



CENGAGE LEARNING HOLDINGS II L.P.

**Second Quarter Report
Three and Six Months Ended
December 31, 2009**

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

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

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

CENGAGE LEARNING HOLDINGS II L.P.
SECOND QUARTER REPORT
THREE AND SIX MONTHS ENDED DECEMBER 31, 2009

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

	<u>December 31,</u> <u>2009</u>	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Assets			
Cash and cash equivalents	\$ 87.4	\$ 33.4	\$ 244.7
Accounts receivable, net	278.6	330.4	300.8
Inventories	189.5	194.2	191.2
Current deferred tax assets	88.2	88.2	62.3
Prepaid expenses and other current assets	51.9	48.0	35.0
Current assets of discontinued operations	-	-	20.8
Total current assets	<u>695.6</u>	<u>694.2</u>	<u>854.8</u>
Property, equipment and capitalized software for internal use, net	126.6	132.6	145.7
Pre-publication costs, net	214.0	234.8	212.1
Author advances	35.7	25.3	33.6
Identifiable intangible assets, net	2,915.7	2,993.8	3,403.3
Goodwill	3,536.2	3,538.1	4,370.0
Non-current deferred tax assets	21.0	21.0	-
Deferred financing costs	56.4	63.4	86.3
Other non-current assets	7.4	9.7	9.0
Non-current assets of discontinued operations	-	-	19.9
Total assets	<u><u>\$ 7,608.6</u></u>	<u><u>\$ 7,712.9</u></u>	<u><u>\$ 9,134.7</u></u>
Liabilities and Partners' Equity			
Accounts payable and accrued expenses	\$ 407.0	\$ 379.4	\$ 389.0
Deferred revenue	127.4	111.6	120.3
Current portion of long-term debt	40.7	40.7	40.7
Revolving credit facility	-	184.0	-
Current taxes payable	7.1	8.1	7.1
Current fair value of derivative instruments	72.5	86.6	93.3
Other current liabilities	1.0	4.7	9.2
Current liabilities of discontinued operations	-	-	38.6
Total current liabilities	<u>655.7</u>	<u>815.1</u>	<u>698.2</u>
Long-term debt	5,668.4	5,709.8	6,188.4
Non-current deferred tax liabilities	913.9	924.3	935.2
Non-current fair value of derivative instruments	20.9	43.8	74.8
Other non-current liabilities	34.4	26.7	27.0
Non-current liabilities of discontinued operations	-	-	1.6
Total liabilities	<u>7,293.3</u>	<u>7,519.7</u>	<u>7,925.2</u>
Commitments and contingencies (Note 11)			
Partners' equity	430.6	340.9	1,401.2
Accumulated other comprehensive loss	(115.3)	(147.7)	(191.7)
Total partners' equity	<u>315.3</u>	<u>193.2</u>	<u>1,209.5</u>
Total liabilities and partners' equity	<u><u>\$ 7,608.6</u></u>	<u><u>\$ 7,712.9</u></u>	<u><u>\$ 9,134.7</u></u>

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

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

	Three Months		Six Months	
	Ended December 31,		Ended December 31,	
	2009	2008	2009	2008
Revenues	\$ 423.3	\$ 443.9	\$ 1,121.8	\$ 1,205.2
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	182.5	186.6	426.6	442.7
Amortization of pre-publication costs	33.6	33.7	83.0	87.0
Total cost of revenues, excluding depreciation stated below	216.1	220.3	509.6	529.7
Selling, general & administrative, excluding depreciation stated below	103.9	104.3	201.8	213.9
Depreciation	13.8	16.0	25.5	30.8
Amortization of identifiable intangible assets	41.1	45.4	82.2	91.2
Total costs and expenses	374.9	386.0	819.1	865.6
Operating income from continuing operations	48.4	57.9	302.7	339.6
Gain on early extinguishment of debt	9.2	48.2	9.2	58.8
Mark-to-market of derivative instruments	27.0	-	37.0	-
Other income, net	0.1	0.5	0.2	0.7
Interest expense	(130.0)	(150.3)	(262.9)	(304.9)
(Loss) income before taxes from continuing operations	(45.3)	(43.7)	86.2	94.2
Benefit from (provision for) income taxes	2.3	(4.7)	2.3	(11.6)
Equity losses of affiliates, net of taxes	(0.3)	(0.4)	(1.0)	(0.8)
(Loss) income from continuing operations	(43.3)	(48.8)	87.5	81.8
Loss from discontinued operations, net of tax	-	(2.7)	-	(4.5)
Net (loss) income	\$ (43.3)	\$ (51.5)	\$ 87.5	\$ 77.3

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

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

	Six Months Ended December 31,	
	2009	2008
Cash Flows from Operating Activities		
Net income	\$ 87.5	\$ 77.3
Loss from discontinued operations, net of tax	-	4.5
Income from continuing operations	87.5	81.8
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Amortization of pre-publication costs	83.0	87.0
Depreciation	25.5	30.8
Amortization of identifiable intangible assets	82.2	91.2
Amortization of debt discounts and deferred financing costs	10.5	39.8
Interest capitalized on long-term debt	10.1	41.3
Non-cash interest on interest rate swaps	28.7	11.8
Non-cash equity-based compensation expense	2.4	3.4
Mark-to-market of derivative instruments	(37.0)	-
Gain on early extinguishment of debt	(9.2)	(58.8)
(Benefit from) provision for deferred taxes	(8.4)	5.7
Equity losses of affiliates, net of taxes	1.0	0.8
Repayments of long-term debt, in lieu of interest	(7.3)	(8.5)
Changes in operating assets and liabilities	84.4	35.2
Other, net	8.3	6.6
Net cash provided by operating activities of continuing operations	361.7	368.1
Net cash used in operating activities of discontinued operations	-	(1.7)
Net cash provided by operating activities	361.7	366.4
Cash Flows from Investing Activities		
Acquisitions of businesses, less cash therein	(3.1)	(66.5)
Proceeds from the sale of businesses, equity affiliate and other divestitures	-	34.7
Proceeds from settlement of derivative instruments	1.2	36.2
Payments on settlement of derivative instruments	(1.4)	-
Additions to pre-publication costs	(60.5)	(59.1)
Additions to property, equipment and capitalized software for internal use	(19.3)	(21.9)
Proceeds from disposition of property, equipment and capitalized software for internal use	0.1	0.1
Other, net	(2.8)	(1.2)
Net cash used in investing activities of continuing operations	(85.8)	(77.7)
Net cash used in investing activities of discontinued operations	-	(0.9)
Net cash used in investing activities	(85.8)	(78.6)
Cash Flows from Financing Activities		
Debt issuance costs and other financing fees	-	(16.2)
Repayments of long-term debt	(38.5)	(69.0)
Borrowings under the revolving credit facility	63.0	117.0
Repayments under the revolving credit facility	(247.0)	(117.0)
Other, net	(0.1)	0.2
Net cash used in financing activities of continuing operations	(222.6)	(85.0)
Impact on Cash and Cash Equivalents from Change in Foreign Currency	0.7	(2.4)
Net Increase in Cash and Cash Equivalents	54.0	200.4
Cash and Cash Equivalents		
Beginning of period	33.4	44.3
End of period	\$ 87.4	\$ 244.7

