



CENGAGE LEARNING HOLDINGS II L.P.

**First Quarter Report
Three Months Ended September 30, 2008**

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 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, 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 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 presentation of financial information in the Cengage Learning Acquisitions, Inc. Offering Memorandum, dated June 22, 2007, relating to the \$1,215.6 million 10.50% Senior Notes due 2015 and the \$519.0 million 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.

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

	<u>September 30,</u> <u>2008</u>	<u>June 30,</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>
Assets			
Cash and cash equivalents	\$ 83.0	\$ 44.3	\$ 115.1
Accounts receivable, net	457.5	273.9	386.5
Inventories	191.2	214.1	166.4
Current deferred tax assets	62.3	62.3	-
Prepaid expenses and other current assets	32.0	32.5	52.4
Current assets of discontinued operations	27.7	32.7	38.6
Total current assets	<u>853.7</u>	<u>659.8</u>	<u>759.0</u>
Property, equipment and capitalized software for internal use, net	148.3	160.3	139.3
Pre-publication costs, net	216.5	245.7	213.4
Author advances	36.1	25.5	34.6
Identifiable intangible assets, net	3,468.5	3,514.5	3,177.0
Goodwill	4,389.4	4,411.4	4,167.9
Non-current deferred tax assets	0.6	0.6	-
Deferred financing costs	91.3	80.8	87.5
Other non-current assets	19.6	20.9	15.3
Non-current assets of discontinued operations	24.5	26.1	123.6
Total assets	<u><u>\$ 9,248.5</u></u>	<u><u>\$ 9,145.6</u></u>	<u><u>\$ 8,717.6</u></u>
Liabilities and Partners' Equity			
Accounts payable and accrued expenses	\$ 341.7	\$ 360.8	\$ 313.7
Deferred revenue	127.5	104.9	105.1
Current portion of long-term debt	40.7	40.7	34.4
Capital lease obligation	-	-	26.0
Current taxes payable	8.9	6.8	7.7
Current fair value of derivative instruments	46.7	58.8	13.8
Other current liabilities	6.7	9.0	11.1
Current liabilities of discontinued operations	47.5	51.0	46.2
Total current liabilities	<u>619.7</u>	<u>632.0</u>	<u>558.0</u>
Long-term debt	6,237.9	6,255.1	5,575.3
Non-current deferred tax liabilities	931.8	922.5	822.5
Non-current fair value of derivative instruments	40.5	35.3	32.5
Other non-current liabilities	21.3	22.0	10.8
Non-current liabilities of discontinued operations	1.9	2.1	-
Total liabilities	<u>7,853.1</u>	<u>7,869.0</u>	<u>6,999.1</u>
Commitments, contingencies and guarantees (Note 13)			
Partners' capital	1,450.6	1,320.3	1,757.0
Accumulated other comprehensive loss	(55.2)	(43.7)	(38.5)
Total partners' equity	<u>1,395.4</u>	<u>1,276.6</u>	<u>1,718.5</u>
Total liabilities and partners' equity	<u><u>\$ 9,248.5</u></u>	<u><u>\$ 9,145.6</u></u>	<u><u>\$ 8,717.6</u></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 Three Months Ended September 30, 2008 and
for the Period July 5, 2007 to September 30, 2007 (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
	Three Months Ended September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Revenues	\$ 761.3	\$ 611.7	\$ 17.9
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	256.1	219.3	7.7
Amortization of pre-publication costs	53.3	43.7	0.9
Total cost of revenues, excluding depreciation stated below	<u>309.4</u>	<u>263.0</u>	<u>8.6</u>
Selling, general & administrative, excluding depreciation stated below	109.6	90.9	4.7
Allocation of management costs from TOC	-	-	0.8
Depreciation	14.8	13.5	0.7
Amortization of identifiable intangible assets	45.8	54.8	0.3
Total costs and expenses	<u>479.6</u>	<u>422.2</u>	<u>15.1</u>
Operating income from continuing operations	281.7	189.5	2.8
Gain on early extinguishment of debt	10.6	-	-
Interest income	0.2	0.9	-
Interest expense	<u>(154.6)</u>	<u>(131.8)</u>	<u>-</u>
Income before taxes from continuing operations	137.9	58.6	2.8
Provision for income taxes	(6.9)	(1.5)	(1.0)
Equity losses of investees, net of taxes	<u>(0.4)</u>	<u>(1.4)</u>	<u>(0.1)</u>
Income from continuing operations	130.6	55.7	1.7
(Loss) income from discontinued operations, net of tax	(1.8)	(1.8)	0.1
Net income	<u>\$ 128.8</u>	<u>\$ 53.9</u>	<u>\$ 1.8</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 Cash Flows for the Three Months Ended September 30, 2008
and for the Period July 5, 2007 to September 30, 2007 (Successor) and 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
	Three Months Ended September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Cash Flows from Operating Activities			
Net income	\$ 128.8	\$ 53.9	\$ 1.8
Loss (income) from discontinued operations, net of tax	1.8	1.8	(0.1)
Income from continuing operations	130.6	55.7	1.7
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:			
Amortization of pre-publication costs	53.3	43.7	0.9
Depreciation	14.8	13.5	0.7
Amortization of identifiable intangible assets	45.8	54.8	0.3
Amortization of debt discounts and deferred financing costs	21.7	15.3	-
Non-cash interest on Senior Bridge Loan Credit Facility	21.1	17.3	-
Non-cash interest on interest rate swaps	5.9	-	-
Non-cash equity-based compensation expense	1.6	-	-
Gain on early extinguishment of debt	(10.6)	-	-
Provision for (benefit from) deferred taxes	2.8	(0.6)	0.8
Equity losses of investees, net of taxes	0.4	1.4	0.1
Changes in operating assets and liabilities, net of acquisitions	(169.6)	(35.5)	2.2
Other, net	(0.6)	0.4	(0.2)
Net cash provided by operating activities of continuing operations	117.2	166.0	6.5
Net cash (used in) provided by operating activities of discontinued operations	(0.5)	(0.8)	1.5
Net cash provided by operating activities	116.7	165.2	8.0
Cash Flows from Investing Activities			
Acquisitions of businesses, less cash therein	(38.9)	(7,206.8)	-
Proceeds from the sale of businesses and other divestitures	32.0	-	-
Proceeds from settlement of derivative financial instruments	23.3	-	-
Additions to pre-publication costs	(27.3)	(26.0)	-
Additions to property, equipment and capitalized software for internal use	(4.2)	(8.6)	-
Other, net	(1.4)	-	-
Net cash used in investing activities of continuing operations	(16.5)	(7,241.4)	-
Net cash used in investing activities of discontinued operations	(0.4)	(0.5)	-
Net cash used in investing activities	(16.9)	(7,241.9)	-
Cash Flows from Financing Activities			
Proceeds from issuance of debt	-	5,580.2	-
Debt issuance costs	(16.2)	(90.7)	-
Repayments of long-term debt	(43.8)	-	-
Borrowings under the revolving credit facility	117.0	41.5	-
Repayments under the revolving credit facility	(117.0)	(41.5)	-
Capital contributions from partners	-	1,703.1	-
Change in cash overdrafts	-	(15.9)	(6.9)
Repayments from notes payable to TOC, net	-	-	(5.2)
Other, net	-	-	0.4
Net cash (used in) provided by financing activities of continuing operations	(60.0)	7,176.7	(11.7)
Impact on Cash and Cash Equivalents from Change in Foreign Currency	(1.1)	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	38.7	100.0	(3.7)
Cash and Cash Equivalents			
Beginning of period	44.3	15.1	18.8
End of period	\$ 83.0	\$ 115.1	\$ 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

