CENGAGE LEARNING HOLDINGS II, L.P.

First Quarter Report
Three Months Ended September 30, 2011

As of the end of the period covered by this report, Cengage Learning Holdings II, L.P. and its consolidated subsidiaries (the "Company") was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Consequently, this report has not and will not be filed with the Securities and Exchange Commission ("SEC"). However, Cengage Learning Holdings II, L.P. is obligated pursuant to the indenture, dated as of October 31, 2008, among Cengage Learning Holdco, Inc. (a direct 100% wholly owned subsidiary of the Company), the Company, as guarantor, and Wells Fargo Bank, National Association, as trustee, governing the 13.75% Senior PIK Notes due 2015, and the indentures, dated as of July 5, 2007, among Cengage Learning Acquisitions, Inc. (formerly TL Acquisitions, Inc. and a 100% wholly owned subsidiary of Cengage Learning Holdings II, L.P.), the guarantors named therein and The Bank of New York as trustee, governing the 13.25% Senior Subordinated Discount Notes due 2015 and the 10.50% Senior Notes due 2015, and other agreements relating to the Company's debt and securities, to post, on a publicly accessible page on the Company's website and otherwise make available, financial and other information that Cengage Learning Holdings II, L.P. would be required to file with the SEC were it subject to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, subject to exceptions consistent with the terms of the indenture governing the 13.75% Senior PIK Notes and the presentation of financial information in the Cengage Learning Acquisitions, Inc. Offering Memorandum, dated June 22, 2007, relating to the 10.50% Senior Notes due 2015 and the 13.25% Senior Subordinated Discount Notes due 2015 and as otherwise provided in the Company's agreements relating to its debt and securities. This report is made available pursuant to such obligations and should be read in conjunction with the Company's Annual Report for the fiscal year ended June 30, 2011.

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

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan”, “project”, “foresee”, “likely”, “will” or other words or phrases with similar meanings. Similarly, statements that describe our objectives, plans or goals are, or may be, forward-looking statements. Our actual results, performance or achievements may be different from any future results, performance and anticipated achievements expressed or implied by forward-looking statements because of known and unknown risks, uncertainties and factors including the following important factors and those factors described in this quarterly report and in other publically available reports of the Company, including the Company’s Annual Report for the fiscal year ended June 30, 2011:

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

These factors are by no means exhaustive but are presented to identify important factors that may impact the Company’s performance and results. Except as required by law, we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CENGAGE LEARNING HOLDINGS II L.P.
FIRST QUARTER REPORT
THREE MONTHS ENDED SEPTEMBER 30, 2011

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

	September 30, 2011	June 30, 2011	September 30, 2010
Assets			
Cash and cash equivalents	$ 40.9	$ 34.2	$ 66.3
Accounts receivable, net	454.3	329.6	370.9
Inventories	191.3	195.0	178.3
Current deferred tax assets	48.0	41.4	82.7
Prepaid expenses and other current assets	50.8	41.8	52.8
Current assets of discontinued operations	-	-	5.1
Total current assets	785.3	642.0	756.1
Property, equipment and capitalized software for internal use, net	183.4	180.9	145.4
Pre-publication costs, net	291.9	269.3	235.3
Author advances	38.9	23.3	35.7
Identifiable intangible assets, net	2,669.6	2,695.7	2,815.9
Goodwill	3,545.4	3,539.6	3,539.0
Non-current deferred tax assets	6.5	6.7	9.7
Deferred financing costs	34.0	38.1	47.0
Other non-current assets	3.3	4.9	7.6
Non-current assets of discontinued operations	-	-	3.8
Total assets	**$ 7,558.3**	**$ 7,400.5**	**$ 7,595.5**
Liabilities and Partners' Equity			
Accounts payable and accrued expenses	$ 338.8	$ 354.1	$ 348.9
Deferred revenue	162.0	116.0	135.3
Current portion of long-term debt	112.8	40.7	40.7
Revolving credit facility	130.0	24.0	-
Current taxes payable	16.6	3.8	9.3
Current fair value of derivative instruments	44.7	49.5	63.2
Other current liabilities	31.9	4.7	9.9
Current liabilities of discontinued operations	-	-	15.0
Total current liabilities	836.8	592.8	622.3
Long-term debt	5,357.1	5,625.8	5,639.6
Non-current deferred tax liabilities	848.3	846.4	891.4
Non-current fair value of derivative instruments	29.4	35.1	58.0
Other non-current liabilities	65.6	50.9	39.5
Total liabilities	7,137.2	7,151.0	7,250.8
Commitments and contingencies (Note 14)			
Partners' equity	517.0	345.9	480.8
Accumulated other comprehensive loss	(95.9)	(96.4)	(136.1)
Total partners' equity	421.1	249.5	344.7
Total liabilities and partners' equity	**$ 7,558.3**	**$ 7,400.5**	**$ 7,595.5**

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 Ended September 30, 2011	Three Months Ended September 30, 2010
Revenues	$ 691.9	$ 641.8
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	246.2	225.5
Amortization of pre-publication costs	55.1	42.8
Total cost of revenues, excluding depreciation stated below	301.3	268.3
Selling, general & administrative, excluding depreciation stated below	96.9	97.5
Restructuring charges	-	2.5
Depreciation	13.4	10.7
Amortization of identifiable intangible assets	40.9	41.9
Total costs and expenses	452.5	420.9
Operating income from continuing operations	239.4	220.9
Gain on early extinguishment of debt	42.2	1.9
Mark-to-market of derivative instruments	-	11.9
Interest expense, net	(98.3)	(123.9)
Income before taxes and equity losses of affiliates	183.3	110.8
Provision for income taxes	(12.7)	(5.3)
Equity losses of affiliates, net of taxes	(1.4)	(0.7)
Income from continuing operations	169.2	104.8
Loss from discontinued operations, net of tax	-	(0.2)
Net income	$ 169.2	$ 104.6

