



CENGAGE LEARNING HOLDINGS II L.P.

**First Quarter Report
Three Months Ended September 30, 2009**

As of the end of the period covered by this report, Cengage Learning Holdings II L.P. and its consolidated subsidiaries (the "Company") was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Consequently, this report has not and will not be filed with the Securities and Exchange Commission ("SEC"). However, Cengage Learning Holdings II L.P. is obligated pursuant to the indenture, dated as of October 31, 2008, among Cengage Learning Holdco, Inc. (a direct 100% wholly owned subsidiary of the Company), the Company, as guarantor, and Wells Fargo Bank, National Association, as trustee, governing the 13.75% Senior PIK Notes due 2015, and the indentures, dated as of July 5, 2007, among Cengage Learning Acquisitions, Inc. (formerly TL Acquisitions, Inc. and a 100% wholly owned subsidiary of Cengage Learning Holdings II L.P.), the guarantors named therein and The Bank of New York as trustee, governing the 13.25% Senior Subordinated Discount Notes due 2015 and the 10.50% Senior Notes due 2015, and other agreements relating to the Company's debt and securities, to post, on a publicly accessible page on the Company's website and otherwise make available, financial and other information that Cengage Learning Holdings II L.P. would be required to file with the SEC were it subject to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, subject to exceptions consistent with the terms of the indenture governing the 13.75% Senior PIK Notes and the presentation of financial information in the Cengage Learning Acquisitions, Inc. Offering Memorandum, dated June 22, 2007, relating to the 10.50% Senior Notes due 2015 and the 13.25% Senior Subordinated Discount Notes due 2015 and as otherwise provided in the Company's agreements relating to its debt and securities. This report is made available pursuant to such obligations and should be read in conjunction with the Company's Annual Report for the fiscal year ended June 30, 2009.

**“Safe Harbor” Statement Under the
Private Securities Litigation Reform Act of 1995**

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan”, “project”, “foresee”, “likely”, “will” or other words or phrases with similar meanings. Similarly, statements that describe our objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be different from any future results, performance and anticipated achievements expressed or implied by these statements. Except as required by law, we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company’s historical experience and present expectations or projections. These risks and uncertainties include, but are not limited to, those described in the section entitled “Risk Factors” in the Company’s Annual Report for the fiscal year ended June 30, 2009.

CENGAGE LEARNING HOLDINGS II L.P.
FIRST QUARTER REPORT
THREE MONTHS ENDED SEPTEMBER 30, 2009

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CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Balance Sheets
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	<u>September 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Assets			
Cash and cash equivalents	\$ 41.4	\$ 33.4	\$ 83.0
Accounts receivable, net	419.5	330.4	457.5
Inventories	179.9	194.2	191.2
Current deferred tax assets	88.2	88.2	62.3
Prepaid expenses and other current assets	52.0	48.0	32.0
Current assets of discontinued operations	-	-	27.7
Total current assets	<u>781.0</u>	<u>694.2</u>	<u>853.7</u>
Property, equipment and capitalized software for internal use, net	127.7	132.6	148.3
Pre-publication costs, net	212.2	234.8	216.5
Author advances	33.3	25.3	36.1
Identifiable intangible assets, net	2,955.2	2,993.8	3,468.5
Goodwill	3,535.9	3,538.1	4,389.4
Non-current deferred tax assets	21.0	21.0	0.6
Deferred financing costs	60.4	63.4	91.3
Other non-current assets	7.5	9.7	19.6
Non-current assets of discontinued operations	-	-	24.5
Total assets	<u><u>\$ 7,734.2</u></u>	<u><u>\$ 7,712.9</u></u>	<u><u>\$ 9,248.5</u></u>
Liabilities and Partners' Equity			
Accounts payable and accrued expenses	\$ 357.6	\$ 379.4	\$ 341.7
Deferred revenue	139.9	111.6	127.5
Current portion of long-term debt	40.7	40.7	40.7
Revolving credit facility	70.0	184.0	-
Current taxes payable	7.3	8.1	8.9
Current fair value of derivative instruments	83.7	86.6	46.7
Other current liabilities	2.8	4.7	6.7
Current liabilities of discontinued operations	-	-	47.5
Total current liabilities	<u>702.0</u>	<u>815.1</u>	<u>619.7</u>
Long-term debt	5,708.2	5,709.8	6,237.9
Non-current deferred tax liabilities	919.4	924.3	931.8
Non-current fair value of derivative instruments	36.7	43.8	40.5
Other non-current liabilities	27.4	26.7	21.3
Non-current liabilities of discontinued operations	-	-	1.9
Total liabilities	<u>7,393.7</u>	<u>7,519.7</u>	<u>7,853.1</u>
Commitments, contingencies and guarantees (Note 11)			
Partners' equity	472.9	340.9	1,450.6
Accumulated other comprehensive loss	(132.4)	(147.7)	(55.2)
Total partners' equity	<u>340.5</u>	<u>193.2</u>	<u>1,395.4</u>
Total liabilities and partners' equity	<u><u>\$ 7,734.2</u></u>	<u><u>\$ 7,712.9</u></u>	<u><u>\$ 9,248.5</u></u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Statements of Operations
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	Three Months	
	Ended September 30,	
	2009	2008
Revenues	\$ 698.5	\$ 761.3
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	244.1	256.1
Amortization of pre-publication costs	49.4	53.3
Total cost of revenues, excluding depreciation stated below	293.5	309.4
Selling, general & administrative, excluding depreciation stated below	97.9	109.6
Depreciation	11.7	14.8
Amortization of identifiable intangible assets	41.1	45.8
Total costs and expenses	444.2	479.6
Operating income from continuing operations	254.3	281.7
Gain on early extinguishment of debt	-	10.6
Mark-to-market of derivative instruments	10.0	-
Other income, net	0.1	0.2
Interest expense	(132.9)	(154.6)
Income before taxes from continuing operations	131.5	137.9
Provision for income taxes	-	(6.9)
Equity losses of affiliates, net of taxes	(0.7)	(0.4)
Income from continuing operations	130.8	130.6
Loss from discontinued operations, net of tax	-	(1.8)
Net income	\$ 130.8	\$ 128.8

