



**CENGAGE LEARNING HOLDINGS II L.P.**

**Third Quarter Report  
Three and Nine Months Ended March 31, 2011**

As of the end of the period covered by this report, Cengage Learning Holdings II L.P. and its consolidated subsidiaries (the “Company”) was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Consequently, this report has not and will not be filed with the Securities and Exchange Commission (“SEC”). However, Cengage Learning Holdings II L.P. is obligated pursuant to the indenture, dated as of October 31, 2008, among Cengage Learning Holdco, Inc. (a direct 100% wholly owned subsidiary of the Company), the Company, as guarantor, and Wells Fargo Bank, National Association, as trustee, governing the 13.75% Senior PIK Notes due 2015, and the indentures, dated as of July 5, 2007, among Cengage Learning Acquisitions, Inc. (formerly TL Acquisitions, Inc. and a 100% wholly owned subsidiary of Cengage Learning Holdings II L.P.), the guarantors named therein and The Bank of New York as trustee, governing the 13.25% Senior Subordinated Discount Notes due 2015 and the 10.50% Senior Notes due 2015, and other agreements relating to the Company’s debt and securities, to post, on a publicly accessible page on the Company’s website and otherwise make available, financial and other information that Cengage Learning Holdings II L.P. would be required to file with the SEC were it subject to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, subject to exceptions consistent with the terms of the indenture governing the 13.75% Senior PIK Notes and the presentation of financial information in the Cengage Learning Acquisitions, Inc. Offering Memorandum, dated June 22, 2007, relating to the 10.50% Senior Notes due 2015 and the 13.25% Senior Subordinated Discount Notes due 2015 and as otherwise provided in the Company’s agreements relating to its debt and securities. This report is made available pursuant to such obligations and should be read in conjunction with the Company’s Annual Report for the fiscal year ended June 30, 2010.

## **“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. Our actual results, performance or achievements may be different from any future results, performance and anticipated achievements expressed or implied by forward-looking statements because of known and unknown risks, uncertainties and factors including the following important factors and those factors described in this quarterly report and in other publically available reports of the Company, including the Company’s 2010 Annual Report:

- The impact of competition from established competitors and new businesses that have not traditionally participated in our markets, including the impact of new and enhanced product and service offerings and technology, acquisitions by competitors, the ability to adapt more quickly to new or emerging technologies and market conditions and other activities;
- The impact of the used textbook and rental markets and our ability to compete with and within them;
- The effect of increased accessibility of free or relatively inexpensive information resources on demand for our products and services;
- Our ability to successfully implement our business strategy;
- The impact of technology developments and our ability to continue to make effective investments in our technology infrastructure;
- Our ability to adequately protect our intellectual property and the adequacy of protections of our intellectual property under applicable laws;
- Liabilities resulting from, and costs of defending against, litigation including intellectual property infringement claims;
- The impact of changes to laws and regulations, including new rules that could result in decreased programs offered by, and limit enrollments in, institutions of higher education including for-profit schools;
- Our ability to attract and retain key authors, content providers and employees;
- Our ability and willingness to maintain licensing agreements with third party content providers;
- Failures or disruptions of our and our third party providers’ hosting facilities and electronic delivery systems for our products and services;
- Our reliance on third party providers of outsourced services and any failure of such providers to provide services effectively on a timely basis;
- Our ability to adequately manage and evolve our operational and managerial systems and processes including our enterprise resource planning software;
- The impact of increases in paper prices and the availability of sufficient supplies of paper in the marketplace;
- Our ability to successfully expand our operations outside the U.S. where we may face difficulties in: penetrating new markets, developing products and services that are tailored to local needs, obtaining payment in a timely manner, gaining recognition and acceptance of our products and brands, forging successful joint ventures, partners, completing acquisitions, conducting business during periods of political, legal, regulatory or economic instability or change;
- The effect of fluctuations between foreign currencies and the U.S. dollar;
- Our ability to identify, complete and successfully integrate acquisitions;
- Adverse changes in domestic and global economic conditions, related availability of credit, government and private loans for students and consequential decline in consumer demand for our products;
- We could be required to record future charges for impairment;
- Consolidation in the markets in which we operate could have a negative impact on our competitive position;
- We have a substantial amount of indebtedness which could limit our ability to raise additional capital, limit our ability to react to changes in the economy or our industry, or expose us to interest rate risk and prevent us from fulfilling our obligations under our outstanding debt agreements;
- Our debt agreements limit our flexibility in operating our business including, among other things, our ability under certain circumstances to engage in mergers or consolidations, sell assets, pay distributions to our equity owners, and/or buy back debt; and
- We are owned by investment funds associated with or designated by Apax Partners which is able to appoint a majority of our board of directors, determine our corporate strategy, management and policies. The interests of Apax may not coincide with our interests.

These factors are by no means exhaustive but are presented to identify important factors that may impact the Company’s performance and results. 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.

**CENGAGE LEARNING HOLDINGS II L.P.**  
**THIRD QUARTER REPORT**  
**THREE AND NINE MONTHS ENDED MARCH 31, 2011**

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

	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 69.2	\$ 27.0	\$ 17.3
Accounts receivable, net	164.7	390.3	166.1
Inventories	193.8	179.5	193.1
Current deferred tax assets	83.9	83.9	27.9
Prepaid expenses and other current assets	45.6	57.3	47.0
Current assets of discontinued operations	-	4.5	2.0
Total current assets	<u>557.2</u>	<u>742.5</u>	<u>453.4</u>
Property, equipment and capitalized software for internal use, net	159.4	141.2	133.0
Pre-publication costs, net	260.3	242.0	227.2
Author advances	25.2	28.0	28.2
Identifiable intangible assets, net	2,735.9	2,844.6	2,887.9
Goodwill	3,539.6	3,536.4	3,536.3
Non-current deferred tax assets	21.5	21.5	19.8
Deferred financing costs	41.1	50.4	53.4
Other non-current assets	5.5	10.0	9.2
Non-current assets of discontinued operations	-	3.5	3.8
Total assets	<u><u>\$ 7,345.7</u></u>	<u><u>\$ 7,620.1</u></u>	<u><u>\$ 7,352.2</u></u>
<b>Liabilities and Partners' Equity</b>			
Accounts payable and accrued expenses	\$ 260.7	\$ 421.2	\$ 311.3
Deferred revenue	106.4	111.5	101.7
Current portion of long-term debt	40.7	55.4	40.7
Revolving credit facility	-	66.0	-
Current taxes payable	9.8	9.1	5.8
Current fair value of derivative instruments	52.5	63.5	71.4
Other current liabilities	8.1	9.1	5.9
Current liabilities of discontinued operations	-	13.5	11.1
Total current liabilities	<u>478.2</u>	<u>749.3</u>	<u>547.9</u>
Long-term debt	5,630.3	5,644.4	5,663.7
Non-current deferred tax liabilities	879.8	889.2	850.0
Non-current fair value of derivative instruments	28.7	42.5	17.9
Other non-current liabilities	33.8	39.1	40.5
Total liabilities	<u>7,050.8</u>	<u>7,364.5</u>	<u>7,120.0</u>
Commitments and contingencies (Note 11)			
Partners' equity	385.1	393.4	343.6
Accumulated other comprehensive loss	(90.2)	(137.8)	(111.4)
Total partners' equity	<u>294.9</u>	<u>255.6</u>	<u>232.2</u>
Total liabilities and partners' equity	<u><u>\$ 7,345.7</u></u>	<u><u>\$ 7,620.1</u></u>	<u><u>\$ 7,352.2</u></u>

