



CENGAGE LEARNING HOLDINGS II L.P.

**Third Quarter Report
Three and Nine Months Ended
March 31, 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 is presented on the basis of Cengage Learning Holdings II L.P. and its consolidated subsidiaries, as successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation ("TOC"), representing the assets, liabilities, revenues and expenses directly attributed to TOC's Domestic Higher Education and Domestic Library Reference businesses as well as certain international businesses, managed together by a single management team, and should be read in conjunction with the Company's Annual Report for the fiscal year ended June 30, 2008.

**“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, 2008, as updated by the Risk Factors described in this report.

CENGAGE LEARNING HOLDINGS II L.P.

TABLE OF CONTENTS

	<u>Page No.</u>
Financial Statements (unaudited):	
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2009 and 2008	2
Condensed Consolidated Statements of Operations for the Nine Months Ended March 31, 2009 and for the Period July 5, 2007 to March 31, 2008 (Successor) and the Condensed Combined Statement of Operations for the Period July 1, 2007 to July 4, 2007 (Predecessor)	3
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2009 and for the Period July 5, 2007 to March 31, 2008 (Successor) and the Condensed Combined Statement of Cash Flows for the Period July 1, 2007 to July 4, 2007 (Predecessor)	4
Notes to Condensed Consolidated and Combined Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Quantitative and Qualitative Disclosures about Market Risk	41
Controls and Procedures	42
Legal Proceedings	42
Risk Factors	43
Computation of Ratio of Earnings to Fixed Charges	44

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

	March 31, 2009	June 30, 2008	March 31, 2008
Assets			
Cash and cash equivalents	\$ 62.2	\$ 44.3	\$ 177.5
Accounts receivable, net	182.3	273.9	191.2
Inventories	199.4	214.1	173.6
Current deferred tax assets	62.3	62.3	-
Prepaid expenses and other current assets	30.1	32.5	34.3
Current assets of discontinued operations	21.9	32.7	37.5
Total current assets	558.2	659.8	614.1
Property, equipment and capitalized software for internal use, net	143.1	160.3	157.6
Pre-publication costs, net	225.6	245.7	217.2
Author advances	28.3	25.5	23.2
Identifiable intangible assets, net	3,019.6	3,514.5	3,115.1
Goodwill	3,532.8	4,411.4	4,249.4
Deferred financing costs	76.1	80.8	81.5
Other non-current assets	9.9	21.5	21.9
Non-current assets of discontinued operations	19.3	26.1	134.4
Total assets	\$ 7,612.9	\$ 9,145.6	\$ 8,614.4
Liabilities and Partners' Equity			
Accounts payable and accrued expenses	\$ 288.6	\$ 360.8	\$ 260.8
Deferred revenue	102.9	104.9	96.7
Current portion of long-term debt	40.7	40.7	34.4
Current taxes payable	7.8	6.8	15.6
Current fair value of derivative instruments	87.5	58.8	79.4
Other current liabilities	6.3	9.0	6.3
Current liabilities of discontinued operations	39.3	51.0	56.9
Total current liabilities	573.1	632.0	550.1
Long-term debt	5,981.8	6,255.1	5,624.7
Non-current deferred tax liabilities	882.4	922.5	973.2
Non-current fair value of derivative instruments	64.4	35.3	92.4
Other non-current liabilities	28.3	22.0	16.2
Non-current liabilities of discontinued operations	1.5	2.1	0.5
Total liabilities	7,531.5	7,869.0	7,257.1
Commitments, contingencies and guarantees (Note 14)			
Partners' equity	269.2	1,320.3	1,486.1
Accumulated other comprehensive loss	(187.8)	(43.7)	(128.8)
Total partners' equity	81.4	1,276.6	1,357.3
Total liabilities and partners' equity	\$ 7,612.9	\$ 9,145.6	\$ 8,614.4

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Statements of Operations for the
Three Months Ended March 31, 2009 and 2008
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	Three Months	
	Ended March 31,	
	2009	2008
Revenues	\$ 310.5	\$ 272.3
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	150.5	148.5
Amortization of pre-publication costs	24.7	26.6
Total cost of revenues, excluding depreciation stated below	<u>175.2</u>	<u>175.1</u>
Selling, general & administrative, excluding depreciation stated below	100.5	96.9
Depreciation	15.2	15.0
Impairment of goodwill	831.6	-
Amortization and impairment of identifiable intangible assets	385.0	50.5
Total costs and expenses	<u>1,507.5</u>	<u>337.5</u>
Operating loss from continuing operations	(1,197.0)	(65.2)
Gain on early extinguishment of debt	142.5	-
Mark-to-market of derivative instruments	16.5	-
Interest income	0.3	2.5
Interest expense	(144.0)	(138.2)
Loss before taxes from continuing operations	(1,181.7)	(200.9)
Benefit from income taxes	50.2	11.0
Equity losses of investees, net of taxes	(0.4)	-
Loss from continuing operations	(1,131.9)	(189.9)
Loss from discontinued operations, net of tax	(1.5)	(5.4)
Net loss	<u>\$ (1,133.4)</u>	<u>\$ (195.3)</u>

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Statements of Operations for the Nine Months Ended
March 31, 2009 and for the Period July 5, 2007 to March 31, 2008 (Successor) and the
Condensed Combined Statement of Operations for the Period July 1, 2007 to July 4, 2007 (Predecessor)
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	Successor		Predecessor
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007
Revenues	\$ 1,515.7	\$ 1,357.9	\$ 17.9
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	593.2	559.4	7.7
Amortization of pre-publication costs	111.7	102.7	0.9
Total cost of revenues, excluding depreciation stated below	704.9	662.1	8.6
Selling, general & administrative, excluding depreciation stated below	314.4	286.6	4.7
Allocation of management costs from TOC	-	-	0.8
Depreciation	46.0	43.2	0.7
Impairment of goodwill	831.6	-	-
Amortization and impairment of identifiable intangible assets	476.2	160.4	0.3
Total costs and expenses	2,373.1	1,152.3	15.1
Operating (loss) income from continuing operations	(857.4)	205.6	2.8
Gain on early extinguishment of debt	201.3	-	-
Mark-to-market of derivative instruments	16.5	-	-
Other income, net	0.1	0.8	-
Interest income	0.9	6.0	-
Interest expense	(448.9)	(414.9)	-
(Loss) income before taxes from continuing operations	(1,087.5)	(202.5)	2.8
Benefit from (provision for) income taxes	38.6	(1.5)	(1.0)
Equity losses of investees, net of taxes	(1.2)	(2.0)	(0.1)
(Loss) income from continuing operations	(1,050.1)	(206.0)	1.7
(Loss) income from discontinued operations, net of tax	(6.0)	(11.1)	0.1
Net (loss) income	\$ (1,056.1)	\$ (217.1)	\$ 1.8

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

CENGAGE LEARNING HOLDINGS II L.P.
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended
March 31, 2009 and for the Period July 5, 2007 to March 31, 2008 (Successor) and the
Condensed Combined Statement of Cash Flows for the Period July 1, 2007 to July 4, 2007 (Predecessor)
(UNAUDITED)
(In millions of U.S. dollars unless otherwise indicated)

	Successor		Predecessor
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007
Cash Flows from Operating Activities			
Net (loss) income	\$ (1,056.1)	\$ (217.1)	\$ 1.8
Loss (income) from discontinued operations, net of tax	6.0	11.1	(0.1)
(Loss) income from continuing operations	(1,050.1)	(206.0)	1.7
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities of continuing operations:			
Amortization of pre-publication costs	111.7	102.7	0.9
Depreciation	46.0	43.2	0.7
Impairment of goodwill	831.6	-	-
Amortization and impairment of identifiable intangible assets	476.2	160.4	0.3
Amortization of debt discounts and deferred financing costs	58.3	50.8	-
Non-cash interest on financial instruments	85.4	62.7	-
Non-cash equity-based compensation expense	5.2	-	-
Mark-to-market of derivative instruments	(16.5)	-	-
Gain on early extinguishment of debt	(201.3)	-	-
Gain on sale of businesses, equity investee, and other divestitures	(0.1)	(0.8)	-
(Benefit from) provision for deferred taxes	(46.8)	(9.7)	0.8
Equity losses of investees, net of taxes	1.2	2.0	0.1
Changes in operating assets and liabilities, net of acquisitions	29.2	127.3	2.2
Other, net	7.3	3.0	(0.2)
Net cash provided by operating activities of continuing operations	337.3	335.6	6.5
Net cash (used in) provided by operating activities of discontinued operations	(2.7)	-	1.5
Net cash provided by operating activities	334.6	335.6	8.0
Cash Flows from Investing Activities			
Acquisitions of businesses, less cash therein	(70.1)	(7,192.9)	-
Equity infusion into equity of investee	(1.0)	-	-
Proceeds from the sale of businesses, equity investee, and other divestitures	34.7	2.0	-
Proceeds from settlement of derivative financial instruments	36.2	-	-
Additions to pre-publication costs	(96.7)	(88.1)	-
Additions to property, equipment and capitalized software for internal use	(32.3)	(27.2)	-
Proceeds from disposition of property, equipment and capitalized software for internal use	0.1	0.3	-
Other, net	(1.4)	-	-
Net cash used in investing activities of continuing operations	(130.5)	(7,305.9)	-
Net cash used in investing activities of discontinued operations	(1.2)	(0.9)	-
Net cash used in investing activities	(131.7)	(7,306.8)	-
Cash Flows from Financing Activities			
Proceeds from issuance of debt	-	5,580.2	-
Debt issuance costs	(16.2)	(90.9)	-
Repayments of long-term debt	(165.8)	(17.2)	-
Borrowings under the revolving credit facility	117.0	41.5	-
Repayments under the revolving credit facility	(117.0)	(41.5)	-
Repayments of capital lease obligation	-	(26.0)	-
Equity contributions from partners	-	1,703.1	-
Change in cash overdrafts	-	(15.8)	(6.9)
Repayments from notes payable to TOC, net	-	-	(5.2)
Other, net	(0.2)	-	0.4
Net cash (used in) provided by financing activities of continuing operations	(182.2)	7,133.4	(11.7)
Impact on Cash and Cash Equivalents from Change in Foreign Currency	(2.8)	0.3	-
Net Increase (Decrease) in Cash and Cash Equivalents	17.9	162.5	(3.7)
Cash and Cash Equivalents			
Beginning of period	44.3	15.0	18.8
End of period	\$ 62.2	\$ 177.5	\$ 15.1

The accompanying notes are an integral part of these Condensed Consolidated and Combined Financial Statements.

CENGAGE LEARNING HOLDINGS II L.P.
Notes to Condensed Consolidated and Combined 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 (hereinafter collectively referred to as “Cengage Learning”, “Successor”, “we”, “us”, “our”, or the “Company” for all periods after July 5, 2007) is the successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation (“TOC”), managed together by a single management team (hereinafter collectively referred to as “Thomson Learning” or “Predecessor” for all periods prior to July 5, 2007). The condensed consolidated financial statements of Cengage Learning together with the combined financial statements of Thomson Learning are hereinafter collectively referred to as the “Financial Statements.”

We have prepared the accompanying unaudited condensed consolidated and combined interim financial statements in accordance with the accounting policies described in our Annual Report for the Fiscal Year Ended June 30, 2008 (the “2008 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 condensed consolidated and combined financial statements included in our 2008 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.

New Accounting Standards

In April 2009, the Financial Accounting Standards Board (“FASB”) issued Statements of Financial Accounting Standards (“SFAS”) Staff Position No. FAS (“FSP FAS”) 107-1, *Interim Disclosures about Fair Value of Financial Instruments*. This statement requires disclosures about fair value of financial instruments, previously only required in annual financial statements to also be included in interim financial statements. This statement is effective for interim and annual reporting periods ending after June 15, 2009. We will adopt this standard in the first quarter of fiscal year 2010 and we do not expect it to have a material impact on our Financial Statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized identifiable intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The guidance in FSP FAS 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to identifiable intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all identifiable intangible assets recognized as of, and subsequent to, adoption. This FSP FAS is effective for fiscal years beginning after December 31, 2008. Early adoption is not permitted. We will adopt this standard in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any acquired identifiable intangible assets subject to this standard.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. This guidance requires the acquiring entity in a business combination to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with separate recognition of the costs of the acquisition. SFAS No. 141(R) also requires the acquirer in a business combination, achieved in stages, to recognize the identifiable assets and liabilities, and the noncontrolling interest in the acquiree, at the full amounts of their fair values. In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP FAS 141(R)-1 amends and clarifies SFAS No. 141 (R), to address initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. These statements are effective as of the beginning of the first fiscal year after December 15, 2008 and early adoption is not permitted. We will adopt these standards in conjunction with SFAS No. 141(R) in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any business combinations subject to this standard.

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS 115*. This guidance provides the option to measure and report certain assets and liabilities at their fair value. SFAS No. 159 is effective as of the beginning of the first fiscal year after November 15, 2007. The adoption of this statement did not have an impact on our Financial Statements as we did not elect this fair value option.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements, to be applied under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective the first fiscal year beginning after November 15, 2007. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for one year for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis. As such, the adoption of this standard on July 1, 2008 for us was limited to financial assets and liabilities, which did not have a material impact on our Financial Statements (see Note 10, “Fair Value Measurements” for further information). We are currently evaluating the impact of this standard to non-financial assets and liabilities on our financial statements. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3, which was effective upon issuance, including prior periods for which financial statements had not been issued, did not have an impact on our Financial Statements. In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Whether a Market is Not Active and a Transaction is Not Distressed*. This statement establishes a two-step process to determine whether a market is not active and a transaction is not distressed. This FSP FAS is effective for interim and annual periods ending after June 15, 2009, and must be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. We do not expect the adoption of this standard to have an 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 condensed consolidated balance sheet at March 31, 2008 is presented for comparative purposes.

