activities, working capital, capital expenditures and strategic investments. Our ability to fund our capital needs will depend on our ongoing ability to generate cash from operations and our access to the bank and capital markets. We believe that our future cash flow from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund our operating and financing needs for at least the next twelve months. We also expect our working capital requirements to decrease as a result of our migration from print products to digital products.

If our cash flows from operations are less than we require, we may need to incur debt or issue equity. From time to time we may need to access to the long-term and short-term capital markets to obtain financing. Although we believe we can currently finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including: (i) our credit ratings, (ii) the liquidity of the overall capital markets and (iii) the current state of the economy. There can be no assurance that we will continue to have access to the capital markets on terms acceptable to us.

The Acquisition was financed by:

- Borrowings under MHGE Holdings senior secured credit facilities (the “Senior Facilities”), consisting of a $810,000 , 6-year senior secured term loan credit facility (the “term loan facility”), all of which was drawn at closing and a $240,000 , 5-year senior secured revolving credit facility (“revolving credit facility”), $35,000 of which was drawn at closing;

- Issuance by MHGE Holdings and McGraw-Hill Global Education Finance, Inc., a wholly owned subsidiary of MHGE Holdings (together with MHGE Holdings, the “Issuers”), of $800,000 , 9.75% first-priority senior secured notes due 2021 (the “Notes”); and

- Equity contribution of $950,000 from Parent funded by the Sponsor, co-investors and management.

Senior Facilities

In connection with the Founding Transactions, on March 22, 2013 , MHGE Holdings, our wholly owned subsidiary, together with the Company, entered into the Senior Facilities, which is governed by a first lien credit agreement as amended and restated, with Credit Suisse AG, as administrative agent and the other agents and lenders, as parties thereto, that provided senior secured financing of up to $1,050,000 , consisting of:

- term loan facility in an aggregate principal amount of $810,000 with a maturity of six years; and

- revolving credit facility in an aggregate principal amount of up to $240,000 with a maturity of five years, including both a letter of credit sub-facility and a swingline loan sub-facility.

On March 24, 2014, the Company made a voluntary principal payment of $35,000 and refinanced the term loan facility in the aggregate principal of $687,925. The revised terms reduce the LIBOR floor from 1.25% to 1.0% and the applicable LIBOR margin from 7.75% to 4.75%. The maturity date did not change but quarterly principal payments were reduced from $2,025 to $1,720, maintaining the amortization rate at ¼ of 1% of the refinanced princial amount.

The interest rate on the borrowings under the Senior Facilities is based on LIBOR or Prime, plus an applicable margin. The interest rate at March 31, 2015 was 5.75% for the term loan facility and there were no borrowings outstanding under the revolving credit facility. The term loan facility and the revolving credit facility were issued at a discount of 3% and 2% , respectively. Debt issuance costs and the discount are amortized over the term of the respective facility using the effective interest method and are included in interest expense, net within the consolidated statements of operations. The amount of amortization included in interest expense, net was $3,137 and $2,497 for the three months ended March 31, 2015 and March 31, 2014 , respectively.

The term loan facility requires quarterly amortization payments totaling 1% per annum of the original principal amount of the facility, with the balance payable on the final maturity date. The term loan facility also includes customary mandatory prepayments requirements based on certain events such as asset sales, debt issuances and defined levels of free cash flows.

All obligations under the Senior Facilities are guaranteed by the Parent, the Company, and each of MHGE Holdings existing and future direct and indirect material, wholly owned domestic subsidiaries and are secured by first priority lien on substantially all tangible and intangible assets of MHGE Holdings and each subsidiary guarantor, all of MHGE Holdings capital stock and the capital stock of each subsidiary guarantor and 65% of the capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions.

The revolving credit facility includes a springing financial maintenance covenant that requires MHGE Holdings net first lien leverage ratio not to exceed 7.00 to 1.00 (the ratio of consolidated net debt secured by first-priority liens on the collateral to EBITDA, as defined in the First Lien Credit Agreement). The covenant will be tested quarterly when the revolving credit facility is more than 20% drawn (including outstanding letters of credit), beginning with the fiscal quarter ended June 30, 2013, and will be a condition to drawings under the revolving credit facility (including for new letters of credit) that would result in more than 20% drawn thereunder. As of March 31, 2015 the borrowings under the revolving credit facility were less than 20%, and so the covenant was not in effect.

Post-Plate Adjusted Cash EBITDA as presented earlier reflects EBITDA as defined in the First Lien Credit Agreement. Solely for the purpose of calculating the springing financial covenant, plate investments should be excluded from the calculation of EBITDA.

9.75% First-Priority Senior Secured Notes due 2021

In connection with the Founding Acquisition, on March 22, 2013 , the Issuers issued $800,000 in principal amount of the Notes in a private placement. The Notes bear interest at a rate of 9.75% per annum, payable semi−annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. The Notes were issued at a discount of 1.36% . Debt issuance costs and the discount are amortized to interest expense over the term of the Notes using the effective interest method and are included in interest expense, net within the consolidated statements of operations. The amount of amortization included in interest expense, net was $1,145 and $1,498 for the three months ended March 31, 2015 and March 31, 2014 , respectively.