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

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

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended March 31,</b>		<b>Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenues	\$ 319.0	\$ 351.7	\$ 1,403.0	\$ 1,464.2
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	146.6	151.9	549.5	570.2
Amortization of pre-publication costs	30.3	26.8	103.1	109.8
Total cost of revenues, excluding depreciation stated below	176.9	178.7	652.6	680.0
Selling, general & administrative, excluding depreciation stated below	82.7	93.2	274.6	287.9
Restructuring charges	-	-	3.4	7.4
Depreciation	12.3	10.5	34.0	35.9
Amortization of identifiable intangible assets	41.9	41.4	125.8	123.2
Other expense, net	-	0.3	-	0.1
Total costs and expenses	313.8	324.1	1,090.4	1,134.5
Operating income from continuing operations	5.2	27.6	312.6	329.7
Gain on early extinguishment of debt	-	-	1.9	9.2
Mark-to-market of derivative instruments	16.7	8.9	46.2	45.9
Interest expense, net	(118.4)	(125.5)	(362.6)	(388.4)
Loss before taxes from continuing operations	(96.5)	(89.0)	(1.9)	(3.6)
Benefit from (provision for) income taxes	2.0	1.6	(6.2)	3.9
Equity losses of affiliates, net of taxes	(1.0)	(0.7)	(2.0)	(1.7)
Loss from continuing operations	(95.5)	(88.1)	(10.1)	(1.4)
(Loss) income from discontinued operations, net of tax	-	(0.6)	(3.8)	0.2
Net loss	\$ (95.5)	\$ (88.7)	\$ (13.9)	\$ (1.2)

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

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

	Nine Months Ended March 31,	
	2011	2010
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (13.9)	\$ (1.2)
Loss (income) from discontinued operations, net of tax	3.8	(0.2)
Loss from continuing operations	(10.1)	(1.4)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations:		
Amortization of pre-publication costs	103.1	109.8
Depreciation	34.0	35.9
Amortization of identifiable intangible assets	125.8	123.2
Amortization of debt discounts and deferred financing costs	12.4	14.6
Interest capitalized on long-term debt	13.0	14.5
Non-cash interest on derivative instruments	42.8	42.8
Repayments of long-term debt, in lieu of interest	(4.4)	(7.3)
Non-cash equity-based compensation expense	6.1	4.0
Restructuring charges	3.4	7.4
Cash payments for restructuring	(6.4)	(4.7)
Mark-to-market of derivative instruments	(46.2)	(45.9)
Gain on early extinguishment of debt	(1.9)	(9.2)
Benefit from deferred taxes	(4.8)	(10.1)
Equity losses of affiliates, net of taxes	2.0	1.7
Changes in operating assets and liabilities	63.1	103.7
Other, net	(1.7)	(1.4)
Net cash provided by operating activities of continuing operations	330.2	377.6
Net cash (used in) provided by operating activities of discontinued operations	(0.6)	0.2
Net cash provided by operating activities	329.6	377.8
<b>Cash Flows from Investing Activities</b>		
Acquisitions of businesses, less cash therein	(6.8)	(20.0)
Capital contribution to equity affiliate	(0.7)	(1.7)
Disposal of businesses, net of cash contribution	(5.0)	-
Proceeds from settlement of derivative instruments	0.8	1.8
Payments on settlement of derivative instruments	(2.1)	(2.1)
Additions to pre-publication costs	(118.6)	(100.6)
Additions to property, equipment and capitalized software for internal use	(50.7)	(37.0)
Proceeds from disposition of property, equipment and capitalized software for internal use	0.2	0.1
Other, net	-	0.2
Net cash used in investing activities of continuing operations	(182.9)	(159.3)
Net cash used in investing activities of discontinued operations	(0.2)	(2.5)
Net cash used in investing activities	(183.1)	(161.8)
<b>Cash Flows from Financing Activities</b>		
Repayments of long-term debt	(38.6)	(48.7)
Borrowings under the revolving credit facility	145.0	88.0
Repayments under the revolving credit facility	(211.0)	(272.0)
Other, net	(0.4)	(0.1)
Net cash used in financing activities of continuing operations	(105.0)	(232.8)
<b>Impact on Cash and Cash Equivalents from Change in Foreign Currency</b>	0.7	0.7
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	42.2	(16.1)
<b>Cash and Cash Equivalents</b>		
Beginning of period	27.0	33.4
End of period	\$ 69.2	\$ 17.3

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

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

**1. BASIS OF PRESENTATION AND OTHER**

**Basis of Presentation**

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

We have prepared the accompanying condensed consolidated interim financial statements in accordance with the accounting policies described in our Annual Report for the Fiscal Year Ended June 30, 2010 (the “2010 Annual Report”). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. You should read these financial statements in conjunction with the consolidated and combined financial statements included in the 2010 Annual Report. Certain historical amounts have been reclassified to conform with the current period’s presentation.

In the opinion of management, our condensed consolidated financial statements and accompanying notes (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 for the full year.

Certain amounts presented on our Condensed Consolidated Balance Sheet as of March 31, 2010, have been revised to reflect a correction in the classification of our current and non-current deferred tax assets and the presentation of deferred tax liabilities on a gross basis. These revisions had the effect of decreasing both total assets and total liabilities by \$59.9. We determined that it was not probable that the judgment of a reader of the financial statements would be changed or influenced by this error. Consequently, we determined that this adjustment is not material to the Financial Statements. However, in order to enhance year-on-year comparability, we have revised the March 31, 2010 balance sheet for these amounts.

**Seasonality and Comparability**

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. Consequently, 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. The March 31, 2010 Condensed Consolidated Balance Sheet is presented for comparative purposes.

**Other**

The aggregate allowance for doubtful accounts and sales returns reserve were as follows:

March 31, 2011	\$	132.5
June 30, 2010		168.0
March 31, 2010		142.4

The sales returns reserve is based on a review of our historical sales returns experience and our estimate of future returns associated with our various product types and various sales channels. In December 2009, we recorded a \$32.1 unfavorable sales returns reserve adjustment in the U.S.

**CENGAGE LEARNING HOLDINGS II L.P.**  
**Notes to Condensed Consolidated Financial Statements**  
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**2. DISCONTINUED OPERATIONS**

On November 30, 2010, we completed the sale of certain non-strategic operations which comprised our distance learning businesses located in Australia and New Zealand. Pursuant to the terms of the arrangement, we contributed cash of \$5.0 to the businesses upon divestiture. The loss on the sale was \$4.0. These businesses had previously been classified as assets held for sale and reported as discontinued operations.

The major classes of assets and liabilities of discontinued operations included in the Condensed Consolidated Balance Sheets are summarized as follows:

	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
<b>Assets</b>		
Accounts receivable, net	\$ 4.1	\$ 1.1
Inventories	0.3	0.8
Prepaid expenses and other current assets	0.1	0.1
Property, equipment and capitalized software for internal use, net	0.8	0.8
Pre-publication costs, net	-	0.1
Identifiable intangible assets, net	-	0.2
Non-current deferred tax asset	-	1.6
Other non-current assets	2.7	1.1
Total assets of discontinued operations	<u>\$ 8.0</u>	<u>\$ 5.8</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 3.1	\$ 3.5
Deferred revenue	10.4	7.6
Total liabilities of discontinued operations	<u>\$ 13.5</u>	<u>\$ 11.1</u>

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

	<u>Three Months Ended</u> <u>March 31,</u>		<u>Nine Months Ended</u> <u>March 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues	\$ -	\$ 4.1	\$ 7.1	\$ 13.4
(Loss) income from discontinued operations, before tax	-	(0.6)	(3.8)	0.2

**3. COMPREHENSIVE (LOSS) INCOME**

Comprehensive (loss) income consists of the following:

	<u>Three Months Ended</u> <u>March 31,</u>		<u>Nine Months Ended</u> <u>March 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net loss	\$ (95.5)	\$ (88.7)	\$ (13.9)	\$ (1.2)
Foreign currency translation adjustments	6.5	(5.4)	26.0	(1.7)
Unrealized losses on derivative instruments	(1.0)	(4.8)	(21.2)	(4.8)
Unrealized losses on derivative instruments reclassified into earnings	14.1	14.1	42.8	42.8
Comprehensive (loss) income	<u>\$ (75.9)</u>	<u>\$ (84.8)</u>	<u>\$ 33.7</u>	<u>\$ 35.1</u>

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**Notes to Condensed Consolidated Financial Statements**  
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**4. INVENTORIES**

Inventories consist of the following:

	<b>March 31, 2011</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Raw materials	\$ 3.2	\$ 3.5	\$ 2.7
Work-in-progress	1.6	1.6	3.9
Finished goods, net	189.0	174.4	186.5
Inventories	<u>\$ 193.8</u>	<u>\$ 179.5</u>	<u>\$ 193.1</u>

