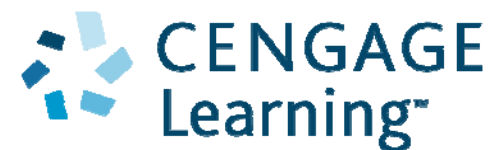


# Fiscal 2009 Third Quarter Investor Call

May 12, 2009



## Safe Harbor/Forward-Looking Statements

- The following discussion will contain forward-looking statements, including statements about the outlook and prospects for Cengage Learning.
- Forward-looking statements are those which are not historical facts. These and other statements that relate to future results and events are based on Cengage Learning's current expectations and assumptions and are subject to risks and uncertainties which may cause our actual results in future periods to differ materially from those currently expected because of factors discussed in this presentation, in the management's discussion and analysis section of the Company's Third Quarter Report for The Three and Nine Months Ended March 31, 2009 and the "Risk Factors" section of the Annual Report For The Fiscal Year Ended June 30, 2008 and the Third Quarter Report for the Three and Nine Months Ended March 31, 2009. Please consult these documents for a more complete understanding of these risks and uncertainties. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Non-GAAP Financial Measures

- This presentation contains disclosures of EBITDA, Free cash flow and Adjusted EBITDA which are non-GAAP financial measures. Please see Appendix for a definition of these measures and reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

# Agenda

 Welcome / Introduction

 Business Update

Ron Dunn

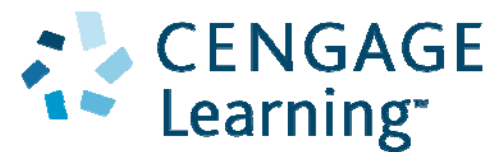
 Financial Results

David Faiman

 Questions & Answers

Business Update

Ron Dunn



# Business Update

## Market Conditions

- Academic
- Library
- K12
- International

## Performance Review

- APG
- Gale
- International

## Notable Third Quarter Developments

- Debt Retirement
- Impairments

Financial Results

David Faiman



## Impairment of Goodwill and Identifiable Intangible Assets

- Interim impairment assessment performed due to a variety of reasons including: the weakening economic environment and fiscal spending constraints in the United States impacting Gale; the global economic decline; a decrease in export sales to North America and enrollment declines in the distance learning business in Australia; and lower sales of our English language teaching (“ELT”) products in Asia and Europe, Middle East and Africa (“EMEA”).
- The non-cash impairment of goodwill and identifiable intangible assets does not have a material impact on our debt covenant compliance.

	<b>Goodwill</b>	<b>Identifiable Intangible Assets</b>	<b>Total Impairment</b>
Gale	\$ 685.4	\$ 274.8	\$ 960.2
Australia	92.7	38.0	130.7
Asia	40.6	22.1	62.7
EMEA ELT	12.9	3.8	16.7
<b>Total</b>	<b>\$ 831.6</b>	<b>\$ 338.7</b>	<b>\$ 1,170.3</b>

# Consolidated and Combined Financial Results

## 3<sup>rd</sup> Quarter 2009 compared to 3<sup>rd</sup> Quarter 2008

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue <sup>(a)</sup>	\$ 310.5	\$ 272.3	14.0%
EBITDA <sup>(a)</sup>	\$ 59.5	\$ 26.9	121.2%
<b>Margin</b>	<b>19.2%</b>	<b>9.9%</b>	
Free cash flow	\$ (87.3)	\$ (82.9)	

## Fiscal 2009 YTD compared to Fiscal 2008 YTD

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue <sup>(a)</sup>	\$ 1,515.7	\$ 1,375.8	10.2%
EBITDA <sup>(a)</sup>	\$ 608.1	\$ 517.4	17.5%
<b>Margin</b>	<b>40.1%</b>	<b>37.6%</b>	
Free cash flow	\$ 208.4	\$ 227.1	

## Third Quarter Overview

### Revenue

Increase of \$38.2 or 14.0% reflecting:

- Growth in APG driven by acquisition of HM College
- Growth in Academic business in the U.S.
- Offset by 4.8% unfavorable impact of foreign currency translation

### EBITDA

Increase of \$32.6 or 121.2% reflecting:

- Increased contribution from higher revenues
- Benefit of lower employee costs attributable to previous restructuring initiatives
- Offset by 4.4% unfavorable impact of foreign currency translation

### Free cash flow

- Higher cash interest payments on debt incurred in connection with acquisition of HM College
- Net changes in working capital driven by timing of sales during the year
- Increased spend on pre-publication costs driven by acquisition of HM College

8 <sup>(a)</sup> Reflects \$2.9 and \$16.3 higher reduction of revenue in the prior year 3<sup>rd</sup> Quarter and Fiscal YTD, respectively, associated with purchase accounting adjustments to deferred revenue, which have a 100% flow through to EBITDA.