The Issuers may redeem the Notes at its option, in whole or in part, at any time on or after April 1, 2016, at certain redemption prices.

On March 24, 2014, the Company began paying an incremental 0.25% interest rate on the 9.75% First-Priority Senior Secured Notes because a registration statement for an exchange offer to exchange the initial Notes for registered Notes had not been declared effective prior to that date. The incremental interest continued to accrue until the exchange offer had been consummated. The Company’s registration statement for the exchange offer was declared effective on May 14, 2014, and the exchange offer was completed on June 19, 2014 ending the incremental 0.25% accrual on that date.

(Unaudited, in thousands, unless otherwise indicated)

The Notes are fully and unconditionally guaranteed by the Parent, the Company and each of MHGE Holdings domestic restricted subsidiaries that guarantee the Senior Facilities. In addition, the Notes and the related guarantees are secured by first priority lien on the same collateral that secure the Senior Facilities, subject to certain exclusions.

The Senior Facilities and the Notes contain certain customary affirmative covenants and events of default. In addition, the negative covenants in the Senior Facilities and the Notes limit MHGE Holdings and its restricted subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loan, acquisitions or investments, materially change its business, engage into transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries or restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Holdings assets.

The Parent and the Company are not bound by any financial or negative covenants in the Senior Facilities and the Notes, other than, in the case of the Company prior to an IPO, with respect to incurrence of liens on and the pledge of MHGE Holdings capital stock and with respect to the maintenance of its existence.

Scheduled Principal Payments

The scheduled principal payments required under the terms of the Senior Facilities and the Notes as of March 31, 2015 were as follows:

	March 31, 2015
2015 Q2 to Q4	5,160
2016	6,880
2017	6,880
2018	6,880
2019	653,525
2020 and beyond	800,000
	1,479,325
Less: Current portion	6,880
	$ 1,472,445

Other Transactions and Arrangements

On July 17, 2014 the Company's parent company, MHGE Parent, LLC ("MHGE Parent" and, together with its subsidiaries, "McGraw-Hill Global Education") and MHGE Parent Finance, Inc. ("MHGE Parent Finance" and, together with MHGE Parent, the "Issuers"), issued $400,000 aggregate principal amount of Senior PIK Toggle Notes due 2019 (the "Notes") in a private placement. The notes were issued at a discount of 1%. The proceeds from this private offering were used to make a return of capital to the equity holders of MHGE Parent and pay certain related transaction costs and expenses.

The Notes bear interest at 8.5% for interest paid in cash and 9.25% for in-kind interest, "PIK", by increasing the principal amount of the Notes by issuing new notes. Interest is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2015. The first semi-annual interest payment due must be paid in cash and was paid on February 2, 2015 in the amount of $18,322. The determination as to whether interest is paid in cash or PIK is determined based on restrictions in the Company's borrowing agreements for payments to the Company's parent. Interest paid in cash will be funded by the Company via a distribution to MHGE Parent. PIK may be paid either 0%, 50% or 100% of the amount of interest due, dependent on the amount of any restriction. The Notes are junior to the debt of all of the Company's subsidiaries, are not guaranteed by any of the parent company's subsidiaries and are a contractual obligation of MHGE Parent.

(Unaudited, in thousands, unless otherwise indicated)

On April 1, 2015, additional aggregate principal amount of $100,000 was issued under the same indenture, and part of the same series, as the outstanding $400,000 of the Notes previously issued by the Issuers. The proceeds from this private offering were used to make a return of capital to the equity holders of MHGE Parent and pay certain related transaction costs and expenses.

Cash Flows

Cash and cash equivalents were $125,315 and $232,098 as of March 31, 2015 and December 31, 2014 , respectively.

Cash flows from operating, investing and financing activities are presented in the following table:

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities	$ (85,734)	$ (29,536)
Cash flows from investing activities	(17,335)	(29,479)
Cash flows from financing activities	(1,720)	(36,889)

Net cash flows from operating activities consist of profit after tax, adjusted for changes in net working capital and non-cash items such as depreciation, amortization and write-offs, and movements in provisions and pensions. For the three months ended March 31, 2015 and March 31, 2014 , respectively:

- Cash flows used for operating activities in the three months ended March 31, 2015 and March 31, 2014 was $85,734 and $29,536 , respectively. The cash provided by operating activities decreased as a result of lower contributions from working capital due to the timing of vendor payments.

- Cash flows used for investing activities in the three months ended March 31, 2015 , was $17,335 , primarily reflected capital expenditure of $8,372 mainly on technology projects as well as prepublication investment of $9,052 . Cash flows used in investing activities three months ended March 31, 2014 was $29,479 , primarily reflected payments of $28,044 for Area 9 acquisition.

- Cash flows used for financing activities in the three months ended March 31, 2015 , were $1,720 reflected payment of term loan. Cash flows used in financing activities for the three months ended March 31, 2014 was $36,889 , primarily as a result of payment of term loan of $36,720.