**5. RESTRUCTURING**

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

	<b>Severance and Related Costs Business Integration <sup>(1)</sup></b>	<b>Facility Consolidation Costs and Related Asset Impairments Boston Relocation <sup>(2)</sup></b>	<b>Total</b>
Balance as of June 30, 2010	\$ 3.1	\$ 6.2	\$ 9.3
Restructuring provision	3.4	-	3.4
Cash payments	(4.3)	(2.1)	(6.4)
Balance as of March 31, 2011	<u>\$ 2.2</u>	<u>\$ 4.1</u>	<u>\$ 6.3</u>

	<b>Severance and Related Costs</b>		<b>Facility Consolidation Costs and Related Asset Impairments Boston Relocation <sup>(2)</sup></b>	<b>Total</b>
	<b>HM College Acquisition <sup>(3)</sup></b>	<b>London Relocation <sup>(4)</sup></b>		
Balance as of June 30, 2009	\$ 0.6	\$ 2.1	\$ 1.7	\$ 4.4
Restructuring provision	-	-	7.4	7.4
Cash payments	(0.4)	(2.1)	(2.2)	(4.7)
Reversals	(0.2)	-	-	(0.2)
Balance as of March 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.9</u>	<u>\$ 6.9</u>

<sup>(1)</sup> On July 7, 2010, we announced the consolidation of our Academic & Professional and Gale businesses into one operating group. In connection with this restructuring, we recorded \$3.1 of employee severance and related costs for the year ended June 30, 2010. During the nine months ended March 31, 2011, we increased the estimated liability for this program by \$3.4. The restructuring payments are expected to be completed by November 2011.

<sup>(2)</sup> 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. During the nine months ended March 31, 2010, we recognized an incremental charge of \$7.4 for costs that will continue to be incurred for the duration of the original lease arrangement without economic benefit, net of estimated sublease income. The remaining restructuring related payments are expected to be completed by December 2014, the termination date of our original lease.

Our liability for the remaining life of the lease, less estimated sublease income, was measured at its fair value using a discounted future cash flow valuation. This methodology applies various observable and unobservable inputs, including

**CENGAGE LEARNING HOLDINGS II L.P.**  
**Notes to Condensed Consolidated Financial Statements**  
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estimated sublease rentals based on market prices for similar leased properties, discount rates and our fixed rental obligation under the existing lease and estimated continued operating expenses based on historical data, which we determined to be Level 2 Inputs under the fair value hierarchy.

<sup>(3)</sup> In connection with the acquisition of the Houghton Mifflin College Assets (“HM College”), we initiated a program to eliminate redundant activities and reduce the cost structure. The restructuring payments were completed as of December 31, 2009.

<sup>(4)</sup> In June 2008, we decided to consolidate certain offices located in the United Kingdom. The restructuring payments were completed as of March 31, 2010.

**6. DEBT**

Our debt consists of the following:

	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
Senior Secured Credit Facility:			
Term loan	\$ 3,319.6	\$ 3,345.4	\$ 3,354.0
Incremental term loan	607.8	612.5	614.1
Unamortized discount on incremental term loan	(7.9)	(9.8)	(10.4)
Revolving credit facility	-	66.0	-
Fixed rate notes:			
10.50% Senior Notes due 2015	1,215.6	1,215.6	1,215.6
Unamortized discount on 10.50% Notes due 2015	(7.8)	(9.3)	(9.8)
13.25% Senior Subordinated Discount Notes due 2015	407.7	407.7	407.7
13.75% Senior PIK Notes due 2015	136.0	137.7	133.2
Total debt	<u>5,671.0</u>	<u>5,765.8</u>	<u>5,704.4</u>
Less: Current portion of long-term debt	(40.7)	(121.4)	(40.7)
Total long-term debt	<u>\$ 5,630.3</u>	<u>\$ 5,644.4</u>	<u>\$ 5,663.7</u>

**Revolving Credit Facility**

The following is a summary of our borrowings, repayments, and average annual interest rate under the revolving credit facility that are included in our Condensed Consolidated Statements of Cash Flows:

	<u>Nine Months Ended</u> <u>March 31,</u>	
	<u>2011</u>	<u>2010</u>
Borrowings	\$ 145.0	\$ 88.0
Repayments	(211.0)	272.0
Average annual interest rate	2.32%	2.47%

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**Notes to Condensed Consolidated Financial Statements**  
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Under this revolving credit facility, up to \$150.0 is available for the issuance of letters of credit. Amounts of letters of credit outstanding and average annual cost are as follows:

	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
Amount outstanding	\$ 3.3	\$ 6.3	\$ 5.7
Average annual cost	1.82%	2.00%	2.11%

**Senior PIK Notes**

During the nine months ended March 31, 2011, we purchased and retired \$14.7 of the 13.75% (“Senior PIK Notes”) resulting in a gain of \$1.9, net of deferred financing costs. During the nine months ended March 31, 2010, we purchased and retired \$35.6 of the Senior PIK Notes resulting in a gain of \$9.2, net of deferred financing costs.

**7. FINANCIAL INSTRUMENTS**

**Derivative Financial Instruments**

We use derivative financial instruments to manage exposure to market risks arising from changes in foreign currency exchange rates and interest rates. We recognize derivative instruments as either assets or liabilities and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative’s mark-to-market gain or loss is initially reported as a component of “Accumulated Other Comprehensive Loss” (“AOCL”) and subsequently reclassified into earnings when the hedge exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. For derivative instruments that are not designated as accounting hedges, changes in fair value are recognized in earnings in the period of change. In addition, the de-designation of a cash flow hedge will result in existing unrealized gains or losses at the time of de-designation, recorded in AOCL, to be amortized into earnings to correspond with the recognition of the underlying hedged item. At inception of a hedge transaction and on an on-going basis, we assess whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective.

**Interest Rate Risk Management**

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

As of March 31, 2011, \$14.1 of net losses on our derivative instruments recorded in AOCL are expected to be reclassified to earnings during the next three months and will be included in “Interest expense, net” in the Condensed Consolidated Statements of Operations.

**Foreign Currency Derivatives**

We periodically hedge the potential impact resulting from changes in exchange rates on select foreign currency-denominated net asset or liability positions through the use of forward contracts that may or may not be 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”, in the Condensed Consolidated Statements of Operations.

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**Derivative Instruments Summary**

The following is a summary of our derivative instruments:

	<b>March 31, 2011</b>		<b>June 30, 2010</b>		<b>March 31, 2010</b>	
	<b>Interest Rate Swaps</b>	<b>Foreign Exchange Contracts</b>	<b>Interest Rate Swaps</b>	<b>Foreign Exchange Contracts</b>	<b>Interest Rate Swaps</b>	<b>Foreign Exchange Contracts</b>
Notional amount	\$ 3,490.0	\$ 20.5	\$ 3,590.0	\$ 3.9	\$ 3,400.0	\$ 29.4
Basis	LIBOR	Various	LIBOR	Various	LIBOR	Various
The notional amounts consist of the following:						
Amortizing aggregate notional amount	\$ 1,390.0	\$ -	\$ 1,490.0	\$ -	\$ 1,800.0	\$ -
Maturity (calendar year)	2011	N/A	2011	N/A	2011	N/A
Non-amortizing aggregate notional amount <sup>(1)</sup>	2,100.0	20.5	2,100.0	3.9	1,600.0	29.4
Maturity (calendar year)	2013	2011	2013	2010	2013	2010

<sup>(1)</sup> The interest rate swaps are forward starting with an effective date of June 30, 2011.

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

	<b>March 31, 2011</b>		<b>June 30, 2010</b>		<b>March 31, 2010</b>	
	<b>Interest Rate Contracts</b>	<b>Interest Rate Contracts</b>	<b>Interest Rate Contracts</b>	<b>Interest Rate Contracts</b>	<b>Interest Rate Contracts</b>	<b>Interest Rate Contracts</b>
<b>Fair value liabilities of derivative instruments not designated for hedge accounting:</b>						
Current portion	\$	17.4	\$	63.5	\$	71.4
Non-current portion		-		-		13.1
<b>Fair value liabilities of derivative instruments designated for hedge accounting:</b>						
Current portion	\$	35.1	\$	-	\$	-
Non-current portion		28.7		42.5		4.8

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2011		2010		2011		2010	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
<b>Impact of derivative instruments not designated for hedge accounting:</b>								
Selling, general & administrative, excluding depreciation	\$ -	\$ -	\$ -	\$ (0.1)	\$ -	\$ (1.3)	\$ -	\$ (0.3)
Mark-to-market of derivative instruments	16.7	-	8.9	-	46.2	-	45.9	-
Interest expense, net	(31.5)	-	(36.7)	-	(97.1)	-	(117.5)	-
Weighted average interest rate:								
Paid	5.25%		5.25%		5.25%		5.23%	
Received	0.30%		0.25%		0.38%		0.38%	

There was no impact from derivative instruments designated for cash flow hedge accounting in our Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2011 and 2010.