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

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

1. BASIS OF PRESENTATION AND OTHER

Basis of Presentation

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

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

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

No material subsequent events were identified as of February 11, 2010, the date these financial statements were issued.

New Accounting Standards

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

Seasonality and Comparability

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the first half of the fiscal year because customer buying patterns are concentrated during this period while costs are incurred more evenly throughout the year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year. Consequently, the December 31, 2008 condensed consolidated balance sheet is presented for comparative purposes.

Other

The aggregate allowance for doubtful accounts and reserve for sales returns as of December 31, 2009, June 30, 2009, and December 31, 2008 was \$207.7, \$118.3, and \$182.7, respectively.

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

2. DISCONTINUED OPERATIONS

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

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

	Three Months Ended December 31, 2008	Six Months Ended December 31, 2008
Revenues	\$ 10.8	\$ 26.8
Loss from discontinued operations, before tax	(2.7)	(4.5)

3. COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income consists of the following:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Net (loss) income	\$ (43.3)	\$ (51.5)	\$ 87.5	\$ 77.3
Foreign currency translation adjustments	2.7	(61.6)	3.7	(84.3)
Unrealized losses on derivative instruments	-	(80.8)	-	(75.5)
Unrealized losses on derivative instruments reclassified into earnings	14.4	5.9	28.7	11.8
Comprehensive (loss) income	<u>\$ (26.2)</u>	<u>\$ (188.0)</u>	<u>\$ 119.9</u>	<u>\$ (70.7)</u>

4. INVENTORIES

Inventories consist of the following:

	December 31, 2009	June 30, 2009	December 31, 2008
Raw materials	\$ 3.1	\$ 3.5	\$ 6.1
Work-in-progress	1.4	1.8	1.4
Finished goods	185.0	188.9	183.7
Inventories	<u>\$ 189.5</u>	<u>\$ 194.2</u>	<u>\$ 191.2</u>

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

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

	Severance and Related Costs		Facility Consolidation Costs	
	HM		Boston	
	College Acquisition ⁽¹⁾	London Relocation ⁽²⁾	Relocation ⁽³⁾	Total
Balance as of June 30, 2009	\$ 0.6	\$ 2.1	\$ 1.7	\$ 4.4
Cash payments	(0.4)	(1.1)	(1.7)	(3.2)
(Reversal) additions	(0.2)	-	7.4	7.2
Translation	-	(0.1)	-	(0.1)
Balance as of December 31, 2009	\$ -	\$ 0.9	\$ 7.4	\$ 8.3

	Severance and Related Costs				Total
	Thomson Learning Acquisition ⁽⁴⁾	HM		Gale ⁽⁵⁾	
		College Acquisition ⁽¹⁾	London Relocation ⁽²⁾		
Balance as of June 30, 2008	\$ 3.2	\$ 3.5	\$ 1.4	\$ 0.8	\$ 8.9
Restructuring provision	-	-	1.4	-	1.4
Cash payments	(1.7)	(2.0)	-	(0.7)	(4.4)
(Reversal) additions, net	(0.6)	0.6	-	-	-
Translation	-	-	(0.4)	-	(0.4)
Balance as of December 31, 2008	\$ 0.9	\$ 2.1	\$ 2.4	\$ 0.1	\$ 5.5

	Facility Consolidation Costs and Related Asset Impairments	
	Boston Relocation ⁽³⁾	
Balance as of June 30, 2008	\$ -	
Restructuring provision	11.3	
Cash payments	(0.2)	
Asset impairments	(7.4)	
Balance as of December 31, 2008	\$ 3.7	

⁽¹⁾ In connection with the acquisition of the Houghton Mifflin College Assets (“HM College”), we initiated a program to eliminate redundant activities and reduce the cost structure. The restructuring payments were completed as of December 31, 2009.

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

⁽³⁾ In November 2008, we consolidated our office facilities in Boston, MA and entered into an operating lease arrangement for a new office facility also within Boston, MA. During the three and six months ended December 31, 2009, we recognized an incremental charge of \$7.4 for costs that will continue to be incurred for the duration of the original lease arrangement without economic benefit, net of estimated sublease income. This incremental charge is a revision to our initial estimate of \$3.9 recorded during the three and six months ended December 31, 2008 as a result of changes in both

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Notes to Condensed Consolidated Financial Statements
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the timing and amount of estimated sublease income primarily driven by the current economic conditions. Of these charges, \$3.4 is included within “Cost of revenues, excluding amortization of pre-publication costs and depreciation” and \$4.0 is included in “Selling, general & administrative, excluding depreciation” on the Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2009.

Our liability for the remaining life of the lease, less estimated sublease income, is recognized and measured at its fair value using a discounted future cash flow valuation. This methodology applies various observable and unobservable inputs, including estimated sublease rentals based on market prices for similar leased properties, discount rates, and our fixed rental obligation under the existing lease and estimated continued operating expenses, which we determined to be Level 3 under the fair value hierarchy.

⁽⁴⁾ In connection with the Thomson Learning acquisition, we initiated programs related to downsizing our employee base, exiting certain activities and engaging in other actions designed to reduce our cost structure and improve productivity. The restructuring payments were completed as of June 30, 2009.