The accompanying notes are an integral part of these condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	Three Months Ended September 30,	
	2009	2008
Cash Flows from Operating Activities		
Net income	\$ 130.8	\$ 128.8
Loss from discontinued operations, net of tax	-	1.8
Income from continuing operations	130.8	130.6
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Amortization of pre-publication costs	49.4	53.3
Depreciation	11.7	14.8
Amortization of identifiable intangible assets	41.1	45.8
Amortization of debt discounts and deferred financing costs	6.3	21.7
Interest capitalized on long-term debt	5.3	21.1
Non-cash interest on interest rate swaps	14.3	5.9
Non-cash equity-based compensation expense	1.2	1.6
Mark-to-market of derivative instruments	(10.0)	-
Gain on early extinguishment of debt	-	(10.6)
(Benefit from) provision for deferred taxes	(3.2)	2.8
Equity losses of affiliates, net of taxes	0.7	0.4
Repayments of long-term debt, in lieu of interest	-	(4.7)
Changes in operating assets and liabilities	(77.9)	(169.6)
Other, net	0.2	(0.6)
Net cash provided by operating activities of continuing operations	169.9	112.5
Net cash used in operating activities of discontinued operations	-	(0.5)
Net cash provided by operating activities	169.9	112.0
Cash Flows from Investing Activities		
Acquisitions of businesses, less cash therein	(3.1)	(38.9)
Proceeds from the sale of businesses, equity affiliate and other divestitures	-	32.0
Proceeds from settlement of derivative instruments	1.0	23.3
Payments on settlement of derivative instruments	(1.3)	-
Additions to pre-publication costs	(25.4)	(27.3)
Additions to property, equipment and capitalized software for internal use	(6.8)	(4.2)
Other, net	(2.7)	(1.4)
Net cash used in investing activities of continuing operations	(38.3)	(16.5)
Net cash used in investing activities of discontinued operations	-	(0.4)
Net cash used in investing activities	(38.3)	(16.9)
Cash Flows from Financing Activities		
Debt issuance costs and other financing fees	-	(16.2)
Repayments of long-term debt	(10.2)	(39.1)
Borrowings under the revolving credit facility	63.0	117.0
Repayments under the revolving credit facility	(177.0)	(117.0)
Net cash used in financing activities of continuing operations	(124.2)	(55.3)
Impact on Cash and Cash Equivalents from Change in Foreign Currency	0.6	(1.1)
Net Increase in Cash and Cash Equivalents	8.0	38.7
Cash and Cash Equivalents		
Beginning of period	33.4	44.3
End of period	\$ 41.4	\$ 83.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

1. BASIS OF PRESENTATION AND OTHER

Basis of Presentation

Cengage Learning Holdings II L.P., together with its consolidated subsidiaries is hereinafter collectively referred to as “Cengage Learning”, “we”, “us”, “our”, or the “Company”.

We have prepared the accompanying unaudited condensed consolidated interim financial statements in accordance with the accounting policies described in our Annual Report for the Fiscal Year Ended June 30, 2009 (the “2009 Annual Report”). Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. You should read these financial statements in conjunction with the consolidated and combined financial statements included in the 2009 Annual Report. Certain historical amounts have been reclassified to conform with the current period’s presentation.

In the opinion of management, the financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary by management to fairly state the results of operations, financial position and cash flows for the interim period presented. Interim results of operations are not necessarily indicative of the results of the full year.

There were no subsequent events identified as of November 11, 2009, which is the date these financial statements were issued.

New Accounting Standards

In September 2009, the Financial Accounting Standards Board released new accounting guidance which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. This guidance is effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements. We are currently evaluating the potential impact of this guidance, however, we do not expect it to have a material impact on our financial statements.

Seasonality and Comparability

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the first half of the fiscal year because customer buying patterns are concentrated during this period while costs are incurred more evenly throughout the year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year. Consequently, the September 30, 2008 condensed consolidated balance sheet is presented for comparative purposes.

Other

The aggregate allowance for doubtful accounts and reserve for sales returns as of September 30, 2009, June 30, 2009, and September 30, 2008 was \$198.5, \$118.3, and \$208.7, respectively.

2. DISCONTINUED OPERATIONS

During the fiscal year ended June 30, 2009, we completed the sale of our distance learning businesses in the United Kingdom and the Netherlands as well as our local language academic business located in Spain. These businesses had been classified as assets held for sale and reported as discontinued operations.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

Included in the loss from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations are the following:

	Three Months Ended September 30, 2008	
Revenues	\$	16.0
Loss from discontinued operations, before tax		(1.8)

3. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	Three Months Ended September 30,	
	2009	2008
Net income	\$ 130.8	\$ 128.8
Foreign currency translation adjustments	1.0	(22.7)
Unrealized losses on derivative instruments	-	5.3
Unrealized losses on derivative instruments reclassified into earnings	14.3	5.9
Comprehensive income	<u>\$ 146.1</u>	<u>\$ 117.3</u>

4. INVENTORIES

Inventories consist of the following:

	September 30, 2009	June 30, 2009	September 30, 2008
Raw materials	\$ 4.2	\$ 3.5	\$ 4.0
Work-in-progress	1.5	1.8	1.2
Finished goods	174.2	188.9	186.0
Inventories	<u>\$ 179.9</u>	<u>\$ 194.2</u>	<u>\$ 191.2</u>

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
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5. RESTRUCTURING

The following is a summary of activity relating to ongoing restructuring programs:

	Severance and Related Costs		Facility Consolidation Costs and Related Asset Impairments	Total
	HM College Acquisition ⁽¹⁾	London Relocation ⁽²⁾	Boston Relocation ⁽³⁾	
	Balance as of June 30, 2009	\$ 0.6	\$ 2.1	
Cash payments	(0.3)	(0.4)	(1.1)	(1.8)
Translation	-	(0.1)	-	(0.1)
Balance as of September 30, 2009	\$ 0.3	\$ 1.6	\$ 0.6	\$ 2.5