Included in AOCL is the following:

	March 31, 2011	June 30, 2010	March 31, 2010
Beginning accumulated unrealized loss on derivative instruments	\$ (99.5)	\$ (114.1)	\$ (114.1)
Unrealized losses on derivative instruments *	(21.2)	(42.5)	(4.8)
Unrealized losses on derivative instruments reclassified into earnings **	42.8	57.1	42.8
Ending accumulated unrealized loss on derivative instruments	<u>\$ (77.9)</u>	<u>\$ (99.5)</u>	<u>\$ (76.1)</u>

\* Represents the effective portion recorded in other comprehensive income (loss) for cash flow hedges.

\*\* Represents the effective portion subsequently reclassified into earnings for previously de-designated cash flow hedges.

*Measurement of Fair Value*

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

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**Fair Value of Other Financial Instruments:**

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

	March 31, 2011		June 30, 2010		March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 69.2	\$ 69.2	\$ 27.0	\$ 27.0	\$ 17.3	\$ 17.3
Senior secured credit facility:						
Term loan	3,319.6	3,178.8	3,345.4	2,882.1	3,354.0	2,956.2
Incremental term loan <sup>(1)</sup>	599.9	610.6	602.7	611.0	603.7	618.7
Revolving credit facility	-	-	66.0	52.9	-	-
10.50% Senior Notes due 2015 <sup>(2)</sup>	1,207.8	1,241.5	1,206.3	1,095.6	1,205.8	1,138.2
13.25% Senior Subordinated Discount Notes due 2015	407.7	438.5	407.7	379.2	407.7	395.5
13.75% Senior PIK Notes due 2015 <sup>(3)</sup>	136.0	137.4	137.7	116.6	133.2	120.3

<sup>(1)</sup> The carrying amount for the incremental term loan was presented net of the unamortized discount of \$7.9, \$9.8, and \$10.4 as of March 31, 2011, June 30, 2010 and March 31, 2010, respectively.

<sup>(2)</sup> The carrying amount for the 10.50% Senior Notes due 2015 was presented net of the unamortized discount of \$7.8, \$9.3, and \$9.8 as of March 31, 2011, June 30, 2010 and March 31, 2010, respectively.

<sup>(3)</sup> The carrying amount for the 13.75% Senior PIK Notes due 2015 included accrued interest of \$3.8 since the accretion date of January 15, 2011 as of March 31, 2011 and \$8.2 and \$3.8 since the accretion date of January 15, 2011 as of June 30, 2010 and March 31, 2010 respectively.

**8. INCOME TAXES**

Our effective income tax (benefit) provision rates for the three and nine months ended March 31, 2011 were (2.1%) and 326.3%, respectively. Our effective income tax benefit rates for the three and nine months ended March 31, 2010 were (1.8)% and (108.3)%, respectively. The effective tax rates reflect the exclusion of entities that are projected to generate a loss for the year and the tax benefits of such losses are not anticipated to be realized in the foreseeable future.

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**9. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	<b>Nine Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Accounts receivable, net	\$ 232.4	\$ 162.3
Inventories	(11.7)	1.5
Prepaid expenses and other current assets	12.2	1.0
Accounts payable and accrued expenses	(117.6)	(41.1)
Accrued interest payable	(46.0)	(20.6)
Deferred revenue	(6.8)	(1.1)
Current taxes payable	0.3	(2.1)
Author advances, net	3.0	(2.8)
Other, net	(2.7)	6.6
	\$ 63.1	\$ 103.7

We accrued interest expense on Senior PIK Notes that were capitalized of \$13.0 for the nine months ended March 31, 2011 and \$14.5 for the nine months ended March 31, 2010.

We paid cash interest expense on debt of \$341.1 and \$337.3 for the nine months ended March 31, 2011 and 2010, respectively. In addition, we made debt repayments in lieu of interest of \$4.4 and \$7.3 for the nine months ended March 31, 2011 and 2010, respectively.

**10. RELATED PARTY TRANSACTIONS**

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

**Advisory Fee Agreements**

We are party to advisory fee agreements with Apax Partners L.P. (“Apax”) and OMERS Private Equity, Inc. (“OMERS”) (together, the “Advisory Fee Agreements”). Under these Advisory Fee Agreements, we are obligated to pay an aggregate annual fee of \$10.7, payable quarterly in advance on the first day of each quarter, in consideration for services to be provided. We are also obligated to pay associated out of pocket expenses incurred by Apax and OMERS. We recorded expenses of \$2.7 and \$8.1 for such advisory fees during the three and nine months ended March 31, 2011 and 2010, respectively, which were included in “Selling, general & administrative, excluding depreciation” in the Condensed Consolidated Statements of Operations.

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

The following is a summary of our activity and balances with Nelson:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenue from Nelson	\$ 1.8	\$ 1.9	\$ 18.9	\$ 19.2
Expenses to Nelson	0.4	0.6	1.9	2.0

  

	<b>March 31,</b>	<b>June 30,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
Accounts receivable	\$ 1.9	\$ 6.4	\$ 2.1
Accounts payable	1.2	0.3	1.7

**Luxembourg Revolving Loan Facility**

In August 2010, we loaned €275,000 or \$0.4 under a revolving loan agreement to a Luxembourg holding company in Nelson’s organizational structure, at an annual interest rate of 12.0%, payable monthly in arrears and maturing on July 5, 2014. At the borrower’s option, monthly interest can be paid in cash or capitalized through an increase in the principal amount outstanding, provided that the principal amount does not exceed €500,000 at any time. As of March 31, 2011, the balance has not materially changed.

**11. COMMITMENTS AND CONTINGENCIES**

**Claims and Legal Actions**

From time to time, we may become involved in various litigations and legal proceedings that arise in the ordinary course of business. We determine whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information and develop our views on estimated losses in consultation with outside counsel handling our defense in these matters. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs. Based on a review of the information available at this time, we do not expect the total cost of resolving current litigations and legal proceedings to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Warranties**

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

**12. SEGMENT INFORMATION**

We operate in two reportable segments worldwide: Domestic and International. In July 2010, we consolidated our domestic Academic & Professional and Gale businesses into one operating group. We realigned our businesses to bring all of the Academic & Professional and Gale product development programs as well as the international businesses together under a new Learning and Research Solutions group and combined each of Academic & Professional’s and Gale’s technology development programs, direct-to-consumer businesses, strategy and business development and custom media and

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course development under the newly formed New Media group. Under the new structure all finance functions, along with warehousing and distribution, the Global Production and Manufacturing Services group, the central technology group and real estate and facilities, are managed under the Finance and Operations Group. All of Academic & Professional and Gale sales and marketing efforts in the U.S. were brought together under common management. We believe our new structure allows for greater synergies, more focused technology investments and increased innovation both domestically and internationally. We evaluate the performance of this newly consolidated operating group as one business unit. However, since our domestic and international operating segments have dissimilar long-term economic characteristics, we present two reportable segments: Domestic and International. Furthermore, our profit measure that was previously called "Segment operating profit" is now called "Adjusted EBITDA." Prior period segment data has been restated to conform to current period presentation.

The accounting policies applied by the segments are the same as those applied by the Company. All transactions between reportable segments are eliminated upon consolidation.

*Domestic* – Our Learning business (previously included in our Academic & Professional segment) provides both print-based and digitally-enabled learning solutions to students, faculty, institutions and professionals in the secondary and post-secondary education markets, as well as English language teaching products, in the U.S. It also delivers digitally-enabled reference information, certification test preparation, compliance training and other professional learning tools to a broad range of customers in a variety of channels. Our Research business (previously referred to as Gale) provides specialized reference products that support research in academic and K-12 libraries, as well as resources that meet the information needs of a broad range of public library users. In addition to selling to libraries, this business also licenses content for integration within web-based information services and has several strategic business distribution partnerships with third-party organizations.