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

6. DEBT

Our debt consists of the following:

	December 31, 2009	June 30, 2009	December 31, 2008
Senior Secured Credit Facility:			
Term loan facility	\$ 3,362.6	\$ 3,379.8	\$ 3,397.0
Incremental term loan facility	615.6	618.8	621.9
Unamortized discount on incremental term loan facility	(10.9)	(12.2)	(13.4)
Revolving credit facility	-	184.0	-
Fixed rate notes:			
10.50% Senior Notes due 2015	1,215.6	1,215.6	1,215.6
Unamortized discount on 10.50% Notes due 2015	(10.3)	(11.4)	(12.4)
13.25% Senior Subordinated Discount Notes due 2015	407.7	407.7	463.0
Unamortized discount on 13.25% Notes due 2015	-	(2.1)	(31.0)
13.75% Senior PIK Notes due 2015	128.8	154.3	588.4
Total long-term debt	5,709.1	5,934.5	6,229.1
Less: Current portion of Senior Secured Credit Facility	(40.7)	(224.7)	(40.7)
	\$ 5,668.4	\$ 5,709.8	\$ 6,188.4

Senior Secured Credit Facility

During the six months ended December 31, 2009, we borrowed \$63.0 and repaid \$247.0 under our revolving credit facility at an average annual interest rate of 2.47%. During the six months ended December 31, 2008, we borrowed and repaid \$117.0 under our revolving credit facility at an average annual interest rate of 4.65%. Under this facility, up to \$150.0 is available for the issuance of letters of credit, of which \$5.6, \$7.8, and \$6.9 were outstanding as of December 31, 2009, June 30, 2009, and December 31, 2008, respectively, at an average annual cost of 2.11%, 2.25% and 2.07%, respectively.

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Notes to Condensed Consolidated Financial Statements
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Senior PIK Notes

In November 2009, we purchased and retired \$35.6 of the 13.75% Senior PIK Notes (“Senior PIK Notes”) that resulted in a gain of \$9.2 net of deferred financing costs during the three months ended December 31, 2009. In December 2008, we purchased and retired \$23.5 of the Senior PIK Notes that resulted in a gain of \$16.1 during the three and six months ended December 31, 2008.

Senior Subordinated Discount Notes

In December 2008, we purchased and retired \$52.1 of the 13.25% Senior Subordinated Discount Notes due 2015 (the “Senior Subordinated Discount Notes”), net of unamortized original issue discount, that resulted in a gain of \$32.1 recognized during the three and six months ended December 31, 2008.

7. FINANCIAL INSTRUMENTS

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

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

We economically hedge the impact resulting from changes in exchange rates on various foreign currency-denominated net asset or liability positions through the use of forward contracts that may or may not be designated as accounting hedges. The gains and losses on these derivatives are largely expected to offset transaction losses and gains on the underlying foreign currency-denominated assets and liabilities, both of which are recorded in “Selling, general & administrative, excluding depreciation”, net in the Condensed Consolidated Statements of Operations. During the six months ended December 31, 2008, we recorded gains and received cash settlements of \$36.2 upon maturity of our forward contracts. These gains were largely offset by unrealized losses associated with our foreign currency denominated assets. The recorded gains and cash settlements received for the six months ended December 31, 2009 were not material.

The following is a summary of our derivative instruments:

	December 31, 2009		June 30, 2009		December 31, 2008	
	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Foreign Exchange Contracts
Notional amount	\$ 1,800.0	\$ 24.5	\$ 2,244.0	\$ 17.6	\$ 2,633.0	\$ 2.8
Basis	LIBOR	Various	LIBOR	Various	LIBOR	GBP/AUD
Maturity (calendar year)	2011	2010	2009-2011	2009	2009-2011	2009

GBP = Great Britain pound sterling (£)

AUD = Australian dollar

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

	December 31, 2009		June 30, 2009		December 31, 2008	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Fair value liabilities of derivative instruments:						
Current portion	\$ 72.5	\$ -	\$ 86.6	\$ -	\$ 93.3	\$ -
Non-current portion	20.9	-	43.8	-	74.8	-

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2009		2008		2009		2008	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Selling, general & administrative, excluding depreciation	\$ -	\$ (0.2)	\$ -	\$ (12.9)	\$ -	\$ (1.2)	\$ -	\$ (36.2)
Mark-to-market of derivative instruments	27.0	-	-	-	37.0	-	-	-
Interest expense	40.0	-	22.4	-	80.8	-	46.2	-
Weighted average interest rate:								
Paid	5.25%		5.22%		5.23%		5.22%	
Received	0.28%		3.76%		0.44%		3.28%	

Measurement of Fair Value

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

Fair Value of Other Financial Instruments:

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

	December 31, 2009		June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 87.4	\$ 87.4	\$ 33.4	\$ 33.4	\$ 244.7	\$ 244.7
Senior secured credit facility:						
Term loan facility		3,362.6	3,103.3	3,379.8	2,839.0	3,397.0
Incremental term loan facility ⁽¹⁾		604.7	612.0	606.6	532.2	608.5
Revolving credit facility		-	-	184.0	150.3	-
10.50% Senior Notes due 2015 ⁽²⁾		1,205.3	1,162.5	1,204.2	972.5	1,203.2
13.25% Senior Subordinated Discount Notes due 2015 ⁽³⁾		407.7	396.0	405.6	297.6	432.0
13.75% Senior PIK Notes due 2015		128.8	105.2	154.3	79.8	588.4

⁽¹⁾ The carrying amount for the incremental term loan facility is net of the unamortized discount of \$10.9, \$12.2, and \$13.4 as of December 31, 2009, June 30, 2009 and December 31, 2008, respectively.

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Notes to Condensed Consolidated Financial Statements
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⁽²⁾ The carrying amount for the 10.50% Senior Notes due 2015 is net of the unamortized discount of \$10.3, \$11.4, and \$12.4 as of December 31, 2009, June 30, 2009 and December 31, 2008, respectively.

⁽³⁾ The carrying amount for the Senior Subordinated Discount Notes is net of the unamortized discount of \$2.1 and \$31.0 as of June 30, 2009 and December 31, 2008, respectively.

8. INCOME TAXES

Our effective income tax benefit rates for the three and six months ended December 31, 2009 were 5.1% and 2.7%, respectively. Our effective income tax rates for the three and six months ended December 31, 2008 were 10.8% and 12.3%, respectively. Our effective tax rates reflect the impact of projected loss-making jurisdictions on a full year basis where the associated tax benefits are not anticipated to be realized. For these jurisdictions, no tax provision or benefit is recorded, however, due to seasonality of income before taxes, certain of these jurisdictions are profitable for the three and six months ended December 31, 2009 and 2008.