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)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net income	$ 169.2	$ 104.6
Loss from discontinued operations, net of tax	-	0.2
Income from continuing operations	169.2	104.8
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Amortization of pre-publication costs	55.1	42.8
Depreciation	13.4	10.7
Amortization of identifiable intangible assets	40.9	41.9
Amortization of debt discounts and deferred financing costs	4.1	4.1
Interest capitalized on long-term debt	0.7	4.2
Non-cash interest on derivative instruments	-	14.3
Repayments of long-term debt, in lieu of interest	(35.0)	(4.4)
Non-cash equity-based compensation expense	2.0	1.9
Restructuring charges	-	2.5
Cash payments for restructurings	(0.9)	(1.6)
Mark-to-market of derivative instruments	-	(11.9)
Gain on early extinguishment of debt	(42.2)	(1.9)
Benefit from deferred taxes	(1.4)	(1.8)
Equity losses of affiliates, net of taxes	1.4	0.7
Changes in operating assets and liabilities, net of acquisitions	(64.0)	(25.9)
Other, net	(0.4)	(0.5)
Net cash provided by operating activities of continuing operations	142.9	179.9
Net cash used in operating activities of discontinued operations	-	(0.2)
Net cash provided by operating activities	142.9	179.7
Cash Flows from Investing Activities		
Acquisitions of businesses, less cash therein	(72.0)	(6.8)
Proceeds from settlement of derivative instruments	0.6	-
Payments on settlement of derivative instruments	(0.7)	(0.5)
Additions to pre-publication costs	(37.4)	(34.2)
Additions to property, equipment and capitalized software for internal use	(12.3)	(14.4)
Proceeds from disposition of property, equipment and capitalized software for internal use	0.1	-
Other, net	-	(0.1)
Net cash used in investing activities of continuing operations	(121.7)	(56.0)
Net cash used in investing activities of discontinued operations	-	(0.1)
Net cash used in investing activities	(121.7)	(56.1)
Cash Flows from Financing Activities		
Repayments of long-term debt	(120.1)	(18.3)
Borrowings under the revolving credit facility	265.0	145.0
Repayments under the revolving credit facility	(159.0)	(211.0)
Other, net	-	(0.4)
Net cash used in financing activities of continuing operations	(14.1)	(84.7)
Impact on Cash and Cash Equivalents from Changes in Foreign Currency	(0.4)	0.4
Net Increase in Cash and Cash Equivalents	6.7	39.3
Cash and Cash Equivalents		
Beginning of period	34.2	27.0
End of period	$ 40.9	$ 66.3

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

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

1. BASIS OF PRESENTATION

Basis of Presentation

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

We have prepared the accompanying condensed consolidated interim financial statements in accordance with the accounting policies described in our Annual Report for the Fiscal Year Ended June 30, 2011 (the "2011 Annual Report"). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. You should read these financial statements in conjunction with the consolidated financial statements included in the 2011 Annual Report. Certain historical amounts have been reclassified to conform with the current period's presentation.

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

In fiscal 2011, we determined that certain deferred tax balances associated with our Australia and Asia businesses had not been properly recorded as of July 5, 2007 related to the Thomson Learning acquisition, and as a result, goodwill was understated. Subsequently, when goodwill was impaired in Asia in fiscal 2009 and in Australia for the period July 5, 2007 to June 30, 2008, the related impairment charges were understated by $11.1 and $7.4, respectively. In addition, certain amounts presented on our Condensed Consolidated Balance Sheet as of September 30, 2010, have been revised to reflect a correction of our current and non-current deferred tax assets, deferred tax valuation allowances and non-current deferred tax liabilities. These revisions had the effect of decreasing both total assets and total liabilities and partners' equity by $13.0. We have determined that it was not probable that the judgment of a reader of the financial statements would have changed or been influenced by these errors and, therefore, adjustments to correct the errors are not material to the Financial Statements. However, in order to enhance year-on-year comparability, we have revised the September 30, 2010 balance sheet for these errors.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. In addition, changes in customers' ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year due to customers shifting the timing of material orders for a number of reasons, including, but not limited to, changes in academic semester start dates or changes in inventory management practices. For these reasons, the September 30, 2010 Condensed Consolidated Balance Sheet is presented for comparative purposes.

2. ACQUISITION

On August 1, 2011, we completed the acquisition of National Geographic Society's School Publishing Unit for an aggregate purchase price of $80.0, consisting of $72.0 in cash using funds borrowed under our revolving credit facility, and $8.0 in deferred consideration which is included in "Other current liabilities" in the Condensed Consolidated Balance Sheet. Additional consideration will be due in the event that predefined annual revenue targets are exceeded for the first four calendar years following the consummation date of the acquisition. Total purchase consideration is still subject to final working capital adjustments. The assets acquired represent National Geographic's print and digital school publishing unit, including its English language teaching products, the National Geographic Science series, National Geographic Explorer! magazines and Hampton Brown's literacy and language programs. Through this acquisition, we have expanded rights to distribute National Geographic Society's content, including images, maps, videos and articles in the academic and library markets worldwide. The acquired net assets and results from operations have been included within our Domestic segment since the date of acquisition. As of September 30, 2011, we have performed an allocation of the purchase price based on preliminary estimates of fair value for assets acquired and liabilities assumed using information currently available. Pro forma and other supplemental information are not presented as this acquisition is not a material business combination.

(In millions of U.S. dollars unless otherwise indicated)

During the three months ended September 30, 2010, we acquired McGraw Hill's Australia Secondary School Business.