*International* – Our Learning business sells our U.S. textbooks into international markets; adapts U.S. textbooks for various international markets; publishes and sells textbooks by local authors; and provides learning solutions to individuals and businesses located outside the U.S., as well as English language teaching products sold internationally. Our Research business provides research and reference solutions in various formats to individuals and organizations located outside the U.S. This reportable segment constitutes an aggregation of various operating segments which have similar economic characteristics but individually do not exceed 10% of our consolidated revenue or Adjusted EBITDA.

We disclose information about our reportable segments based on the measures we use in assessing the performance of those reportable segments. We use Adjusted EBITDA to measure the operating performance of our segments which represents Net income (loss) before: income (loss) from discontinued operations, net of tax; equity losses of affiliates, net of taxes; benefit from (provision for) income taxes; interest expense, net; mark-to-market of derivative instruments; gain on early extinguishment of debt; other expense, net; amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; restructuring charges and the amortization of pre-publication costs.

We include equity-based compensation, fees paid under Advisory Fee Agreements and other corporate-related expenses in a reporting line item referred to as "Corporate and other".

Select financial information for our segments is as follows:

	<b>Three Months Ended March 31,</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Revenues</b>	<b>Adjusted EBITDA</b>	<b>Revenues</b>	<b>Adjusted EBITDA</b>
Domestic	\$ 254.4	\$ 85.4	\$ 290.8	\$ 100.7
International	64.6	9.0	60.9	10.3
Segment totals	319.0	94.4	351.7	111.0
Corporate and other	-	(4.7)	-	(4.4)
Total	<u>\$ 319.0</u>	<u>\$ 89.7</u>	<u>\$ 351.7</u>	<u>\$ 106.6</u>

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	<b>Nine Months Ended March 31,</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Revenues</b>	<b>Adjusted EBITDA</b>	<b>Revenues</b>	<b>Adjusted EBITDA</b>
Domestic	\$ 1,213.3	\$ 566.7	\$ 1,292.3	\$ 595.6
International	189.7	26.6	171.9	22.9
Segment totals	1,403.0	593.3	1,464.2	618.5
Corporate and other	-	(14.4)	-	(12.4)
Total	<u>\$ 1,403.0</u>	<u>\$ 578.9</u>	<u>\$ 1,464.2</u>	<u>\$ 606.1</u>

Segment revenues only include revenues from external customers. Total asset information by segment is not shown because it is not provided to or reviewed by our chief operating decision maker.

The following tables reconcile Adjusted EBITDA to net loss per the Condensed Consolidated Statements of Operations:

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Adjusted EBITDA	\$ 89.7	\$ 106.6	\$ 578.9	\$ 606.1
Less:				
Amortization of pre-publication costs	(30.3)	(26.8)	(103.1)	(109.8)
Restructuring charges	-	-	(3.4)	(7.4)
Depreciation	(12.3)	(10.5)	(34.0)	(35.9)
Amortization of identifiable intangible assets	(41.9)	(41.4)	(125.8)	(123.2)
Other expense, net	-	(0.3)	-	(0.1)
Gain on early extinguishment of debt	-	-	1.9	9.2
Mark-to-market of derivative instruments	16.7	8.9	46.2	45.9
Interest expense, net	(118.4)	(125.5)	(362.6)	(388.4)
Benefit from (provision for) income taxes	2.0	1.6	(6.2)	3.9
Equity losses of affiliates, net of taxes	(1.0)	(0.7)	(2.0)	(1.7)
(Loss) income from discontinued operations	-	(0.6)	(3.8)	0.2
Net loss	<u>\$ (95.5)</u>	<u>\$ (88.7)</u>	<u>\$ (13.9)</u>	<u>\$ (1.2)</u>

### 13. SUBSEQUENT EVENTS

There were no material subsequent events that were identified as of May 10, 2011, the date these financial statements were issued.

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**Management's Discussion and Analysis of**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes ("Financial Statements") and our Annual Report for the Fiscal Year Ended June 30, 2010 (the "2010 Annual Report"). Certain historical amounts have been reclassified to conform with the current period's presentation. The following discussion and analysis of our financial condition and results of operations may contain 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*". The MD&A includes the following sections:

- Non-GAAP Financial Measures
- Executive Overview
- Seasonality and Comparability
- Critical Accounting Policies
- Segment Operating Results
- Consolidated Results of Operations
- Liquidity and Capital Resources
- Covenant Compliance
- Reconciliations of Non-GAAP Financial Measures

The discussion of our financial performance begins with an Executive Overview of the key points that summarize our Consolidated Results of Operations. This overview is followed by a more detailed discussion of our Segment Operating Results. Since we manage the business and make decisions about resource allocations by segment, we believe that this discussion provides useful insights into our operating results consistent with the way we monitor our operations. The analysis of Segment Operating Results focuses primarily on revenues and Adjusted EBITDA, which are our key performance metrics for assessing segment performance.

We also provide a discussion of our Consolidated Results of Operations as presented in our Condensed Consolidated Statements of Operations including a comprehensive analysis of our operating income from operations, with insights into significant changes in the components of our revenues and expenses. Our discussion of changes in expenses focuses primarily on changes in the nature of the underlying expenses, and not on the changes in each individual financial statement line items in our Condensed Consolidated Statement of Operations. We believe that this provides better insight into the trends impacting our business than changes in individual financial statement line items since certain expenses are included in more than one line item. We also provide a discussion of significant non-operating income and expenses that tend to be driven more by non-recurring transactions. We do not provide a separate analysis of changes in our consolidated revenues since these changes would be consistent with those discussed in the Segment Operating Results section.

**Non-GAAP Financial Measures**

To supplement our Financial Statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we have presented certain financial measures in addition to our GAAP results. We believe that these non-GAAP financial measures provide useful information for evaluating our business performance. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

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We present the following non-GAAP financial measures in this report:

<b>Financial Measure</b>	<b>Definition</b>
Adjusted EBITDA	Defined as Net income (loss) before: income (loss) from discontinued operations, net of tax; equity losses of affiliates, net of taxes; benefit from (provision for) income taxes; interest expense, net; mark-to-market of derivative instruments; gain on early extinguishment of debt; other expense, net; amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; restructuring charges and the amortization of pre-publication costs. We believe that this performance measure provides a meaningful basis for reviewing the results of our operations by eliminating the effects of financing and investing decisions, as well as excluding the impact of activities not related to the core operating business.
Unlevered Free Cash Flow	Calculated as net cash provided by operating activities of continuing operations excluding net cash paid for interest and debt repayments in lieu of interest, but reduced for cash expenditures relating to additions to pre-publication costs and additions to property, equipment and capitalized software for internal use, which we view as investments required to ensure the sustainability and continued growth of our business. We believe that this liquidity measure gives us and our investors a clearer picture of the cash flow produced and reinvested by the ongoing business, before debt service.

See "Reconciliations of Non-GAAP Financial Measures" for reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

### **Executive Overview**

The following section is intended to summarize key points in understanding our results of operations for the three and nine months ended March 31, 2011:

- Revenues for the three months ended March 31, 2011 decreased by \$32.7, or 9.3%, to \$319.0, including a \$3.4 favorable impact from foreign currency translation. The revenue decline was driven by gross sales decreases in the career and higher education channels in our Learning business and declines in our Research business, which are both within the Domestic segment, partially offset by higher sales in the International segment.
- Revenues for the nine months ended March 31, 2011 decreased by \$61.2, or 4.2%, to \$1,403.0, including \$7.8 from acquisitions and a \$5.8 favorable impact from foreign currency translation. The revenue decline reflected a decrease in gross sales in our Domestic Learning business primarily due to changes in customer ordering patterns, declines in both the higher education and career channels and lower sales in our Domestic Research business, partially offset by the year over year impact of an unfavorable sales returns reserve adjustment recorded in the prior year, as well as an increase in the International segment of \$17.8.
- Operating income from continuing operations for the three months ended March 31, 2011 decreased by \$22.4, or 81.2%, to \$5.2, primarily due to lower revenues and a higher inventory obsolescence provision, partially offset by lower employee-related costs.
- Operating income from continuing operations for the nine months ended March 31, 2011 decreased by \$17.1, or 5.2%, to \$312.6, primarily due to lower revenues, partially offset by lower employee-related costs and lower amortization of pre-publication costs reflecting the lower revenues.
- Adjusted EBITDA for the three months ended March 31, 2011 decreased by \$16.9, or 15.9%, to \$89.7, due to lower revenues and higher inventory obsolescence provision, partially offset by lower employee-related and other variable

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costs. Adjusted EBITDA decreased by \$27.2, or 4.5%, to \$578.9 for the nine months ended March 31, 2011, due to lower revenues, partially offset by lower employee-related and other variable costs.