Other

The aggregate allowance for sales returns and doubtful accounts as of March 31, 2009, June 30, 2008 and March 31, 2008 was \$126.6, \$109.5 and \$121.9, respectively.

2. ACQUISITIONS

Concept Media

In January 2009, we acquired Concept Media, a producer and distributor of education media for colleges, healthcare institutions, social service agencies and counseling centers worldwide focusing on nursing and allied healthcare content. The net assets and results of operations of Concept Media have been included as part of our Academic & Professional segment.

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values. We recorded an estimated \$0.9 of goodwill and \$4.2 of identifiable intangible assets that have a weighted average life of five years. Any final adjustments may change the allocation of the purchase price, which could affect the fair values assigned to the assets and liabilities, including a change to goodwill.

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

HighBeam Research Inc. (“HighBeam”)

In December 2008, we acquired HighBeam, an online library research tool for individuals, students and small business professionals. HighBeam complements Gale's web-based business and provides opportunities for expansion in the delivery of premium information services. The net assets and results of operations of HighBeam have been included within our Gale segment since the date of acquisition.

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values. We recorded an estimated \$19.5 of goodwill, \$15.6 of identifiable intangible assets that have a weighted average life of four years and \$5.6 of deferred tax liability associated with such identifiable intangible assets. Any final adjustments may change the allocation of the purchase price, which could affect the fair values assigned to the assets and liabilities, including a change to goodwill and related deferred taxes.

Gatlin Education Services (“Gatlin”)

In July 2008, we acquired Gatlin, a provider of online continuing education certificate programs to adult learners through colleges and universities. Gatlin has been integrated into our Education To Go (ed2go) business, expanding its service in the e-learning market and simplifying the delivery of digital education solutions to a growing audience with more selection and functionality. The net assets and results of operations of Gatlin have been included within our Academic & Professional segment since the date of acquisition.

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective estimated fair values. We recorded an estimated \$28.1 of goodwill, \$21.4 of identifiable intangible assets that have a weighted average life of nine years, \$8.4 of deferred tax liability associated with such identifiable intangible assets, and \$2.6 of deferred revenue. Any final adjustments may change the allocation of purchase price, which could affect the fair values assigned to the assets and liabilities, including a change to goodwill and related deferred taxes.

Houghton Mifflin Harcourt Publishing College Assets (“HM College”)

In May 2008, we consummated the acquisition of the college division of Houghton Mifflin Harcourt Publishing Company for \$768.3 in cash, reflecting the base purchase price of \$750.0, adjusted for a preliminary working capital and cash flow mechanism, pursuant to the purchase agreement, but before adjusting for proceeds from titles divested pursuant to an agreement with the U.S. Department of Justice (“DOJ”). We incurred \$18.4 of transaction-related costs of which \$7.7 was paid to affiliates of Apax Partners L.P. (“Apax”) and OMERS Private Equity, Inc. (“OMERS”). The net acquired assets and results from operations have been included within our Academic & Professional segment since the date of acquisition.

In connection with the regulatory review of this acquisition, we reached an agreement with the DOJ to divest certain higher education titles. In July 2008, we completed the sales of those titles and no gains or losses on these transactions were recognized.

In January 2009, we received \$2.5 from Houghton Mifflin Harcourt Publishing Company as an adjustment to the purchase price, which was recorded as a reduction to goodwill.

Pro Forma Financial Information

The pro forma results below include the effects of the acquisitions of Thomson Learning and HM College for the three and nine months ended March 31, 2008 as if they had been consummated as of July 1, 2007. The pro-forma results include: (i) the amortization associated with the estimated value of acquired identifiable intangible assets; and (ii) interest expense associated with the debt used to fund these acquisitions. The pro forma results do not include any anticipated benefits from cost savings. Accordingly, the pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had these acquisitions been consummated as of July 1, 2007. Pro-forma financial information for the acquisitions of HighBeam, Gatlin and Concept Media have not been included because they were not deemed to be material individually or in the aggregate.

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

	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2008
Revenue	\$ 291.5	\$ 1,571.9
Operating (loss) income from continuing operations	(82.3)	243.2
Net loss	(224.1)	(222.5)

3. DISCONTINUED OPERATIONS

In June 2008, we decided to pursue the sale of certain non-strategic operations comprising our local language academic business located in Spain and our distance learning businesses in the United Kingdom and the Netherlands. These businesses, previously included within our International segment, are classified as assets held for sale and have been restated as discontinued operations in our Financial Statements for all periods presented.

During August 2008, we completed the sale of our local language academic business located in Spain. The sale resulted in a loss of \$1.4. During the three months ended December 31, 2008, we recorded a charge of \$2.3 reflecting an additional write-down of the net assets of our distance learning business in the United Kingdom and the Netherlands. The charge reflected changes to the assumptions underlying our estimate of fair market value of these assets, less estimated selling costs, which was a result of market conditions.

Included in the (loss) income from discontinued operations, net of tax in the Condensed Consolidated and Combined Statements of Operations are the following:

	Successor				Predecessor
	Three Months Ended March 31,		Nine Months Ended March 31,		Period July 5, 2007 to March 31, 2008
	2009	2008	2009	2008	July 1, 2007 to July 4, 2007
Revenues	\$ 10.3	\$ 12.1	\$ 37.1	\$ 39.4	\$ 0.8
(Loss) income from discontinued operations, net of tax	(1.5)	(5.4)	(6.0)	(11.1)	0.1

In April 2009, we entered into a definitive agreement with a third party for the sale of our distance learning businesses in the United Kingdom and the Netherlands. We expect the sale to be completed by June 30, 2009 upon satisfaction of certain customary closing conditions.

4. COMPREHENSIVE LOSS / INCOME

Comprehensive (loss) income consists of the following:

	Successor				Predecessor
	Three Months Ended March 31,		Nine Months Ended March 31,		Period July 5, 2007 to March 31, 2008
	2009	2008	2009	2008	July 1, 2007 to July 4, 2007
Net (loss) income	\$ (1,133.4)	\$ (195.3)	\$ (1,056.1)	\$ (217.1)	\$ 1.8
Foreign currency translation adjustments	(10.2)	26.9	(94.5)	35.2	2.3
Unrealized losses on derivative instruments	(0.1)	(73.5)	(75.6)	(171.8)	-
Unrealized losses on derivative instruments reclassified into earnings	14.2	4.2	26.0	7.9	-
Comprehensive (loss) income	<u>\$ (1,129.5)</u>	<u>\$ (237.7)</u>	<u>\$ (1,200.2)</u>	<u>\$ (345.8)</u>	<u>\$ 4.1</u>

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

5. INVENTORIES

Inventories consist of the following:

	March 31, 2009	June 30, 2008	March 31, 2008
Raw materials	\$ 3.9	\$ 6.4	\$ 5.1
Work-in-progress	2.4	0.2	1.2
Finished goods	236.3	234.9	188.5
	242.6	241.5	194.8
Obsolescence reserve	(43.2)	(27.4)	(21.2)
Inventories, net	<u>\$ 199.4</u>	<u>\$ 214.1</u>	<u>\$ 173.6</u>

6. IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

We evaluate long-lived assets, including amortizable identifiable intangible assets, and goodwill for potential impairments whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. During the nine months ended March 31, 2009, our Gale segment and certain reporting units within our International segment have experienced declines in revenues due to a variety of reasons including the weakening global economic environment, a decrease in export sales to North America and enrollment declines in the distance learning business in Australia, as well as lower sales of our English language teaching products (“ELT”) in Asia and Europe, Middle East and Africa (“EMEA”). Due to the declines in actual and projected revenue, and given the current market conditions in which we operate, we believe that events have occurred that warranted us to evaluate the carrying amounts of our long-lived assets, including amortizable identifiable intangible assets. Accordingly, in March 2009, we conducted an interim impairment analysis of our goodwill and identifiable intangible assets.

Identifiable Intangible Assets

We determined that the individual reporting units are the lowest level of asset grouping for which identifiable cash flows are independent of other assets and performed a recoverability test by comparing the carrying amount of each reporting unit with the sum of undiscounted cash flows related to that reporting unit. Where the carrying amount exceeded the related undiscounted cash flows, we recorded an impairment for the amount by which the carrying value exceeded the reporting unit’s fair value. Fair value of the identifiable intangible assets was determined from the present value of cash flows estimated using either a royalty relief or excess earnings method.

Based on our valuations, we recorded an impairment charge of \$338.7 during the three months ended March 31, 2009, relating to Gale and certain reporting units within our International segment, which are comprised of:

	Customer Relationships	Database / Content	Trade Names	Publishing Rights	Non-Compete and Other	Total
Gale	\$ 65.7	\$ 171.6	\$ 24.2	\$ 9.0	\$ 4.3	\$ 274.8
Australia	5.8	1.7	4.5	26.0	-	38.0
Asia	-	8.4	10.0	3.7	-	22.1
EMEA ELT	0.8	-	0.2	2.8	-	3.8
Total	<u>\$ 72.3</u>	<u>\$ 181.7</u>	<u>\$ 38.9</u>	<u>\$ 41.5</u>	<u>\$ 4.3</u>	<u>\$ 338.7</u>

The impairment charge is included in “Amortization and impairment of identifiable intangible assets” on the Condensed Consolidated Statements of Operations.

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

Identifiable intangible assets, net consist of the following:

	Customer Relationships	Database / Content	Trade Names	Publishing Rights	Non-Compete and Other	Total
As of March 31, 2009						
Identifiable intangible assets, gross	\$ 648.9	\$ 522.9	\$ 404.7	\$ 1,748.1	\$ 42.6	\$ 3,367.2
Accumulated amortization	(85.9)	(71.1)	(53.9)	(109.7)	(27.0)	(347.6)
Identifiable intangible assets, net	<u>\$ 563.0</u>	<u>\$ 451.8</u>	<u>\$ 350.8</u>	<u>\$ 1,638.4</u>	<u>\$ 15.6</u>	<u>\$ 3,019.6</u>
As of June 30, 2008						
Identifiable intangible assets, gross	\$ 714.9	\$ 690.3	\$ 449.6	\$ 1,827.1	\$ 45.0	\$ 3,726.9
Accumulated amortization	(61.2)	(45.7)	(32.3)	(50.2)	(23.0)	(212.4)
Identifiable intangible assets, net	<u>\$ 653.7</u>	<u>\$ 644.6</u>	<u>\$ 417.3</u>	<u>\$ 1,776.9</u>	<u>\$ 22.0</u>	<u>\$ 3,514.5</u>
As of March 31, 2008						
Identifiable intangible assets, gross	\$ 315.4	\$ 699.9	\$ 403.1	\$ 1,825.1	\$ 32.0	\$ 3,275.5
Accumulated amortization	(56.2)	(37.8)	(25.3)	(29.6)	(11.5)	(160.4)
Identifiable intangible assets, net	<u>\$ 259.2</u>	<u>\$ 662.1</u>	<u>\$ 377.8</u>	<u>\$ 1,795.5</u>	<u>\$ 20.5</u>	<u>\$ 3,115.1</u>

At March 31, 2008, the allocation of the purchase price for the acquisition of Thomson Learning was preliminary using information available at the time and was based upon estimates of the fair value of assets acquired and liabilities assumed. Our determination of fair values reflecting all actual net tangible and identifiable intangible assets, including goodwill, included in the acquisition of Thomson Learning was finalized by June 30, 2008.

Amortization and impairment of identifiable intangible assets for the three and nine months ended March 31, 2009 was \$385.0 and \$476.2, respectively. Our amortization expense for the three months ended March 31, 2008, for the periods July 1, 2007 to March 31, 2008 and July 1, 2007 to July 4, 2007 was \$50.5, \$160.4 and \$0.3, respectively.

At March 31, 2009, estimated annual amortization expense for each of the next five fiscal years is as follows:

Years Ending June 30,

Remainder of 2009	\$ 40.7
2010	162.7
2011	162.2
2012	158.0
2013	156.2

Goodwill

In the three months ended March 31, 2009, we performed an interim impairment analysis of goodwill resulting in an \$831.6 impairment in Gale and certain reporting units within our International segment due to the continued underperformance of these units relative to expectations. We are required to (i) compare the fair value of each reporting unit with its carrying amount, including goodwill, and (ii) for reporting units where the carrying amount exceeded fair value, recognize an impairment equal to the difference between the implied fair value of a reporting unit's goodwill and the goodwill carrying amount. In order to determine the fair value of each reporting unit, we considered various valuation techniques and determined that a weighted average of discounted cash flows and market related multiples were the most meaningful to us.