3. DISCONTINUED OPERATIONS

On November 30, 2010, we completed the sale of certain non-strategic distance learning businesses located in Australia and New Zealand. Pursuant to the terms of the arrangement, we contributed $5.0 cash to the businesses upon closing. The loss on the sale was $4.0. These businesses had previously been classified as assets held for sale and reported as discontinued operations. The major classes of assets and liabilities of discontinued operations included in the Condensed Consolidated Balance Sheets are summarized as follows:

	September 30, 2010
Assets	
Accounts receivable, net	$ 4.6
Inventories	0.3
Prepaid expenses and other current assets	0.2
Property, equipment and capitalized software for internal use, net	0.9
Pre-publication costs, net	0.1
Non-current deferred tax asset	1.6
Other non-current assets	1.2
Total assets of discontinued operations	$ 8.9
Liabilities	
Accounts payable and accrued expenses	$ 3.4
Deferred revenue	11.6
Total liabilities of discontinued operations	$ 15.0

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

	Three Months Ended September 30, 2010
Revenues	$ 4.2
Loss from discontinued operations, before tax	(0.2)

(In millions of U.S. dollars unless otherwise indicated)

4. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Net income	$ 169.2	$ 104.6
Foreign currency translation adjustments	(10.0)	14.5
Unrealized gains (losses) on derivative instruments	10.5	(27.1)
Unrealized losses on derivative instruments reclassified into earnings	-	14.3
Comprehensive income	$ 169.7	$ 106.3

5. INVENTORIES

Inventories consist of the following:

	September 30, 2011	June 30, 2011	September 30, 2010
Raw materials	$ 3.3	$ 2.9	$ 4.3
Work-in-progress	0.4	0.4	2.4
Finished goods, net	187.6	191.7	171.6
Inventories	$ 191.3	$ 195.0	$ 178.3

6. OTHER BALANCE SHEET ACCOUNTS

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

	September 30, 2011	June 30, 2011	September 30, 2010
Sales returns reserve	$ 222.9	$ 108.3	$ 222.8
Allowance for doubtful accounts	10.1	10.5	9.0
	$ 233.0	$ 118.8	$ 231.8

The sales returns reserve is based on a review of our historical sales returns experience and our estimate of future returns associated with various markets, as well as current market trends in the businesses in which we operate.

Accounts payable and accrued expenses consist of the following:

	September 30, 2011	June 30, 2011	September 30, 2010
Accounts payable	$ 57.9	$ 99.4	$ 72.8
Accrued interest payable	41.2	87.8	42.4
Accrued royalties	131.1	79.9	117.6
Accrued bonuses	30.3	24.9	42.9
Other accrued expenses	78.3	62.1	73.2
	$ 338.8	$ 354.1	$ 348.9

(In millions of U.S. dollars unless otherwise indicated)

7. RESTRUCTURING

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

	Severance and Related Costs	Facility Consolidation Costs and Related Asset Impairments	
	Business Integration [1]	Boston Relocation [2]	Total
Balance as of June 30, 2011	$ 0.4	$ 0.9	$ 1.3
Cash payments	(0.4)	(0.5)	(0.9)
Balance as of September 30, 2011	$ -	$ 0.4	$ 0.4
Balance as of June 30, 2010	$ 3.1	$ 6.2	$ 9.3
Restructuring provision	2.5	-	2.5
Cash payments	(1.1)	(0.5)	(1.6)
Balance as of September 30, 2010	$ 4.5	$ 5.7	$ 10.2

[1] In July 2010, we consolidated our former Academic & Professional and Gale businesses into one operating group. In connection with this restructuring, we recorded $3.1 in our Domestic segment for employee severance and related costs for the year ended June 30, 2010. During the three months ended September 30, 2010, we recorded an additional liability for this program of $2.5. The restructuring payments were completed as of September 30, 2011.

[2] 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. The remaining restructuring-related payments are expected to be completed by December 2014, the termination date of the original lease.

Our liability for the remaining life of the lease, less estimated sublease income, was recognized and measured at its fair value using a discounted future cash flow valuation at June 30, 2011. This methodology applies various observable 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 based on historical data, which we determined to be Level 2 Inputs under the fair value hierarchy.

(In millions of U.S. dollars unless otherwise indicated)

8. DEBT

Our debt consists of the following:

	September 30, 2011	June 30, 2011	September 30, 2010
Senior Secured Credit Facility:			
Term loan	$ 3,302.4	$ 3,311.0	$ 3,336.8
Incremental term loan	604.7	606.3	610.9
Unamortized discount on incremental term loan	(6.7)	(7.3)	(9.1)
Revolving credit facility	130.0	24.0	-
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	(6.7)	(7.2)	(8.7)
13.25% Senior Subordinated Discount Notes due 2015	233.6	407.7	407.7
13.75% Senior PIK Notes due 2015	127.0	140.4	127.1
Total debt	5,599.9	5,690.5	5,680.3
Less: Current portion of long-term debt	(242.8)	(64.7)	(40.7)
Total long-term debt	$ 5,357.1	$ 5,625.8	$ 5,639.6

Revolving Credit Facility

The blended interest rate on the outstanding balance of the revolving credit facility was 1.94%, 1.92% and 0.00% at September 30, 2011, June 30, 2011 and September 30, 2010, respectively. The following is a summary of our borrowings and repayments that are included in our Condensed Consolidated Statements of Cash Flows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Borrowings	$ 265.0	$ 145.0
Repayments	(159.0)	(211.0)
	$ 106.0	$ (66.0)

Under this revolving credit facility, up to $150.0 is available for the issuance of letters of credit. Letters of credit outstanding and the interest rates on outstanding amounts are as follows:

	September 30, 2011	June 30, 2011	September 30, 2010
Amount outstanding	$ 2.6	$ 2.6	$ 6.3
Interest rate	1.75%	1.75%	1.75%

Senior Subordinated Discount Notes

During the three months ended September 30, 2011, we purchased $174.1 of 13.25% Senior Subordinated Discount Notes due 2015 that resulted in a gain of $38.6. Of the purchased notes, $133.6 are being held, but not retired, and the remaining $40.5 were retired. Following the debt purchases, our net mandatory principal redemptions due in July 2012 are $29.6, which are calculated in accordance with the applicable high yield discount obligation (“AHYDO”) regulations issued by the U.S. Internal Revenue Service (“IRS”).