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 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 and Accounting Changes

In May 2008, the Financial Accounting Standards Board (“FASB”) issued Statements of Financial Accounting Standards (“SFAS”) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with GAAP. The statement is effective 60 days following the Security and Exchange Commissions approval of the Public Company Accounting Oversight Board (“PCAOB”) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with GAAP*, and is not expected to have any impact on our financial statements.

In April 2008, the FASB issued Staff Position No. FAS (“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 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. SFAS No. 141(R) is effective as of the beginning of the first fiscal year after December 15, 2008 and 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 business combinations subject to this standard.

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

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

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 a material impact on our Financial Statements.

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 9, "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 a material impact on our Financial Statements.

Seasonality and Comparability

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the first half of the fiscal year because customer buying patterns are concentrated during this period, while costs are incurred more evenly throughout the year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year. Consequently, the September 30, 2007 condensed consolidated balance sheet is presented for comparative purposes.

Other

The aggregate allowance for doubtful accounts and sales returns reserve as of September 30, 2008, June 30, 2008 and September 30, 2007 was \$208.7, \$109.5 and \$179.7, respectively.

2. ACQUISITIONS

Gatlin Education Services ("Gatlin")

In July 2008, we acquired Gatlin, a leading partner to colleges and universities delivering online continuing education certificate programs to adult learners. 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 are 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 preliminarily recorded goodwill of \$28.2 and identifiable intangible assets of \$21.4, which has a weighted average life of 9 years. We also recorded \$8.4 related to the deferred tax liability associated with the identifiable intangible assets established in purchase accounting and \$2.6 in deferred revenue. Any final adjustments may change the allocations of purchase price, which could affect the fair values assigned to the assets and liabilities, including a change to goodwill and related deferred taxes.

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

Houghton Mifflin College Assets (“HM College”)

On May 30, 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 Capital Partners Inc. (“OMERS”). The final purchase price will be determined after an audit of the working capital and 2008 pre-acquisition cash flow of the acquired business. 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.

Pro Forma Financial Information (unaudited)

The pro forma results below include the effects of the acquisition of Thomson Learning and HM College as if they had been consummated as of July 1, 2007. Pro-forma financial information for the acquisition of Gatlin has not been included because it was not deemed to be material. 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 this acquisition. 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 this acquisition been consummated as of July 1, 2007.

	Three Months Ended September 30, 2007
Revenue	\$ 750.4
Operating income from continuing operations	234.9
Net income	80.6

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 were previously included within our International segment but were 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.

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 September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Revenues	\$ 16.0	\$ 13.8	\$ 0.8
(Loss) income from discontinued operations, net of tax	(1.8)	(1.8)	0.1

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

4. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	Successor		Predecessor
	Three Months Ended September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Net income	\$ 128.8	\$ 53.9	\$ 1.8
Foreign currency translation adjustments	(22.7)	7.9	2.3
Unrealized gains (losses) on derivative instruments	5.3	(46.4)	-
Unrealized losses on derivative instruments reclassified into earnings	5.9	-	-
Comprehensive income	<u>\$ 117.3</u>	<u>\$ 15.4</u>	<u>\$ 4.1</u>

5. INVENTORIES

Inventories consist of the following:

	September 30, 2008	June 30, 2008	September 30, 2007
Raw materials	\$ 4.0	\$ 6.4	\$ 5.2
Work-in-progress	1.2	0.2	3.4
Finished goods	221.7	234.9	166.5
	<u>226.9</u>	<u>241.5</u>	<u>175.1</u>
Obsolescence reserve	(35.7)	(27.4)	(8.7)
Inventories, net	<u>\$ 191.2</u>	<u>\$ 214.1</u>	<u>\$ 166.4</u>

6. RESTRUCTURING

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

Severance	Thomson Learning Acquisition ⁽¹⁾	Gale ⁽²⁾	HM College Acquisition ⁽³⁾	London Relocation ⁽⁴⁾	Total
Balance as of June 30, 2008	\$ 3.2	\$ 0.8	\$ 3.5	\$ 1.4	\$ 8.9
Restructuring provision	-	-	-	-	-
Cash payments	(1.2)	(0.4)	(0.8)	-	(2.4)
(Reversal) additions, net	(0.4)	-	0.6	-	0.2
Translation	-	-	-	(0.1)	(0.1)
Balance as of September 30, 2008	<u>\$ 1.6</u>	<u>\$ 0.4</u>	<u>\$ 3.3</u>	<u>\$ 1.3</u>	<u>\$ 6.6</u>

Severance	Thomson Learning Acquisition ⁽¹⁾
Balance as of July 5, 2007	\$ 11.1
Restructuring provision	-
Cash payments	(0.1)
(Reversal) additions, net	-
Balance as of September 30, 2007	<u>\$ 11.0</u>

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

⁽¹⁾ We had initiated programs related to downsizing our employee base, exiting certain activities and engaging in other actions designed to reduce our cost structure and improve productivity. During the three months ended September 30, 2008, we reduced the estimated liability of these programs by \$0.4. The restructuring-related payments are expected to be completed by December 31, 2008.