- Net cash provided by operating activities of continuing operations for the nine months ended March 31, 2011 decreased by \$47.4, or 12.6%, to \$330.2, primarily due to a higher loss from continuing operations and lower contribution from net working capital.
- Unlevered Free Cash Flow for the nine months ended March 31, 2011 decreased by \$78.2, or 13.4%, to \$506.4, primarily due to a higher loss from continuing operations, lower contribution from working capital and increased capital expenditures.
- We recognized an incremental \$3.4 restructuring charge in the first nine months ended March 31, 2011 in our Domestic segment for severance related to the consolidation of our business into one operating group. See Note 5 "Restructuring" to our Financial Statements for further information.

### **Seasonality and Comparability**

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. Consequently, the performance of our businesses will 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. In addition, changes in our customers' ordering patterns may impact the comparison of our results in a quarter with results in the same quarter of the previous year where our customers may shift the timing of material orders between quarters for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

### **Critical Accounting Policies**

There were no significant changes to our critical accounting policies during the nine months ended March 31, 2011. For further information on our critical accounting policies, refer to the MD&A in our 2010 Annual Report.

### **Segment Operating Results**

We operate in two reportable segments worldwide: Domestic and International. In July 2010, we consolidated our domestic Academic & Professional and Gale businesses into one operating group. We realigned our businesses to bring all of the Academic & Professional and Gale product development programs as well as the international businesses together under a new Learning and Research Solutions group and combined each of Academic & Professional's and Gale's technology development programs, direct-to-consumer businesses, strategy and business development and custom media and course development under the newly formed New Media group. Under the new structure all finance functions, along with warehousing and distribution, the Global Production and Manufacturing Services group, the central technology group and real estate and facilities, are managed under the Finance and Operations Group. All of Academic & Professional and Gale sales and marketing efforts in the U.S. were brought together under common management. We believe our new structure allows for greater synergies, more focused technology investments and increased innovation both domestically and internationally. We evaluate the performance of this newly consolidated operating group as one business unit. However, since our domestic and international operating segments have dissimilar long-term economic characteristics, we present two reportable segments: Domestic and International. Furthermore, our profit measure that was previously called "Segment operating profit" is now called "Adjusted EBITDA." Prior period segment data has been restated to conform to current period presentation.

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	Three Months Ended			Percentage Change	Nine Months Ended		Percentage Change
	March 31,				March 31,		
	2011	2010			2011	2010	
Revenues:							
Domestic	\$ 254.4	\$ 290.8	-12.5%	\$ 1,213.3	\$ 1,292.3	-6.1%	
International	64.6	60.9	6.1%	189.7	171.9	10.4%	
Adjusted EBITDA*:							
Domestic	\$ 85.4	\$ 100.7	-15.2%	\$ 566.7	\$ 595.6	-4.9%	
International	9.0	10.3	-12.6%	26.6	22.9	16.2%	
Adjusted EBITDA Margin:							
Domestic	33.6%	34.6%		46.7%	46.1%		
International	13.9%	16.9%		14.0%	13.3%		

\* Adjusted EBITDA: Our segment profit measure of Adjusted EBITDA excludes equity-based compensation, fees paid under advisory fee agreements and other corporate-related expenses which are included in a reporting line item referred to as "Corporate and other". As a result, the aggregate of our two segment's Adjusted EBITDA does not equal our consolidated Adjusted EBITDA.

**Three Months**

**Domestic revenues for the three months ended March 31, 2011** decreased by \$36.4, or 12.5%. The decrease reflects a decline of \$30.7 in our Learning business and a decline of \$5.7 in our Research business.

The \$30.7 decrease in our Learning business was primarily due to:

- lower gross sales in the career channel reflecting lost adoptions and lower realized pricing,
- higher sales returns provision reflecting our estimate of future returns, and
- lower gross sales in the higher education channel due to the loss of some adoptions and more students obtaining their learning materials from textbook renters or other alternative sources.

The decline in our Research business reflects lower sales across most product lines primarily due to the impact of the continued funding challenges facing our customers. We anticipate that these funding challenges will continue to negatively impact our Research business.

**International revenues for the three months ended March 31, 2011** increased by \$3.7, or 6.1%, including a \$3.4 favorable impact from foreign currency translation and \$0.4 from an acquisition in Australia.

**Domestic Adjusted EBITDA for the three months ended March 31, 2011** decreased by \$15.3, or 15.2%. The decrease is primarily attributable to lower revenues and \$5.2 higher inventory obsolescence provision reflecting the decrease in revenues, partially offset by \$22.2 lower employee related costs primarily associated with lower full year incentive compensation resulting in a \$15.5 credit in the current period as well as \$5.5 lower royalty, paper, printing & binding and other variable costs.

**International Adjusted EBITDA for the three months ended March 31, 2011** decreased by \$1.3, or 12.6%. The decrease is primarily attributable to \$1.8 higher inventory obsolescence provision and \$1.5 higher allowance for doubtful accounts, partially offset by higher revenues and \$1.0 favorable impact from foreign currency transaction gains.

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*Nine Months*

*Domestic revenues for the nine months ended March 31, 2011* decreased by \$79.0, or 6.1%, including \$4.7 from an acquisition by our Research business. The decrease reflects a decline of \$61.9 in our Learning business and a decline of \$17.1 in our Research business.

The decrease in our Learning business was primarily due to:

- lower gross sales in the higher education channel due to changes in customer ordering patterns that accelerated certain orders into the fourth quarter of fiscal 2010 from the first quarter of fiscal 2011, the loss of some adoptions and more students obtaining their learning materials from textbook renters and other alternative sources,
- lower gross sales in the career channel reflecting lost adoptions and lower realized pricing,

partially offset by:

- decrease in our sales returns provision primarily due to the unfavorable sales returns reserve adjustment recorded in the prior year, and
- higher gross sales in the professional channel mainly due to the release of the 2011 National Electrical Code book, published every three years.

The decline in our Research business reflects lower sales across most product lines primarily due to the impact of the continued funding challenges facing our customers. We anticipate that these funding challenges will continue to negatively impact our Research business.

*International revenues for the nine months ended March 31, 2011* increased by \$17.8, or 10.4%, including a \$5.8 favorable impact from foreign currency translation and \$3.1 from an acquisition in Australia. Remaining revenue increased primarily from growth in our English language teaching and higher education channels.

*Domestic Adjusted EBITDA for the nine months ended March 31, 2011* decreased by \$28.9, or 4.9%, primarily attributable to lower revenues, partially offset by \$33.4 lower employee-related costs reflecting lower incentive compensation and higher capitalization associated with new product development as well as \$11.7 lower royalty, paper, printing & binding and other variable costs.

*International Adjusted EBITDA for the nine months ended March 31, 2011* increased by \$3.7, or 16.2%. The increase is primarily attributable to higher revenues, partially offset by \$5.2 higher royalty, paper, printing & binding and other variable costs, \$2.5 higher inventory obsolescence provision, \$2.3 higher allowance for doubtful accounts and \$1.3 higher employee-related costs.