Senior PIK Notes

During the three months ended September 30, 2011, we purchased $14.1 of 13.75% Senior PIK Notes due 2015 ("Senior PIK Notes"), which are being held, but not retired, resulting in a gain of $3.6. During the three months ended September 30, 2010, we purchased and retired $14.7 of the Senior PIK Notes resulting in a gain of $1.9. Following the fiscal 2012 debt purchases, our net mandatory principal redemptions due in July 2012 are $42.5, which are calculated in accordance with AHYDO regulations issued by the IRS.

9. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

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

Interest Rate Risk Management

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

Foreign Currency Derivatives

We periodically hedge the potential impact resulting from changes in exchange rates on select foreign currency-denominated net asset or liability positions through the use of forward contracts that may or may not be designated as accounting hedges. The gains and losses on these derivatives are largely expected to offset transaction losses and gains on the underlying foreign currency-denominated assets and liabilities.

(In millions of U.S. dollars unless otherwise indicated)

Derivative Instruments Summary

The following is a summary of our derivative instruments:

	September 30, 2011		June 30, 2011		September 30, 2010	
	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Foreign Exchange Contracts	Interest Rate Swaps	Foreign Exchange Contracts
Notional amount	$ 2,100.0	$ 14.1	$ 2,100.0	$ 14.9	$ 3,590.0	$ 9.4
Basis	LIBOR	Various	LIBOR	Various	LIBOR	Various
The notional amounts consist of the following:						
Amortizing aggregate notional amount	$ -	$ -	$ -	$ -	$ 1,490.0	$ -
Maturity (calendar year)	N/A	N/A	N/A	N/A	2011	N/A
Non-amortizing aggregate notional amount	$ 2,100.0	$ 14.1	$ 2,100.0	$ 14.9	$ 2,100.0	$ 9.4
Maturity (calendar year)	2013	2011	2013	2011	2013	2010

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

	September 30, 2011	June 30, 2011	September 30, 2010
Fair value liabilities of derivative instruments not designated for hedge accounting:			
Current portion	$ -	$ -	$ 51.6
Fair value liabilities of derivative instruments designated for hedge accounting:			
Current portion	$ 44.7	$ 49.5	$ 11.6
Non-current portion	29.4	35.1	58.0
	$ 74.1	$ 84.6	$ 69.6

Effective October 1, 2011, we de-designated our interest rate swaps for cash flow hedge accounting purposes. As a result of the de-designation, any subsequent changes in the fair value of these derivative instruments will be reflected in earnings. Losses on our derivative instruments, net of tax, of $44.7, recorded in AOCL, are expected to be reclassified to earnings during the next twelve months and will be included in “Interest Expense, net” in the Condensed Consolidated Statements of Operations.

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

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

	Three Months Ended September 30,			
	2011		2010	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Impact of derivative instruments not designated for hedge accounting:				
Selling, general & administrative, excluding depreciation	$ -	$ (0.1)	$ -	$ (0.5)
Mark-to-market of derivative instruments	-	-	11.9	-
Interest expense, net	-	-	(32.3)	-
Impact of derivative instruments designated for hedge accounting:				
Interest expense, net	$ (13.5)	$ -	$ -	$ -
Weighted average interest rate:				
Paid	2.77%		5.25%	
Received	0.25%		0.53%	

Included in AOCL is the following:

	September 30, 2011	June 30, 2011	September 30, 2010
Beginning accumulated unrealized loss on derivative instruments	$ (84.6)	$ (99.5)	$ (99.5)
Unrealized gains (losses) on derivative instruments	10.5	(42.1)	(27.1)
Unrealized losses on derivative instruments reclassified into earnings *	-	57.0	14.3
Ending accumulated unrealized loss on derivative instruments	$ (74.1)	$ (84.6)	$ (112.3)

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

Measurement of Fair Value

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

(In millions of U.S. dollars unless otherwise indicated)

Fair Value of Other Financial Instruments:

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

	September 30, 2011		June 30, 2011		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 40.9	$ 40.9	$ 34.2	$ 34.2	$ 66.3	$ 66.3
Senior secured credit facility:						
Term loan	3,302.4	2,575.9	3,311.0	2,971.6	3,336.8	2,991.8
Incremental term loan (1)	598.0	573.7	599.0	605.1	601.8	609.4
Revolving credit facility	130.0	99.5	24.0	21.6	-	-
10.50% Senior Notes due 2015 (2)	1,208.9	778.0	1,208.4	1,119.1	1,206.9	1,191.3
13.25% Senior Subordinated Discount Notes due 2015	233.6	133.2	407.7	378.9	407.7	399.5
13.75% Senior PIK Notes due 2015 (3)	127.0	61.0	140.4	112.9	127.1	108.7

(1) The carrying amount for the incremental term loan is presented net of the unamortized discount of $6.7, $7.3, and $9.1 as of September 30, 2011, June 30, 2011 and September 30, 2010, respectively.

(2) The carrying amount for the 10.50% Senior Notes due 2015 is presented net of the unamortized discount of $6.7, $7.2, and $8.7 as of September 30, 2011, June 30, 2011 and September 30, 2010, respectively.

(3) The carrying amount for the Senior PIK Notes included accrued interest of $8.4 and $3.6 as of June 30, 2011, and September 30, 2010, respectively.

10. INCOME TAXES

Our effective income tax provision rates for the three months ended September 30, 2011 and 2010 were 6.9% and 4.8%, respectively. The effective tax rates reflect the exclusion of entities that are projected to generate a loss for the year and the tax benefits of such losses are not anticipated to be realized in the foreseeable future.