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

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

	<u>Academic & Professional</u>	<u>Gale</u>	<u>International</u>	<u>Total</u>
Balance at July 1, 2008	\$ 3,401.6	\$ 747.9	\$ 261.9	\$ 4,411.4
Acquisitions	29.0	19.5	-	48.5
Disposal, sale of businesses	(26.7)	-	(0.4)	(27.1)
Purchase accounting adjustments	(2.3)	-	-	(2.3)
Impairment of goodwill	-	(685.4)	(146.2)	(831.6)
Translation	-	-	(66.1)	(66.1)
Balance at March 31, 2009	<u>\$ 3,401.6</u>	<u>\$ 82.0</u>	<u>\$ 49.2</u>	<u>\$ 3,532.8</u>

	<u>Academic & Professional</u>	<u>Gale</u>	<u>International</u>	<u>Total</u>
Balance at July 5, 2007	\$ -	\$ -	\$ -	\$ -
Acquisition of Thomson Learning	3,116.1	747.9	287.4	4,151.4
Acquisition of HM College	285.4	-	-	285.4
Other acquisitions	0.1	-	-	0.1
Impairment of goodwill	-	-	(39.2)	(39.2)
Translation	-	-	13.7	13.7
Balance at June 30, 2008	<u>\$ 3,401.6</u>	<u>\$ 747.9</u>	<u>\$ 261.9</u>	<u>\$ 4,411.4</u>

	<u>Academic & Professional</u>	<u>Gale</u>	<u>International</u>	<u>Total</u>
Balance at July 5, 2007	\$ -	\$ -	\$ -	\$ -
Acquisition of Thomson Learning	3,168.4	864.8	202.9	4,236.1
Translation	(3.2)	-	16.5	13.3
Balance at March 31, 2008	<u>\$ 3,165.2</u>	<u>\$ 864.8</u>	<u>\$ 219.4</u>	<u>\$ 4,249.4</u>

At March 31, 2008, the allocation of the purchase price for the acquisition of Thomson Learning was preliminary using information available at the time and was based upon estimates of the fair value of assets acquired and liabilities assumed. Our determination of fair values reflecting all actual net tangible and identifiable intangible assets, including goodwill, included in the acquisition of Thomson Learning and was finalized by June 30, 2008.

The non-cash impairment of goodwill and identifiable intangible assets does not have a material impact on the covenant calculations of our debt agreements or our overall compliance with the covenants of our debt agreements.

7. RESTRUCTURING

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

	<u>Severance and Related Costs</u>				<u>Total</u>
	<u>Thomson Learning Acquisition⁽¹⁾</u>	<u>Gale⁽²⁾</u>	<u>HM College Acquisition⁽³⁾</u>	<u>London Relocation⁽⁴⁾</u>	
Balance as of June 30, 2008	\$ 3.2	\$ 0.8	\$ 3.5	\$ 1.4	\$ 8.9
Restructuring provision	-	-	-	1.4	1.4
Cash payments	(2.0)	(0.8)	(2.9)	(0.4)	(6.1)
(Reversal) additions, net	(0.7)	-	0.6	-	(0.1)
Translation	(0.1)	-	-	(0.4)	(0.5)
Balance as of March 31, 2009	<u>\$ 0.4</u>	<u>\$ -</u>	<u>\$ 1.2</u>	<u>\$ 2.0</u>	<u>\$ 3.6</u>

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

	Facility Consolidation Costs and Related Asset Impairments
	Boston Relocation ⁽⁵⁾
Balance as of June 30, 2008	\$ -
Restructuring provision	11.3
Cash payments	(1.2)
Asset impairments	(7.4)
Balance as of March 31, 2009	\$ 2.7

	Severance and Related Costs		
	Thomson Learning		
	Acquisition ⁽¹⁾	Gale ⁽²⁾	Total
Balance as of July 5, 2007	\$ 13.9	\$ -	\$ 13.9
Restructuring provision	-	1.2	1.2
Cash payments	(8.4)	-	(8.4)
(Reversal) additions, net	(0.1)	-	(0.1)
Balance as of March 31, 2008	\$ 5.4	\$ 1.2	\$ 6.6

⁽¹⁾ 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 nine months ended March 31, 2009, we reduced the estimated liability of these programs by \$0.7 due to lower than expected severance costs and savings from certain termination benefits that were not utilized by recipients. The remaining restructuring-related payments are expected to be completed by June 30, 2009.

⁽²⁾ 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 2009.

⁽³⁾ In connection with the acquisition of HM College, we initiated a program to eliminate redundant activities and reduce the cost structure. The liabilities relate to severance costs associated with the elimination of approximately 110 positions. During the nine months ended March 31, 2009, 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.

⁽⁴⁾ In June 2008, we decided to consolidate certain offices located in the United Kingdom. As a result, we recorded restructuring charges of \$1.4 in June 2008 and \$1.4 in December 2008, for severance costs incurred at two of our offices that are in the process of relocating. The restructuring, as well as all related payments, are expected to be completed by September 30, 2009.

⁽⁵⁾ 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. Subsequent to entering into the new lease, we relocated approximately 450 employees within our Academic & Professional segment to the new facility and recognized a liability of \$3.9 for net costs that will continue to be incurred for the duration of the original lease arrangement without economic benefit, as well as a non-cash asset impairment of \$7.4. Of these charges, \$5.0 is included within "Cost of revenues, excluding amortization of pre-publication costs and depreciation" and \$6.3 is included within "Selling, general & administrative, excluding depreciation" on the Condensed Consolidated Statements of Operations. We also recorded \$1.9 to write-off the related carrying amounts of leasehold improvements on the exited leased facility which is included in "Depreciation" on the Condensed Consolidated Statements of Operations. Charges associated with asset impairments represented the write-

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

down of the related assets to their new cost basis and were recorded concurrently with the recognition of the provision. Accordingly, no reserve is maintained for asset impairments. The remaining restructuring-related payments are expected to be completed by December 2014, the termination date of our lease.

8. DEBT

Our debt consists of the following:

	<u>March 31,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>March 31,</u> <u>2008</u>
Senior Secured Credit Facility:			
Term loan facility	\$ 3,388.4	\$ 3,414.2	\$ 3,422.8
Incremental term loan facility	620.3	625.0	-
Unamortized discount on incremental term loan facility	(12.8)	(14.5)	-
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	(11.8)	(13.5)	(14.0)
13.25% Senior Subordinated Discount Notes due 2015	407.7	519.0	519.0
Unamortized discount on 13.25% Notes due 2015	(14.7)	(64.9)	(79.0)
13.75% Senior PIK Notes due 2015	429.8	-	-
Senior Bridge Loan Credit Facility	-	614.9	594.7
Total long-term debt	<u>6,022.5</u>	<u>6,295.8</u>	<u>5,659.1</u>
Less: Current portion of Senior Secured Credit Facility	<u>(40.7)</u>	<u>(40.7)</u>	<u>(34.4)</u>
	<u>\$ 5,981.8</u>	<u>\$ 6,255.1</u>	<u>\$ 5,624.7</u>

Senior Secured Credit Facility

During the nine months ended March 31, 2009, we borrowed and repaid \$117.0 under our revolving credit facility at an average annual interest rate of 4.65%. For the period July 5, 2007 to March 31, 2008, we borrowed and repaid \$35.0 and \$6.5 under our revolving and swing line credit facility at the average annual rates of 8.07% and 9.86%, respectively. Under the revolving credit facility, up to \$150 million is available for the issuance of letters of credit, of which \$7.4, \$6.9, and \$6.4 were outstanding as of March 31, 2009, June 30, 2008, and March 31, 2008, respectively, at an average annual cost of 2.16%, 2.25% and 2.50%, respectively.

Senior Subordinated Discount Notes

During the nine months ended March 31, 2009, we purchased and retired \$104.9 of the 13.25% Senior Subordinated Discount Notes due 2015 (the "Senior Subordinated Discount Notes"), that resulted in a gain of \$29.8 and \$61.9, net of deferred financing costs, during the three and nine months ended March 31, 2009, respectively.

Senior Bridge Loan Credit Facility

The senior bridge loan credit facility provided Cengage Learning Holdco, Inc. ("CL Holdco"), a direct wholly-owned subsidiary of Cengage Learning Holdings II L.P. (the "Partnership"), as borrower, with financing of \$540.0. At the borrower's option, all interest thereunder could be paid in cash, or capitalized through an increase in the principal amount outstanding. This election had to be made in advance of each three-month interest period.

In July 2008, CL Holdco and the Partnership entered into an amendment (the "First Amendment") which, among other things, set the interest rate on the borrowings under the senior bridge loan credit agreement ("Senior PIK Loans") at 13.75% per annum, effective July 5, 2008 through October 31, 2008. In addition, under the First Amendment, the Senior PIK Loans

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

would automatically convert into notes in an aggregate principal amount equal to the unpaid principal amount of such loans, including accrued interest, on October 31, 2008 (“Senior PIK Notes”).

During the three months ended September 30, 2008, we purchased and retired \$44.1 of the Senior PIK Loans that resulted in a gain of \$10.6, net of deferred financing costs.

On October 31, 2008, the Senior PIK Loans converted into the Senior PIK Notes in an aggregate principal amount equal to \$598.3. CL Holdco elected to capitalize interest due on the Senior PIK Loans in the amount of \$27.7 for the period July 1, 2008 to October 31, 2008.

Concurrent with the execution of the First Amendment, we incurred and capitalized \$16.2 of financing costs related to the conversion. Such costs are included in “Deferred financing costs” on the Condensed Consolidated Balance Sheet and are being amortized over the full term of the Senior PIK Notes.

Senior PIK Notes

On October 31, 2008, the Senior PIK Loans converted into the Senior PIK Notes in an aggregate principal amount equal to \$598.3. The Senior PIK Notes are structurally subordinated to the debt and other liabilities of all of CL Holdco’s subsidiaries and effectively subordinated to all of CL Holdco’s secured debt (including CL Holdco’s senior secured guarantee of the Senior Credit Facility). The Senior PIK Notes mature on July 15, 2015, bear interest at 13.75% per annum compounded semi-annually if not paid in cash, and have covenants and events of default similar to those applicable to the 10.50% Senior Notes due 2015 (“Senior Notes”) and Senior Subordinated Discount Notes issued by Cengage Learning Acquisitions, Inc. The Senior PIK Notes have no registration rights and are guaranteed on a subordinated unsecured basis by the Partnership. The guarantee of the Senior PIK Notes is subordinated to all of the Partnership’s senior debt (including the Partnership’s senior guarantees of the Senior Secured Credit Facility, the Senior Notes as well as the Partnership’s guarantee of the Senior Subordinated Discount Notes).

During the nine months ended March 31, 2009, we purchased and retired \$200.2 of the Senior PIK Notes that resulted in a gain of \$112.7 and \$128.8, net of deferred financing costs, during the three and nine months ended March 31, 2009, respectively.

Capital Lease Obligation

Due to the change in control of Thomson Learning in July 2007, the capital lease of the building located in Farmington Hills, MI, terminated during the period ended December 31, 2007. We negotiated an extension of the lease term and on October 31, 2007, purchased the property by settling the outstanding capital lease obligation of \$26.0, plus accrued interest of \$0.2.

9. FINANCIAL INSTRUMENTS

Interest Rate Risk Management

Interest rate swap agreements are used to manage interest rate exposure and 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.

In July and August 2007, we entered into three interest rate swaps with an amortizing aggregate notional amount of \$3,056.0 which were designated and accounted for as cash flow hedges from inception. These swaps were structured to hedge the variable LIBOR interest rate component of the term loan facility under the Senior Secured Credit Facility, converting a declining percentage of the debt from a variable rate commitment to a fixed rate commitment, starting initially at 90%, and reducing to 40% over four years.

On December 21, 2007, we entered into an interest rate basis swap with an amortizing notional amount of \$3,044.0 in anticipation of changes in the term and benchmark interest rate for loan rollovers for the next twelve months effective

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

December 31, 2007. The new swap was structured to convert the variable LIBOR interest rate component of the long-term borrowings under the Senior Secured Credit Facility from a one-month LIBOR rate to a three month LIBOR rate for a twelve month period. As a result, we de-designated the original swaps for cash flow hedge accounting purposes and designated and accounted for both the original and new basis swaps as a cash flow hedge. At that time, the after tax fair value of these hedges recorded in Accumulated other comprehensive loss was \$85.5, which is being amortized into interest expense to correspond to the recognition of interest expense on the hedged debt. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness and no amount of ineffectiveness was recorded in the Condensed Consolidated Statement of Operations. The interest rate basis swap matured on December 31, 2008.

Effective January 1, 2009, we de-designated the remaining interest rate swaps as cash flow hedges. As a result of the de-designation, any subsequent changes in the fair value of these derivative instruments are 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.

Our interest rate swap agreements do not include ratings based collateral triggers nor do they require us to post collateral regardless of the size of our mark-to-market exposure.

Other Foreign Currency Derivatives

We economically hedge the impact resulting from changes in exchange rates on various foreign currency-denominated net asset 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 nine months ended March 31, 2009, we recorded gains and received cash settlements of \$36.2 upon maturity of our forward contracts. These gains were largely offset by unrealized losses associated with our foreign currency denominated assets.

The following is a summary of our derivative instruments as of March 31, 2009:

	Interest Rate Swaps	Foreign Exchange Contracts
Notional amount	\$ 2,633.0	\$ 2.4
Basis	LIBOR	GBP/AUD
Maturity (calendar year)	2009-2011	2009

GBP = Great Britain Pound Sterling (£)

AUD = Australian Dollar

	March 31, 2009		June 30, 2008		March 31, 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	\$ 87.5	\$ -	\$ 57.1	\$ 1.7	\$ 79.4	\$ -
Non-current portion	64.4	-	35.3	-	92.4	-

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

	Three Months Ended March 31,			
	2009		2008	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Mark-to-market of derivative instruments	\$ 16.5	\$ -	\$ -	\$ -
Interest expense	38.9	-	28.3	-
Weighted average interest rate:				
Paid	5.22%		5.22%	
Received	1.46%		4.83%	

	Successor				Predecessor	
	Nine Months Ended March 31, 2009		Period Ended July 5, 2007 to March 31, 2008		Period Ended July 1, 2007 to July 4, 2007	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Selling, general & administrative, excluding depreciation	\$ -	\$ (36.2)	\$ -	\$ -	\$ -	\$ -
Mark-to-market of derivative instruments	16.5	-	-	-	-	-
Interest expense	85.1	-	18.5	-	-	-
Weighted average interest rate:						
Paid	5.22%		5.22%			
Received	2.68%		4.83%			

10. FAIR VALUE MEASUREMENTS

As highlighted in Note 1 “Basis of Presentation”, we adopted the provisions of SFAS No. 157, as amended.