	Severance and Related Costs				Total
	Thomson Learning Acquisition ⁽⁴⁾	HM College Acquisition ⁽¹⁾	London Relocation ⁽²⁾	Gale ⁽⁵⁾	
	Balance as of June 30, 2008	\$ 3.2	\$ 3.5	\$ 1.4	
Cash payments	(1.2)	(0.8)	-	(0.4)	(2.4)
(Reversal) additions, net	(0.4)	0.6	-	-	0.2
Translation	-	-	(0.1)	-	(0.1)
Balance as of September 30, 2008	\$ 1.6	\$ 3.3	\$ 1.3	\$ 0.4	\$ 6.6

⁽¹⁾ In connection with the acquisition of the Houghton Mifflin College Assets (“HM College”), we initiated a program to eliminate redundant activities and reduce the cost structure. During the three months ended September 30, 2008, we recorded an additional \$0.6 due to higher than expected severance costs related to this program. The restructuring, as well as all related payments, are expected to be completed by December 31, 2009.

⁽²⁾ In June 2008, we decided to consolidate certain offices located in the United Kingdom. The restructuring, as well as all related payments, are expected to be completed by March 31, 2010.

⁽³⁾ In November 2008, we consolidated our office facilities in Boston, MA and entered into an operating lease arrangement for a new office facility also within Boston, MA. The remaining restructuring-related payments are expected to be completed by December 2014, which is the termination date of the original lease.

⁽⁴⁾ In connection with the Thomson Learning acquisition, we initiated programs related to downsizing our employee base, exiting certain activities and engaging in other actions designed to reduce our cost structure and improve productivity. During the three months ended September 30, 2008, we reduced the estimated liability of these programs by \$0.4. The restructuring payments were completed as of June 30, 2009.

⁽⁵⁾ In December 2007, we initiated programs related to downsizing our employee base within our Gale segment. The restructuring-related payments were completed as of March 31, 2009.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

6. DEBT

Our debt consists of the following:

	<u>September 30,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Senior Secured Credit Facility:			
Term loan facility	\$ 3,371.2	\$ 3,379.8	\$ 3,405.6
Incremental term loan facility	617.2	618.8	623.4
Unamortized discount on incremental term loan facility	(11.5)	(12.2)	(13.9)
Revolving credit facility	70.0	184.0	-
Fixed rate notes:			
10.50% Senior Notes due 2015	1,215.6	1,215.6	1,215.6
Unamortized discount on 10.50% Notes due 2015	(10.9)	(11.4)	(13.0)
13.25% Senior Subordinated Discount Notes due 2015	407.7	407.7	519.0
Unamortized discount on 13.25% Notes due 2015	-	(2.1)	(49.8)
13.75% Senior PIK Notes due 2015	159.6	154.3	-
Senior Bridge Loan Credit Facility	-	-	591.7
Total long-term debt	<u>5,818.9</u>	<u>5,934.5</u>	<u>6,278.6</u>
Less: Current portion of Senior Secured Credit Facility	<u>(110.7)</u>	<u>(224.7)</u>	<u>(40.7)</u>
	<u>\$ 5,708.2</u>	<u>\$ 5,709.8</u>	<u>\$ 6,237.9</u>

Senior Secured Credit Facility

During the three months ended September 30, 2009, we borrowed \$63.0 and repaid \$177.0 under our revolving credit facility at an average annual interest rate of 2.52%. During the three months ended September 30, 2008, we borrowed and repaid \$117.0 under our revolving credit facility at an average annual interest rate of 4.65%. Under this facility, up to \$150.0 is available for the issuance of letters of credit, of which \$5.6, \$7.8, and \$6.9 were outstanding as of September 30, 2009, June 30, 2009, and September 30, 2008, respectively, at an average annual cost of 2.22%, 2.25% and 2.25%, respectively.

7. FINANCIAL INSTRUMENTS

We use interest rate swap agreements to manage interest rate exposure in order to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

Effective January 1, 2009, we de-designated our interest rate swaps as cash flow hedges. As a result of the de-designation, any subsequent changes in the fair value of these derivatives have been and will be reflected in earnings. Existing unrealized losses at the time of de-designation of \$80.9, net of tax, recorded in accumulated other comprehensive loss is being amortized into interest expense to correspond to the recognition of interest expense on the hedged debt.

We economically hedge the impact resulting from changes in exchange rates on various foreign currency-denominated net asset or liability positions through the use of forward contracts that are not necessarily designated as accounting hedges. The gains and losses on these derivatives are largely expected to offset transaction losses and gains on the underlying foreign currency-denominated assets and liabilities, both of which are recorded in "Selling, general & administrative, excluding depreciation", net in the Condensed Consolidated Statements of Operations. During the three months ended September 30, 2008, we recorded gains and received cash settlements of \$23.3 upon maturity of our forward contracts. These gains were largely offset by unrealized losses associated with our foreign currency denominated assets. The recorded gains and cash settlements received for the three months ended September 30, 2009 were not material.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

The following is a summary of our derivative instruments:

	September 30, 2009		June 30, 2009		September 30, 2008		
	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Interest Rate Basis Swaps	Foreign Exchange Contracts
Notional amount	\$ 2,020.0	\$ 17.1	\$ 2,244.0	\$ 17.6	\$ 2,644.0	\$ 2,644.0	\$ 63.7
Basis	LIBOR	Various	LIBOR	Various	LIBOR	LIBOR	GBP/AUD
Maturity (calendar year)	2011	2009	2009-2011	2009	2009-2011	2008	2008

GBP = Great Britain pound sterling (£)

AUD = Australian dollar

The following is a summary of the fair value liabilities relating to our derivative instruments included in our Condensed Consolidated Balance Sheets:

	September 30, 2009		June 30, 2009		September 30, 2008	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Fair value liabilities of derivative instruments:						
Current portion	\$ 83.7	\$ -	\$ 86.6	\$ -	\$ 46.7	\$ -
Non-current portion	36.7	-	43.8	-	40.5	-

The following is a summary of the impact of our derivative instruments in our Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,			
	2009		2008	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Selling, general & administrative, excluding depreciation	\$ -	\$ -	\$ -	\$ (23.3)
Mark-to-market of derivative instruments	10.0	-	-	-
Interest expense	40.8	-	23.8	-
Weighted average interest rate:				
Paid	5.22%		5.22%	
Received	0.60%		2.80%	

Measurement of Fair Value

We utilize the market approach to measure the fair value for our derivative financial instruments. The market approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates, forward prices, counterparty credit risk adjustments, and non-performance risk, and therefore our derivative financial instruments have been classified as Level 2 in the fair value hierarchy.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

Fair Value of Other Financial Instruments:

The estimated fair values of our financial instruments, excluding derivative instruments, were as follows:

	September 30, 2009		June 30, 2009		September 30, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 41.4	\$ 41.4	\$ 33.4	\$ 33.4	\$ 83.0	\$ 83.0
Senior secured credit facility:						
Term loan facility	3,371.2	3,008.8	3,379.8	2,839.0	3,405.6	2,763.3
Incremental term loan facility	605.7	600.2	606.6	532.2	609.5	617.2
Revolving credit facility	70.0	53.9	184.0	150.3	-	-
10.50% Senior Notes due 2015	1,204.7	1,148.7	1,204.2	972.5	1,202.6	960.3
13.25% Senior Subordinated Discount Notes due 2015	407.7	386.3	405.6	297.6	469.2	347.7
13.75% Senior PIK Notes due 2015	159.6	133.4	154.3	79.8	-	-
Senior Bridge Loan Credit Facility	-	-	-	-	591.7	320.6

8. INCOME TAXES

Our effective income tax benefit rates for the three months ended September 30, 2009 and 2008 was 0.0% and 5.0%, respectively. Our effective tax rates reflect the impact of projected loss-making jurisdictions on a full year basis where the associated tax benefits are not anticipated to be realized. For these jurisdictions, no tax provision or benefit is recorded, however, due to seasonality of income before taxes, certain of these jurisdictions are profitable for the three months ended September 30, 2009 and 2008.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Details of "Changes in operating assets and liabilities" are:

	Three Months Ended September 30,	
	2009	2008
Accounts receivable, net	\$ (86.5)	\$ (188.8)
Inventories	15.2	18.7
Prepaid expenses and other current assets	(2.4)	1.2
Accounts payable and accrued expenses	(0.5)	15.1
Accrued interest payable	(20.6)	(32.4)
Deferred revenue	28.2	23.9
Current taxes payable	(0.8)	2.1
Author advances, net	(8.0)	(10.6)
Other, net	(2.5)	1.2
	\$ (77.9)	\$ (169.6)

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

Details of “Interest capitalized on long-term debt” are:

	Three Months Ended	
	September 30,	
	2009	2008
Non-cash interest on Senior PIK Notes	\$ 5.3	\$ -
Non-cash interest on Senior Bridge Loan Credit Facility	-	21.1
	\$ 5.3	\$ 21.1

We paid cash interest expense on debt of \$127.5 and \$138.4 for the three months ended September 30, 2009 and 2008, respectively. In addition, we made debt repayments in lieu of interest of \$4.7 for the three months ended September 30, 2008.

10. RELATED PARTY TRANSACTIONS

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

Advisory Fee Agreements

We entered into advisory fee agreements with Apax Partners L.P. (“Apax”) and OMERS Private Equity, Inc. (“OMERS”) (together, the “Advisory Fee Agreements”). Pursuant to these Advisory Fee Agreements, we are obligated to pay an aggregate annual fee of \$10.7, payable quarterly in advance on the first day of each quarter in consideration for services to be provided. We are also obligated to pay associated out of pocket expenses incurred by Apax and OMERS. We recorded expenses of \$2.7 and \$2.5 for such advisory fees during the three months ended September 30, 2009 and 2008, respectively, which are included in “Selling, general & administrative, excluding depreciation” in the Condensed Consolidated Statements of Operations.

Agreements with Nelson Education, Ltd. (“Nelson”)

We recorded revenue from Nelson of \$10.8 and \$13.2 for the three months ended September 30, 2009 and 2008, respectively. We recorded expenses of \$0.8 and \$1.0 for the three months ended September 30, 2009 and 2008, respectively. At September 30, 2009 and 2008, we had a receivable from Nelson of \$4.5 and \$15.2, respectively, and payable to Nelson of \$0.5 and \$2.1, which are included in “Accounts receivable, net” and “Accounts payable and accrued expenses”, respectively, on the Condensed Consolidated Balance Sheets.

11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Claims and Legal Actions

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. We determine whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information and develop our views on estimated losses in consultation with outside counsel handling our defense in these matters. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated Financial Statements
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Guarantees

Under our standard terms and conditions of sale, we warrant ownership of our products and provide certain warranties and indemnifications. We are not aware of any instances that would result in any material payments being made as a result of these warranties and indemnifications, and therefore, no reserve has been recorded in the financial statements.

12. SEGMENT INFORMATION

In August 2009, we consolidated our international operations into our Academic & Professional segment and consequently restructured our organization into two reportable segments: Academic & Professional and Gale. These segments are strategic business groups that offer products and services to target markets and reflect the manner in which the chief operating decision maker reviews the operating results of the business and makes decisions about how resources are to be allocated. Prior period segment data has been restated to conform to this presentation. The accounting policies applied by the segments are the same as those applied by the Company. All transactions between reportable segments are eliminated upon consolidation or combination and are reflected in the “Corporate and other” reporting line item in the table below.

Academic & Professional – Provides both print-based and digitally-enabled learning solutions to students, faculty, institutions and professionals in the secondary and post-secondary education markets. It also delivers digitally-enabled reference information, certification test preparation, compliance training and other professional learning tools to a broad range of customers in a variety of channels.