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended	
	December 31,	
	2009	2008
Accounts receivable, net	\$ 56.0	\$ (34.7)
Inventories	6.0	14.3
Prepaid expenses and other current assets	(2.0)	(1.6)
Accounts payable and accrued expenses	3.8	33.9
Accrued interest payable	24.5	(0.1)
Deferred revenue	14.4	19.0
Current taxes payable	(1.0)	0.5
Author advances, net	(10.3)	(8.2)
Other, net	(7.0)	12.1
	<u>\$ 84.4</u>	<u>\$ 35.2</u>

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

	Six Months Ended	
	December 31,	
	2009	2008
Non-cash interest on Senior PIK Notes	\$ 10.1	\$ 13.6
Non-cash interest on Senior Bridge Loan Credit Facility	-	27.7
	<u>\$ 10.1</u>	<u>\$ 41.3</u>

We paid cash interest expense on debt of \$189.2 and \$212.1 for the six months ended December 31, 2009 and 2008, respectively. In addition, we made debt repayments in lieu of interest of \$7.3 and \$8.5 for the six months ended December 31, 2009 and 2008, respectively.

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10. RELATED PARTY TRANSACTIONS

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

Advisory Fee Agreements

We are party to advisory fee agreements with Apax Partners L.P. (“Apax”) and OMERS Private Equity, Inc. (“OMERS”) (together, the “Advisory Fee Agreements”). Pursuant to these Advisory Fee Agreements, we are obligated to pay an aggregate annual fee of \$10.7, payable quarterly in advance on the first day of each quarter, in consideration for services to be provided. We are also obligated to pay associated out of pocket expenses incurred by Apax and OMERS. We recorded expenses of \$2.7, \$5.4, \$2.9, and \$5.4 for such advisory fees during the three and six months ended December 31, 2009 and 2008, respectively, which are included in “Selling, general & administrative, excluding depreciation” in the Condensed Consolidated Statements of Operations.

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

We recorded revenue from Nelson of \$6.5, \$4.9, \$17.3 and \$18.1 for the three and six months ended December 31, 2009 and 2008, respectively. We recorded expenses to Nelson of \$0.6, \$0.5, \$1.4 and \$1.5 for the three and six months ended December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, we had a receivable from Nelson of \$4.7 and \$8.2, respectively, and payable to Nelson of \$0.5 and \$2.6, which are included in “Accounts receivable, net” and “Accounts payable and accrued expenses”, respectively, on the Condensed Consolidated Balance Sheets.

11. COMMITMENTS AND CONTINGENCIES

Claims and Legal Actions

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

Warranties

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

12. SEGMENT INFORMATION

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

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

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

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

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

Select financial information for our segments is as follows:

	Three Months Ended December 31,			
	2009		2008	
	Revenues	Segment Operating Profit (Loss)	Revenues	Segment Operating Profit (Loss)
Academic & Professional	\$ 357.2	\$ 122.7	\$ 362.4	\$ 119.6
Gale	63.9	23.0	79.9	39.7
Segment totals	421.1	145.7	442.3	159.3
Corporate and other	2.2	(8.8)	1.6	(6.3)
Total	<u>\$ 423.3</u>	<u>\$ 136.9</u>	<u>\$ 443.9</u>	<u>\$ 153.0</u>

Intersegment revenue for Academic & Professional, Gale, and Corporate and other were not material for the three months ended December 31, 2009.

	Six Months Ended December 31,			
	2009		2008	
	Revenues	Segment Operating Profit (Loss)	Revenues	Segment Operating Profit (Loss)
Academic & Professional	\$ 982.7	\$ 457.0	\$ 1,043.9	\$ 487.2
Gale	133.6	50.0	156.0	76.1
Segment totals	1,116.3	507.0	1,199.9	563.3
Corporate and other	5.5	(13.6)	5.3	(14.7)
Total	<u>\$ 1,121.8</u>	<u>\$ 493.4</u>	<u>\$ 1,205.2</u>	<u>\$ 548.6</u>

Revenues for the six months ended December 31, 2009 include intersegment revenue of \$0.0 and \$1.6 recorded by Academic & Professional and Gale, respectively. Revenues for the six months ended December 31, 2008 include intersegment revenue of \$0.5 and \$1.5 recorded by Academic & Professional and Gale, respectively. Intersegment revenue for Corporate and other for the six months ended December 31, 2009 was not material.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
Total Segment operating profit	\$ 136.9	\$ 153.0	\$ 493.4	\$ 548.6
Less:				
Amortization of pre-publication costs	(33.6)	(33.7)	(83.0)	(87.0)
Depreciation	(13.8)	(16.0)	(25.5)	(30.8)
Amortization of identifiable intangible assets	(41.1)	(45.4)	(82.2)	(91.2)
Operating income from continuing operations	\$ 48.4	\$ 57.9	\$ 302.7	\$ 339.6

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

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

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

Overview

The following discussion highlights the areas we believe are important in understanding our results of operations for the six months ended December 31, 2009:

- Revenues decreased by \$83.4, or 6.9%, for the six months ended December 31, 2009 including a \$2.2 favorable impact from foreign currency translation. This decrease relates primarily to changes in the custom product workflow process and customer ordering patterns within our Academic & Professional segment, both of which shifted sales into the fourth quarter of fiscal 2009, higher sales returns provision in the U.S., as well as lower revenues in our Gale segment reflecting a decline in both print and digital sales.
- Total segment operating profit decreased by \$55.2 or 10.1%, for the six months ended December 31, 2009 primarily due to lower revenues.
- Net cash provided by operating activities of continuing operations decreased by \$6.4, or 1.7%, for the six months ended December 31, 2009 due to lower segment operating profit, partially offset by changes in working capital.
- We recorded a \$32.1 unfavorable sales returns reserve adjustment in the U.S. primarily to reflect the reduced levels of school channel sales which have historically had a lower returns experience as compared to our overall sales mix.
- We recognized an incremental charge of \$7.4 related to the consolidation of our offices in Boston, MA. We revised our initial estimate of \$3.9, recorded during the six months ended December 31, 2008, as a result of changes in both the timing and amount of estimated sublease income primarily driven by the current economic conditions. This charge represents costs that will continue to be incurred for the duration of the original lease arrangement without economic benefit net of estimated sublease income. See Note 5 "Restructuring" to our Financial Statements for further information.
- We purchased and retired \$35.6 of our 13.75% Senior PIK Notes due 2015 ("Senior PIK Notes") that resulted in an aggregate gain of \$9.2, net of deferred financing costs. See Note 6 "Debt" to our Financial Statements for further information.