11. FAIR VALUE MEASUREMENTS

The following table presents derivative liabilities that have been measured at fair value on a recurring basis. These were measured using Level 2 valuation techniques:

	September 30, 2011	June 30, 2011	September 30, 2010
Derivative liabilities	$ 74.1	$ 84.6	$ 121.2

Our non-financial assets and liabilities, which include goodwill, intangible assets, property and equipment and restructuring liability in connection with the Boston lease, are not required to be measured at fair value on a recurring basis. However, if certain trigger events occur, or if an annual impairment test is required, we evaluate the non-financial asset and liabilities for impairment. If an impairment did occur, the asset or liability is required to be recorded at the estimated fair value. During the year ended June 30, 2011, we reduced our lease liability on the original Boston facility by $2.3 as a result of securing sublessees that changed the amount of estimated sublease income. This liability was measured using Level 2 valuation techniques.

(In millions of U.S. dollars unless otherwise indicated)

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Accounts receivable, net	$ (104.2)	$ 23.8
Inventories	19.9	3.0
Prepaid expenses and other current assets	(4.8)	5.0
Accounts payable and accrued expenses	23.4	(28.2)
Accrued interest payable	(46.6)	(46.1)
Deferred revenue	48.4	24.0
Current taxes payable	13.1	(0.1)
Author advances, net	(15.7)	(7.6)
Other, net	2.5	0.3
	$ (64.0)	$ (25.9)

We accrued and capitalized interest expense on Senior PIK Notes of $0.7 and $4.2 for the three months ended September 30, 2011 and 2010, respectively.

We paid cash interest expense of $140.2 and $147.5 for the three months ended September 30, 2011 and 2010, respectively. Included within the debt purchases are repayments in lieu of interest of $35.0 and $4.4 for the three months ended September 30, 2011 and 2010, respectively.

13. RELATED PARTY TRANSACTIONS

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

Advisory Fee Agreements

We are party to advisory fee agreements with Apax Partners, L.P. ("Apax") and OMERS Private Equity, Inc. ("OMERS") (together, the "Advisory Fee Agreements"). Under these Advisory Fee Agreements, we are obligated to pay an aggregate annual fee of $10.7, payable quarterly in advance on the first day of each quarter, in consideration for services to be provided. We recorded expenses of $2.7 for such advisory fees during the three months ended September 30, 2011 and 2010, which were included in "Selling, general & administrative, excluding depreciation" in the Condensed Consolidated Statements of Operations. We are also obligated to pay associated out of pocket expenses incurred by Apax and OMERS, which were less than $0.1 for the three months ended September 30, 2011 and 2010.

(In millions of U.S. dollars unless otherwise indicated)

Agreements with Nelson Education, Ltd. ("Nelson")

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Revenue from Nelson	$ 10.3	$ 10.6
Expenses to Nelson, net	0.6	1.1

	September 30 2011	June 30, 2011	September 30, 2010
Accounts receivable	$ 4.5	$ 8.4	$ 4.2
Accounts payable	0.2	0.1	0.5

Debt Purchases by Nelson

On November 7, 2011, Nelson purchased $12.2 of our 10.50% Senior Notes due 2015.

14. COMMITMENTS AND CONTINGENCIES

Claims and Legal Actions

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

Warranties

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

(In millions of U.S. dollars unless otherwise indicated)

15. SEGMENT INFORMATION

We maintain two reportable business segments:

Domestic - In the U.S., Cengage Learning produces a variety of print and digital educational solutions for students, instructors, educational institutions, libraries and professionals in the academic, career, school and professional markets, and digitally-enabled reference information, certification test preparation, compliance training and other learning and research tools for a broad range of customers. We also provide associated educational services to support the use of our products by our customers.

International - Cengage Learning distributes educational solutions across all major disciplines in multiple countries and territories around the globe. The majority of our revenue is derived from adaptations of domestic resources for various markets throughout the world. We also publish and sell indigenous course materials and provide learning, research and reference solutions in various formats to individuals and businesses located outside the U.S. In addition, we provide English language teaching products to meet the needs of the growing international market, which currently has more than one billion learners worldwide. Individual markets are generally defined by country, each with unique customer needs, distribution channels and sales strategies.

We evaluate the performance of our consolidated operating group as one business unit. However, since our domestic and international operating segments have dissimilar long-term economic characteristics, we present two reportable segments: Domestic and International. 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.

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

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

Select financial information for our segments is as follows:

	Three Months Ended September 30,			
	2011		2010	
	Revenues(1)	Adjusted EBITDA	Revenues(1)	Adjusted EBITDA
Domestic	$ 627.5	$ 345.4	$ 582.9	$ 316.0
International	64.4	8.5	58.9	7.6
Segments total	691.9	353.9	641.8	323.6
Corporate and other	-	(5.1)	-	(4.8)
Total	$ 691.9	$ 348.8	$ 641.8	$ 318.8

(1) Revenue information is presented by country of origin.

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

(In millions of U.S. dollars unless otherwise indicated)

The following table reconciles Adjusted EBITDA to net income per the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Adjusted EBITDA	$ 348.8	$ 318.8
Less:		
Amortization of pre-publication costs	(55.1)	(42.8)
Restructuring charges	-	(2.5)
Depreciation	(13.4)	(10.7)
Amortization of identifiable intangible assets	(40.9)	(41.9)
Gain on early extinguishment of debt	42.2	1.9
Mark-to-market of derivative instruments	-	11.9
Interest expense, net	(98.3)	(123.9)
Provision for income taxes	(12.7)	(5.3)
Equity losses of affiliates, net of taxes	(1.4)	(0.7)
Loss from discontinued operations, net of taxes	-	(0.2)
Net income	$ 169.2	$ 104.6

16. SUBSEQUENT EVENTS

With the exception of the debt purchases made by Nelson discussed in Note 13 “Related Party Transactions”, there were no other material subsequent events identified through November 9, 2011, the date these financial statements were issued.