Fair Value Hierarchy

SFAS No. 157 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect our own assumptions of market participant valuation (unobservable inputs). In accordance with SFAS No. 157, these two types of inputs have created a fair value hierarchy:

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

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

SFAS No. 157 requires the use of observable market data if such data is available without undue cost and effort.

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

Measurement of Fair Value

We measure fair value as an exit price using the procedures described below for all assets and liabilities subject to fair value measurement. When available, we use unadjusted quoted market prices to measure fair value and classify such items within Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be inputs that are readily observable. If quoted market prices are not available, the valuation model used generally depends on the specific asset or liability being valued.

We utilize the market approach to measure 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.

Items Measured at Fair Value on a Recurring Basis

The following table presents our liabilities that are measured at fair value on a recurring basis as of March 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities:				
Derivative liabilities	\$ -	\$ 151.9	\$ -	\$ 151.9
Total Liabilities	<u>\$ -</u>	<u>\$ 151.9</u>	<u>\$ -</u>	<u>\$ 151.9</u>

11. INCOME TAXES

Our effective income tax benefit rates for the three and nine months ended March 31, 2009 were 4.2% and 3.5%, respectively. Our effective income tax benefit rates for the three months ended March 31, 2008 were 5.5% and our effective income tax rates for the periods July 5, 2007 to March 31, 2008 and July 1, 2007 to July 4, 2007 were 0.7% and 35.7%, 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 nine months ended March 31, 2009, in the period July 5, 2007 to March 31, 2008 and the period July 1, 2007 to July 4, 2007.

Our effective tax rate for the three and nine months ended March 31, 2009 benefited from a \$36.3 reversal of tax valuation allowance relating to the \$201.3 gain realized on the purchase and retirement of previously outstanding debt instruments. In addition, our effective tax rate benefited from a \$41.2 reversal of the deferred tax liability, originally created through purchase accounting, and subsequent greater historical tax amortization than book amortization on goodwill and identifiable intangible assets. As a result of the impairment of goodwill and identifiable intangible assets in the three months ended March 31, 2009, a portion of this deferred tax liability was reversed.

We had \$3.1 of unrecognized tax benefits as of March 31, 2009 and 2008. Pursuant to the terms of the acquisition of Thomson Learning, TOC agreed to indemnify us against certain taxes and associated expenses imposed on or payable by us for any taxable period that ends on or before July 5, 2007 or is allocable to the period ending on the same date. The unrecognized tax benefits of \$3.1 relates to such periods. Consequently, we have recorded an equal and offsetting asset in the amount of the unrecognized tax benefits as well as associated accrued interest and penalties. As of March 31, 2009 and 2008, we had accrued an aggregate of \$1.8 and \$1.7, respectively, for interest and penalties associated with these tax positions.

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

As of March 31, 2009, the tax years subject to examination by major jurisdiction were as follows:

Jurisdiction

United States - Federal	2003 - 2008
United Kingdom	2006 - 2008
Singapore	2001 - 2008
Australia	2001 - 2008

12. SUPPLEMENTAL CASH FLOW INFORMATION

Details of “Changes in operating assets and liabilities, net of acquisitions” are:

	Successor		Predecessor
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007
Accounts receivable, net	\$ 82.2	\$ 39.6	\$ (9.4)
Inventories	5.6	7.8	0.8
Prepaid expenses and other current assets	0.8	17.4	(1.0)
Accounts payable and accrued expenses	(35.2)	11.4	8.6
Accrued interest payable	(32.6)	27.5	-
Other current liabilities	(3.6)	(0.2)	-
Deferred revenue	1.1	22.0	3.9
Current taxes payable	1.3	9.0	(0.1)
Author advances, net	(3.0)	0.7	-
Other, net	12.6	(7.9)	(0.6)
	<u>\$ 29.2</u>	<u>\$ 127.3</u>	<u>\$ 2.2</u>

Details of “Non-cash interest on financial instruments” are:

	Successor		Predecessor
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007
Non-cash interest on Senior PIK Notes	\$ 31.7	\$ -	\$ -
Non-cash interest on Senior Bridge Loan Credit Facility	27.7	54.8	-
Non-cash interest on interest rate swaps	26.0	7.9	-
	<u>\$ 85.4</u>	<u>\$ 62.7</u>	<u>\$ -</u>

Cash paid for interest expense amounted to \$337.9 and \$273.7 for the nine months ended March 31, 2009 and the period July 5, 2007 to March 31, 2008, respectively. Amounts paid for interest for the period July 1, 2007 to July 4, 2007 were not significant.

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

13. RELATED PARTY TRANSACTIONS

Due to the nature of our 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 have an advisory fee agreement with each of Apax and OMERS (together, the “Advisory Fee Agreements”). Pursuant to these Advisory Fee Agreements, we are obligated to pay an aggregate annual fee of \$10.7 for fiscal 2009, 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, \$2.5, \$8.0 and \$7.4 for advisory fees the three months ended March 31, 2009 and 2008, nine months ended March 31, 2009 and the period July 5, 2007 to March 31, 2008, respectively, which are included in “Selling, general & administrative, excluding depreciation” in the Condensed Consolidated Statements of Operations. Accrued advisory fees, along with accrued interest, of \$7.7 for the period from July 5, 2007 to March 31, 2008 is included in “Accounts payable and accrued expenses” on the Condensed Consolidated Balance Sheet as of March 31, 2008.

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

We have entered into a master services agreement and an operating agreement with Nelson, which is majority owned by funds affiliated with OMERS, with Apax holding the minority interest. Under the master services agreement, we are to provide Nelson with various services including those relating to business and technology services, content services, customer service and operations, management services, fulfillment services and business information support services and Nelson is to provide us with certain real estate services. The cost of each of the services provided under the master services agreement is based on a set fee. No fees, other than those payable to Nelson for certain real estate services, were payable under the master services agreement for services provided prior to July 1, 2008. Under the operating agreement, Nelson is our exclusive authorized distributor for sale and /or distribution of print and digital publications in Canada and also has the exclusive right to adapt, customize and translate our publications.

We entered into an agency agreement and a distribution agreement with Nelson under which we acted as agent in principal for Nelson’s U.S. business and provided certain distribution related services. Subsequent to entering into the agency and distribution agreements, Nelson sold its U.S. business to an unaffiliated third party and each of the agreements ceased to be effective.

We recorded revenue from Nelson of \$2.1, \$1.7, \$20.2 and \$17.2 for the three months ended March 31, 2009 and 2008, nine months ended March 31, 2009, and the period July 5, 2007 to March 31, 2008, respectively. We recorded expenses of \$0.5, \$0.7, \$2.0 and \$2.2 for the three months ended March 31, 2009 and 2008, nine months ended March 31, 2009, and the period July 5, 2007 to March 31, 2008, respectively. At March 31, 2009, we had a receivable of \$1.1 from Nelson included in “Accounts receivable, net” on the Condensed Consolidated Balance Sheet.

14. 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. 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. 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

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

our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Heather Robertson v. The Thomson Corp., Thomson Canada Ltd., Thomson Affiliates, Information Access Co.(now, The Gale Group, Inc.) and Bell Globemedia Publishing Inc. ("Robertson I"). The *Robertson I* action was certified as a class action in 1999. The class includes all persons who were the authors or creators of literary or original artistic works published in Canada in any print media that were electronically republished by the defendants on or after April 24, 1979, which the plaintiffs claim constitutes an infringement of their rights under the Canadian Copyright Act. The named plaintiff moved for partial summary judgment for aspects of the claims relating to works first published in *The Globe and Mail* in May 2001. The Ontario Superior Court of Justice rendered a decision on October 3, 2001, refusing partial summary judgment and refusing the injunction claimed. The court made declarations of law on a number of common issues. The court stated further that it required a trial to determine whether *The Globe and Mail* had, over the years, acquired implied rights from freelancers to archive and make available the written contents of the newspaper on electronic databases and CD-ROM. The plaintiff appealed certain of the declarations of law and the defendants cross-appealed certain declarations of law. The appeal and cross-appeal were dismissed by the Court of Appeal in October 2004. The Supreme Court of Canada in October 2006 dismissed the plaintiffs' appeal in its entirety and allowed the defendants' cross-appeal as it related to CD-ROMs, but dismissed the appeal as it related to electronic databases.

On May 1, 2009, the parties entered into a proposed settlement of the class action litigation. Under the terms of the proposed settlement, the defendants would pay Canadian \$11.0, inclusive of legal and administrative fees, to class members. A hearing before the Ontario Superior Court of Justice, is scheduled to be held on June 16, 2009, during which the Court will be asked to consider and approve the proposed settlement.

The proposed settlement would provide the defendants and their affiliates a release of all claims and a license in respect of all works that have not been removed from the databases. Class members would be provided with an opportunity to opt out of the settlement, in which case the release of claims would not apply to such class members.

Any loss incurred in the *Robertson* action under the proposed settlement would be paid by insurance policies applicable to our costs of defense and potential liability.

Operating Lease Arrangements

In November 2008, we entered into a new lease agreement for our Boston, MA based office. This arrangement qualifies as an operating lease with rental payments commencing in January 2010. Future minimum lease payments associated with this lease are \$1.3 for fiscal 2010, \$2.7 for each fiscal year from 2011 to 2013, and \$23.5 thereafter.

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 payments being made as a result of these warranties and indemnifications, and therefore, no reserve has been recorded in the Financial Statements.

15. SEGMENT INFORMATION

We operate in three reportable segments worldwide: Academic & Professional, Gale and International. These segments are strategic business groups that offer products and services to target markets and reflect the manner in which our chief operating decision maker regularly reviews the operating results of the business and makes decisions about resources to be allocated. 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

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

“Corporate and other” reporting line item in the table below. Our segments are:

Academic & Professional. The Academic & Professional segment provides post-secondary textbooks and tailored learning solutions, including digital learning solutions, for students, faculty, institutions and professionals in the U.S. and Latin America.

Gale. The Gale segment is a provider of authoritative reference and educational content for libraries, schools, businesses and individual users in the U.S. With its reference content, Gale creates and maintains databases that are published online, in print and in microfilm.

International. The International segment sells our U.S. textbooks into international markets; adapts U.S. textbooks for various international markets; publishes and sells textbooks by non-U.S. authors; and provides learning solutions in various formats to individuals and businesses located outside the U.S. and Latin America, as well as English language teaching products sold globally, including the U.S. market. This reportable segment constitutes an aggregation of various operating segments which have similar economic characteristics and individually do not exceed 10% of our consolidated revenue or segment operating profit.

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 income (loss) before the amortization and impairment of identifiable intangible assets, depreciation, the amortization of pre-publication costs, impairment of goodwill and the allocation of corporate management costs from TOC (Predecessor). Segment operating profit (loss) does not have any standardized meaning prescribed by GAAP.

Select financial information for our segments is as follows:

	Three Months Ended March 31,			
	2009		2008	
	Revenues	Segment Operating Profit (Loss)	Revenues	Segment Operating Profit (Loss)
Academic & Professional	\$ 200.7	\$ 44.2	\$ 157.4	\$ 13.3
Gale	61.2	18.8	61.9	20.6
International	45.9	1.7	51.2	1.0
Segment totals	307.8	64.7	270.5	34.9
Corporate and other	2.7	(5.2)	1.8	(8.0)
Total	\$ 310.5	\$ 59.5	\$ 272.3	\$ 26.9

Corporate and other includes shipping and handling revenue, revenue from administrative services, intersegment eliminations and corporate costs, and the continuing effect of purchase accounting on deferred revenue relating to the acquisition of Thomson Learning.

Revenues for the three months ended March 31, 2009 include intersegment revenue of \$0.4, \$0.7, \$0.0 and \$1.3 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively. Revenues for the three months ended March 31, 2008 include intersegment revenue of \$0.6, \$0.6, \$0.1 and \$1.0 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively.

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

	Successor				Predecessor	
	Nine Months Ended		Period July 5, 2007 to		Period July 1, 2007	
	March 31, 2009		March 31, 2008		to July 4, 2007	
	Segment		Segment		Segment	
	Operating		Operating		Operating	
	Revenues	Profit (Loss)	Revenues	Profit (Loss)	Revenues	Profit (Loss)
Academic & Professional	\$ 1,131.6	\$ 513.9	\$ 934.0	\$ 406.1	\$ 14.6	\$ 7.5
Gale	217.2	94.9	227.8	100.9	1.4	(0.1)
International	156.0	16.1	193.3	34.5	1.8	(0.3)
Segment totals	1,504.8	624.9	1,355.1	541.5	17.8	7.1
Corporate and other	10.9	(16.8)	2.8	(29.6)	0.1	(1.6)
Total	<u>\$ 1,515.7</u>	<u>\$ 608.1</u>	<u>\$ 1,357.9</u>	<u>\$ 511.9</u>	<u>\$ 17.9</u>	<u>\$ 5.5</u>

Revenues for the nine months ended March 31, 2009 include intersegment revenue of \$1.0, \$2.2, \$0.2 and \$4.7 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively. Revenues for the period July 5, 2007 to March 31, 2008 include intersegment revenue of \$1.0, \$2.3, \$0.5 and \$3.4 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively.