## Academic & Professional Group

### 3<sup>rd</sup> Quarter 2009 compared to 3<sup>rd</sup> Quarter 2008

<i>(\$ Millions)</i>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 200.7	\$ 157.4	27.5%
EBITDA	\$ 44.2	\$ 13.3	232.3%
<b>Margin</b>	<b>22.0%</b>	<b>8.4%</b>	

### Fiscal 2009 YTD compared to Fiscal 2008 YTD

<i>(\$ Millions)</i>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 1,131.6	\$ 948.6	19.3%
EBITDA	\$ 513.9	\$ 413.6	24.3%
<b>Margin</b>	<b>45.4%</b>	<b>43.6%</b>	

### Third Quarter Overview

#### Revenue

Growth of \$43.3 or 27.5% reflecting:

- Growth from our acquisition of HM College
- Higher revenue in the U.S., in both higher education and career channels, due to changes in customer ordering patterns shifting sales from 2<sup>nd</sup> Quarter 2009 to 3<sup>rd</sup> Quarter 2009

#### EBITDA

Increase of \$30.9 or 232.3% reflecting:

- Increased contribution from higher revenues
- Offset by higher employee costs associated with our acquisition of HM College

# Gale

## 3<sup>rd</sup> Quarter 2009 compared to 3<sup>rd</sup> Quarter 2008

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 61.2	\$ 61.9	-1.1%
EBITDA	\$ 18.8	\$ 20.6	-8.7%
<i>Margin</i>	<i>30.7%</i>	<i>33.3%</i>	

## Fiscal 2009 YTD compared to Fiscal 2008 YTD

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 217.2	\$ 229.2	-5.2%
EBITDA	\$ 94.9	\$ 100.8	-5.9%
<i>Margin</i>	<i>43.7%</i>	<i>44.0%</i>	

## Third Quarter Overview

### Revenue

Decline of \$0.7 or 1.1% reflecting:

- ⚙ Decline in sales of print materials, digital archives and new subscriptions driven by fiscal spending constraints on customers related to the economic environment
- ⚙ Offset by growth from our acquisition of HighBeam and increase in sales of e-books to schools and public libraries

### EBITDA

Decline of \$1.8 or 8.7% reflecting:

- ⚙ Reduced contribution from lower revenues
- ⚙ Non-recurring accounting adjustment for vacation accrual
- ⚙ Offset by benefit of lower employee costs attributable to previous restructuring initiatives

# International

3<sup>rd</sup> Quarter 2009 compared to 3<sup>rd</sup> Quarter 2008

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 45.9	\$ 51.2	-10.4%
EBITDA	\$ 1.7	\$ 1.0	70.0%
<i>Margin</i>	<i>3.7%</i>	<i>2.0%</i>	

Fiscal 2009 YTD compared to Fiscal 2008 YTD

(\$ Millions)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue	\$ 156.0	\$ 195.1	-20.0%
EBITDA	\$ 16.1	\$ 34.2	-52.9%
<i>Margin</i>	<i>10.3%</i>	<i>17.5%</i>	

## Third Quarter Overview

### Revenue

Decline of \$5.3 or 10.4% reflecting:

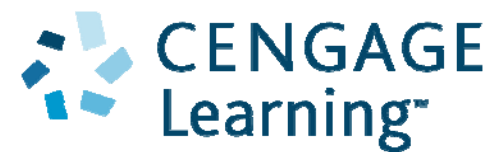
- ❁ 21.3% unfavorable impact of foreign currency translation
- ❁ Decline in Australia driven by lower export sales to North America school market and enrollment declines in the distance learning business
- ❁ Growth in Asia across all channels reflecting changes in distributor ordering patterns
- ❁ Growth in EMEA library reference products

### EBITDA

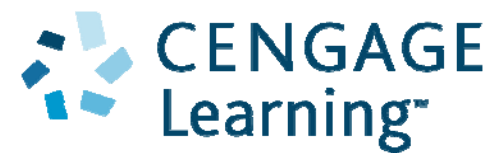
Increase of \$0.7 or 70.0% reflecting:

- ❁ \$2.1 unfavorable impact of foreign currency translation
- ❁ Benefit of lower employee costs attributable to previous restructuring initiatives and reduced incentive compensation expense

# Questions & Answers



# Appendix



## Non-GAAP Financial Measures

We believe that certain non-GAAP financial measures provide additional means of analyzing the current period's results against the corresponding prior period's results. However, these non-GAAP measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

**"EBITDA"**: We evaluate earnings based upon operating income (loss) before the amortization and impairment of identifiable intangible assets, depreciation, amortization of pre-publication costs, impairment of goodwill and for Fiscal 2008, the allocation of corporate management costs from TOC. We believe that this measure provides an additional means of analyzing the results of operating activities by eliminating the effects of financing and accounting decisions. Our measure of EBITDA is consistent with our measure of Segment Operating Profit. Segment Operating Profit is presented pursuant to the requirements in Statement of Financial Accounting Standard No. 131, *Disclosures about Segments of an Enterprise and Related Information* in Note 15, "Segment Information" of our Third Quarter Report for the Three and Nine Months Ended March 31, 2009. Reconciliations of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP are included on pages 15 and 16 of this presentation.