Gale – provides specialized products that support education and research in academic and K-12 libraries, as well as resources that meet the information needs of a broad range of public library users. In addition to selling to libraries, Gale also licenses content for integration within web-based information services and has several strategic business distribution partnerships with third-party organizations.

We disclose information about our reportable segments based on the measures we use in assessing the performance of those reportable segments. We use “Segment operating profit (loss)” to measure the operating performance of our segments which represents operating (loss) income from continuing operations, before the amortization and impairment of identifiable intangible assets, depreciation, amortization of pre-publication costs and impairment of goodwill to measure the operating performance of our segments.

We categorize shipping and handling revenue, revenue from administrative services, inter-segment elimination, adjustments for the effect of purchase accounting on deferred revenue relating to the Thomson Learning acquisition and corporate costs under a reporting line item referred to as “Corporate and other”.

Select financial information for our segments is as follows:

	Three Months Ended September 30,			
	2009		2008	
	Revenues	Segment Operating Profit (Loss)	Revenues	Segment Operating Profit (Loss)
Academic & Professional	\$ 625.5	\$ 334.3	\$ 681.5	\$ 367.6
Gale	69.7	27.0	76.1	36.4
Segment totals	695.2	361.3	757.6	404.0
Corporate and other	3.3	(4.8)	3.7	(8.4)
Total	<u>\$ 698.5</u>	<u>\$ 356.5</u>	<u>\$ 761.3</u>	<u>\$ 395.6</u>

Revenues for the three months ended September 30, 2009 include intersegment revenue of \$0.2 and \$0.8 recorded by Academic & Professional and Gale, respectively. Revenues for the three months ended September 30, 2008 include intersegment revenue of \$0.4 and \$0.7 recorded by Academic & Professional and Gale, respectively. Intersegment revenue for Corporate and other for the three months ended September 30, 2009 was not material.

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The following tables reconcile total Segment operating profit to operating income from continuing operations per the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,	
	2009	2008
Total Segment operating profit	\$ 356.5	\$ 395.6
Less:		
Amortization of pre-publication costs	(49.4)	(53.3)
Depreciation	(11.7)	(14.8)
Amortization of identifiable intangible assets	(41.1)	(45.8)
Operating income from continuing operations	<u>\$ 254.3</u>	<u>\$ 281.7</u>

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is intended to help your understanding of the results of operations and financial condition of Cengage Learning Holdings II L.P and its consolidated subsidiaries (hereinafter collectively referred to as "Cengage Learning", "we", "us", "our", or the "Company".)

This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes. The following discussion and analysis of our financial condition and results of operations contains forward-looking statements about our business, operations and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations and intentions. Our future results and financial condition may differ materially from those we currently anticipate. See "*Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*".

Overview

The following discussion highlights the areas we believe are important in understanding our results of operations for the three months ended September 30, 2009:

- Revenues decreased by \$62.8, or 8.2%, for the three months ended September 30, 2009 driven by our Academic & Professional segment primarily due to changes in the custom product workflow process and customer ordering patterns, both of which shifted sales into the fourth quarter of fiscal 2009, as well as lower revenues in our Gale segment.
- Total segment operating profit decreased by \$39.1 or 9.9%, for the three months ended September 30, 2009 primarily due to lower revenues.
- Net cash provided by operating activities of continuing operations increased by \$57.4, or 51.0%, for the three months ended September 30, 2009 due to changes in working capital primarily driven by increased collections of outstanding receivables as a result of the timing of sales in the U.S. noted above, partially offset by lower segment operating profit.
- In August 2009, we consolidated our international operations into our Academic & Professional segment and consequently restructured our organization into two reportable segments: Academic & Professional and Gale. These segments are strategic business groups that offer products and services to target markets and reflect the manner in which the chief operating decision maker reviews the operating results of the business and makes decisions about how resources are to be allocated. Prior period segment data has been restated to conform to this presentation.

Seasonality and Comparability

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the first half of the fiscal year because customer buying patterns are concentrated during this period while costs are incurred more evenly throughout the year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year.

Critical Accounting Estimates

There were no changes to our critical accounting estimates during the three months ended September 30, 2009. For further information on our critical accounting estimates, refer to the discussion contained in the MD&A of our Annual Report for the Fiscal Year Ended June 30, 2009.

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Results of Operations

The following table compares the results of operations for the three months ended September 30, 2009 and 2008:

	Three Months		Percentage
	Ended September 30,		
	2009	2008	Change
Revenues	\$ 698.5	\$ 761.3	-8.2%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	244.1	256.1	-4.7%
Amortization of pre-publication costs	49.4	53.3	-7.3%
Total cost of revenues, excluding depreciation stated below	293.5	309.4	-5.1%
Selling, general & administrative, excluding depreciation stated below	97.9	109.6	-10.7%
Depreciation	11.7	14.8	-20.9%
Amortization of identifiable intangible assets	41.1	45.8	-10.3%
Total costs and expenses	444.2	479.6	-7.4%
Operating income from continuing operations	254.3	281.7	-9.7%
Gain on early extinguishment of debt	-	10.6	-100.0%
Mark-to-market of derivative instruments	10.0	-	NM
Other income, net	0.1	0.2	-50.0%
Interest expense	(132.9)	(154.6)	-14.0%
Income before taxes from continuing operations	131.5	137.9	-4.6%
Provision for income taxes	-	(6.9)	-100.0%
Equity losses of affiliates, net of taxes	(0.7)	(0.4)	75.0%
Income from continuing operations	130.8	130.6	0.2%
Loss from discontinued operations, net of tax	-	(1.8)	-100.0%
Net income	\$ 130.8	\$ 128.8	1.6%

NM = Not meaningful

Revenues decreased by \$62.8, or 8.2%, to \$698.5 for the three months ended September 30, 2009 including a \$5.9 unfavorable impact from foreign currency translation. This decrease relates primarily to changes in the custom product workflow process and customer ordering patterns within our Academic & Professional segment, both of which shifted sales into the fourth quarter of fiscal 2009, as well as lower revenues in our Gale segment resulting from the continued unfavorable impact of the economic environment on our customers.