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

	Three Months Ended March 31,	
	2009	2008
Total Segment operating profit	\$ 59.5	\$ 26.9
Less:		
Amortization of pre-publication costs	(24.7)	(26.6)
Depreciation	(15.2)	(15.0)
Impairment of goodwill	(831.6)	-
Amortization and impairment of identifiable intangible assets	(385.0)	(50.5)
Operating loss from continuing operations	<u>\$ (1,197.0)</u>	<u>\$ (65.2)</u>

	Successor		Predecessor
	Nine Months	Period	Period
	Ended	July 5, 2007 to	July 1, 2007
	March 31, 2009	March 31, 2008	to July 4, 2007
Total Segment operating profit	\$ 608.1	\$ 511.9	\$ 5.5
Less:			
Amortization of pre-publication costs	(111.7)	(102.7)	(0.9)
Allocation of management costs from TOC	-	-	(0.8)
Depreciation	(46.0)	(43.2)	(0.7)
Impairment of goodwill	(831.6)	-	-
Amortization and impairment of identifiable intangible assets	(476.2)	(160.4)	(0.3)
Operating (loss) income from continuing operations	<u>\$ (857.4)</u>	<u>\$ 205.6</u>	<u>\$ 2.8</u>

16. SUBSEQUENT EVENTS

In April 2009, we entered into a definitive agreement with a third party for the sale of our distance learning businesses in the United Kingdom and the Netherlands. These businesses, previously included within our International segment, are classified as assets held for sale and have been restated as discontinued operations in our Financial Statements for all periods presented. We expect the sale to be completed by June 30, 2009 upon satisfaction of certain customary closing conditions.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

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", "Successor", "we", "us", "our", or the "Company" for all periods after July 5, 2007). Cengage Learning is the successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation ("TOC"), managed together by a single management team (hereinafter collectively referred to as "Thomson Learning" or "Predecessor" for all periods prior to July 5, 2007).

The results for the three and nine months ended March 31, 2009 and the period July 5, 2007 through March 31, 2008 relate to Cengage Learning. However, the financial results for the period July 1, 2007 through July 4, 2007 relate to Thomson Learning. For comparative purposes, we have aggregated the periods from July 1, 2007 through March 31, 2008 in our discussion below to enhance your understanding of the results of operations for the periods presented. This aggregation ("the Cumulative Period Ended March 31, 2008") is not a GAAP measure.

This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated and combined financial statements and the accompanying notes ("Financial Statements"). 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*" and "Risk Factors".

Overview

The following overview highlights the areas we believe are important in understanding our results of operations for the nine months ended March 31, 2009:

- Revenues increased by \$139.9, or 10.2%, for the nine months ended March 31, 2009 compared to the Cumulative Period Ended March 31, 2008 driven primarily by the impact of acquisitions in our Academic & Professional segment, partially offset by declines in our Gale and International segments. Growth from acquisitions resulted primarily from our acquisition of Houghton Mifflin Harcourt Publishing Company's college assets ("HM College"), effective May 30, 2008. See Note 2, "Acquisitions" to our Financial Statements for further information.
- Total segment operating profit increased by \$90.7, or 17.5%, for the nine months ended March 31, 2009 compared to the Cumulative Period Ended March 31, 2008. This increase was primarily a result of higher revenues and the impact of cost structure improvements associated with restructuring programs initiated in prior periods. See Note 15, "Segment Information" to our Financial Statements for further information on segment operating profit.
- Net cash provided by operating activities of continuing operations declined by \$4.8, or 1.4%, for the nine months ended March 31, 2009 compared to the Cumulative Period Ended March 31, 2008. This decline primarily reflects a \$64.2 increased use of cash for interest payments on our debt.
- In March 2009, we conducted an interim impairment analysis of our goodwill and identifiable intangible assets and recorded impairment charges in the aggregate of \$831.6 and \$338.7, respectively, relating to our Gale segment as well as businesses in Australia, Asia and Europe, Middle East and Africa ("EMEA"), each included within our International segment. The impairments primarily reflect the result of adverse changes in market conditions and continued underperformance of these units relative to our expectations of revenue and cash flows.
- We acquired Concept Media in January 2009, HighBeam Research Inc. ("HighBeam") in December 2008, and Gatlin Education Services ("Gatlin") in July 2008. The net assets and results of operations of Concept Media and Gatlin have been included within our Academic & Professional segment and the net assets and results of operations of HighBeam have been included within our Gale segment. See Note 2, "Acquisitions" to our Financial Statements for further information.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

- We purchased and retired \$104.9, net of the unamortized original issue discount, of the 13.25% Senior Subordinated Discount Notes due 2015 (the "Senior Subordinated Discount Notes"), \$200.2 of the 13.75% Senior PIK Notes due 2015 ("Senior PIK Notes") and \$44.1 of borrowings under our Senior Bridge Loan Credit Facility (the "Senior PIK Loans") that resulted in an aggregate gain of \$201.3, net of deferred financing costs. See Note 8, "Debt" to our Financial Statements for further information.
- We consolidated our facilities in Boston, MA. As a result, we exited the leased office facilities and entered into an operating lease arrangement for a new office facility also within Boston, MA. We recorded a charge of \$11.3 relating to our relocation of office facilities that consisted of \$3.9 for net costs that will continue to be incurred for the duration of the original lease arrangement without economic benefit and a \$7.4 non-cash asset impairment. We also recorded \$1.9 to write-off the related carrying amounts of leasehold improvements on the exited leased facility. See Note 7, "Restructuring" to our Financial Statements for further information.
- We recorded gains and received cash settlements of \$36.2 upon maturity of certain foreign currency derivative contracts. These gains were largely offset by unrealized losses associated with our foreign currency denominated assets. The proceeds on settlement are included within Cash Flows from Investing Activities on the Condensed Consolidated Statement of Cash Flows in our Financial Statements. See Note 9, "Financial Instruments" to our Financial Statements for further information.
- We completed the sale of certain higher education titles in connection with an agreement with the U.S. Department of Justice ("DOJ") relating to our acquisition of HM College. No gains or losses on these transactions were recognized.

Seasonality

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.

Stand-Alone Company

After July 5, 2007, we operated as a stand-alone company. Prior to the Thomson Learning acquisition, we operated as divisions of TOC and not as a stand-alone company. The combined financial statements included in this report for the period July 1, 2007 to July 4, 2007 have been derived from the accounting records of TOC using the historical results of operations and the historical basis of assets and liabilities directly attributable to Thomson Learning. The historical financial information included in this report may not reflect what our results of operations, financial position and cash flows would have been had we operated as a separate, stand-alone company without the shared resources of TOC for the periods presented and may not be indicative of our future results of operations, financial position and cash flows. We were allocated general corporate expenses from TOC for corporate-related functions based on our revenue in proportion to the total revenue of TOC. General corporate expense allocations included executive management, internal and external audit fees, treasury, investor relations, strategic sourcing and risk management. We were allocated general corporate expenses from TOC of \$0.8 for the period July 1, 2007 to July 4, 2007.

We believe the assumptions and methodologies underlying the allocations of general corporate expenses from TOC are reasonable. However, such expenses are not indicative of, nor is it practical or meaningful for us to estimate for all historical periods presented, the actual level of expenses that would have been incurred had we been operating as a separate, stand-alone public or private company.

Concurrent with the consummation of the Thomson Learning acquisition, our employees ceased to be active participants in all TOC sponsored employee benefit and equity-based compensation plans. We did not retain any obligations under, or liabilities with respect to these plans.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Critical Accounting Policies and Estimates

There were no changes to the application of our critical accounting policies and estimates during the three and nine months ended March 31, 2009, except for certain significant estimates used in our valuation of amortizable identifiable intangible assets and goodwill used for impairment testing purposes, which are presented in detail below. For further information on our critical accounting policies and estimates, refer to the discussion contained in the MD&A of our Annual Report for the Fiscal Year Ended June 30, 2008 ("2008 Annual Report").

Valuation of Amortizable Identifiable Intangible Assets

We evaluate long-lived assets, including amortizable identifiable intangible assets, for potential impairments whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. During the nine months ended March 31, 2009, our Gale segment and certain reporting units within our International segment have experienced declines in revenues due to a variety of reasons including the weakening global economic environment, a decrease in export sales to North America and enrollment declines in the distance learning business in Australia, as well as lower sales of our English language teaching products ("ELT") in Asia and EMEA. Due to the declines in actual and projected revenue, and given the current market conditions in which we operate, we believe that events have occurred that warranted us to evaluate the carrying amounts of our long-lived assets, including amortizable identifiable intangible assets.

Accordingly, in March 2009, we performed a recoverability analysis of the identifiable intangible assets associated with the Gale segment and certain reporting units within our International segment. We determined that the individual reporting units are the lowest level of asset grouping for which identifiable cash flows are independent of other assets. We compared the carrying amount of each reporting unit with the sum of undiscounted cash flows related to that reporting unit. Where the carrying amount exceeded the related undiscounted cash flows, we recorded an impairment for the amount by which the carrying value exceeded the reporting unit's fair value. We determined the fair values for each identifiable intangible asset using the following:

- Publishing Rights and Customer Relationships were valued using an excess earnings method. This is an income approach that involves projecting revenue and expenses attributable to publishing rights and existing customer relationships and subtracting the required return on the net tangible assets and other identifiable intangible assets, as well as the value of the workforce attributable to that part of the business. Our estimates include revenue and expense projections, tangible and intangible asset contributory charges, attrition rates, estimated economic lives and discount rates.

Aside from revisions to our revenue and expense projections, which reflect the impact of the weakening global economic environment and the more recent financial credit crisis, we based our valuation of each identifiable intangible asset as of each asset's original valuation at the time of its acquisition and as of March 31, 2009 using the following significant estimates:

	<u>Original Valuation</u>	<u>March 31, 2009</u>
Annual attrition rates	6.7% - 10.0%	Unchanged
Discount rates	11.0%	10.5% - 12.5%

- Trade Names and Database / Content were valued using a relief from royalty method. This is an income approach that quantifies the economic benefits associated with the ownership and use of the intangible asset by calculating the amount of royalties payable to a licensor, in a hypothetical arm's-length transaction, that would be relieved (by virtue of ownership) over the life of the asset. Our estimates include revenue projections, prevailing royalty rates for similar assets in the educational publishing industry, estimated economic lives and discount rates.

Aside from revisions to our revenue projections, which reflect the impact of the weakening global economic environment and the more recent financial credit crisis, we based our valuation of each identifiable intangible

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

asset as each asset's original valuation at the time of its acquisition and as of March 31, 2009 using the following significant estimates:

	Original Valuation	March 31, 2009
Hypothetical royalty rates for Trade Names	1.0% - 2.5%	Unchanged
Hypothetical royalty rates for Database / Content	15.6% - 30.0%	Unchanged
Discount rates	11.0%	10.5% - 12.5%

- Non-compete agreements were valued using a with-and-without method, which uses the projected cash flows associated with the estimated savings attributable to having the agreements in place.

The estimates and assumptions used in the valuation analysis included certain subjective components. Changes in the discount rates reflect the impact of the optimal debt to equity capital structure, jurisdictional risk premium and the systemic risk coefficient applied to each particular investment. Anticipated future operating results and cash flows are based on our own internal business plans as well as future expectations about general economic and local market conditions.

Based on our valuations, we recorded an impairment charge of \$338.7 during the three months ended March 31, 2009, relating to Gale and certain reporting units within our International segment, which is comprised of:

	Customer Relationships	Database / Content	Trade Names	Publishing Rights	Non-Compete and Other	Total
Gale	\$ 65.7	\$ 171.6	\$ 24.2	\$ 9.0	\$ 4.3	\$ 274.8
Australia	5.8	1.7	4.5	26.0	-	38.0
Asia	-	8.4	10.0	3.7	-	22.1
EMEA ELT	0.8	-	0.2	2.8	-	3.8
Total	<u>\$ 72.3</u>	<u>\$ 181.7</u>	<u>\$ 38.9</u>	<u>\$ 41.5</u>	<u>\$ 4.3</u>	<u>\$ 338.7</u>

Impairment of Goodwill

We evaluate goodwill for impairment annually in the fourth quarter of each year, or whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to declines in actual and projected revenue of certain reporting units, and given the current market conditions in which we operate, we believe that events have occurred that warranted us to evaluate whether the fair value of such reporting units have fallen below their carrying amounts.

Accordingly, in March 2009, we performed an interim goodwill impairment analysis of our Gale segment and certain reporting units within our International segment. As part of our evaluation, we are required to (i) compare the fair value of each reporting unit with its carrying amount, including goodwill, and (ii) for reporting units where the carrying amount exceeded fair value, recognize an impairment equal to the difference between the implied fair value of a reporting unit's goodwill and the goodwill carrying amount.

In order to determine the fair value of each reporting unit, we considered various valuation techniques and determined that a weighted average of discounted cash flows and market related multiples were the most meaningful to us. We excluded comparable transaction related multiples as a meaningful methodology due to the limited number of recent comparable transactions. Consequently, the applied weighting of the methodologies was 80% towards a discounted cash flow value and 20% towards a market related multiple value. We weighted our valuation in this manner because we believe that a discounted cash flow currently provides the most reliable indication of fair value in the market place. Our reduced weighting towards market related multiples reflect our assessment of the inherent limitations in identifying a pool of comparable organizations for each reporting unit with publicly disclosed financial data.

Inputs to the valuation calculations required certain assumptions. These assumptions represent our best estimates based on historical performance of the respective reporting units, trends within the market place and our consideration of the potential impact of political, economic and social factors that are considered beyond our control. Significant assumptions

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

included within our discounted cash flow valuation include revenue growth rates, operating profit margins, capital expenditures, terminal growth rates and discount rates.

- Revenue growth rates and operating profit margins were determined based on the historical performance of each reporting unit and our projections of future performance assuming successful execution of our strategic objectives as well as considering trends within the market place.
- Terminal growth rates were estimated based on the historical performance of each reporting unit and our projections of future performance. Given the inherent limitations associated with projecting this far into the future, our terminal growth rates do not exceed the expected inflation rate of the jurisdiction in which the reporting unit operates.
- Discount rates represent the industry standard weighted average cost of capital or required rate of return on total capitalization. It is comprised of the estimated required rate of return on equity plus the current tax-effected rate of return on long-term debt, weighted by the relative percentages of equity and debt in actual capital structures of public companies in the industry. The discount rates were determined for each reporting unit, which varied from 9.5% to 11.5% depending on the optimum debt to equity capital structure, jurisdictional risk premium and systemic risk coefficient applied to each particular investment.