⁽²⁾ In December 2007, we announced programs with respect to our Gale segment. The restructuring-related payments are expected to be completed by June 30, 2009.

⁽³⁾ In connection with the acquisition of HM College, we initiated programs to eliminate redundant activities and reduce the cost structure. The liabilities relate to severance costs associated with the elimination of approximately 110 positions. The restructuring, as well as all related payments, are expected to be completed by December 31, 2009. During the three months ended September 30, 2008, we recorded an additional \$0.6 related to these programs.

⁽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 for severance costs. The restructuring, as well as all related payments, are expected to be completed by September 30, 2009.

7. DEBT

Our debt consists of the following:

	<u>September 30,</u> <u>2008</u>	<u>June 30,</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>
Senior Secured Credit Facilities:			
Term loan facility	\$ 3,405.6	\$ 3,414.2	\$ 3,440.0
Incremental term loan facility	623.4	625.0	-
Unamortized discount on incremental term loan facility	(13.9)	(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	(13.0)	(13.5)	(15.0)
13.25% Senior Subordinated Discount Notes due 2015	519.0	519.0	519.0
Unamortized discount on 13.25% Notes due 2015	(49.8)	(64.9)	(107.2)
Senior Bridge Loan Credit Facility	<u>591.7</u>	<u>614.9</u>	<u>557.3</u>
Total long-term debt	<u>6,278.6</u>	<u>6,295.8</u>	<u>5,609.7</u>
Less: Current portion of Senior Secured Credit Facilities	<u>(40.7)</u>	<u>(40.7)</u>	<u>(34.4)</u>
	<u>\$ 6,237.9</u>	<u>\$ 6,255.1</u>	<u>\$ 5,575.3</u>

Senior Secured Credit Facilities

During the three months ended September 30, 2008, we borrowed and repaid \$117.0 under our revolver at an average annual interest rate of 4.65%. During the three months ended September 30, 2007, we borrowed and repaid \$35.0 and \$6.5 under our revolver and swing line loans under the revolver, respectively. The average annual rates were 8.07% and 9.86% for the revolver and the swing line loans, respectively. Under the revolver, up to \$150 million is available for the issuance of letters of credit, of which \$6.9 and \$35.0 was outstanding as of September 30, 2008 and September 30, 2007 at a cost of 2.25% and 2.75%, respectively.

Senior Bridge Loan Credit Facility

The senior bridge loan credit agreement provides 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

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borrower's option, all interest thereunder may be paid in cash, or capitalized through an increase in the principal amount outstanding. This election must be made in advance of each three-month interest period.

CL Holdco elected to capitalize interest due on the loan in the amount of \$21.1 for the three months ended September 30, 2008. Borrowings under the senior bridge loan credit agreement ("Senior PIK Loans") currently bear interest at 13.75% per annum.

The Senior PIK Loans 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 Facilities), to the extent of the value of the assets securing such debt. The Senior PIK Loans are guaranteed on a subordinated unsecured basis by the Partnership. The guarantee of the Senior PIK Loans is subordinated to all of the Partnership's senior debt (including the Partnership's senior guarantees of the Senior Secured Credit Facilities and the 10.50% senior notes due 2015 (the "Senior Notes") and 13.25% senior subordinated discount notes due 2015 (the "Senior Subordinated Discount Notes")) as well the Partnership's guarantee of the Senior Subordinated Discount Notes.

The senior bridge loan credit agreement contains certain affirmative covenants, negative covenants and events of default, which are customary for a bridge loan facility.

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 borrower's Senior PIK Loans at 13.75% per annum, effective July 5, 2008 through October 31, 2008. Under the First Amendment, the Senior PIK Loans will automatically convert into notes in an aggregate principal amount equal to the unpaid principal amount of such loans, including accrued capitalized interest, on October 31, 2008 ("Senior PIK Notes"). The Senior PIK Notes will mature on July 15, 2015, bear interest at 13.75% per annum compounded semi-annually if not paid in cash, and will have covenants similar to the covenants and events of default applicable to the Senior Notes and Senior Subordinated Discount Notes issued by CL Acquisitions (a direct wholly-owned subsidiary of CL Holdco). The Senior PIK Notes will have no registration rights and have the same subordination structure as the Senior PIK Loans.

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 Consolidated Balance Sheet and are being amortized over the full term of the Senior PIK Notes.

In July and September 2008, we purchased and retired \$12.1 and \$32.0, respectively, of the Senior Bridge Facility that resulted in a gain of \$10.6 recognized during the three months ended September 30, 2008.

8. FINANCIAL INSTRUMENTS

Interest Rate Risk Management

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

In July and August 2007, we entered into three interest rate swaps with an amortizing aggregate notional amount of \$3,056 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 Facilities, 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. The new swap was structured to convert the variable LIBOR interest rate component of the long-term borrowings under the Senior Secured Credit Facilities 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

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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 (“AOCL”) was \$85.5, which will be 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 Consolidated Statement of Operations.

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 three months ended September 30, 2008, we recorded gains and received cash settlements of \$23.3 upon maturity of our forward contracts. These gains are largely offset by unrealized losses associated with our foreign currency denominated assets and the net impact in our results of operations was an unrealized loss of \$2.5.