Total cost of revenues, excluding depreciation decreased by \$15.9, or 5.1%, to \$293.5 for the three months ended September 30, 2009. Our cost of revenues predominantly includes author royalties, paper, printing & binding costs, distribution costs, all of which vary as revenue increases or decreases, as well as a component of fixed direct and indirect costs incurred to support delivery of print and digital-related products. Pre-publication costs are amortized upon publication of a title over its estimated operating life cycle in accordance with the expected sales revenues.

The decrease in cost of revenues, excluding amortization of pre-publication costs and depreciation, is primarily driven by \$14.8 of lower royalty and paper, printing & binding costs associated with the lower revenues partially offset with \$2.0 higher provision of inventory obsolescence. Amortization of pre-publication costs decreased primarily associated with lower sales and the impact of accelerated amortization of some titles towards the end of fiscal 2009.

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Selling, general & administrative expense, excluding depreciation decreased by \$11.7, or 10.7%, to \$97.9 for the three months ended September 30, 2009 primarily due to lower general operating expenses in the current quarter and the absence of (i) \$2.7 of transition service costs related to prior year acquisitions and (ii) \$2.5 loss on the re-measurement of certain inter-company foreign currency-denominated liabilities, net of hedge instruments, both recorded in the prior year quarter.

Depreciation decreased by \$3.1, or 20.9%, to \$11.7 for the three months ended September 30, 2009 primarily reflecting the impact of capitalized software for internal use that became fully depreciated in fiscal 2009.

Amortization of identifiable intangible assets decreased by \$4.7, or 10.3%, to \$41.1 for the three months ended September 30, 2009 reflecting the impact of impairment charges recorded in fiscal 2009.

Gain on early extinguishment of debt reflects a \$10.6 gain, net of deferred financing fees, recognized in the three months ended September 30, 2008 associated with the repurchase and retirement of \$44.1 of the Senior Bridge Loan Credit Facility.

Mark-to-market of derivative instruments reflects a \$10.0 unrealized gain on our interest rate swaps. We de-designated our interest rate swaps as cash flow hedges effective January 1, 2009 and as a result, changes in the fair value of this derivative instruments have been included in earnings.

Other income, net reflects a decrease in interest income of \$0.1 for the three months ended September 30, 2009 primarily due to lower average cash and cash equivalents.

Interest expense decreased by \$21.7, or 14.0%, to \$132.9 for the three months ended September 30, 2009 primarily reflecting the following:

- \$15.8 decrease in non-cash interest on the Senior PIK Loans and Senior PIK Notes resulting from the repurchases of such debt in fiscal 2009,
- \$15.4 decrease in non-cash interest from the amortization of discounts and deferred financing costs associated primarily with the Senior Subordinated Discount Notes and Senior PIK Loans and
- \$10.0 decrease attributable to lower interest on the term loan facility, which is driven primarily by a combination of lower interest rates as well as an increased portion of the term loan that is unhedged, partially offset by
- \$11.3 increase in accrued cash interest on the Senior Subordinated Discount Notes and
- \$8.4 increase in non-cash interest associated with the de-designation of our interest rate swaps for cash flow hedge accounting purposes.

Provision for income taxes was negligible for the three months ended September 30, 2009 compared with \$6.9 for the three months ended September 30, 2008. The income tax for the current period resulted primarily from the projected loss for the full year in major jurisdictions. No tax benefit has been recorded for loss making jurisdictions where the associated benefits are not expected to be realized in the future. The change in the provision for income taxes is primarily due to the result of the 2009 fiscal year impairment of identifiable intangible assets and goodwill for the Gale operating segment resulting in an effective tax rate of 0.0% for the three months ended September 30, 2009 compared with an effective tax rate of 5.0% for the three months ended September 30, 2008.

Equity losses of affiliates, net of taxes for the three months ended September 30, 2009 represents losses from our investment in CourseSmart LLC.

Loss from discontinued operations, net of tax for the three months ended September 30, 2008 primarily reflects the loss recorded on the sale of our local language business located in Spain.

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Segment Operating Results

Academic & Professional

	Three Months		Percentage
	Ended September 30,		
	2009	2008	
Revenue	\$ 625.5	\$ 681.5	-8.2%
Segment operating profit	334.3	367.6	-9.1%
<i>Margin</i>	53.4%	53.9%	

Revenues Our Academic & Professional segment revenue decreased by \$56.0, or 8.2%, for the three months ended September 30, 2009, including a \$5.9 unfavorable impact from foreign currency translation. The decrease in revenue is primarily driven by lower sales within the higher education channel in the U.S., predominantly due to changes in the custom product workflow process and customer ordering patterns, both of which shifted sales into the fourth quarter of fiscal 2009 and lower school channel orders due to the impact of the economic conditions on school funding and cyclical state adoption patterns. These decreases were partially offset by growth in our career channel primarily due to higher enrollments.

Segment operating profit Segment operating profit decreased \$33.3, or 9.1%, during the three months ended September 30, 2009 attributable primarily to lower revenues, partially offset by \$12.9 lower royalty and paper, printing & binding costs and \$6.0 lower employee-related costs compared to the prior year quarter driven by lower incentive compensation.

Gale

	Three Months		Percentage
	Ended September 30,		
	2009	2008	
Revenue	\$ 69.7	\$ 76.1	-8.4%
Segment operating profit	27.0	36.4	-25.8%
<i>Margin</i>	38.7%	47.8%	

Revenues Our Gale segment revenue decreased by \$6.4, or 8.4%, during the three months ended September 30, 2009 primarily driven by \$6.2 of lower print sales and \$3.9 of lower digital products revenue reflecting the economic environment, which continues to unfavorably impact our library reference business. The revenue decline was partially offset by \$3.3 of growth from Gale's acquisition of HighBeam Research ("Highbeam") in December 2008.