Our assumed market related multiples varied by reporting unit from 0.9 times to 2.2 times for revenue and 5.0 times to 10.0 times for earnings before interest, tax, depreciation and amortization.

In order to determine the implied fair value of a reporting unit's goodwill, we performed a hypothetical purchase price allocation using the fair value determined above as the purchase price. For purposes of the hypothetical purchase price allocation, we applied the methodologies and assumptions described above to value our amortizable identifiable intangible assets.

A change in any of the assumptions may have a significant impact on the determined fair value of individual reporting units. Furthermore, if expectations for revenue and cash flows decline or if market conditions deteriorate, we may not be able to realize the carrying values of our goodwill and identifiable intangible assets and could be required to record future charges for impairment.

Based on our evaluation, we recorded a goodwill impairment charge of \$831.6 during the three months ended March 31, 2009 relating to Gale and certain reporting units within our International segment. This impairment primarily reflects our expectations of revenue and cash flows in light of the weakening global economic environment, a decrease in export sales to North America and enrollment declines in the distance learning business in Australia, as well as, lower sales of our ELT products in Asia and EMEA.

	Goodwill Impairment
Gale	\$ 685.4
Australia	92.7
Asia	40.6
EMEA ELT	12.9
Total	<u>\$ 831.6</u>

The non-cash impairment of goodwill and identifiable intangible assets does not have a material impact on the covenant calculations of our debt agreements or our overall compliance with the covenants of our debt agreements.

Subsequent Events

In April 2009, we entered into a definitive agreement with a third party for the sale of our distance learning businesses in the United Kingdom and the Netherlands. These businesses, previously included within our International segment, are classified as assets held for sale and have been restated as discontinued operations in our Financial Statements for all periods presented. We expect the sale to be completed by June 30, 2009 upon satisfaction of certain customary closing conditions.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Results of Operations

The following table compares the results of operations for the Three Months Ended March 31, 2009 and the Three Months Ended March 31, 2008

	Three Months		Percentage
	Ended March 31,		
	2009	2008	Change
Revenues:			
Academic & Professional	\$ 200.7	\$ 157.4	27.5%
Gale	61.2	61.9	-1.1%
International	45.9	51.2	-10.4%
Corporate and other	2.7	1.8	50.0%
Total revenues	<u>310.5</u>	<u>272.3</u>	14.0%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	150.5	148.5	1.3%
Amortization of pre-publication costs	24.7	26.6	-7.1%
Total cost of revenues, excluding depreciation stated below	<u>175.2</u>	<u>175.1</u>	0.1%
Selling, general & administrative, excluding depreciation stated below	100.5	96.9	3.7%
Depreciation	15.2	15.0	1.3%
Impairment of goodwill	831.6	-	NM
Amortization and impairment of identifiable intangible assets	<u>385.0</u>	<u>50.5</u>	NM
Total costs and expenses	<u>1,507.5</u>	<u>337.5</u>	346.7%
Operating loss from continuing operations	(1,197.0)	(65.2)	NM
Gain on early extinguishment of debt	142.5	-	NM
Mark-to-market of derivative instruments	16.5	-	NM
Interest income	0.3	2.5	-88.0%
Interest expense	(144.0)	(138.2)	4.2%
Loss before taxes from continuing operations	(1,181.7)	(200.9)	488.2%
Benefit from income taxes	50.2	11.0	356.4%
Equity losses of investees, net of taxes	(0.4)	-	NM
Loss from continuing operations	(1,131.9)	(189.9)	496.1%
Loss from discontinued operations, net of tax	(1.5)	(5.4)	-72.2%
Net loss	<u>\$ (1,133.4)</u>	<u>\$ (195.3)</u>	480.3%

NM = Not meaningful

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Revenues increased by \$38.2, or 14.0%, including a 4.8% unfavorable impact from foreign currency translation, to \$310.5 for the three months ended March 31, 2009 from \$272.3 for the three months ended March 31, 2008 driven primarily by \$28.8 of growth from acquisitions, mainly HM College, and growth in our Academic business in the U.S.

Total cost of revenues, excluding depreciation increased by \$0.1, or 0.1%, to \$175.2 for the three months ended March 31, 2009 from \$175.1 for the three months ended March 31, 2008. Our cost of revenues predominantly includes author royalties, paper, printing and binding costs, all of which vary as revenues increase or decrease, 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 increase in cost of revenues, excluding amortization of pre-publication costs and depreciation, is primarily driven by higher royalty expense, distribution costs and other variable costs associated with higher revenues and higher employee-related costs associated with acquisitions, partially offset by the benefit of cost structure improvements from restructuring programs initiated in prior periods. Amortization of pre-publication costs decreased primarily reflecting the timing of sales during the year, partially offset by an increase in amortization attributable to the \$27.1 pre-publication costs capitalized in connection with our acquisition of HM College.

Selling, general & administrative expense, excluding depreciation increased by \$3.6, or 3.7%, to \$100.5 for the three months ended March 31, 2009 from \$96.9 for the three months ended March 31, 2008 primarily due to a \$1.8 increase in our equity-based compensation expense, and higher employee-related costs primarily associated with acquisitions, partially offset by cost structure improvements from restructuring programs initiated in prior periods.

Depreciation increased by \$0.2, or 1.3%, to \$15.2 for the three months ended March 31, 2009 from \$15.0 for the three months ended March 31, 2008 primarily reflecting \$2.5 of accelerated depreciation on certain software assets which no longer support our core product strategy, partially offset by capitalized software for internal use that became fully depreciated in the prior year period.

Impairment of goodwill reflects the results of our interim impairment test, from which we recorded an aggregate \$831.6 impairment charge in Gale and certain reporting units within our International segment.

Amortization and impairment of identifiable intangible assets increased by \$334.5 to \$385.0 for the three months ended March 31, 2009 from \$50.5 for the three months ended March 31, 2008 primarily reflecting the \$338.7 impairment charge in Gale and certain reporting units within our International segment and increased amortization of \$8.5 related to the \$503.2 of identifiable intangible assets recognized at fair value upon consummation of various acquisitions over the last twelve months.

Gain on early extinguishment of debt reflects a \$142.5 gain, net of deferred financing costs, recognized in the three months ended March 31, 2009 associated with the repurchase and retirement of \$229.5 of Senior Subordinated Discount Notes and Senior PIK Notes.

Mark-to-market of derivative instruments reflects a \$16.5 unrealized gain on our interest rate swaps. We designated our interest rate swaps as cash flow hedges effective January 1, 2009 and as a result, changes in the fair value of these derivatives instruments were and will be included in earnings.

Interest income decreased by \$2.2, or 88.0%, to \$0.3 for the three months ended March 31, 2009 from \$2.5 for the three months ended March 31, 2008 primarily due to lower average cash and cash equivalents and lower interest rates.

Interest expense increased by \$5.8, or 4.2%, to \$144.0 for the three months ended March 31, 2009 from \$138.2 for the three months ended March 31, 2008. The increase primarily reflects the following:

- \$11.7, or 8.5%, increase associated with the borrowing of the \$625.0 incremental term loan facility which was used to partially finance our acquisition of HM College on May 30, 2008, and
- \$10.0, or 7.2%, increase in non-cash interest associated with the de-designation of our interest rate swaps for cash flow hedge accounting purposes, partially offset by

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

- \$14.7, or 10.6%, decrease attributable to lower interest on the term loan facility, which is driven primarily by a combination of the lower overall interest rate environment, the declining percentage of term loans that are hedged and the change in our selected interest rate benchmark in January 2009 from three month LIBOR to one-month LIBOR.

Benefit from income taxes increased \$39.2 reflecting (i) a \$36.3 reversal of the tax valuation allowance driven by the gain realized on the purchase and retirement of previously outstanding debt instruments and (ii) a \$41.2 reversal of the deferred tax liability, originally created through purchase accounting, and subsequent greater historical tax amortization than book amortization on goodwill and identifiable intangible assets. As a result of the impairment of goodwill and identifiable intangible assets in the three months ended March 31, 2009, a portion of this deferred tax liability was reversed.

These benefits were partially offset by a higher effective tax rate, primarily due to increased state, local and certain foreign jurisdiction tax expenses. In computing the tax charge for the State of California, we accrued \$1.3 of year to date tax expense, related to a 2009 tax law change. Under this change, we could not utilize tax loss carry forwards to offset income, arising primarily from the gain on the purchase and retirement of previously outstanding debt instruments. For jurisdictions that are projected to be loss-making for the full year, no tax benefit has been recorded, as such jurisdictions are not expected to realize the associated benefits in the future.

Equity losses of investees, net of taxes for the three months ended March 31, 2009 represents losses from our investment in CourseSmart LLC, which is accounted for as an equity investee.

Loss from discontinued operations, net of tax decreased \$3.9, or 72.2%, to \$1.5 for the three months ended March 31, 2009 from \$5.4 for the three months ended March 31, 2008 primarily reflecting a \$1.3 lower reduction of revenue associated with purchase accounting adjustments to deferred revenue arising from the acquisition of Thomson Learning.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

The Period July 1, 2007 through July 4, 2007

The period July 1, 2007 through July 4, 2007 has been separately reported in our Financial Statements representing the Predecessor period prior to the acquisition of Thomson Learning. As a result of being only a four day period, we believe a comparison of the results of operations to the prior year comparative period is not meaningful.

Aggregation of the Cumulative Period Ended March 31, 2008

The following table displays the aggregation for the Cumulative Period Ended March 31, 2008:

	Successor Period July 5, 2007 to March 31, 2008	Predecessor Period July 1, 2007 to July 4, 2007	Cumulative Period Ended March 31, 2008
Revenues:			
Academic & Professional	\$ 934.0	\$ 14.6	\$ 948.6
Gale	227.8	1.4	229.2
International	193.3	1.8	195.1
Corporate and other	2.8	0.1	2.9
Total revenues	<u>1,357.9</u>	<u>17.9</u>	<u>1,375.8</u>
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	559.4	7.7	567.1
Amortization of pre-publication costs	<u>102.7</u>	<u>0.9</u>	<u>103.6</u>
Total cost of revenues, excluding depreciation stated below	662.1	8.6	670.7
Selling, general & administrative, excluding depreciation stated below	286.6	4.7	291.3
Allocation of management costs from TOC	-	0.8	0.8
Depreciation	43.2	0.7	43.9
Amortization of identifiable intangible assets	<u>160.4</u>	<u>0.3</u>	<u>160.7</u>
Total costs and expenses	<u>1,152.3</u>	<u>15.1</u>	<u>1,167.4</u>
Operating income from continuing operations	205.6	2.8	208.4
Other income, net	0.8	-	0.8
Interest income	6.0	-	6.0
Interest expense	<u>(414.9)</u>	<u>-</u>	<u>(414.9)</u>
(Loss) income before taxes from continuing operations	(202.5)	2.8	(199.7)
Provision for income taxes	(1.5)	(1.0)	(2.5)
Equity losses of investees, net of taxes	<u>(2.0)</u>	<u>(0.1)</u>	<u>(2.1)</u>
(Loss) income from continuing operations	(206.0)	1.7	(204.3)
(Loss) income from discontinued operations, net of tax	<u>(11.1)</u>	<u>0.1</u>	<u>(11.0)</u>
Net (loss) income	<u>\$ (217.1)</u>	<u>\$ 1.8</u>	<u>\$ (215.3)</u>

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

The following table compares the results of operations for the Nine Months Ended March 31, 2009 and the Cumulative Period Ended March 31, 2008

	Nine Months Ended March 31, 2009	Cumulative Period Ended March 31, 2008	Percentage Change
Revenues:			
Academic & Professional	\$ 1,131.6	\$ 948.6	19.3%
Gale	217.2	229.2	-5.2%
International	156.0	195.1	-20.0%
Corporate and other	10.9	2.9	275.9%
Total revenues	<u>1,515.7</u>	<u>1,375.8</u>	10.2%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	593.2	567.1	4.6%
Amortization of pre-publication costs	111.7	103.6	7.8%
Total cost of revenues, excluding depreciation stated below	<u>704.9</u>	<u>670.7</u>	5.1%
Selling, general & administrative, excluding depreciation stated below	314.4	291.3	7.9%
Allocation of management costs from TOC	-	0.8	-100.0%
Depreciation	46.0	43.9	4.8%
Impairment of goodwill	831.6	-	NM
Amortization and impairment of identifiable intangible assets	476.2	160.7	196.3%
Total costs and expenses	<u>2,373.1</u>	<u>1,167.4</u>	103.3%
Operating (loss) income from continuing operations	(857.4)	208.4	-511.4%
Gain on early extinguishment of debt	201.3	-	NM
Mark-to-market of derivative instruments	16.5	-	NM
Other income, net	0.1	0.8	-87.5%
Interest income	0.9	6.0	-85.0%
Interest expense	(448.9)	(414.9)	8.2%
Loss before taxes from continuing operations	(1,087.5)	(199.7)	444.6%
Benefit from (provision for) income taxes	38.6	(2.5)	NM
Equity losses of investees, net of taxes	(1.2)	(2.1)	-42.9%
Loss from continuing operations	(1,050.1)	(204.3)	414.0%
Loss from discontinued operations, net of tax	(6.0)	(11.0)	-45.5%
Net loss	<u>\$ (1,056.1)</u>	<u>\$ (215.3)</u>	390.5%

NM = Not meaningful

Revenues increased by \$139.9, or 10.2%, including a 1.8% unfavorable impact from foreign currency translation, to \$1,515.7 for the nine months ended March 31, 2009 from \$1,375.8 for the Cumulative Period Ended March 31, 2008 driven primarily by \$176.4 of growth from acquisitions, mainly HM College. Partially offsetting this increase is a \$39.1 decline in revenue driven primarily by weakening sales within certain international businesses as a result of the current economic environment, the impact of the strengthening U.S. dollar on sales in Asia and lower export sales by Australia to North America, as well as a \$12.0 decline attributable to our Gale segment reflecting lower sales of print and digital products.