The following is a summary of our derivative instruments as of September 30, 2008:

	Interest Rate Swaps	Interest Rate Basis Swaps	Foreign Exchange Contracts
Notional amount	\$ 2,644.0	\$ 2,644.0	\$ 63.7
Basis	LIBOR	LIBOR	GBP/AUD
Maturity (calendar year)	2009-2011	2008	2008

GBP = Great Britain Pound Sterling (£)
AUD = Australian Dollar

	September 30, 2008		June 30, 2008		September 30, 2007	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Fair value of derivative instruments:						
Current portion	\$ 46.7	\$ -	\$ 57.1	\$ 1.7	\$ 13.8	\$ -
Non-current portion	40.5	-	35.3	-	32.5	-

	Successor				Predecessor	
	Three Months Ended September 30, 2008		Period July 5, 2007 to September 30, 2007		Period 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	\$ -	\$ (23.3)	\$ -	\$ -	\$ -	\$ -
Interest expense	23.8	-	-	-	-	-
Weighted average interest rate:						
Paid	5.22%	-%	-%	-%	-%	-%
Received	3.03%	-%	-%	-%	-%	-%

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9. FAIR VALUE MEASUREMENTS

As highlighted in Note 1 “Basis of Presentation”, we adopted certain provisions of SFAS No. 157, as amended by FSP No. 157-2 on July 1, 2008, on a prospective basis.

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.

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 and counterparty credit risk adjustments and therefore our derivative financial instruments are 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 at September 30, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities:				
Derivative liabilities	\$ -	\$ 87.2	\$ -	\$ 87.2
Total Liabilities	<u>\$ -</u>	<u>\$ 87.2</u>	<u>\$ -</u>	<u>\$ 87.2</u>

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10. INCOME TAXES

Our effective income tax rates for the three months ended September 30, 2008, for the periods July 5, 2007 to September 30, 2007 and July 1, 2007 to July 4, 2007 was 5.0%, 2.6% and 35.7%, respectively. Our effective tax rate reflects the impact of projected loss-making jurisdictions on a full year basis where the associated tax benefits are not anticipated to be realized. For these jurisdictions, no tax provision or benefit is recorded, however, due to seasonality of income before taxes, certain of these jurisdictions are profitable for the three months ended September 30, 2008, in the period July 5, 2007 to September 30, 2007 and the period July 1, 2007 to July 4, 2007.

We had \$3.1 of unrecognized tax benefits as of September 30, 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 recorded 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 September 30, 2008, we had accrued an aggregate of \$1.8 for interest and penalties associated with these tax positions.

As of September 30, 2008, 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

11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Successor		Predecessor
	Three Months Ended September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Accounts receivable, net	\$ (188.8)	\$ (159.3)	\$ (9.4)
Inventories	18.7	14.1	0.8
Prepaid expenses and other current assets	1.2	(3.6)	(1.0)
Accounts payable and accrued expenses	15.1	56.4	8.6
Accrued interest payable	(32.4)	32.4	-
Other current liabilities	(2.2)	(0.1)	-
Deferred revenue	23.9	32.1	3.9
Current taxes payable	2.1	1.4	(0.1)
Author advances, net	(10.6)	(9.8)	-
Other, net	3.4	0.9	(0.6)
	<u>\$ (169.6)</u>	<u>\$ (35.5)</u>	<u>\$ 2.2</u>

Cash paid for interest expense amounted to \$138.4 and \$66.6 for the three months ended September 30, 2008 and the period July 5, 2007 to September 30, 2007, respectively. Amounts paid for interest for the period July 1, 2007 to July 4, 2007 were not significant.

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12. 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 currently have an advisory fee agreement with each of Apax and OMERS (now known as OMERS Private Equity, Inc., a division of Borealis Corporation) (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 expense of \$2.5 and \$2.4 for advisory fees the three months ended September 30, 2008 and the period from July 5, 2007 to September 30, 2007, respectively, which is included in "Selling, general & administrative, excluding depreciation" in the Consolidated Statements of Operations. The accrued advisory fees, along with accrued interest, of \$2.4 for the period from July 5, 2007 to September 30, 2007 is included in "Accounts payable and accrued expenses" on the Consolidated Balance Sheet.

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 and 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 recorded revenue from Nelson of \$13.2 and \$9.3 for the three months ended September 30, 2008 and the period July 5, 2007 to September 30, 2007, respectively. We recorded expenses of \$0.9 and \$0.5 for the three months ended September 30, 2008 and for the period from July 5, 2007 to September 30, 2007, respectively. At September 30, 2008, we had a receivable of \$13.2 from Nelson included in "Accounts receivable, net" on the Consolidated Balance Sheet.

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

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Guarantees

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

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

Academic & Professional. The Academic & Professional segment provides higher-education 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, and businesses. 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 does not have any standardized meaning prescribed by GAAP.

Select financial information for our segments is as follows:

	Successor				Predecessor	
	Three Months Ended		Period		Period	
	September 30, 2008		July 5, 2007 to September 30, 2007		July 1, 2007 to July 4, 2007	
	Segment Operating Profit		Segment Operating Profit		Segment Operating Profit	
	Revenues	(Loss)	Revenues	(Loss)	Revenues	(Loss)
Academic & Professional	\$ 621.0	\$ 358.1	\$ 472.1	\$ 261.5	\$ 14.6	\$ 7.5
Gale	76.1	36.4	74.5	35.5	1.4	(0.1)
International	58.9	8.3	61.7	10.4	1.8	(0.3)
Segment totals	756.0	402.8	608.3	307.4	17.8	7.1
Corporate and other	5.3	(7.2)	3.4	(5.9)	0.1	(1.6)
Total	\$ 761.3	\$ 395.6	\$ 611.7	\$ 301.5	\$ 17.9	\$ 5.5

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

Revenues for the three months ended September 30, 2008 include intersegment revenue of \$0.3, \$0.7, \$0.1 and \$1.9 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively. Revenues for the period July 5, 2007 to September 30, 2007 include intersegment revenue of \$0.3, \$0.7, \$0.2 and \$1.2 recorded by Academic & Professional, Gale, International, and Corporate and other, respectively. Intersegment revenues for the period July 1, 2007 to July 4, 2007 were not material.