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**Consolidated Results of Operations**

**The Three and Nine Months Ended March 31, 2011 Compared with March 31, 2010**

	Three Months Ended		Percentage Change	Nine Months Ended		Percentage Change
	March 31,			March 31,		
	2011	2010		2011	2010	
Revenues	\$ 319.0	\$ 351.7	-9.3%	\$ 1,403.0	\$ 1,464.2	-4.2%
Operating income from continuing operations	5.2	\$ 27.6	-81.2%	312.6	329.7	-5.2%
Gain on early extinguishment of debt	-	-	0.0%	1.9	9.2	-79.3%
Mark-to-market of derivative instruments	16.7	8.9	87.6%	46.2	45.9	0.7%
Interest expense, net	(118.4)	(125.5)	-5.7%	(362.6)	(388.4)	-6.6%
Benefit from (provision for) for income taxes	2.0	1.6	25.0%	(6.2)	3.9	NM
Equity losses of affiliates, net of taxes	(1.0)	(0.7)	42.9%	(2.0)	(1.7)	17.6%
Loss from continuing operations	<u>\$ (95.5)</u>	<u>\$ (88.1)</u>	8.4%	<u>\$ (10.1)</u>	<u>\$ (1.4)</u>	NM
Adjusted EBITDA	<u>\$ 89.7</u>	<u>\$ 106.6</u>	-15.9%	<u>\$ 578.9</u>	<u>\$ 606.1</u>	-4.5%
Adjusted EBITDA Margin	<u>28.1%</u>	<u>30.3%</u>		<u>41.3%</u>	<u>41.4%</u>	

NM = Not meaningful

*Operating income from continuing operations for the three months ended March 31, 2011*, decreased by \$22.4, or 81.2%, to \$5.2, primarily due to:

- \$32.7 lower revenues discussed within our Segment Operating Results,
- \$7.0 increased inventory obsolescence provision reflecting the decrease in revenues,
- \$3.5 higher amortization of pre-publication costs associated with the seasonality of sales throughout the fiscal year, and
- \$1.8 higher depreciation expense due to accelerated depreciation of capitalized software for internal use,

partially offset by:

- \$22.1 lower employee related costs primarily associated with lower full year incentive compensation resulting in a \$15.5 credit in the current period and
- \$3.5 lower royalty, paper, printing & binding and other variable costs.

*Operating income from continuing operations for the nine months ended March 31, 2011*, decreased by \$17.1, or 5.2%, to \$312.6, primarily due to:

- \$61.2 lower revenues discussed within our Segment Operating Results,
- \$2.6 higher amortization of identifiable intangible assets related to acquisitions, and
- \$2.2 increased inventory obsolescence provision,

partially offset by:

- \$32.1 lower employee-related costs reflecting lower incentive compensation and higher capitalization associated with new product development,
- \$6.7 lower amortization of pre-publication costs associated with the seasonality of sales throughout the fiscal year,
- \$6.5 lower royalty, paper, printing & binding and other variable costs, and
- \$4.0 lower restructuring charges, which consisted of \$3.4 in fiscal 2011 related to the consolidation of our businesses compared to \$7.4 in fiscal 2010 related to the consolidation of our offices in Boston, MA.

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*Gain on early extinguishment of debt* relates to the purchase and retirement of \$14.7 and \$35.6 of our 13.75% Senior PIK Notes due 2015 ("Senior PIK Notes") during the nine months ended March 31, 2011 and 2010, respectively. See Note 6 "Debt" to our Financial Statements for further information.

*Mark-to-market of derivative instruments* increased by \$7.8 for the three months ended March 31, 2011, and decreased by \$0.3 for the nine months ended March 31, 2011, reflecting the impact of both the changes in projected variable interest rates and the decline in the notional value of interest rate swaps, which are not treated as hedges for accounting purposes.

*Interest expense, net* decreased by \$7.1, or 5.7%, to \$118.4 for the three months ended March 31, 2011, and by \$25.8, or 6.6%, to \$362.6 for the nine months ended March 31, 2011, primarily due to interest on the term loan, resulting from a decrease in LIBOR interest rates combined with an increase in the portion of the term loan that is not hedged as of March 31, 2011.

*Benefit from income taxes for the three months ended March 31, 2011* increased by \$0.4, or 25%, to \$2.0. The increase in the income tax benefit for the three month period ended March 31, 2011 includes a decrease in taxable income within selected U.S. states, partially offset by higher taxable income in foreign jurisdictions.

*(Provision for) benefit from income taxes for the nine months ended March 31, 2011* decreased by \$10.1 to (\$6.2). The decrease is primarily due to the release in fiscal 2010 of a valuation allowance in a select jurisdiction, higher income in foreign jurisdictions, and the generation of taxable income within selected U.S. states where we have fully utilized our prior period losses, or where the utilization of prior year losses is limited by statute. No tax benefit has been recorded for loss-making jurisdictions where the associated benefits are not expected to be realized in the foreseeable future.

**Liquidity and Capital Resources**

	<b>March 31, 2011</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Cash and cash equivalents	\$ 69.2	\$ 27.0	\$ 17.3
Short-term borrowings and current portion of long-term debt	40.7	121.4	40.7
Long-term debt	5,630.3	5,644.4	5,663.7

Our liquidity and our ability to service our debt, as well as fund future acquisitions, other purchase commitments, operating leases, working capital and capital expenditure requirements, is dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. 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. 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. Our operating cash flows are impacted by the inherent seasonality of our business whereby we typically generate operating cash during the first half of our fiscal year and utilize cash for operating activities throughout the second half of our fiscal year. Consequently, in addition to any other liquidity requirements, the borrowings under our revolving credit facility may vary according to this seasonality.

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The following table sets forth our cash flows from operating, investing and financing activities and Unlevered Free Cash Flow:

	Nine Months Ended		Percentage Change
	March 31,		
	2011	2010	
<b>Statements of Cash Flows</b>			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 330.2	\$ 377.6	-12.6%
Net cash used in investing activities	(182.9)	(159.3)	14.8%
Net cash used in financing activities	(105.0)	(232.8)	-54.9%
Net cash used in discontinued operations	(0.8)	(2.3)	-65.2%
Impact on cash and cash equivalents from change in foreign currency	0.7	0.7	- %
Net increase (decrease) in cash and cash equivalents	<u>\$ 42.2</u>	<u>\$ (16.1)</u>	NM
Unlevered Free Cash Flow	<u>\$ 506.4</u>	<u>\$ 584.6</u>	-13.4%

NM = Not meaningful

**Operating activities.** Net cash provided by operating activities of continuing operations for the nine months ended March 31, 2011 decreased by \$47.4, or 12.6%, primarily due to lower contributions from net working capital and \$8.7 higher loss from continuing operations. The changes in our working capital primarily resulted from a \$76.5 higher decrease in accounts payable and accrued expenses due to lower employee incentive related accruals, lower accrued royalties resulting from lower sales and the timing of payments of trade accounts payable, as well as \$25.4 higher decrease in accrued interest payable related to the Senior Subordinated Discount Notes, partially offset by \$70.1 larger decrease in accounts receivable, mainly due to lower sales in the U.S.

**Investing activities.** Net cash used in investing activities of continuing operations for the nine months ended March 31, 2011 increased by \$23.6, or 14.8%. In the current period, additions to pre-publication costs increased \$18.0 due to a continued investment in new product development and additions to property, equipment, and capitalized software for internal use increased \$13.7 primarily related to the development of our new global enterprise resource planning system and internally developed software supporting our digital products. Also, included in the nine months ended March 31, 2011 were payments associated with the disposal of our distance learning businesses located in Australia and an acquisition of secondary school titles in Australia, whereas included in the nine months ended March 31, 2010 were acquisitions by our Domestic and International segments.

**Financing activities.** Net cash used in financing activities of continuing operations for the nine months ended March 31, 2011 decreased by \$127.8, or 54.9%. Included in the nine months ended March 31, 2011 was: (i) \$30.5 of principal payments on our term loans, (ii) \$8.1 associated with the purchase and retirement of Senior PIK Notes and (iii) borrowings of \$145.0 and repayments of \$211.0 under our revolving credit facility. Included in the nine months ended March 31, 2010 was: (i) \$30.5 of principal payments of our term loans, (ii) \$18.2 associated with the purchase and retirement of Senior PIK Notes and (iii) borrowings of \$88.0 and repayments of \$272.0 under our revolving credit facility.

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**Covenant Compliance**

Under the terms of our debt agreements, we are required to comply with certain customary covenants, including a requirement to maintain specified financial ratios. Our ability to continue to meet these required ratios may be affected by events beyond our control. As of March 31, 2011, we were in compliance with all of these covenants.