Segment operating profit Our Gale segment operating profit during the three months ended September 30, 2009 decreased by \$9.4, or 25.8%, on lower overall sales and \$4.3 higher net employee-related costs driven by additional headcount associated with new product developments and Gale's acquisition of HighBeam. Partially offsetting the lower profit was a \$1.5 decline in paper, printing & binding, other variable and royalty costs, primarily due to lower print revenues.

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Liquidity and Capital Resources

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

	Three Months		Percentage
	Ended September 30,		
	2009	2008	Change
Other Financial Data			
Additions to pre-publication costs	\$ (25.4)	\$ (27.3)	-7.0%
Additions to property, equipment and capitalized software for internal use, net	(6.8)	(4.2)	61.9%
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 169.9	\$ 112.5	51.0%
Net cash used in investing activities	(38.3)	(16.5)	132.1%
Net cash used in financing activities	(124.2)	(55.3)	124.6%
Net cash used in discontinued operations	-	(0.9)	-100.0%
Impact on cash and cash equivalents from change in foreign currency	0.6	(1.1)	154.5%
Net increase in cash and cash equivalents	<u>\$ 8.0</u>	<u>\$ 38.7</u>	-79.3%

Operating activities. Net cash provided by operating activities of continuing operations increased by \$57.4, or 51.0%, for the three months ended September 30, 2009 primarily due to changes in our working capital partially offset by lower segment operating profit. The changes in our working capital reflect (i) \$102.3 lower increase in accounts receivable due to higher cash collections driven by timing of sales in the U.S., and (ii) \$10.9 and \$4.7 lower use of cash related to interest payments on our debt and debt repayments in lieu of interest, respectively.

Investing activities. Net cash used in investing activities of continuing operations increased by \$21.8, or 132.1%, for the three months ended September 30, 2009. The increase in cash used is primarily due to proceeds from (i) the sale of certain titles pursuant to an agreement reached with the Department of Justice in connection with the regulatory review of our acquisition of the Houghton Mifflin College Assets, (ii) \$23.3 from the settlement of foreign currency derivative contracts and (iii) the divestiture of our local language academic business in Spain, partially offset by the acquisition of Gatlin Education Services, which were all reflected in the three months ended September 30, 2008. Included in the three months ended September 30, 2009 is the acquisition of an English language teaching business.

Financing activities. Net cash used in financing activities of continuing operations increased by \$68.9, or 124.6%, for the three months ended September 30, 2009. Included in the three months ended September 30, 2009 are (i) \$10.2 of principal payments on our term loans and (ii) borrowings of \$63.0 and repayments of \$177.0 under our revolving credit facility. Included in the three months ended September 30, 2008 are (i) \$10.3 of principal payments of our term loans (ii) \$28.8 associated with purchasing and retirement of the Senior PIK Loans, (iii) borrowings and repayments of \$117.0 under our revolving credit facility and (iv) \$16.2 of financing costs relating to the conversion of Senior PIK Loans into Senior PIK Notes.

Cash Position, Indebtedness and Liquidity

As of September 30, 2009, June 30, 2009 and September 30, 2008, our total cash and cash equivalents were \$41.4, \$33.4 and \$83.0, respectively, and our total indebtedness was \$5,818.9, \$ 5,934.5 and \$6,278.6, respectively.

Our principal uses of cash are to fund operating costs and capital expenditures, including investments in products and technology offerings, acquisitions, and the payment of interest and principal on our outstanding debt. We expect our cash

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flows from operations, combined with availability under our revolving credit facility, to provide sufficient liquidity to fund our current obligations, debt service requirements, projected working capital requirements, restructuring obligations, debt principal repayments, authorized debt repurchases and capital spending over the next twelve months; however, there can be no assurance that our business will generate sufficient cash flow from operations, that anticipated net sales growth and operating improvements will be realized or that future borrowings will be available under our revolving credit facility, or any other facility, in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs beyond such period. The seasonality of our business is such that a greater portion of revenue and operating cash flow is derived in the first half of the fiscal year, while costs are incurred more evenly throughout the fiscal year and the likelihood of seasonal borrowings under our revolving credit facility varies accordingly.

Our liquidity and our ability to service our debt, as well as fund future acquisitions, other purchase commitments, operating leases, working capital and capital expenditure requirements, is dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. If those factors significantly change or other unexpected factors adversely affect us, our business may not generate sufficient cash flow from operations or we may not be able to obtain future financings to meet our liquidity needs. We anticipate that to the extent additional liquidity is necessary to fund our operations, it would be funded through borrowings under our revolving credit facility, the incurrence of other indebtedness, additional equity financings or a combination of these potential sources of liquidity.

Recent market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. We continue to review liquidity sufficiency by performing various stress test scenarios, such as cash flow forecasting which considers hypothetical interest rate movements. Furthermore, we continue to closely monitor current events and the financial institutions that support our credit facilities, including monitoring their credit ratings and outlooks, credit default swap levels, capital raising and merger activity. If additional financing were required, however, the credit markets may limit or prevent our ability to obtain additional liquidity on terms acceptable to us or at all.

As market conditions warrant and subject to our contractual restrictions and liquidity position, we, our affiliates and/or our major equity holders and/or their affiliates, including Apax Partners L.P. and its affiliates, may from time to time repurchase our outstanding debt securities and/or bank loans, in privately negotiated or open market transactions, by tender or otherwise. Any such repurchases may be funded by cash available from operations or incurring new debt, including additional borrowings under our revolving credit facility. Additionally, any new debt may require collateralization.