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

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

This MD&A is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes ("Financial Statements") and our Annual Report for the Fiscal Year Ended June 30, 2011 (the "2011 Annual Report"). Certain historical amounts have been reclassified to conform with the current period's presentation. The following discussion and analysis of our financial condition and results of operations may contain forward-looking statements about our business, operations and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations and intentions. Our future results and financial condition may differ materially from those we currently anticipate. See "*Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*". The MD&A includes the following sections:

- Seasonality and Comparability
- Acquisitions
- Restructuring
- Non-GAAP Financial Measures
- Critical Accounting Policies
- Financial Performance
    - Executive Overview
    - Segment Operating Results
    - Consolidated Results of Operations
    - Liquidity and Capital Resources
    - Contractual Obligations and Commitments
    - Reconciliations of Non-GAAP Financial Measures

The Financial Performance discussion of our MD&A begins with an Executive Overview that summarizes our results of operations for the three months ended September 30, 2011, followed by a more detailed discussion of our Segment Operating Results and our Consolidated Results of Operations. The analysis of Segment Operating Results focuses primarily on revenues and Adjusted EBITDA, which are our key performance metrics for assessing segment performance. Since we manage the business and make decisions about resource allocations by segment, we believe that this discussion provides useful insights into our operating results consistent with the way we monitor our operations.

We also provide a discussion of our Consolidated Results of Operations, including a comprehensive analysis of our consolidated operating income from continuing operations, with insights into significant changes in the components of our expenses. Our discussion of changes in expenses focuses primarily on changes in the nature of the underlying expenses, and not on the changes in each individual financial statement line item in our Condensed Consolidated Statements of Operations. We believe that this provides better insight into the trends impacting our business than changes in individual financial statement line items since certain expenses are included in more than one line item. We also provide a discussion of significant non-operating income and expenses that tend to be driven more by non-recurring transactions. We do not provide a separate analysis of changes in our consolidated revenues since these changes would be consistent with those discussed in the Segment Operating Results section. Throughout the MD&A, our discussion of revenues includes gross sales measures by markets, which represents amounts invoiced to our customers. Consequently, gross sales exclude any adjustments for sales returns provision or revenue deferral. We believe this measure provides investors with a more comprehensive understanding of our underlying revenue results and trends by presenting amounts invoiced on a consistent basis. In addition, we discuss 'digital product sales' which represents (i) revenue recognized on the sale of digital products that are not packaged with printed materials and (ii) gross sales, less actual returns, of bundled print and digital products where, we believe, that the value proposition to our customer is driven by the digital offering.

(In millions of U.S. dollars unless otherwise indicated)

Seasonality and Comparability

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

Acquisitions

On August 1, 2011, we completed the acquisition of National Geographic Society's School Publishing Unit ("NGSP") for an aggregate purchase price of $80.0, consisting of $72.0 in cash using funds borrowed under our revolving credit facility, and $8.0 in deferred consideration which is included in "Other current liabilities" in the Condensed Consolidated Balance Sheet. Additional consideration will be due in the event that predefined annual revenue targets are exceeded for the first four calendar years following the consummation date of the acquisition. Total purchase consideration is still subject to final working capital adjustments. The assets acquired represent National Geographic's print and digital school publishing unit, including its English language teaching products, the National Geographic Science series, National Geographic Explorer! magazines and Hampton Brown's literacy and language programs. Through this acquisition, we have expanded rights to distribute National Geographic Society's content, including images, maps, videos and articles in the academic and library markets worldwide. The acquired net assets and results from operations have been included within our Domestic segment since the date of acquisition. As of September 30, 2011, we have performed an allocation of the purchase price based on preliminary estimates of fair value for assets acquired and liabilities assumed, using information currently available. Pro forma and other supplemental information are not presented as this acquisition is not a material business combination.

During the three months ended September 30, 2010, we acquired McGraw Hill's Australia Secondary School Business.

From time to time, we may complete acquisitions that are complementary to our business initiatives and represent a strategic fit with the vision of our company, but may not have a material impact on our results of operations.

Restructuring

Business Integration:

During the three months ended September 30, 2010, we recorded $2.5 in our Domestic segment for employee severance and related costs in connection with the consolidation of our domestic businesses. The restructuring payments were completed as of September 30, 2011.

See Note 7 "Restructuring" to our Financial Statements for further information.

Non-GAAP Financial Measures

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

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

Financial Measure	**Definition**
Adjusted EBITDA	Defined as net income (loss) before: income (loss) from discontinued operations, net of tax; equity losses of affiliates, net of taxes; benefit from (provision for) income taxes; interest expense, net; mark-to-market of derivative instruments; gain on early extinguishment of debt;

other (income) expense, net; amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; restructuring charges and the amortization of pre-publication costs. We believe that this performance measure provides a meaningful basis for reviewing the results of our operations by eliminating the effects of financing and investing decisions, as well as excluding the impact of activities not related to our ongoing operating business.

Unlevered Free Cash Flow — Calculated as net cash provided by operating activities of continuing operations excluding net cash paid for interest and debt repayments in lieu of interest, reduced for cash expenditures relating to additions to pre-publication costs and additions to property, equipment and capitalized software for internal use, which we view as investments required to ensure the sustainability and continued growth of our business. We believe that this liquidity measure provides a clearer picture of the cash flow produced and reinvested by the ongoing business, before debt service.

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

Critical Accounting Policies

There were no significant changes to our critical accounting policies during the three months ended September 30, 2011. For further information on our critical accounting policies, refer to our 2011 Annual Report.