Total cost of revenues, excluding depreciation increased by \$34.2, or 5.1%, to \$704.9 for the nine months ended March 31, 2009 from \$670.7 for the Cumulative Period Ended March 31, 2008. Our cost of revenues predominantly includes author royalties, paper, printing and binding costs, all of which vary as revenues increase or decrease, 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.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

The increase in cost of revenues, excluding amortization of pre-publication costs and depreciation, is primarily driven by higher royalty expense, distribution costs and other variable costs associated with our higher revenues, \$5.0 of restructuring charges associated with our relocation of office facilities in Boston, MA, as well as \$6.8 higher net employee-related costs associated with acquisitions included predominantly within our Academic & Professional segment. Amortization of pre-publication costs increased primarily due to the \$27.1 pre-publication costs capitalized in connection with our acquisition of HM College.

Selling, general & administrative expense, excluding depreciation increased by \$23.1, or 7.9%, to \$314.4 for the nine months ended March 31, 2009 from \$291.3 for the Cumulative Period Ended March 31, 2008 primarily due to \$6.3 of restructuring charges associated with the relocation of our office facilities in Boston, MA, \$5.4 higher net employee-related costs primarily associated with acquisitions, \$5.2 increase in our equity-based compensation, and a \$4.3 increase related to foreign currency transaction losses.

Depreciation increased by \$2.1, or 4.8%, to \$46.0 for the nine months ended March 31, 2009 from \$43.9 for the Cumulative Period Ended March 31, 2008 primarily reflecting \$2.5 of accelerated depreciation on certain software assets which no longer support our core product strategy and a \$1.9 write-off of leasehold improvements on the exited leased facility in Boston, MA, partially offset by capitalized software for internal use that became fully depreciated in the prior year.

Impairment of goodwill reflects the results of our interim impairment test, from which we recorded an aggregate \$831.6 impairment charge in Gale and certain reporting units within our International segment.

Amortization and impairment of identifiable intangible assets increased by \$315.5 or 196.3%, to \$476.2 for the nine months ended March 31, 2009 from \$160.7 for the Cumulative Period Ended March 31, 2008 reflecting the \$338.7 impairment charge in Gale and certain reporting units within our International segment and increased amortization of \$22.6 related to the \$503.2 of identifiable intangible assets recognized upon consummation of various acquisitions over of the last twelve months. Partially offsetting this increase is a decrease of \$20.0 reflecting the cessation of amortization of certain identifiable intangible assets acquired as part of the Thomson Learning acquisition that have become fully amortized as well as greater amortization for the Cumulative Period Ended March 31, 2008 based upon the preliminary valuation of identifiable intangible assets acquired as part of the acquisition of Thomson Learning.

Gain on early extinguishment of debt reflects a \$201.3 gain, net of deferred financing costs, recognized in the nine months ended March 31, 2009 associated with the repurchase and retirement of \$349.2 of Senior Subordinated Discount Notes, Senior PIK Loans and Senior PIK Notes.

Mark-to-market of derivative instruments reflects a \$16.5 unrealized gain on our interest rate swaps. We designated our interest rate swaps as cash flow hedges effective January 1, 2009 and as a result, changes in the fair value of these derivatives instruments were and will be included in earnings.

Other income, net of \$0.1 for the nine months ended March 31, 2009 reflects gains on sales of certain publishing rights that we sold during the period as compared with \$0.8 for the nine months ended March 2008 resulting from the sale of our investment in Universitas 21 Global ("U21") in November 2007. We accounted for U21 using the equity method and recognized a gain as a result of equity losses recognized from July 1, 2007 through the date of sale.

Interest income decreased by \$5.1, or 85.0%, to \$0.9 for the nine months ended March 31, 2009 from \$6.0 for the Cumulative Period Ended March 31, 2008 primarily due to lower average cash and cash equivalents and lower average interest rates.

Interest expense increased by \$34.0, or 8.2%, to \$448.9 for the nine months ended March 31, 2009 from \$414.9 for the Cumulative Period Ended March 31, 2008. The increase primarily reflects the following:

- \$35.6, or 8.6%, increase associated with the borrowing of the \$625.0 incremental term loan facility which was used to partially finance our acquisition of HM College on May 30, 2008,
- \$18.1, or 4.4%, increase in non-cash interest associated with the de-designation of our interest rate swaps for cash flow hedge accounting purposes,

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

- \$7.5, or 1.8%, increase in non-cash interest from amortization of deferred financing costs associated primarily with the incremental term loan facility and the fee related to the conversion of Senior PIK Loans in July 2008 (see Note 8, "Debt" to our Financial Statements for more information), and
- \$4.6, or 1.1%, increase in non-cash interest on the Senior PIK Loans and Senior PIK Notes, driven by the higher outstanding borrowings and interest rates during the period, partially offset by
- \$31.3, or 7.5%, decrease attributable to lower interest on the term loan facility, which is driven primarily by a combination of the lower overall interest rate environment, the declining percentage of term loans that are hedged and the change in our selected interest rate benchmark in January 2009 from three month LIBOR to one-month LIBOR.

Benefit for income taxes increased \$41.1 reflecting (i) a \$36.3 reversal of the tax valuation allowance driven by the gain realized on the purchase and retirement of previously outstanding debt instruments and (ii) a \$41.2 reversal of the deferred tax liability, originally created through purchase accounting, and subsequent greater historical tax amortization than book amortization on goodwill and identifiable intangible assets. As a result of the impairment of goodwill and identifiable intangible assets in the three months ended March 31, 2009, a portion of this deferred tax liability was reversed.

These benefits were partially offset by a higher effective tax rate, primarily due to increased state, local and certain foreign jurisdiction tax expenses. In computing the tax charge for the State of California, we accrued \$1.3 of year to date tax expense, related to a 2009 tax law change. Under this change, we could not utilize tax loss carry forwards to offset income, arising primarily from the gain on the purchase and retirement of previously outstanding debt instruments. For jurisdictions that are projected to be loss-making for the full year, no tax benefit has been recorded, as such jurisdictions are not expected to realize the associated benefits in the future.

Equity losses of investees, net of taxes for the nine months ended March 31, 2009 represents losses from our investment in CourseSmart LLC, which is accounted for as an equity investee, as compared with the nine months ended March 31, 2008 which includes losses from our prior investment in U21.

Loss from discontinued operations, net of tax decreased \$5.0, or 45.5%, to \$6.0 for the nine months ended March 31, 2009 from \$11.0 for the Cumulative Period Ended March 31, 2008 primarily reflecting a \$4.7 lower reduction of revenue associated with purchase accounting adjustments to deferred revenue arising from the acquisition of Thomson Learning, partially offset by \$2.3 of additional write-down to the net assets of our distance learning businesses in the United Kingdom and the Netherlands and \$1.4 loss recorded on the sale of the local language academic businesses located in Spain.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Segment Operating Results

Academic & Professional

	Three Months Ended March 31,			Percentage Change	Nine Months Ended March 31,		Cumulative Period Ended March 31,		Percentage Change	
	2009		2008		2009		2008			
	\$		\$			\$		\$		
Revenue	200.7		157.4	27.5%	1,131.6		948.6		19.3%	
Segment operating profit	44.2		13.3	232.3%	513.9		413.6		24.3%	
Margin	22.0%		8.4%		45.4%		43.6%			

Revenues Our Academic & Professional segment revenue increased by \$43.3, or 27.5%, for the three months ended March 31, 2009, including a 1.1% unfavorable impact from foreign currency translation, primarily due to the following:

- \$23.9, or 15.2%, increase in our higher education and career channels from acquisitions, primarily HM College and Gatlin, and
- \$19.4, or 12.3%, increase primarily reflecting higher revenue in the U.S. in our Academic business, in both higher education and career channels, due to changes in customer ordering patterns that shifted some sales from our fiscal second quarter to our fiscal third quarter.

Segment operating profit Our Academic & Professional segment operating profit during the three months ended March 31, 2009 increased by \$30.9, or 232.3%, primarily due to the following:

- Increased contribution of higher revenues, partially offset by
- \$10.4, or 78.2%, higher employee-related costs in connection with recently completed acquisitions, reduced by the benefit of cost structure improvements from restructuring programs initiated in prior periods, and
- \$4.0, or 30.1%, higher net royalty expense due to growth in revenues partially offset by lower royalty rates due to product mix.

Revenues Our Academic & Professional segment revenue increased by \$183.0, or 19.3%, for the nine months ended March 31, 2009, including a 0.2% unfavorable impact from foreign currency translation, primarily due to the following:

- \$166.6, or 17.6%, increase in our higher education and school channels from acquisitions, primarily HM College, and
- \$23.8, or 2.5%, increase primarily reflecting higher revenue in the U.S. in our Academic business, in both higher education and career channels, partially offset by
- \$7.4, or 0.8%, decrease associated with titles divested pursuant to the agreement we reached with the DOJ in connection with the regulatory review of our acquisition of HM College.

Segment operating profit Our Academic & Professional segment operating profit during the nine months ended March 31, 2009 increased by \$100.3, or 24.3%, primarily due to the following:

- Increased contribution from higher revenues and the benefit of cost structure improvements from restructuring programs initiated in prior periods, partially offset by
- \$25.3, or 6.1%, higher royalty expense due to growth in revenues,
- \$18.6, or 4.5%, higher employee-related costs in connection with recently completed acquisitions,
- \$11.3, or 2.7%, of restructuring charges associated with our relocation of office facilities in Boston, MA. Included in this charge, is a non-cash impairment of \$7.4 and \$3.9 for net costs that will continue to be incurred for the duration of the original lease arrangement without future economic benefit,
- \$5.5, or 1.3%, unfavorable impact from foreign currency denominated transactions, and
- \$3.2, or 0.8%, related to various services provided pursuant to the transition services agreement entered into upon consummation of the HM College acquisition.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Gale

	Three Months		Percentage Change	Nine Months	Cumulative	Percentage Change
	Ended March 31,			Ended	Period Ended	
	2009	2008		March 31,	March 31,	
	2009	2008	2009	2008		
Revenue	\$ 61.2	\$ 61.9	-1.1%	\$ 217.2	\$ 229.2	-5.2%
Segment operating profit	18.8	20.6	-8.7%	94.9	100.8	-5.9%
Margin	30.7%	33.3%		43.7%	44.0%	

Revenues Our Gale segment revenue decreased by \$0.7, or 1.1%, during the three months ended March 31, 2009 primarily due to the following:

- \$3.2, or 5.2%, decrease in sales of print materials to wholesaler customers and academic channels, reflecting fiscal spending constraints on such customers resulting from the weakening economic environment, coupled with decreases due to timing of certain publications, and
- \$1.0, or 1.6%, decrease in sales of digital archives and subscriptions, partially offset by
- \$2.9, or 4.7%, increase in sales from our acquisition of HighBeam, and
- \$1.5, or 2.4%, increase in sales of e-books into our school and public library channels.

Segment operating profit Our Gale segment operating profit during the three months ended March 31, 2009 decreased by \$1.8, or 8.7%, primarily due to the following:

- Reduced contribution from lower sales,
- \$4.7, or 22.8%, higher net employee-related costs driven by a larger vacation accrual need and from our acquisition of HighBeam, net of lower incentive compensation and restructuring programs initiated in prior periods resulting in fewer employees, partially offset by
- \$1.2, or 5.8%, lower royalty expense due to product mix.

Revenues Our Gale segment revenue decreased by \$12.0, or 5.2%, during the nine months ended March 31, 2009 primarily due to the following:

- \$6.0, or 2.6%, decrease in sales of digital archives primarily reflecting the impact of fiscal spending constraints on our customers related to the continued weakening economic environment and tightening of customer budgets for one-time purchases coupled with a large non-recurring sale in the comparable prior year period, and
- \$7.8, or 3.4%, decrease in sales of print materials to wholesaler customers, and academic and school channels, reflecting spending constraints on such customers related to the weakening economic environment, net of increases in sales from the timing of certain publications compared to the prior year period, partially offset by
- \$3.4, or 1.5%, increase in sales from our acquisition of HighBeam.

Segment operating profit Our Gale segment operating profit during the nine months ended March 31, 2009 decreased by \$5.9, or 5.9%, primarily due to the following:

- Reduced contribution from lower sales,
- \$1.0, or 1.0%, decrease associated with a legal settlement resulting in a gain in the prior year, and
- \$1.1, or 1.1%, higher employee-related costs driven by a larger vacation accrual need and from our acquisition from HighBeam, net of lower incentive compensation and restructuring programs initiated in prior periods resulting in fewer employees, partially offset by
- \$1.4, or 1.4%, lower royalty expense due to decline in revenues and product mix.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

International

	Three Months		Percentage Change	Nine Months	Cumulative	Percentage Change
	Ended March 31,			Ended	Period Ended	
	2009	2008		March 31,	March 31,	
Revenue	\$ 45.9	\$ 51.2	-10.4%	\$ 156.0	\$ 195.1	-20.0%
Segment operating profit	1.7	1.0	70.0%	16.1	34.2	-52.9%
Margin	3.7%	2.0%		10.3%	17.5%	

Revenue Our International segment revenue decreased by \$5.3, or 10.4%, during the three months ended March 31, 2009, including a 21.3% unfavorable impact from foreign currency translation, partially offset by \$2.0, or 3.9%, increase from our acquisition of HM College. Revenue decreased primarily due to the following:

- \$7.2, or 14.1%, decline in Australia from an unfavorable impact of foreign currency translation of 12.1% and lower export sales to North America, partially offset by increased sales in the higher education channel, and
- \$1.6, or 3.1%, decline in EMEA reflecting an unfavorable impact of foreign currency translation of 8.4%, which was reduced by an increase in sales of our library reference products, partially offset by
- \$4.1, or 8.0%, increase in Asia due to incremental sales in the higher education channel and ELT products, net of additional returns.