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

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quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year.

Critical Accounting Policies

There were no changes to our critical accounting policies during the six months ended December 31, 2009. For further information on our critical accounting policies, refer to the discussion contained in the MD&A of our Annual Report for the Fiscal Year Ended June 30, 2009.

Subsequent Events

No material subsequent events were identified as of February 11, 2010, the date these financial statements were issued.

Results of Operations

The Three Months Ended December 31, 2009 Compared with the Three Months Ended December 31, 2008

	Three Months		Percentage
	Ended December 31,		
	2009	2008	Change
Revenues	\$ 423.3	\$ 443.9	-4.6%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	182.5	186.6	-2.2%
Amortization of pre-publication costs	33.6	33.7	-0.3%
Total cost of revenues, excluding depreciation stated below	<u>216.1</u>	<u>220.3</u>	-1.9%
Selling, general & administrative, excluding depreciation stated below	103.9	104.3	-0.4%
Depreciation	13.8	16.0	-13.8%
Amortization of identifiable intangible assets	41.1	45.4	-9.5%
Total costs and expenses	<u>374.9</u>	<u>386.0</u>	-2.9%
Operating income from continuing operations	48.4	57.9	-16.4%
Gain on early extinguishment of debt	9.2	48.2	-80.9%
Mark-to-market of derivative instruments	27.0	-	NM
Other income, net	0.1	0.5	-80.0%
Interest expense	<u>(130.0)</u>	<u>(150.3)</u>	-13.5%
Loss before taxes from continuing operations	(45.3)	(43.7)	3.7%
Benefit from (provision for) income taxes	2.3	(4.7)	-148.9%
Equity losses of investees, net of taxes	<u>(0.3)</u>	<u>(0.4)</u>	-25.0%
Loss from continuing operations	(43.3)	(48.8)	-11.3%
Loss from discontinued operations, net of tax	-	(2.7)	-100.0%
Net loss	<u>\$ (43.3)</u>	<u>\$ (51.5)</u>	-15.9%

NM = Not meaningful

Revenues decreased by \$20.6, or 4.6%, to \$423.3 for the three months ended December 31, 2009 including a \$7.8 favorable impact from foreign currency translation. This decrease relates primarily to \$16.0 lower revenues in our Gale segment reflecting a decline in both print and digital sales and \$5.2 lower revenues in our Academic & Professional segment primarily due to a \$32.1 unfavorable sales returns reserve adjustment in the U.S.

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Total cost of revenues, excluding depreciation decreased by \$4.2, or 1.9%, to \$216.1 for the three months ended December 31, 2009. Our cost of revenues predominantly includes author royalties, paper, printing & binding costs, distribution costs, all of which vary as revenue increases or decreases, as well as a component of fixed direct and indirect costs incurred to support delivery of print and digital-related products. Pre-publication costs are amortized upon publication of a title over its estimated operating life cycle in accordance with the expected sales revenues.

The decrease in cost of revenues, excluding amortization of pre-publication costs and depreciation, is primarily driven by \$7.5 of lower royalty, paper, printing & binding and other variable costs associated with lower revenues, partially offset by \$6.5 higher employee related costs driven by fringe benefits and incentive compensation. In addition, included in the three months ended December 31, 2009 is a \$3.4 of restructuring charge related to our exited leased facility in Boston, MA, compared with a \$5.0 charge that we recorded in the prior year quarter.

Selling, general & administrative expense, excluding depreciation decreased by \$0.4, or 0.4%, to \$103.9 for the three months ended December 31, 2009 primarily due to a \$4.0 of restructuring charge related to our exited leased facility in Boston, MA compared with a \$6.3 charge that we recorded in the prior year quarter, partially offset by \$2.7 higher employee related costs driven by fringe benefits and incentive compensation.

Depreciation decreased by \$2.2, or 13.8%, to \$13.8 for the three months ended December 31, 2009 primarily reflecting a \$1.9 write-off of leasehold improvements on the exited leased facility in Boston, MA recorded in the prior year quarter.

Amortization of identifiable intangible assets decreased by \$4.3, or 9.5%, to \$41.1 for the three months ended December 31, 2009 reflecting the impact of impairment charges recorded in fiscal 2009.

Gain on early extinguishment of debt reflects a \$9.2 gain, net of deferred financing fees, recognized in the three months ended December 31, 2009 associated with the repurchase and retirement of \$35.6 of the Senior PIK Notes and a \$48.2 gain, net of deferred financing fees, recognized in the three months ended December 31, 2008 associated with the repurchase and retirement of \$75.6 of Senior Subordinated Discount Notes and the Senior PIK Notes.

Mark-to-market of derivative instruments reflects a \$27.0 unrealized gain on our interest rate swaps. We designated our interest rate swaps as cash flow hedges effective January 1, 2009 and as a result, subsequent changes in the fair value of these derivative instruments have been included in earnings.

Other income, net reflects a decrease in interest income of \$0.4 for the three months ended December 31, 2009 primarily due to lower average cash and cash equivalents.

Interest expense decreased by \$20.3, or 13.5%, to \$130.0 for the three months ended December 31, 2009 primarily reflecting the following:

- \$15.3 decrease in paid-in-kind interest on the borrowings under the Senior Bridge Loan Credit Agreement ("Senior PIK Loans") and Senior PIK Notes resulting from the repurchases and retirement of such debt, and
- \$12.4 decrease attributable to lower interest on the term loan facility, which is driven primarily by a combination of lower interest rates as well as an increase in the portion of the term loan that is unhedged, partially offset by
- \$8.5 increase in non-cash interest associated with the de-designation of our interest rate swaps for hedge accounting purposes.

Benefit from (provision for) income taxes was \$2.3 for the three months ended December 31, 2009 compared with (\$4.7) for the three months ended December 31, 2008. The income tax benefit for the current period resulted primarily from the release of the valuation allowance related to one jurisdiction and the reversal of deferred tax liabilities related to amortization of identifiable intangible assets. The change in the provision for income taxes is primarily due to the result of the 2009 fiscal year impairment of identifiable intangible assets and goodwill for the Gale operating segment resulting in an effective benefit rate of 5.1% for the three months ended December 31, 2009 compared with an effective tax rate of 10.8%

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for the three months ended December 31, 2008. No tax benefit has been recorded for loss making jurisdictions where the associated benefits are not expected to be realized in the future.