The following table reconciles total Segment operating profit to operating income from continuing operations per the Condensed Consolidated and Combined Statements of Operations:

	Successor		Predecessor
	Three Months Ended September 30, 2008	Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
Total Segment operating profit	\$ 395.6	\$ 301.5	\$ 5.5
Less:			
Amortization of pre-publication costs	(53.3)	(43.7)	(0.9)
Allocation of management costs from TOC	-	-	(0.8)
Depreciation	(14.8)	(13.5)	(0.7)
Amortization of identifiable intangible assets	(45.8)	(54.8)	(0.3)
Operating income from continuing operations	\$ 281.7	\$ 189.5	\$ 2.8

15. SUBSEQUENT EVENT

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 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 Senior Notes and Senior Subordinated Discount Notes issued by CL Acquisitions. The Senior PIK Notes have no registration rights and have the same subordination structure as the Senior PIK Loans (see Note 7, "Debt" for further information).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is intended to help you understand 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 months ended September 30, 2008 and the period July 5, 2007 through September 30, 2007 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 September 30, 2007 in our discussion below to enhance the reader's understanding of the results of operations for the periods presented. This aggregation ("the Cumulative Period Ended September 30, 2007") 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 three months ended September 30, 2008:

- Revenues increased by \$131.7, or 20.9%, for the three months ended September 30, 2008 as compared to the Cumulative Period Ended September 30, 2007 driven primarily by the impact of acquisitions and organic growth in our Academic & Professional and Gale segments. Growth from acquisitions resulted primarily from our acquisition of Houghton Mifflin Harcourt Publishing Company's college division ("HM College"), effective May 30, 2008. See Note 2, "Acquisitions" to our Financial Statements for further information.
- Total segment operating profit increased by \$88.6, or 28.9%, for the three months ended September 30, 2008 compared to the Cumulative Period Ended September 30, 2007. This increase was primarily as a result of higher revenues and the impact of cost structure improvements associated with previous restructuring activities.
- Net cash provided by operating activities of continuing operations declined by \$55.3, or 32.1%, for the three months ended September 30, 2008 compared to the Cumulative Period Ended September 30, 2007. This decline primarily reflects the increase in use of cash for interest payments on our debt of \$71.8 and working capital changes resulting from a higher decrease in accounts payable and accrued expenses of \$49.9 related to increased royalty payments to our authors and personnel performance incentive payments, as well as a higher increase in accounts receivable of \$20.1 associated with the growth in revenue, partially offset by an increase in income before taxes from continuing operations of \$76.5, or 124.6%.
- In May 2008, we reached an agreement with the U.S. Department of Justice ("DOJ") to divest of certain higher education titles. In July 2008, we completed the sales of those titles. No gains or losses on these transactions were recognized.
- In July 2008, we acquired Gatlin Education Services ("Gatlin"), a leading partner to colleges and universities delivering online continuing education certificate programs to adult learners. The net assets and results of

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operations of Gatlin are included within our Academic & Professional segment. See Note 2, "Acquisitions" to our Financial Statements for further information.

- In July and September 2008, we purchased and retired \$12.1 and \$32.0, respectively, of the Senior Bridge Loan Credit Facility that resulted in a gain of \$10.6.
- In August 2008, we completed the sale of our local language academic business located in Spain. The sale resulted in a loss of \$1.4. See Note 3, "Discontinued Operations" to our Financial Statements for further information.
- We recorded a non-cash charge of \$1.6 related to the Class C units of Cengage Management L.P. previously granted to certain employees of Cengage Learning.
- We recorded gains and received cash settlements of \$23.3 upon maturity of certain foreign currency derivative contracts. These gains are largely offset by unrealized losses associated with our foreign currency denominated assets and the resulting net loss included in our results of operations was \$2.5. The proceeds on settlement are included within Cash Flows from Investing Activities on the Condensed Consolidated Statement of Cash Flows in our Financial Statements.

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 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.

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Critical Accounting Estimates

There were no material changes to our critical accounting estimates during the three months ended September 30, 2008. For further information on our critical accounting estimates, refer to the discussion contained in the management's discussion and analysis section of our annual report for the fiscal year ended June 30, 2008.

Subsequent Event

On October 31, 2008, borrowings under the senior bridge loan credit agreement (the "Senior PIK Loans") converted into notes (the "Senior PIK Notes") in an aggregate principal amount equal to \$598.3. 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 and 13.25% senior subordinated discount notes issued due 2015 by Cengage Learning Acquisitions, Inc., an indirect wholly-owned subsidiary of Cengage Learning Holdings II L.P. The Senior PIK Notes have no registration rights and have the same subordination structure as the Senior PIK Loans. See Note 7, "Debt" to our Financial Statements for further information.

Results of Operations

The following table displays the aggregation for the Cumulative Period Ended September 30, 2007:

	Successor	Predecessor	Cumulative
	Period	Period	Period Ended
	July 5, 2007 to	July 1, 2007 to	September 30,
	September 30,	July 4,	September 30,
	2007	2007	2007
Revenues:			
Academic & Professional	\$ 472.1	\$ 14.6	\$ 486.7
Gale	74.5	1.4	75.9
International	61.7	1.8	63.5
Corporate and other	3.4	0.1	3.5
Total revenues	611.7	17.9	629.6
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	219.3	7.7	227.0
Amortization of pre-publication costs	43.7	0.9	44.6
Total cost of revenues, excluding depreciation stated below	263.0	8.6	271.6
Selling, general & administrative, excluding depreciation stated below	90.9	4.7	95.6
Allocation of management costs from TOC	-	0.8	0.8
Depreciation	13.5	0.7	14.2
Amortization of identifiable intangible assets	54.8	0.3	55.1
Total costs and expenses	422.2	15.1	437.3
Operating income from continuing operations	189.5	2.8	192.3
Interest income	0.9	-	0.9
Interest expense	(131.8)	-	(131.8)
Income before taxes from continuing operations	58.6	2.8	61.4
Provision for income taxes	(1.5)	(1.0)	(2.5)
Equity losses of investees, net of taxes	(1.4)	(0.1)	(1.5)
Income from continuing operations	55.7	1.7	57.4
(Loss) income from discontinued operations, net of tax	(1.8)	0.1	(1.7)
Net income	\$ 53.9	\$ 1.8	\$ 55.7

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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.