Covenant Compliance

Under the terms of our respective indebtedness agreements, we are required to comply with stipulated affirmative and negative covenants, including the need to maintain specified financial ratios, which are customary for such indebtedness. Our continued ability to meet these financial ratios can be affected by events beyond our control, including general economic, financial and other factors. The most restrictive of the financial maintenance ratios is the requirement under the terms of the Senior Credit Facility that we maintain an agreed upon senior secured leverage ratio as follows:

The first full quarter in calendar 2009 through, but not including the first full quarter in calendar 2010	8.00
Thereafter	7.75

The senior secured leverage ratio is our Senior Secured Debt divided by our adjusted EBITDA (Earnings before interest, tax, depreciation and amortization), both of which are defined by the terms of the Senior Credit Facility. Senior Secured Debt and consolidated EBITDA are not presentations made in accordance with accounting principles generally accepted in the United States of America ("GAAP") and as such, should not be considered a measure of financial performance or condition, liquidity or profitability. They also should not be considered alternatives to GAAP-based net income or balance sheet amounts or operating cash flows or as indicators of the amount of free cash flow available for discretionary use by management. Furthermore, because all companies and their respective debt agreements do not use identical calculations, amounts reflected by us as Senior Secured Debt and adjusted EBITDA may not be comparable to similarly titled measures by other companies.

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Senior Secured Debt includes all borrowings secured by a lien, less the average aggregate cash and cash equivalent balance over the preceding four quarters. At September 30, 2009, our Senior Secured Debt was \$3,963.0. A reconciliation of Net loss for the twelve months ended September 30, 2009 to adjusted EBITDA for the twelve months ended September 30, 2009, is presented below:

	Twelve Months Ended September 30, 2009
Net loss	\$ (984.5)
Adjustments:	
Benefit from income taxes	(45.7)
Interest expense	568.1
Interest income	(0.9)
Mark-to-market of derivative instruments	(47.7)
Gain on early extinguishment of debt	(330.5)
Amortization and impairment of identifiable intangible assets	512.3
Impairment of goodwill	831.6
Depreciation	56.5
Amortization of pre-publication costs	141.0
Non-cash equity-based compensation	6.5
Management fee	10.8
Pro forma EBITDA from acquisitions	4.2
Non-recurring items and other	26.5
Adjusted EBITDA	\$ 748.2

Our senior secured leverage ratio at September 30, 2009 is 5.30. A hypothetical 10% decline in our adjusted EBITDA, as defined by the terms of our Senior Credit Facility, would reduce adjusted EBITDA to \$673.4 and result in a senior secured leverage ratio of 5.89.

CENGAGE LEARNING HOLDINGS II L.P.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce our earnings and cash flow volatility resulting from shifts in market rates. As permitted, we designate certain of these derivative contracts for hedge accounting treatment in accordance with authoritative guidance regarding accounting for derivative instruments and hedging activities. However, certain of these instruments may not qualify for hedge accounting treatment and, accordingly, the results of our operations may be exposed to some level of volatility. Volatility in our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period.

For the three months ended September 30, 2009, we derived approximately 8.3% of our revenues from countries outside of the U.S., while a significant portion of the related costs are based in U.S. dollars and British pound. We anticipate that our future results will continue to be affected by market risks, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the euro, British pound and Australian dollar. A hypothetical 10% adverse change in foreign currency rates relative to the U.S. dollar would adversely impact net income by \$0.1 million.

Periodically we may enter into derivative contracts, including interest rate and cross currency interest rate swap agreements and interest rate caps and collars to manage interest rate exposures, and foreign currency spot, forward, swap and option contracts to manage foreign currency exposures. The fair market values of all these derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk not recognized in our financial statements. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. Our policy is to deal with counterparties having a single A or better credit rating. We manage credit risk through the continuous monitoring of exposures to such counterparties.

Recent market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. We continue to review liquidity sufficiency by performing various stress test scenarios, such as cash flow forecasting which considers hypothetical interest rate movements. Furthermore, we continue to closely monitor current events and the financial institutions that support our credit facility, including monitoring their credit ratings and outlooks, credit default swap levels, capital raising and merger activity.

At September 30, 2009, we have \$4,046.9 million in outstanding variable rate debt and \$1,772.0 million in outstanding fixed rate debt. Financial instruments, including interest rate swap agreements, have been used to manage interest rate exposures on the variable component of the variable rate debt. Our unhedged variable rate debt is sensitive to future increases or decreases in the applicable interest rate. A hypothetical 10%, or three basis points, increase in interest rates for the unhedged variable rate debt would decrease net income by less than one million for the three months ended September 30, 2009. See Note 7 "Financial Instruments" to our financial statements for a detailed description of derivative instruments we have entered into to hedge the variable interest rate component of certain of our indebtedness.

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CONTROLS AND PROCEDURES

Our management is responsible for the integrity and objectivity of all information presented in this report. The condensed consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on our best estimates and judgments. We believe the condensed consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent our financial position and results of operations.

As of the end of the period covered by this report, we were not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Since this report is not filed with the Securities Exchange Commission, we are not required to conduct an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), under the supervision and with the participation of the principal executive officer and principal financial officer, of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act).

LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Other than the proceedings disclosed in Note 11 “Commitments, Contingencies and Guarantees” to our financial statements, we are not currently aware of any legal proceedings or claims that we believe could have, individually or in the aggregate, a material adverse effect on our business, financial condition, operating results or cash flows.

CENGAGE LEARNING HOLDINGS II L.P.
Computation of Ratio of Earnings to Fixed Charges
(In millions of U.S. dollars except for Ratio of earnings to fixed charges)

	Three Months Ended September 30,	
	2009	2008
Fixed Charges		
Interest expense	\$ 132.9	\$ 154.6
Portion of rental expense which represents interest factor	2.2	2.3
Total fixed charges	\$ 135.1	\$ 156.9
Earnings available for fixed charges		
Earnings ⁽¹⁾	\$ 131.5	\$ 137.9
Add fixed charges	135.1	156.9
Total earnings available for fixed charges	\$ 266.6	\$ 294.8
Ratio of earnings to fixed charges ⁽²⁾	1.97	1.88

⁽¹⁾ Earnings are comprised of income before taxes from continuing operations.

⁽²⁾ For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before taxes from continuing operations plus fixed charges. Fixed charges include: interest expense, whether expensed or capitalized, amortization of debt issuance cost and the portion of rental expense representative of the interest factor.