Equity losses of affiliates, net of taxes for the three months ended December 31, 2009 represents losses from our investment in CourseSmart LLC.

Loss from discontinued operations, net of tax for the three months ended December 31, 2008 primarily reflects a \$2.3 write-down of the net assets of our distance learning business in the United Kingdom and the Netherlands.

The Six Months Ended December 31, 2009 Compared with the Six Months Ended December 31, 2008

	Six Months		Percentage
	Ended December 31,		
	2009	2008	Change
Revenues	\$ 1,121.8	\$ 1,205.2	-6.9%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	426.6	442.7	-3.6%
Amortization of pre-publication costs	83.0	87.0	-4.6%
Total cost of revenues, excluding depreciation stated below	<u>509.6</u>	<u>529.7</u>	-3.8%
Selling, general & administrative, excluding depreciation stated below	201.8	213.9	-5.7%
Depreciation	25.5	30.8	-17.2%
Amortization of identifiable intangible assets	82.2	91.2	-9.9%
Total costs and expenses	<u>819.1</u>	<u>865.6</u>	-5.4%
Operating income from continuing operations	<u>302.7</u>	<u>339.6</u>	-10.9%
Gain on early extinguishment of debt	9.2	58.8	-84.4%
Mark-to-market of derivative instruments	37.0	-	NM
Other income, net	0.2	0.7	-71.4%
Interest expense	(262.9)	(304.9)	-13.8%
Income before taxes from continuing operations	<u>86.2</u>	<u>94.2</u>	-8.5%
Benefit from (provision for) income taxes	2.3	(11.6)	-119.8%
Equity losses of investees, net of taxes	(1.0)	(0.8)	25.0%
Income from continuing operations	<u>87.5</u>	<u>81.8</u>	7.0%
Loss from discontinued operations, net of tax	-	(4.5)	-100.0%
Net income	<u>\$ 87.5</u>	<u>\$ 77.3</u>	13.2%

NM = Not meaningful

Revenues decreased by \$83.4, or 6.9%, to \$1,121.8 for the six months ended December 31, 2009 including a \$2.2 favorable impact from foreign currency translation. This decrease relates primarily to \$61.2 lower revenues in our Academic & Professional segment reflecting changes in the custom product workflow process and customer ordering patterns, both of which shifted sales into the fourth quarter of fiscal 2009, and a \$32.1 unfavorable sales returns reserve adjustment in the U.S. as well as \$22.4 lower revenues in our Gale segment reflecting a decline in both print and digital sales.

Total cost of revenues, excluding depreciation decreased by \$20.1, or 3.8%, to \$509.6 for the six months ended December 31, 2009. Our cost of revenues predominantly includes author royalties, paper, printing & binding costs, distribution costs, all of which vary as revenue increases or decreases, as well as a component of fixed direct and indirect

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costs incurred to support delivery of print and digital-related products. Pre-publication costs are amortized upon publication of a title over its estimated operating life cycle in accordance with the expected sales revenues.

The decrease in cost of revenues, excluding amortization of pre-publication costs and depreciation, is primarily driven by \$21.2 of lower royalty, paper, printing & binding and other variable costs associated with lower revenues, partially offset by \$8.8 higher employee related costs driven by fringe benefits and incentive compensation. Included in the three months ended December 31, 2009 is a \$3.4 of restructuring charge related to our exited leased facility in Boston, MA compared with a \$5.0 charge that we recorded in the prior year period.

Amortization of pre-publication costs decreased primarily due to lower sales and the impact of accelerated amortization of some titles towards the end of fiscal 2009.

Selling, general & administrative expense, excluding depreciation decreased by \$12.1, or 5.7%, to \$201.8 for the six months ended December 31, 2009 primarily due to the absence of (i) \$2.7 of transition service costs related to historical acquisitions and (ii) \$2.5 loss on the re-measurement of certain inter-company foreign currency-denominated liabilities, net of hedge instruments, both recorded in the prior year period. In addition, we recorded \$1.1 lower equity-based compensation expense. Included in the six months ended December 31, 2009 is a \$4.0 of restructuring charge related to our exited leased facility in Boston, MA compared with a \$6.3 charge that we recorded in the prior year period.

Depreciation decreased by \$5.3, or 17.2%, to \$25.5 for the six months ended December 31, 2009 primarily reflecting the absence of depreciation on capitalized software for internal use that became fully depreciated and the \$1.9 write-off of leasehold improvements on the exited lease facility in Boston, MA, both occurring in the prior year period.

Amortization of identifiable intangible assets decreased by \$9.0, or 9.9%, to \$82.2 for the six months ended December 31, 2009 reflecting the impact of impairment charges recorded in fiscal 2009.

Gain on early extinguishment of debt reflects a \$9.2 gain, net of deferred financing fees, recognized in the six months ended December 31, 2009 associated with the repurchase and retirement of \$35.6 of the Senior PIK Notes and a \$58.8 gain, net of deferred financing fees, recognized in the six months ended December 31, 2008 associated with the repurchase and retirement of \$119.7 of Senior Subordinated Discount Notes, the Senior PIK Loans and Senior PIK Notes.

Mark-to-market of derivative instruments reflects a \$37.0 unrealized gain on our interest rate swaps. We de-designated our interest rate swaps as cash flow hedges effective January 1, 2009 and as a result, subsequent changes in the fair value of these derivative instruments have been included in earnings.

Other income, net reflects a decrease in interest income of \$0.5 for the six months ended December 31, 2009 primarily due to lower average cash and cash equivalents.

Interest expense decreased by \$42.0, or 13.8%, to \$262.9 for the six months ended December 31, 2009 primarily reflecting the following:

- \$31.1 decrease in paid-in-kind interest on the Senior PIK Loans and Senior PIK Notes resulting from the repurchases and retirement of such debt, and
- \$22.4 decrease attributable to lower interest on the term loan facility, which is driven primarily by a combination of lower interest rates as well as an increase in the portion of the term loan that is unhedged, partially offset by
- \$16.9 increase in non-cash interest associated with the de-designation of our interest rate swaps for hedge accounting purposes.