The Three Months Ended September 30, 2008 compared with the Cumulative Period Ended September 30, 2007

	Three Months Ended September 30, 2008	Cumulative Period Ended September 30, 2007	Percentage Change
Revenues:			
Academic & Professional	\$ 621.0	\$ 486.7	27.6%
Gale	76.1	75.9	0.3%
International	58.9	63.5	-7.2%
Corporate and other	5.3	3.5	51.4%
Total revenues	<u>761.3</u>	<u>629.6</u>	20.9%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	256.1	227.0	12.8%
Amortization of pre-publication costs	<u>53.3</u>	<u>44.6</u>	19.5%
Total cost of revenues, excluding depreciation stated below	309.4	271.6	13.9%
Selling, general & administrative, excluding depreciation stated below	109.6	95.6	14.6%
Allocation of management costs from TOC	-	0.8	NM
Depreciation	14.8	14.2	4.2%
Amortization of identifiable intangible assets	45.8	55.1	-16.9%
Total costs and expenses	<u>479.6</u>	<u>437.3</u>	9.7%
Operating income from continuing operations	<u>281.7</u>	<u>192.3</u>	46.5%
Gain on early extinguishment of debt	10.6	-	NM
Interest income	0.2	0.9	-77.8%
Interest expense	(154.6)	(131.8)	17.3%
Income before taxes from continuing operations	<u>137.9</u>	<u>61.4</u>	124.6%
Provision for income taxes	(6.9)	(2.5)	176.0%
Equity losses of investees, net of taxes	<u>(0.4)</u>	<u>(1.5)</u>	-73.3%
Income from continuing operations	130.6	57.4	127.5%
Loss from discontinued operations, net of tax	(1.8)	(1.7)	5.9%
Net income	<u>\$ 128.8</u>	<u>\$ 55.7</u>	131.2%

NM = Not meaningful

Revenues increased by \$131.7, or 20.9%, to \$761.3 for the three months ended September 30, 2008 from \$629.6 for the Cumulative Period Ended September 30, 2007. The increase primarily reflects the following:

- \$104.8, or 16.6%, increase from our acquisition of HM College, primarily included within our Academic & Professional segment,
- \$30.3, or 4.8%, increase from organic growth in our Academic & Professional and Gale segments, including the increase from a lower sales returns reserve provision as a percentage of revenue in the United States within our Academic & Professional segment,
- \$5.7, or 0.9%, increase reflecting the higher reduction of revenue reported within Corporate and other in the prior year period associated with purchase accounting adjustments to deferred revenue, partially offset by

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- \$4.6, or 0.7%, decline in our International segment primarily reflecting lower sales of our English language teaching products,
- \$3.2, or 0.5%, decline within Corporate and other associated with revenue from administrative services related to a contract with a third party that was terminated in February 2008, and
- \$4.7, or 0.7%, decline associated with titles divested pursuant to an agreement we reached with the DOJ in connection with the regulatory review of our acquisition of HM College. See Note 2 "Acquisitions" to our Financial Statements for further information.

Total cost of revenues, excluding depreciation increased by \$37.8, or 13.9%, to \$309.4 for the three months ended September 30, 2008 from \$271.6 for the Cumulative Period Ended September 30, 2007. Our cost of revenues predominantly include author royalties, paper, printing and binding costs, all of which vary as revenues increase or decrease, hosting, 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 depreciation primarily reflects the following:

- \$29.1, or 10.7%, increase primarily due to higher royalty expense of \$23.2 included predominantly within our Academic & Professional segment and higher distribution costs of \$2.5, both associated with our higher revenues, as well as higher employee related costs of \$3.8 and
- \$8.7, or 3.2%, increase in amortization of pre-publication costs attributable to the \$29.0 increase in capitalized pre-publication costs related to our acquisition of HM College, as well as the timing of publication releases and the growth in sales generated from individual titles or programs during the period.

Selling, general & administrative expense, excluding depreciation increased by \$14.0, or 14.6%, to \$109.6 for the three months ended September 30, 2008 from \$95.6 for the Cumulative Period Ended September 30, 2007. The increase primarily reflects the following:

- \$13.0, or 13.6%, higher employee related costs associated with acquisitions, partially offset by the impact of cost structure improvements associated with previous restructuring activities,
- \$2.5, or 2.6%, loss on the re-measurement of certain inter-company foreign currency-denominated liabilities, net of related hedge instruments, and
- \$1.6, or 1.7%, increase in equity based compensation expense related to the Class C units of Cengage Management L.P. previously granted to certain employees of Cengage Learning.

Depreciation increased by \$0.6, or 4.2%, to \$14.8 for the three months ended September 30, 2008 from \$14.2 for the Cumulative Period Ended September 30, 2007 primarily reflecting the impact of purchase accounting adjustments to the fair value of buildings and building improvements and purchased and internally-developed software from acquisitions, partially offset by lower historical spending on property, equipment and capitalized software for internal use. In addition, we incurred proportionately lower depreciation in the Cumulative Period Ended September 30, 2007 based upon the preliminary valuation of property, equipment and capitalized software for internal use acquired upon the consummation of our acquisition of Thomson Learning.

Amortization of identifiable intangible assets decreased by \$9.3, or 16.9%, to \$45.8 for the three months ended September 30, 2008 from \$55.1 for the Cumulative Period Ended September 30, 2007 reflecting a decrease of \$10.0 as a result of the cessation of amortization relating to certain identifiable intangible assets acquired as part of the Thomson Learning acquisition that were fully amortized, partially offset by increased amortization of \$7.1 related to \$483.4 of identifiable intangible assets recognized at fair value upon consummation of our acquisitions of HM College and Gatlin. In addition, we incurred proportionately greater amortization in the Cumulative Period Ended September 30, 2007 based upon the preliminary valuation of identifiable intangible assets acquired upon the consummation of our acquisition of Thomson Learning.

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

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Interest income decreased by \$0.7, or 77.8% to \$0.2 for the three months ended September 30, 2008 from \$0.9 for the Cumulative Period Ended September 30, 2007 primarily due to lower average interest rates and lower average cash and cash equivalents.