Financial Performance

Executive Overview

The following section summarizes our results of operations for the three months ended September 30, 2011 compared to the three months ended September 30, 2010:

- Revenues increased by $50.1, or 7.8%, to $691.9, including $28.5 from the acquisition of NGSP and a $4.0 favorable impact from foreign currency translation. The revenue growth is primarily in the Domestic segment with higher academic sales attributable to changes in customer ordering patterns and the growth of digital product sales, which resulted in incremental recognition of revenue from our growing deferred revenue balance. Revenues increased in the International segment primarily due to the favorable impact of foreign currency translation.

- Operating income from continuing operations increased by $18.5, or 8.4%, to $239.4, including the benefit from the acquisition of NGSP, primarily due to the contribution from higher revenues, partially offset by an increase in the amortization of pre-publication costs and employee-related costs.

- Adjusted EBITDA increased by $30.0, or 9.4%, to $348.8, including the benefit from the acquisition of NGSP, primarily due to the contribution from higher revenues, partially offset by higher employee-related costs.

- Net cash provided by operating activities of continuing operations decreased by $37.0, or 20.6%, to $142.9, primarily due to an increase in working capital and debt payments in lieu of interest, partially offset by increased income from continuing operations.

- Unlevered Free Cash Flow decreased by $14.8, or 5.2%, to $268.4, primarily due to an increase in working capital, partially offset by increased income from continuing operations.

- For the three months ended September 30, 2011, we purchased $174.1 of the 13.25% Senior Subordinated Discount Notes due 2015 (the "Senior Subordinated Discount Notes") and $14.1 of the 13.75% Senior PIK Notes due 2015 (the "Senior PIK Notes") resulting in a gain of $42.2. During the three months ended September 30, 2010, we purchased $14.7 of the Senior PIK Notes that resulted in a gain of $1.9. See Note 8 "Debt" to our Financial Statements for further information.

(In millions of U.S. dollars unless otherwise indicated)

Segment Operating Results

The Three Months Ended September 30, 2011 Compared with September 30, 2010

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Change	Percentage Change
Revenues:				
Domestic	$ 627.5	$ 582.9	$ 44.6	7.7%
International	64.4	58.9	5.5	9.3%
Total	$ 691.9	$ 641.8	$ 50.1	7.8%
Adjusted EBITDA*:				
Domestic	$ 345.4	$ 316.0	$ 29.4	9.3%
International	8.5	7.6	0.9	11.8%
Adjusted EBITDA Margin:				
Domestic	55.0%	54.2%	0.8%	
International	13.2%	12.9%	0.3%	

*Adjusted EBITDA: The aggregate of our two segments' Adjusted EBITDA does not equal our total Adjusted EBITDA because our segment profit measure of Adjusted EBITDA excludes equity-based compensation, fees paid to our sponsors under advisory fee agreements and other corporate-related expenses, which are included in a reporting line item referred to as "Corporate and other".

Domestic revenues for the three months ended September 30, 2011 increased by $44.6, or 7.7%, including $28.5 from our acquisition of NGSP. The remaining increase is primarily due to:

- $69.8 higher academic gross sales due to changes in customer ordering patterns at the end of fiscal 2011and growth of digital product sales,

partially offset by:

- $25.4 increase in sales returns provision primarily due to the mix of products sold and growth in volume,
- $18.9 net growth in the deferred revenue balance relating to increased sales of digital products,
- $5.3 lower school gross sales primarily due to the cyclicality of state adoptions driven by public funding constraints, partially offset by open territory sales,
- $4.6 lower research revenues primarily attributed to lower print sales, due to the print publishing schedule, as well as the continued funding challenges facing our customers, and
- $2.1 lower career gross sales reflecting continued unfavorable enrollment trends and the transition by some of our customers to lower priced e-books.

International revenues for the three months ended September 30, 2011 increased by $5.5, or 9.3%, including a $4.0 favorable impact from foreign currency translation primarily due to the Australian dollar, British pound, and Brazilian real. The remaining increase comes from higher sales in Latin America, primarily due to the growth in academic and English language teaching products, partially offset by a decrease in Australia due to the timing of school orders.

Domestic Adjusted EBITDA for the three months ended September 30, 2011 increased by $29.4, or 9.3%, including the benefit from the acquisition of NGSP and the contribution from higher revenues. Partially offsetting this increase is $2.8

(In millions of U.S. dollars unless otherwise indicated)

higher employee-related costs, due to higher severance costs and increased salaries and wages, partly due to the acquisition, partially offset by lower accrued incentive compensation.

International Adjusted EBITDA for the three months ended September 30, 2011 increased by $0.9, or 11.8%, including a $0.8 favorable impact from foreign currency translation. The increase is primarily attributable to higher revenues, partially offset by higher operating expenses as a result of foreign exchange translation and a net $0.8 unfavorable impact from foreign currency denominated transactions.

Consolidated Results of Operations

The Three Months Ended September 30, 2011 Compared with September 30, 2010

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Change	Percentage Change
Revenues	$ 691.9	$ 641.8	$ 50.1	7.8%
Operating income from continuing operations	$ 239.4	$ 220.9	$ 18.5	8.4%
Gain on early extinguishment of debt	42.2	1.9	40.3	NM
Mark-to-market of derivative instruments	-	11.9	(11.9)	NM
Interest expense, net	(98.3)	(123.9)	25.6	-20.7%
Provision for income taxes	(12.7)	(5.3)	(7.4)	139.6%
Equity losses of affiliates, net of taxes	(1.4)	(0.7)	(0.7)	100.0%
Income from continuing operations	$ 169.2	$ 104.8	$ 64.4	61.5%
Adjusted EBITDA	$ 348.8	$ 318.8	$ 30.0	9.4%
Adjusted EBITDA Margin	50.4%	49.7%	0.7%	1.5%

NM = Not meaningful

Operating income from continuing operations for the three months ended September 30, 2011, increased by $18.5, or 8.4%, to $239.4 primarily due to:

- $50.1 higher revenues discussed within our Segment Operating Results,

partially offset by:

- $12.3 higher amortization of pre-publication costs as a result of higher revenue, increased investment and amortization of pre-publication costs acquired in connection with the acquisition of NGSP,
- $12.8 higher variable costs primarily associated with the acquisition of NGSP, and
- $4.9 higher employee-related costs, primarily due to the acquisition of NGSP and increases in severance costs, partially offset by lower accrued incentive compensation.