Capital Expenditure and Plate Investment

Part of our plan for growth and stability includes disciplined capital expenditures and plate investment.

An important component of our cash flow generation is our prepublication efficiency. We have been focused on optimizing our plate investment to generate content that can be leveraged across our full range of products, maximizing long-term return on investment. Plate investments, principally external preparation costs, are amortized from the year of publication over their estimated useful lives, one to six years, using either an accelerated or straight-line method. The majority of the programs are amortized using an accelerated methodology. We periodically evaluate the amortization methods, rates, remaining lives and recoverability of such costs. In evaluating recoverability, we consider our current assessment of the market place, industry trends, and the projected success of programs. Our plate investments were $9,052 and $9,220 for the three months ended March 31, 2015 and March 31, 2014, respectively.

Capital expenditures include purchases of property, plant and equipment and additions to technology projects. Capital expenditures were $8,372 and $868 for the three months ended March 31, 2015 and March 31, 2014 , respectively.

Our planned capital expenditures and plate investments will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. Cash needed to finance investments and projects currently in progress, as well as additional investments being pursued, is expected to be made available from operating cash flows and our credit facilities. See Debt and Liquidity for further information.

(Unaudited, in thousands, unless otherwise indicated)

Off-Balance Sheet Arrangements

As March 31, 2015 , we did not have any relationships with uncombined entities, such as entities often referred to as specific purpose or variable interest entities where we are the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such we are not exposed to any financial liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of March 31, 2015 , over the next several years that relate to our continuing operations:

	Payments due by Period				
	Total	**2015 Q2 - Q4**	**2016-2017**	**2018-2019**	**2020 and beyond**
Long-term debt, including current portion (1)	$ 1,479,325	$ 5,160	$ 13,760	$ 660,405	$ 800,000
Interest on long-term debt (2)	666,602	108,679	235,270	205,653	117,000

(1) Amounts shown include principal on Senior Facilities and the Note.
(2) Amounts shown include interest on Senior Facilities and the Note.

Item 3. Quantitative And Qualitative Disclosure About Market Risk

Foreign Exchange Risk

Our exposure to market risk includes changes in foreign exchange rates. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the United States dollar is the functional currency. Our principle currency exposures relate to the Australian Dollar, British Pound, Canadian Dollar, Euro, Mexican Peso and Singapore Dollar. From time to time, we may enter into hedging arrangements with respect to foreign currency exposures.

Interest Rate Risk

We have issued fixed and floating-rate debt and will be subject to variations in interest rates in respect of our floating-rate debt. Borrowings under our Senior Facilities will accrue interest at variable rates, and a 100 basis point increase in the LIBOR on our debt balances outstanding as of March 31, 2015 would increase our annual interest expense by $1,863. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

In the future we may use interest rate hedges to manage the mix of our debt between fixed and variable rate instruments. We do not purchase or hold any derivative financial instruments for trading purposes.

From time to time we may enter into hedging arrangements with respect to LIBOR borrowings under our Senior Facilities.

Item 4. Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act, and has made organizational arrangements to ensure that all information required to be disclosed is recorded, processed, summarized and reported within the time periods specified, and that information required to be filed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

This report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company's financial condition.

Item 1A. Risk Factors

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. For more information regarding the risks regarding our business and industry, please see our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

McGraw-Hill Global Education Intermediate Holdings, LLC
(Registrant)

/s/ PATRICK MILANO

Patrick Milano

Executive Vice President, Chief Financial Officer, Chief Administration Officer and Assistant Secretary

Date: May 13, 2015

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(d) of the Securities Exchange Act, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(d) of the Securities Exchange Act, as amended
32.1	Certification of Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(D)
OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, David Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGraw-Hill Global Education Intermediate Holdings, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2015

By: /s/ David Levin
David Levin
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(D)
OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, Patrick Milano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGraw-Hill Global Education Intermediate Holdings, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2015

By: /s/ Patrick Milano
Patrick Milano
Executive Vice President, Chief Financial Officer, Chief Administration Officer and Assistant Secretary

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of McGraw-Hill Global Education Intermediate Holdings, LLC (the “Company”) on Form 10-Q for the period ending March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Levin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Levin
David Levin
Chief Executive Officer and President

Date: May 13, 2015

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to McGraw-Hill Global Education Intermediate Holdings, LLC and will be retained by McGraw-Hill Global Education Intermediate Holdings, LLC and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of McGraw-Hill Global Education Intermediate Holdings, LLC (the “Company”) on Form 10-Q for the period ending March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrick Milano, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in my capacity as an officer of the Company that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick Milano

Patrick Milano

Executive Vice President, Chief Financial Officer, Chief Administration Officer and Assistant Secretary

Date: May 13, 2015

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to McGraw-Hill Global Education Intermediate Holdings, LLC and will be retained by McGraw-Hill Global Education Intermediate Holdings, LLC and furnished to the Securities and Exchange Commission or its staff upon request.