Interest expense increased by \$22.8, or 17.3%, to \$154.6 for the three months ended September 30, 2008 from \$131.8 for the Cumulative Period Ended September 30, 2007. The increase primarily reflects the following:

- \$12.0, or 9.1%, increase associated with the \$625.0 incremental term loan facility which was used to partially finance our acquisition of HM College on May 30, 2008,
- \$6.4, or 4.9%, increase in non-cash interest from amortization of deferred financing costs associated with the incremental term loan facility and the fee related to the conversion of Senior PIK Loans in July 2008 (See Note 7, "Debt" to our Financial Statements for more information),
- \$5.9, or 4.5%, increase in non-cash interest associated with the de-designation of our interest rate swaps for cash flow hedge accounting purposes in December 2007,
- \$3.8, or 2.9%, increase in non-cash interest on the senior bridge loan credit facility, and
- \$5.3, or 4.0%, decrease attributable to the effect of interest rate swaps entered into in July and August 2007 which were only effective as of October 2007, as well changes in the interest rates which impact interest payments on the unhedged portion of our term loan facility.

Provision for income taxes increased \$4.4 reflecting our higher effective tax rate primarily due to increased state and local tax expense and by changes in deferred tax liabilities in the current period. 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 tax benefits in the future.

Equity losses of investees, net of taxes for the three months ended September 30, 2008 represents losses from our investment in CourseSmart LLC, which is accounted for as an equity investee, whereas the Cumulative Period Ended September 30, 2007 represents losses from our investment in Universitas 21 Global which was sold in November 2007.

Loss from discontinued operations, net of tax increased \$0.1, or 5.9% to \$1.8 for the three months ended September 30, 2008 from \$1.7 for the Cumulative Period Ended September 30, 2007 primarily reflecting the loss recorded on the sale of the local language academic business located in Spain partially offset with a \$1.8 lower reduction of revenue associated with purchase accounting adjustments to deferred revenue from the acquisition of Thomson Learning in the comparable prior year period.

Segment Operating Results

Academic & Professional

	Three Months Ended September 30, 2008	Cumulative Period Ended September 30, 2007	Percentage Change
Revenue	\$ 621.0	\$ 486.7	27.6%
Segment operating profit	358.1	269.0	33.1%
Margin	57.7%	55.3%	

Revenues Our Academic & Professional segment revenue increased by \$134.3, or 27.6% for the three months ended September 30, 2008 primarily due to the following:

- \$102.2, or 21.0%, increase from our acquisition of HM College, primarily in our higher education and school channels,
- \$24.6, or 5.1%, increase in organic revenue in the United States primarily reflecting 4.6% gross revenue growth in our Academic market from strong career channel performance, partially offset by lower school channel orders,

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which were negatively impacted by cyclical state adoption patterns, and a 2.5% decline in gross revenue in our Professional market reflecting the timing of distributor restocking orders,

- \$8.5, or 1.7%, increase from a lower sales returns reserve provision as a percentage of revenue in the United States compared to the Cumulative Period Ended September 30, 2007, partially offset by
- \$4.7, or 1.0%, decrease associated with titles divested pursuant to an agreement we reached with the DOJ in connection with the regulatory review of our acquisition of HM College (see Note 2, "Acquisitions" for further information), and
- \$3.0, or 0.6%, decrease in revenue in Latin America primarily reflecting the timing of certain orders as well as 0.2% relating to the unfavorable impact from foreign currency translation.

Segment operating profit Our Academic & Professional segment operating profit during the three months ended September 30, 2008 increased by \$89.1, or 33.1%, primarily due to the following:

- Higher revenues and the benefit from cost structure improvements associated with previous restructuring activities, partially offset by
- \$3.5, or 1.3%, higher employee related costs in connection with our acquisition of HM College, and
- \$2.4, or 0.9% related to various services provided pursuant to the transition services agreement entered into upon consummation of the HM College acquisition as well as consulting fees incurred following the acquisition related to integration and change-management activities.

Gale

	Three Months Ended September 30, 2008	Cumulative Period Ended September 30, 2007	Percentage Change
Revenue	\$ 76.1	\$ 75.9	0.3%
Segment operating profit	36.4	35.4	2.8%
<i>Margin</i>	47.8%	46.6%	

Revenues Our Gale segment revenue increased by \$0.2, or 0.3%, during the three months ended September 30, 2008 primarily due to the following:

- \$2.8, or 3.7% increase attributable to growth in sales of e-books as well as earlier completion and publication of certain print materials compared to the comparable prior year period, partially offset by
- \$2.3, or 3.0% decrease in sales of digital archives reflecting the impact of a large non-recurring sale recognized in the comparable prior year period, as well as the effects of recent fiscal spending constraints on our customers related to the current economic environment.

Segment operating profit Our Gale segment operating profit during the three months ended September 30, 2008 increased by \$1.0, or 2.8%, primarily due to the following:

- \$1.2, or 3.4%, improvement resulting from sales product mix and print and digital production efficiencies,
- \$0.8, or 2.3%, lower employee related costs attributable to cost reductions previously initiated resulting in fewer employees as well as a related decrease in travel and entertainment expenses, partially offset by
- \$1.0, or 2.8%, decrease associated with a legal settlement that resulted in a gain in the prior year.

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International

	Three Months Ended September 30, 2008	Cumulative Period Ended September 30, 2007	Percentage Change
Revenue	\$ 58.9	\$ 63.5	-7.2%
Segment operating profit	8.3	10.1	-17.8%
<i>Margin</i>	<i>14.1%</i>	<i>15.9%</i>	

Revenue Our International segment revenue decreased by \$4.6, or 7.2%, during the three months ended September 30, 2008 primarily due to the following:

- \$2.9, or 4.6%, lower organic revenue in the higher education channel reflecting the timing of orders and declining economic conditions in Asia as well as the cessation of sales to certain distributors in Europe, Middle East and Africa ("EMEA"),
- \$2.8, or 4.4%, decrease in English language teaching products in the United States relating to softness in that market, as well as lower sales in EMEA and Asia due to the timing of orders and new product launches, partially offset by
- \$2.6, or 4.1%, increase from our acquisition of HM College primarily resulting in growth in our higher education channel in EMEA.

Segment operating profit Our International segment operating profit during the three months ended September 30, 2008 decreased by \$1.8, or 17.8%, due primarily to a 0.5% unfavorable impact from the translation of foreign currency, lower revenues, as well as higher royalties paid to the Academic & Professional segment than the comparable prior year period.