Benefit from (provision for) income taxes was \$2.3 for the six months ended December 31, 2009 compared with (\$11.6) for the six months ended December 31, 2008. The income tax benefit for the current period resulted primarily from the release of the valuation allowance related to one jurisdiction and the reversal of deferred tax liabilities related to amortization of identifiable intangible assets. The change in the provision for income taxes is primarily due to the result of

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the 2009 fiscal year impairment of identifiable intangible assets and goodwill for the Gale operating segment resulting in an effective benefit rate of 2.7% for the six months ended December 31, 2009 compared with an effective tax rate of 12.3% for the six months ended December 31, 2008. No tax benefit has been recorded for loss making jurisdictions where the associated benefits are not expected to be realized in the future.

Equity losses of affiliates, net of taxes for the six months ended December 31, 2009 represents losses from our investment in CourseSmart LLC.

Loss from discontinued operations, net of tax for the six months ended December 31, 2008 primarily reflects a \$2.3 write-down of the net assets of our distance learning businesses in the United Kingdom and the Netherlands, as well as \$1.4 loss recorded on the sale of the local language academic business located in Spain.

Segment Operating Results

In August 2009, we consolidated our international operations into our Academic & Professional segment and consequently restructured our organization into two reportable segments: Academic & Professional and Gale. These segments are strategic business groups that offer products and services to target markets and reflect the manner in which the chief operating decision maker reviews the operating results of the business and makes decisions about how resources are to be allocated. Prior period segment data has been restated to conform to this presentation.

Academic & Professional

	Three Months		Percentage Change	Six Months Ended		Percentage Change
	Ended December 31,			December 31,		
	2009	2008		2009	2008	
Revenue	\$ 357.2	\$ 362.4	-1.4%	\$ 982.7	\$ 1,043.9	-5.9%
Segment operating profit	122.7	119.6	2.6%	457.0	487.2	-6.2%
Margin	34.4%	33.0%		46.5%	46.7%	

Revenues for the three months ended December 31, 2009 decreased by \$5.2, or 1.4%, including a \$7.8 favorable impact from foreign currency translation and \$32.1 of unfavorable sales returns reserve adjustments. The reserve for sales returns is based on a review of our historical sales returns experience and our estimate of future returns associated with our various product types and various sales channels. We updated our estimated reserve requirements as of December 31, 2009 primarily to account for the reduced level of school channel sales which have historically had a lower returns experience compared to our overall sales mix. The sales returns reserve adjustments were partially offset by revenue growth in the current quarter primarily due to higher enrollments within our higher education and career channels.

Segment operating profit for the three months ended December 31, 2009 increased \$3.1, or 2.6%, attributable primarily to a \$3.9 higher favorable impact from foreign currency denominated transactions and \$5.3 lower royalty and paper, printing & binding and other variable costs, partially offset by lower revenues. In addition, included in the three months ended December 31, 2009 is an incremental charge of \$7.4 of restructuring charges related to our exited leased facility in Boston, MA compared with an \$11.3 charge that we recorded in the prior year quarter.

Revenues for the six months ended December 31, 2009 decreased by \$61.2, or 5.9%, including a \$2.2 favorable impact from foreign currency translation and \$32.1 of unfavorable sales returns reserve adjustments. The decrease in revenue is primarily driven by changes in both our custom product workflow process and customer ordering patterns across our higher education channel in the U.S. which shifted sales into the fourth quarter of fiscal 2009, as well as the unfavorable impact of the economic conditions on school funding and cyclical state adoption patterns within the school channel. These decreases were partially offset by higher enrollments within our higher education and career channels.

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Segment operating profit for the six months ended December 31, 2009 decreased \$30.2, or 6.2%, attributable primarily to lower revenues, partially offset by \$16.8 lower royalty and paper, printing & binding and other variable costs, \$5.3 lower employee-related costs driven by lower incentive compensation, and the absence of \$4.4 unfavorable impact from foreign currency denominated transactions in the prior year period. In addition, included in the six months ended December 31, 2009 is an incremental charge of \$7.4 of restructuring charges related to our exited leased facility in Boston, MA compared with an \$11.3 charge that we recorded in the prior year period.

Gale

	Three Months		Percentage	Six Months Ended		Percentage
	Ended December 31,			December 31,		
	2009	2008		Change	2009	
Revenue	\$ 63.9	\$ 79.9	-20.0%	\$ 133.6	\$ 156.0	-14.4%
Segment operating profit	23.0	39.7	-42.1%	50.0	76.1	-34.3%
Margin	36.0%	49.7%		37.4%	48.8%	

Revenues for the three months ended December 31, 2009 decreased by \$16.0, or 20.0%, primarily driven by \$12.6 of lower print and \$6.6 of lower digital sales reflecting the continued unfavorable impact of the economic environment on our library reference business. The revenue decline was partially offset by \$3.2 of revenue from Gale's acquisition of HighBeam Research ("Highbeam") in December 2008.

Segment operating profit for the three months ended December 31, 2009 decreased by \$16.7, or 42.1%, on lower overall sales and \$1.9 higher net employee-related costs driven by additional headcount associated with new product development and Gale's acquisition of HighBeam. Partially offsetting the lower profit was a \$1.6 decline in paper, printing & binding, other variable and royalty costs, primarily due to lower print revenues.

Revenues for the six months ended December 31, 2009 decreased by \$22.4, or 14.4%, driven by \$18.8 of lower print and \$10.5 of lower digital sales primarily driven by, the continued unfavorable impact of the economic environment on our library reference business as well as a large non-recurring sale in the prior year period. The revenue decline was partially offset by \$6.5 of revenue from Gale's acquisition of HighBeam in December 2008.

Segment operating profit for the six months ended December 31, 2009 decreased by \$26.1, or 34.3%, on lower overall sales and \$6.2 higher net employee-related costs driven by additional headcount associated with new product developments and Gale's acquisition of HighBeam. Partially offsetting the lower profit was a \$3.1 decline in paper, printing & binding, other variable and royalty costs, primarily due to lower print revenues.