Segment operating profit Our International segment operating profit during the three months ended March 31, 2009 increased by \$0.7, or 70.0%, due primarily to \$3.5 lower employee related costs attributable to lower incentive compensation and restructuring programs initiated in prior periods resulting in fewer employees, partially offset by the revenue declines discussed above and a \$2.1 unfavorable impact from foreign currency translation.

Revenue Our International segment revenue decreased by \$39.1, or 20.0%, during the nine months ended March 31, 2009, including an 11.3% unfavorable impact from foreign currency translation, partially offset by \$6.4, or 3.3%, increase from our acquisition of HM College. Revenue decreased primarily due to the following:

- \$14.3, or 7.3%, decline in Australia from an unfavorable impact of foreign currency translation of 5.6%, lower export sales to North America and enrollment declines in the distance learning business, net of increased sales in the higher education channel,
- \$13.7, or 7.0%, decline in Asia due to the weakening economic environment, the impact of the strengthening U.S. dollar on sales as well as additional returns, and
- \$6.0, or 3.1%, decline in EMEA, reflecting an unfavorable impact of foreign currency translation of 4.7% and lower sales of our ELT products, partially offset by an increase in sales of our library reference products.

Segment operating profit Our International segment operating profit during the nine months ended March 31, 2009 decreased by \$18.1, or 52.9%, due primarily to the revenue declines discussed above, a 14.8% unfavorable impact from foreign currency translation and \$1.4 of restructuring charges associated with the consolidation of certain offices located in the United Kingdom, partially offset by \$5.9 lower employee-related costs attributable to lower incentive compensation and cost reductions previously initiated resulting in fewer employees.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

Liquidity and Capital Resources

As discussed, the Cumulative Period Ended March 31, 2008 is provided to enhance the reader's understanding of the results of operations for the periods presented, but is not a GAAP measure. The following table displays the aggregation for the Cumulative Period Ended March 31, 2008:

	<u>Successor</u> <u>Period</u> <u>July 5, 2007 to</u> <u>March 31,</u> <u>2008</u>	<u>Predecessor</u> <u>Period</u> <u>July 1, 2007 to</u> <u>July 4,</u> <u>2007</u>	<u>Cumulative</u> <u>Period Ended</u> <u>March 31,</u> <u>2008</u>
Other Financial Data			
Additions to pre-publication costs	\$ (88.1)	\$ -	\$ (88.1)
Additions to property, equipment and capitalized software for internal use	(27.2)	-	(27.2)
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 335.6	\$ 6.5	\$ 342.1
Net cash used in investing activities	(7,305.9)	-	(7,305.9)
Net cash provided by (used in) financing activities	7,133.4	(11.7)	7,121.7
Net cash (used in) provided by discontinued operations	(0.9)	1.5	0.6
Impact on cash and cash equivalents from change in foreign currency	0.3	-	0.3
Net increase (decrease) in cash and cash equivalents	<u>\$ 162.5</u>	<u>\$ (3.7)</u>	<u>\$ 158.8</u>

The Period July 1, 2007 through July 4, 2007

The period July 1, 2007 through July 4, 2007 has been separately reported in our Financial Statements because it represents the Predecessor period prior to the Acquisition date. As a result of being only a four day period, we believe a comparison of the results of operations to the prior year comparative period is not meaningful.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

The Nine Months Ended March 31, 2009 compared with the Cumulative Period Ended March 31, 2008

The following table sets forth other financial data and our cash flows from operating, investing and financing activities for the nine months ended March 31, 2009 and the Cumulative Period Ended March 31, 2008:

	Nine Months Ended March 31, 2009	Cumulative Period Ended March 31, 2008	Percentage Change
Other Financial Data			
Additions to pre-publication costs	\$ (96.7)	\$ (88.1)	9.8%
Additions to property, equipment and capitalized software for internal use	(32.3)	(27.2)	18.8%
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 337.3	\$ 342.1	-1.4%
Net cash used in investing activities	(130.5)	(7,305.9)	NM
Net cash (used in) provided by financing activities	(182.2)	7,121.7	NM
Net cash (used in) provided by discontinued operations	(3.9)	0.6	NM
Impact on cash and cash equivalents from change in foreign currency	(2.8)	0.3	NM
Net increase in cash and cash equivalents	<u>\$ 17.9</u>	<u>\$ 158.8</u>	-88.7%

NM = Not meaningful

Operating activities Net cash provided by operating activities of continuing operations declined by \$4.8, or 1.4%, for the nine months ended March 31, 2009 compared to the Cumulative Period Ended March 31, 2008. This decline reflects a \$64.2 increased use of cash for interest payments on our debt coupled with changes in working capital, partially offset by increased income from continuing operations, excluding the impairment of goodwill, amortization and impairment of identifiable intangible assets and the gain on early extinguishment of debt. The changes in working capital reflect a \$55.2 higher decrease in accounts payable and accrued expenses due to decreases in incentive compensation accruals as compared to prior year, partially offset by a \$52.0 higher decrease in accounts receivable due to timing of collections in the U.S.

Investing activities Net cash used in investing activities from continuing operations of \$130.5 for the nine months ended March 31, 2009 decreased from \$7,305.9 for the Cumulative Period Ended March 31, 2008. Included in the nine months ended March 31, 2009 are the acquisitions of Gatlin, HighBeam, and Concept Media, higher spending on pre-publication costs as well as property, equipment and capitalized software for internal use, primarily resulting from the acquisition of HM College and relocation of facilities in Boston, MA, and additional investment in CourseSmart. Partially offsetting these increases were proceeds from (i) the sale of certain titles pursuant to an agreement reached with the DOJ in connection with the regulatory review of our acquisition of HM College, (ii) cash received from the Houghton Mifflin Harcourt Publishing Company for the adjustment to the purchase price of our acquisition of HM College, (iii) the divestiture of our local language business in Spain and (iv) \$36.2 from the settlement of foreign currency derivative contracts. The comparable prior year period primarily includes the cash used for the acquisition of Thomson Learning and proceeds from the sale of U21.

Financing activities Net cash used by financing activities from continuing operations for the nine months ended March 31, 2009 was \$182.2, compared to net cash provided of \$7,121.7 from the Cumulative Period Ended March 31, 2008. Included in current period financing activities is (i) a principal payment of \$30.5 on our term loan facility (ii) \$135.3 associated with purchasing of a portion of the Senior Subordinated Discount Notes, Senior PIK Notes and Senior PIK Loans, and (iii) \$16.2 of financing costs on the conversion of Senior PIK Loans into Senior PIK Notes. In addition, we borrowed and repaid \$117.0 and \$41.5 under our revolving credit facility during the nine months ended March 31, 2009 and the Cumulative Period Ended March 31, 2008, respectively. The comparable prior year period primarily reflects the financing

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(In millions of U.S. dollars unless otherwise indicated)

transactions associated with the acquisition of Thomson Learning, a principal payment of \$17.2 million on our term loan facility and a \$26.0 settlement of our capital lease obligation associated with the property located in Farmington Hills, MI.

Cash Position, Indebtedness and Liquidity

As of March 31, 2009, June 30, 2008 and March 31, 2008, our total cash and cash equivalents were \$62.2, \$44.3, and \$177.5, respectively, and our total indebtedness was \$6,022.5, \$6,295.8 and \$5,659.1, respectively. During the nine months ended March 31, 2009, we purchased and retired, in aggregate, \$349.2 of our Senior Subordinated Discount Notes, Senior PIK Notes and Senior PIK Loans. We expect to make interest payments of \$37.6 for the remainder of fiscal 2009, \$321.0 for fiscal 2010, \$413.8 for fiscal 2011, \$498.0 for fiscal 2012, \$537.1 for fiscal 2013 and \$1,150.3 thereafter.

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 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 second half of the calendar year, while costs are incurred more evenly throughout the calendar 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 and 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 facility, including monitoring their credit ratings and outlooks, credit default swap levels, capital raising and merger activity. If additional financing were required, however, the current state of 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.

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 under SFAS No. 133, *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.

Periodically we may enter into derivative contracts, including interest rate and cross currency interest rate swap agreements and interest rate 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 March 31, 2009, we have \$3,995.9 million in outstanding variable rate debt and \$2,026.6 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 four basis points, increase in interest rates for the unhedged variable rate debt would adversely affect net income by approximately \$0.3 million for the nine months ended March 31, 2009. See Note 9, "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.

CENGAGE LEARNING HOLDINGS II L.P.

CONTROLS AND PROCEDURES

Our management is responsible for the integrity and objectivity of all information presented in this report. The condensed consolidated and combined financial statements were prepared in conformity with accounting principles generally accepted in the U.S. of America and include amounts based on our best estimates and judgments. We believe the condensed consolidated and combined 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 19 of the annual report for the fiscal year ended June 30, 2008 (the "Annual Report"), we are not currently aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition, operating results or cash flows.

Heather Robertson v. The Thomson Corp., Thomson Canada Ltd., Thomson Affiliates, Information Access Co.(now, The Gale Group, Inc.) and Bell Globemedia Publishing Inc. ("Robertson I"). The *Robertson I* action was certified as a class action in 1999. The class includes all persons who were the authors or creators of literary or original artistic works published in Canada in any print media that were electronically republished by the defendants on or after April 24, 1979, which the plaintiffs claim constitutes an infringement of their rights under the Canadian Copyright Act. The named plaintiff moved for partial summary judgment for aspects of the claims relating to works first published in *The Globe and Mail* in May 2001. The Ontario Superior Court of Justice rendered a decision on October 3, 2001, refusing partial summary judgment and refusing the injunction claimed. The court made declarations of law on a number of common issues. The court stated further that it required a trial to determine whether *The Globe and Mail* had, over the years, acquired implied rights from freelancers to archive and make available the written contents of the newspaper on electronic databases and CD-ROM. The plaintiff appealed certain of the declarations of law and the defendants cross-appealed certain declarations of law. The appeal and cross-appeal were dismissed by the Court of Appeal in October 2004. The Supreme Court of Canada in October 2006 dismissed the plaintiffs' appeal in its entirety and allowed the defendants' cross-appeal as it related to CD-ROMs, but dismissed the appeal as it related to electronic databases.

On May 1, 2009, the parties entered into a proposed settlement of the class action litigation. Under the terms of the proposed settlement, the defendants would pay Canadian \$11.0 million, inclusive of legal and administrative fees, to class members. A hearing before the Ontario Superior Court of Justice, is scheduled to be held on June 16, 2009, during which the Court will be asked to consider and approve the proposed settlement.

The proposed settlement would provide the defendants and their affiliates a release of all claims and a license in respect of all works that have not been removed from the databases. Class members would be provided with an opportunity to opt out of the settlement, in which case the release of claims would not apply to such class members.

Any loss incurred in the *Robertson* action under the proposed settlement would be paid by insurance policies applicable to our costs of defense and potential liability.

CENGAGE LEARNING HOLDINGS II L.P.

RISK FACTORS

Reference is made to the Risk Factors set forth in our Annual Report. The Risk Factors from the Annual Report remain applicable with the addition of the following:

We could be adversely affected as a result of general economic and market conditions.

Our business is global and as such, we are subject to the risks arising from adverse changes in domestic and global economic and political conditions. Economic growth in the U.S. and around the globe declined through March 2009 simultaneous with the liquidity crisis in the credit markets and the extreme volatility in the financial markets. If economic growth in the U.S. or other countries continues to decline, or if credit markets continue to experience disruptions, customers may delay or reduce product purchases, the amount of government and private loans for students as well as the availability of credit already arranged may be adversely impacted and the cost of credit to us in the future may increase. If economic conditions do not improve or they worsen, there could be a resultant reduction in demand by end-users which could negatively affect the cash flow of our distributors and resellers who could, in turn, delay payment on their obligations to us. Continuing or worsening adverse economic conditions could impact our cash and debt levels, which could result in higher borrowing costs and our ability to satisfy the financial covenants included in our debt documents, including our senior secured credit facility; and government funding for continuing education, professional training and library reference may decline, reducing demand for our products. Any of these events would likely harm our business, results of operations and financial condition.

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

	Successor		Predecessor
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007
Fixed Charges			
Interest expense	\$ 448.9	\$ 414.9	\$ -
Portion of rental expense which represents interest factor	6.9	7.7	-
Total fixed charges	<u>\$ 455.8</u>	<u>\$ 422.6</u>	<u>\$ -</u>
Earnings available for fixed charges			
Earnings ⁽¹⁾	\$ (1,087.5)	\$ (202.5)	\$ 2.8
Add fixed charges	455.8	422.6	-
Total earnings available for fixed charges	<u>\$ (631.7)</u>	<u>\$ 220.1</u>	<u>\$ 2.8</u>
Ratio of earnings to fixed charges ⁽²⁾	<u>-</u>	<u>-</u>	<u>-</u>

⁽¹⁾ Earnings comprise pre-tax income from continuing operations before adjustments for equity losses of investees, net of taxes.

⁽²⁾ For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes 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. Our earnings calculated in accordance with U.S. GAAP were inadequate to cover fixed charges for the nine months ended March 31, 2009 and the period from July 5, 2007 to March 31, 2008 by \$1,543.3 and \$625.1 respectively.