Liquidity and Capital Resources

As discussed, the Cumulative Period Ended September 30, 2007 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 September 30, 2007:

	Successor Period July 5, 2007 to September 30, 2007	Predecessor Period July 1, 2007 to July 4, 2007	Cumulative Period Ended September 30, 2007
Other Financial Data			
Additions to pre-publication costs	\$ (26.0)	\$ -	\$ (26.0)
Additions to property, equipment and capitalized software for internal use	(8.6)	-	(8.6)
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 166.0	\$ 6.5	\$ 172.5
Net cash used in investing activities	(7,241.4)	-	(7,241.4)
Net cash provided by (used in) financing activities	7,176.7	(11.7)	7,165.0
Net cash (used in) provided by discontinued operations	(1.3)	1.5	0.2
Net increase (decrease) in cash and cash equivalents	<u>\$ 100.0</u>	<u>\$ (3.7)</u>	<u>\$ 96.3</u>

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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.

The Three Months Ended September 30, 2008 compared with the Cumulative Period Ended September 30, 2007

The following table sets forth other financial data and our cash flows from operating, investing and financing activities for the three months ended September 30, 2008 and the Cumulative Period Ended September 30, 2007:

	Three Months Ended September 30, 2008	Cumulative Period Ended September 30, 2007	Percentage Change
Other Financial Data			
Additions to pre-publication costs	\$ (27.3)	\$ (26.0)	5.0%
Additions to property, equipment and capitalized software for internal use	(4.2)	(8.6)	-51.2%
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 117.2	\$ 172.5	-32.1%
Net cash used in investing activities	(16.5)	(7,241.4)	NM
Net cash (used in) provided by financing activities	(60.0)	7,165.0	NM
Net cash (used in) provided by discontinued operations	(0.9)	0.2	NM
Impact on cash and cash equivalents from change in foreign currency	(1.1)	-	NM
Net increase in cash and cash equivalents	<u>\$ 38.7</u>	<u>\$ 96.3</u>	-59.8%

NM = Not meaningful

Operating activities. Net cash provided by operating activities of continuing operations declined \$55.3, or 32.1%, for the three months ended September 30, 2008 compared to the Cumulative Period Ended September 30, 2007. This decline primarily reflects the increase in use of cash for interest payments on our debt of \$71.8 and working capital changes resulting from a higher decrease in accounts payable and accrued expenses of \$49.9 related to increased royalty payments to our authors and personnel performance incentive payments, as well as a higher increase in accounts receivable of \$20.1 associated with the growth in revenue partially offset by an increase in income before taxes from continuing operations of \$76.5, or 124.6%.

Investing activities. Net cash used in investing activities from continuing operations of \$16.5 for the three months ended September 30, 2008 decreased from \$7,241.4 for the Cumulative Period Ended September 30, 2007. Included in the three months ended September 30, 2008 is the acquisition of Gatlin partially offset by 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, as well as the divestiture of our local language business in Spain and (ii) \$23.3 from the settlement of foreign currency derivative contracts. The comparable prior year period primarily includes the cash used for the acquisition of Thomson Learning.

Financing activities. Net cash used by financing activities from continuing operations for the three months ended September 30, 2008 was \$60.0, compared to a net cash provided of \$7,165.0 from the Cumulative Period Ended September 30, 2007. The comparable prior year period primarily reflects the financing transactions associated with the acquisition of Thomson Learning. Included in current period financing activities is a principal payment of \$10.3 on our term loan facilities

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and \$33.5 associated with purchasing and retiring a portion of the Senior PIK Loans. In addition, we borrowed and repaid \$117.0 and \$41.5 under our revolving credit facility during the three months ended September 30, 2008 and the Cumulative Period Ended September 30, 2007, respectively.

Cash Position, Indebtedness and Liquidity

As of September 30, 2008, June 30, 2008 and September 30, 2007, our total cash and cash equivalents were \$83.0, \$44.3, and \$115.1, respectively, and our total indebtedness was \$6,278.6, \$6,295.8 and \$5,635.7, respectively.

Our principal uses of cash are to fund the payment of interest and principal on our outstanding debt, acquisitions, operating costs and capital expenditures, including investments in products and technology offerings. 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 revolver 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 facilities, 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. Any new debt may be secured debt.

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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 facilities, including monitoring their credit ratings and outlooks, credit default swap levels, capital raising and merger activity.

At September 30, 2008, we have \$4,015.1 million in outstanding variable rate debt and \$2,263.5 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% increase in interest rates for the unhedged variable rate debt would adversely affect net income by less than \$1.0 million for the three months ended September 30, 2008. See Note 8, "Financial Instruments" to our Financial Statements for a detailed description of derivative instruments we have entered into to hedge the variable interest rate component of certain of our indebtedness.

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CONTROLS AND PROCEDURES

Our management is responsible for the integrity and objectivity of all information presented in this report. The condensed consolidated and combined 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 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.

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 United States and around the globe declined through September 2008 simultaneous with the liquidity crisis in the credit markets and the extreme volatility in the financial markets. If economic growth in the United States 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 and our ability to satisfy the financial covenants included in our debt documents, including our senior secured credit facility, which could result in higher borrowing costs; 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.

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Computation of Ratio of Earnings to Fixed Charges
(In millions of U.S. dollars except for Ratio of earnings to fixed charges)

	<u>Successor</u>		<u>Predecessor</u>
	<u>Three Months Ended September 30, 2008</u>	<u>Period July 5, 2007 to September 30, 2007</u>	<u>Period July 1, 2007 to July 4, 2007</u>
Fixed Charges			
Interest expense	\$ 154.6	\$ 131.8	\$ -
Portion of rental expense which represents interest factor	2.3	2.4	-
Total fixed charges	<u>\$ 156.9</u>	<u>\$ 134.2</u>	<u>\$ -</u>
Earnings available for fixed charges			
Earnings ⁽¹⁾	\$ 137.9	\$ 58.6	\$ 2.8
Add fixed charges	156.9	134.2	-
Total earnings available for fixed charges	<u>\$ 294.8</u>	<u>\$ 192.8</u>	<u>\$ 2.8</u>
Ratio of earnings to fixed charges ⁽²⁾	<u>1.88</u>	<u>1.44</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.