**"Free cash flow"**: This measure of cash flows represents net cash (used in) provided by operating activities of continuing operations less cash expenditure for additions to pre-publication costs and additions to property, equipment and capitalized software for internal use, net of dispositions. We view these investments as income-producing assets that are important to the growth of our business. We believe that this measure gives us and our investors additional perspective of cash flows from operating activities. Reconciliations of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP are included on pages 17 and 18 of this presentation.

**"Adjusted EBITDA"**: In order to evaluate the results of operating activities excluding the effect of significant non-recurring transactions and giving effect to the run rate impact of cost saving initiatives, acquisitions and disposals, we calculate Adjusted EBITDA pursuant to the terms of our credit agreement. A reconciliation of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP is included on page 19 of this presentation.

## EBITDA Reconciliation – 3<sup>rd</sup> Quarter

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

## EBITDA Reconciliation – Year To Date

	Successor		Predecessor	Cumulative Period Ended March 31, 2008
	Nine Months Ended March 31, 2009	Period July 5, 2007 to March 31, 2008	Period July 1, 2007 to July 4, 2007	
Total segment operating profit / EBITDA	\$ 608.1	\$ 511.9	\$ 5.5	\$ 517.4
Less:				
Amortization of pre-publication costs	(111.7)	(102.7)	(0.9)	(103.6)
Allocation of management costs from TOC	-	-	(0.8)	(0.8)
Depreciation	(46.0)	(43.2)	(0.7)	(43.9)
Impairment of goodwill	(831.6)	-	-	-
Amortization and impairment of identifiable intangible assets	(476.2)	(160.4)	(0.3)	(160.7)
Operating (loss) income from continuing operations	<u>\$ (857.4)</u>	<u>\$ 205.6</u>	<u>\$ 2.8</u>	<u>\$ 208.4</u>

## Free Cash Flow Reconciliation – 3<sup>rd</sup> Quarter

	Three Months Ended March 31,	
	2009	2008
Net cash used in operating activities of continuing operations	\$ (39.3)	\$ (41.9)
Additions to pre-publication costs	(37.6)	(32.5)
Additions to property, equipment and capitalized software for internal use, net of dispositions	(10.4)	(8.5)
Free cash flow	<u>\$ (87.3)</u>	<u>\$ (82.9)</u>
 <b>Supplemental reconciliation of free cash flow to net change in cash and cash equivalents for the period:</b>		
Free cash flow	\$ (87.3)	\$ (82.9)
Acquisitions of businesses, net of related financing arrangements	(3.6)	16.3
Repayments of long-term debt	(88.3)	(8.6)
Cash flows from discontinued operations	(1.3)	0.1
Other, net	(2.0)	0.2
Net decrease in cash and cash equivalents for the period	<u>\$ (182.5)</u>	<u>\$ (74.8)</u>

## Free Cash Flow Reconciliation – Year To Date

	Successor		Predecessor	Cumulative Period Ended March 31, 2008
	Nine Months Ended March 31, 2009	Period July 5, 2007 to Marc 31, 2008	Period July 1, 2007 to July 4, 2007	
Net cash provided by operating activities of continuing operations	\$ 337.3	\$ 335.6	\$ 6.5	\$ 342.1
Additions to pre-publication costs	(96.7)	(88.1)	-	(88.1)
Additions to property, equipment and capitalized software for internal use, net of dispositions	(32.2)	(26.9)	-	(26.9)
Free cash flow	<u>\$ 208.4</u>	<u>\$ 220.6</u>	<u>\$ 6.5</u>	<u>\$ 227.1</u>

### Supplemental reconciliation of free cash flow to net change in cash and cash equivalents for the period:

Free cash flow	\$ 208.4		\$ 227.1
Acquisitions of businesses, net of related financing arrangements	(70.1)		90.4
Proceeds from settlement of derivative financial instruments	36.2		-
Repayments of long-term debt	(165.8)		(43.2)
Cash flows from discontinued operations	(3.9)		0.6
Proceeds from sale of businesses and other divestitures	34.7		2.0
Debt issuance costs	(16.2)		(90.9)
Change in cash overdrafts	-		(22.7)
Repayments from notes payable to TOC, net	-		(5.2)
Other, net	(5.4)		0.7
Net increase in cash and cash equivalents for the period	<u>\$ 17.9</u>		<u>\$ 158.8</u>

# Adjusted EBITDA Reconciliation

	<b>Twelve Months Ended March 31, 2009</b>
Net loss	\$ (1,364.2)
Adjustments:	
Net loss on discontinued operations	110.8
Interest expense	593.1
Interest income	(1.9)
Mark-to-market of derivative instruments	(16.5)
Provision for income taxes	(37.5)
Depreciation	61.7
Amortization and impairment of identifiable intangible assets	526.8
Amortization of pre-publication costs	138.6
Purchase accounting impact on deferred revenue	1.9
Gain on early extinguishment of debt	(201.3)
Management fee	10.5
Transaction costs	3.2
Pro forma EBITDA from acquisitions	9.5
Non-cash equity-based compensation	10.8
Impairment of goodwill	870.8
Non-recurring items and other	14.3
Adjusted EBITDA	<u>\$ 730.6</u>