Under our Senior Secured Credit Facility, we have one primary financial maintenance covenant where we are required to maintain a senior secured leverage ratio of not greater than 7.75. The senior secured leverage ratio is equal to the amount of our senior secured debt divided by our Covenant Adjusted EBITDA, both of which are defined by the terms of the Senior Secured Credit Facility. Senior secured debt and Covenant Adjusted EBITDA are not presentations made in accordance with GAAP. They also should not be considered alternatives to GAAP-based profit measures, balance sheet amounts or cash flows or as indicators of the amount of free cash flow available for discretionary use by management. Furthermore, because all companies and their respective debt agreements do not use identical calculations, amounts reflected by us as senior secured debt and Covenant Adjusted EBITDA may not be comparable to similarly titled measures by other companies.

Senior Secured Debt includes all borrowings secured by a lien at March 31, 2011 of \$3,927.4 less the average aggregate cash and cash equivalent balance over the preceding four quarters of \$87.0. At March 31, 2011, our Senior Secured Debt was \$3,840.4. A reconciliation of Net income for the twelve months ended March 31, 2011 to Covenant Adjusted EBITDA for the twelve months ended March 31, 2011, is presented below:

	<b>Twelve Months Ended</b>
	<b>March 31, 2011</b>
Net income	\$ 34.5
Adjustments:	
Benefit from income taxes	(5.7)
Interest expense	490.1
Interest income	(0.7)
Mark-to-market of derivative instruments	(67.2)
Gain on early extinguishment of debt	(1.9)
Amortization of identifiable intangible assets	167.5
Depreciation	45.1
Amortization of pre-publication costs	133.9
Non-cash equity-based compensation	7.5
Sponsor management fee	10.7
Pro forma run rate cost savings	3.1
Pro forma EBITDA from acquisitions	1.0
Impairment charges and asset write-offs	6.1
Restructuring, integration and business optimization expenses	11.2
Other	8.0
Covenant Adjusted EBITDA	<u>\$ 843.2</u>

Our senior secured leverage ratio is 4.55 at March 31, 2011. A hypothetical 10% decline in our Covenant Adjusted EBITDA, as defined by the terms of our Senior Secured Credit Facility, would reduce Covenant Adjusted EBITDA to \$758.9 and result in a senior secured leverage ratio of 5.06.

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**Reconciliations of Non-GAAP Financial Measures**

A reconciliation of Net loss to Adjusted EBITDA for the three and nine months ended March 31, 2011 and 2010 is presented below:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net loss	\$ (95.5)	\$ (88.7)	\$ (13.9)	\$ (1.2)
Adjustments:				
Loss (income) from discontinued operations, net of tax	-	0.6	3.8	(0.2)
Equity losses of affiliates, net of taxes	1.0	0.7	2.0	1.7
(Benefit from) provision for income taxes	(2.0)	(1.6)	6.2	(3.9)
Interest expense, net	118.4	125.5	362.6	388.4
Mark-to-market of derivative instruments	(16.7)	(8.9)	(46.2)	(45.9)
Gain on early extinguishment of debt	-	-	(1.9)	(9.2)
Other income, net	-	0.3	-	0.1
Amortization of identifiable intangible assets	41.9	41.4	125.8	123.2
Depreciation	12.3	10.5	34.0	35.9
Restructuring charges	-	-	3.4	7.4
Amortization of pre-publication costs	30.3	26.8	103.1	109.8
Adjusted EBITDA	<u>\$ 89.7</u>	<u>\$ 106.6</u>	<u>\$ 578.9</u>	<u>\$ 606.1</u>

The following table reconciles net cash provided by operating activities to Unlevered Free Cash Flow:

	<b>Nine Months Ended</b>		<b>Percentage</b>
	<b>March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
Net cash provided by operating activities of continuing operations	\$ 330.2	\$ 377.6	-12.6%
Add back:			
Net cash interest paid,	341.1	337.3	1.1%
Repayments of long-term debt, in lieu of interest	4.4	7.3	-39.7%
Additions to pre-publication costs	(118.6)	(100.6)	17.9%
Additions to property, equipment and capitalized software for internal use	(50.7)	(37.0)	37.0%
Unlevered Free Cash Flow	<u>\$ 506.4</u>	<u>\$ 584.6</u>	-13.4%

## CENGAGE LEARNING HOLDINGS II L.P.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce our earnings and cash flow volatility resulting from shifts in market rates. As permitted, we designate certain of these derivative contracts for hedge accounting treatment in accordance with authoritative guidance regarding accounting for derivative instruments and hedging activities. However, certain of these instruments may not qualify for, or we may choose not to elect, 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 caps and collars to manage interest rate exposures, and foreign currency spot, forward, swap and option contracts to manage foreign currency exposures. The fair market values of all these derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

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

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

For the nine months ended March 31, 2011, we derived approximately 13.5% of our revenues from countries outside of the U.S., with a significant portion of the related costs based in U.S. dollars, British pounds and Australian dollars. We anticipate that our future results will continue to be affected by market risks, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the British pound and Australian dollar. A hypothetical 10% adverse change in foreign currency rates relative to the U.S. dollar would have less than a one million impact on our net loss the nine months ended March 31, 2011.

At March 31, 2011, we had \$3,919.5 million in outstanding variable rate debt and \$1,751.5 million in outstanding fixed rate debt, before the effect of any financial instruments. Financial instruments, including interest rate swap agreements, have been used to manage interest rate exposures on a portion of the variable component of the variable rate debt. Our unhedged variable rate debt is sensitive to future increases or decreases in the applicable interest rate. A hypothetical 10%, or three basis points, increase in interest rates for the unhedged variable rate debt would have increased net loss by less than one million for the nine months ended March 31, 2011. See Note 7 "Financial Instruments" to our financial statements for a detailed description of derivative instruments we have entered into to hedge the variable interest rate component of certain of our indebtedness.

## **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 financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on our best estimates and judgments. We believe the condensed consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent our financial position and results of operations.

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

### **LEGAL PROCEEDINGS**

We know of no material, existing or pending litigation or other legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There is no litigation or other legal proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

### **RISK FACTORS**

Reference is made to the Risk Factors set forth in our Annual Report for the Fiscal Year Ended June 30, 2010 (the “2010 Annual Report”). The Risk Factors from the 2010 Annual Report remain applicable with the addition of the following:

#### ***Changes to laws and regulations may have an adverse effect on our business***

Our business and customer’s businesses are subject to federal, state and local laws and regulations including laws and regulations relating to intellectual property, libel, privacy, accessibility, product offerings and financial aid eligibility and laws and regulations applicable generally to businesses. New laws and regulations and changes to existing laws and regulations applicable to us and our customers may restrict or require a change to how we and our customers conduct business and could have an adverse effect on our business.

The U.S. Department of Education has proposed new rules relating to Title IV student aid programs that would modify standards relating to the payment of incentive compensation for student recruitment and enrollment by institutions of higher education and define “gainful employment” as it relates to Title IV financial aid requirement that for-profit school programs of study prepare students for gainful employment in a given occupation. The new rules could adversely affect enrollments in, and the number of programs offered by institutions of higher education including for-profit schools, by limiting such institutions’ ability to recruit students and making some for profit school programs ineligible for Federal financial aid funding. Reductions in enrollment in institutions of higher education and the number of programs offered by for-profit schools could cause us to experience a loss in sales.

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

	Nine Months Ended March 31,	
	2011	2010
<b>Fixed Charges</b>		
Interest expense	\$ 363.2	\$ 388.6
Portion of rental expense which represents interest factor	5.8	6.1
Total fixed charges	\$ 369.0	\$ 394.7
<b>Earnings available for fixed charges</b>		
Earnings <sup>(1)</sup>	\$ (1.9)	\$ (3.6)
Add fixed charges	369.0	394.7
Total earnings available for fixed charges	\$ 367.1	\$ 391.1
<b>Ratio of earnings to fixed charges</b> <sup>(2)</sup>	-	-

<sup>(1)</sup> Earnings are comprised of loss before taxes from continuing operations.

<sup>(2)</sup> For purposes of calculating the ratio of earnings to fixed charges, earnings consist of loss before taxes from continuing operations before 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 in accordance with the SEC definition under S-K 503 were inadequate to cover fixed charges for the nine months ended March 31, 2011 and 2010 by \$1.9, and \$3.6, respectively.