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Liquidity and Capital Resources

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

	Six Months		Percentage
	Ended December 31,		
	2009	2008	Change
Statements of Cash Flows			
Net cash provided by (used in) continuing operations:			
Net cash provided by operating activities	\$ 361.7	\$ 368.1	-1.7%
Net cash used in investing activities	(85.8)	(77.7)	10.4%
Net cash used in financing activities	(222.6)	(85.0)	161.9%
Net cash used in discontinued operations	-	(2.6)	-100.0%
Impact on cash and cash equivalents from change in foreign currency	0.7	(2.4)	129.2%
Net increase in cash and cash equivalents	<u>\$ 54.0</u>	<u>\$ 200.4</u>	-73.1%

Operating activities. Net cash provided by operating activities of continuing operations decreased by \$6.4, or 1.7%, for the six months ended December 31, 2009 primarily due to \$55.2 lower segment operating profit and \$24.8 interest expense related to the Senior Subordinated Discount Notes, partially offset by \$22.9 lower interest payments on our term loan facility and \$49.2 from changes in working capital. The changes in our working capital reflect the impact of (i) \$90.7 higher decrease in accounts receivable primarily due to timing of sales in the U.S. and the higher sales returns reserve compared to the prior year, and (ii) \$24.8 of interest accrual related to the Senior Subordinated Discount Notes, partially offset by a \$30.1 lower increase in accounts payable and accrued expenses primarily related to accrued royalties due to the timing of sales in the U.S.

Investing activities. Net cash used in investing activities of continuing operations increased by \$8.1, or 10.4%, for the six months ended December 31, 2009. The increase in cash used is primarily due to proceeds received during the six months ended December 31, 2008 from (i) the sale of certain titles pursuant to an agreement reached with the Department of Justice in connection with the regulatory review of our acquisition of the Houghton Mifflin College Assets, (ii) \$36.2 from the settlement of foreign currency derivative contracts and (iii) the divestiture of our local language academic business in Spain, partially offset by the acquisitions of Highbeam and Gatlin Education Services. Included in the six months ended December 31, 2009 is our \$3.1 acquisition of an English language teaching business.

Financing activities. Net cash used in financing activities of continuing operations increased by \$137.6, or 161.9%, for the six months ended December 31, 2009. Included in the six months ended December 31, 2009 are (i) \$20.3 of principal payments on our term loans, (ii) \$18.2 associated with purchasing and retirement of the Senior PIK Notes and (iii) borrowings of \$63.0 and repayments of \$247.0 under our revolving credit facility. Included in the six months ended December 31, 2008 are (i) \$20.3 of principal payments of our term loans, (ii) \$48.7 associated with purchasing and retirement of the Senior PIK Loans, (iii) borrowings and repayments of \$117.0 under our revolving credit facility and (iv) \$16.2 of financing costs relating to the conversion of Senior PIK Loans into Senior PIK Notes.

Cash Position, Indebtedness and Liquidity

As of December 31, 2009, June 30, 2009 and December 31, 2008, our total cash and cash equivalents were \$87.4, \$33.4 and \$244.7, respectively, and our total indebtedness was \$5,709.1, \$ 5,934.5 and \$6,229.1, respectively.

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

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

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

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

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

Covenant Compliance

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

January 1, 2009 through December 31, 2010	8.00
Thereafter	7.75

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

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Senior Secured Debt includes all borrowings secured by a lien, less the average aggregate cash and cash equivalent balance over the preceding four quarters. At December 31, 2009, our Senior Secured Debt was \$3,922.1. A reconciliation of Net loss for the twelve months ended December 31, 2009 to Adjusted EBITDA for the twelve months ended December 31, 2009, is presented below:

	Twelve Months Ended December 31, 2009
	<hr/>
Net loss	\$ (976.3)
Adjustments:	
Benefit from income taxes	(52.7)
Interest expense	547.8
Interest income	(0.6)
Mark-to-market of derivative instruments	(74.7)
Gain on early extinguishment of debt	(291.5)
Amortization and impairment of identifiable intangible assets	508.0
Impairment of goodwill	831.6
Depreciation	54.3
Amortization of pre-publication costs	140.9
Non-cash equity-based compensation	5.9
Management fee	10.8
Pro forma EBITDA from acquisitions	1.9
Non-recurring items and other	21.2
Adjusted EBITDA	<hr/> \$ 726.6 <hr/>

Our senior secured leverage ratio at December 31, 2009 is 5.40. A hypothetical 10% decline in our Adjusted EBITDA, as defined by the terms of our Senior Credit Facility, would reduce Adjusted EBITDA to \$653.9 and result in a senior secured leverage ratio of 6.00.

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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 in accordance with authoritative guidance regarding accounting for derivative instruments and hedging activities. However, certain of these instruments may not qualify for hedge accounting treatment and, accordingly, the results of our operations may be exposed to some level of volatility. Volatility in our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period.

For the six months ended December 31, 2009, we derived approximately 10.5% of our revenues from countries outside of the U.S., with a significant portion of the related costs are based in U.S. dollars and British pound. We anticipate that our future results will continue to be affected by market risks, including changes in political and economic conditions in foreign markets and fluctuations in currency rates, primarily the euro, British pound and Australian dollar. A hypothetical 10% adverse change in foreign currency rates relative to the U.S. dollar would had no material impact on our net income.

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

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

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

At December 31, 2009, we have \$3,967.3 million in outstanding variable rate debt and \$1,741.8 million in outstanding fixed rate debt, before the effect of any financial instruments. Financial instruments, including interest rate swap agreements, have been used to manage interest rate exposures on a portion of the variable component of the variable rate debt. Our unhedged variable rate debt is sensitive to future increases or decreases in the applicable interest rate. A hypothetical 10%, or three basis points, increase in interest rates for the unhedged variable rate debt would decrease net income by less than one million for the six months ended December 31, 2009. See Note 7 "Financial Instruments" to our financial statements for a detailed description of derivative instruments we have entered into to hedge the variable interest rate component of certain of our indebtedness.

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CONTROLS AND PROCEDURES

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

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

LEGAL PROCEEDINGS

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

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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)

	Six Months Ended December 31,	
	2009	2008
Fixed Charges⁽¹⁾		
Interest expense	\$ 262.9	\$ 304.9
Portion of rental expense which represents interest factor	4.5	4.6
Total fixed charges	\$ 267.4	\$ 309.5
Earnings available for fixed charges		
Earnings ⁽²⁾	\$ 86.2	\$ 94.2
Add fixed charges	267.4	309.5
Total earnings available for fixed charges	\$ 353.6	\$ 403.7
Ratio of earnings to fixed charges⁽³⁾	1.32	1.30

⁽¹⁾ 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.

⁽²⁾ Earnings are comprised of income before taxes from continuing operations.

⁽³⁾ For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before taxes from continuing operations plus fixed charges.