Gain on early extinguishment of debt increased by $40.3 to $42.2 for the three months ended September 30, 2011, due to the purchase of $174.1 of the Senior Subordinated Discount Notes and $14.1 of the Senior PIK Notes resulting in a gain of $42.2. During the three months ended September 30, 2010, we purchased and retired $14.7 of the Senior PIK Notes that resulted in a gain of $1.9. See Note 8 "Debt" to our Financial Statements for further information.

(In millions of U.S. dollars unless otherwise indicated)

Mark-to-market of derivative instruments was $11.9 for the three months ended September 30, 2010, relates to interest rate swaps that matured on June 30, 2011.

Interest expense, net decreased by $25.6, or 20.7%, to $98.3 for the three months ended September 30, 2011, primarily due to $23.1 lower interest on our term loan, due to the impact of the lower fixed rate component of interest rate swaps that went into effect as of July 2011, lower LIBOR interest rates on the un-hedged component of our term loan and a decrease in non-cash interest associated with interest rate swaps that matured in June 2011.

Provision for income taxes was $12.1 for the three months ended September 30, 2011 compared with a provision of $5.3 for the three months ended September 30, 2010. The increase in income tax provision resulted primarily from the generation of taxable income within state taxing jurisdictions where we have fully utilized our prior period losses or where the loss utilization is limited by local statute. The change in provision from 4.8% for the three months ended September 30, 2010 to 6.9% for the three months ended September 30, 2011 is primarily due to the impact of state taxes just discussed. No tax benefit has been recorded for loss-making jurisdictions where the associated benefits are not expected to be realized in the foreseeable future.

Liquidity and Capital Resources

	September 30, 2011	June 30, 2011	September 30, 2010
Cash and cash equivalents	$ 40.9	$ 34.2	$ 66.3
Short-term borrowings and current portion of long-term debt	242.8	64.7	40.7
Long-term debt	5,357.1	5,625.8	5,639.6

Our liquidity and the 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. 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.

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, scheduled debt principal repayments, authorized debt purchases and capital spending over the next twelve months. To the extent that additional liquidity is necessary to fund our operations, we expect it would be funded through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of liquidity. Our liquidity and the ability to fund our operations, debt service requirements, projected working capital requirements, restructuring obligations, scheduled debt principal repayments and capital spending beyond the next twelve months will be dependent upon our cash flows from operations and the availability of borrowings under our existing revolving credit facility. In addition, we will need to refinance or restructure our current debt obligations, potentially incur new indebtedness, secure additional equity financings or implement a combination of these strategies.

We continue to review the adequacy of our liquidity by performing various stress test scenarios. 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. Adverse changes to our credit ratings may also increase our borrowing costs for future long-term or short-term borrowing facilities and may limit our financing options in the future.

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. ("Apax") and its affiliates, may from time to time purchase our outstanding debt securities and/or bank loans, in privately negotiated or open market transactions, by tender or otherwise. Any such purchases by the Company 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.

(In millions of U.S. dollars unless otherwise indicated)

Our operating cash flows are impacted by the inherent seasonality of our business whereby we typically generate operating cash during the first half of our fiscal year and utilize cash for operating activities throughout the second half of our fiscal year. Consequently, in addition to any other liquidity requirements, the borrowings under our revolving credit facility may vary according to this seasonality.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Percentage Change
Net cash provided by continuing operations:			
Net cash provided by operating activities	$ 142.9	$ 179.9	-20.6%
Net cash used in investing activities	(121.7)	(56.0)	NM
Net cash used in financing activities	(14.1)	(84.7)	-83.4%
Net cash used by discontinued operations	-	(0.3)	NM
Impact on cash and cash equivalents from changes in foreign currency	(0.4)	0.4	NM
Net increase in cash and cash equivalents	$ 6.7	$ 39.3	-83.0%
Unlevered Free Cash Flow	$ 268.4	$ 283.2	-5.2%

NM = Not meaningful

Operating activities. Net cash provided by operating activities of continuing operations for the three months ended September 30, 2011 decreased by $37.0, or 20.6%, due to a $38.1 increase in working capital and a $30.6 increase in debt repayments in lieu of interest, partially offset by increased income from continuing operations. The increase in working capital was driven by a $128.0 higher increase in accounts receivable, partially offset by a $51.6 higher increase in accounts payable and accrued expenses, primarily due to $35.7 higher incentive payments in fiscal 2011 and $20.8 higher increase in accrued royalties, $24.4 higher increase in deferred revenue, and $16.9 higher decrease in inventory. The changes in accounts receivable, accrued royalties, deferred revenue and inventory all result from growth in revenues during the three months ended September 30, 2011.

Investing activities. Net cash used in investing activities of continuing operations for the three months ended September 30, 2011 increased by $65.7. In the current period, additions to pre-publication costs increased by $3.2, due to continued investment in new product development, while additions to property, equipment, and capitalized software for internal use decreased by $2.1 mainly due to lower spending on our global enterprise resource planning system. Included in the three months ended September 30, 2011 was the acquisition of NGSP, while included in the three months ended September 30, 2010 was the acquisition of McGraw Hill's secondary school titles in Australia.

Financing activities. Net cash used in financing activities of continuing operations for the three months ended September 30, 2011 decreased by $70.6, or 83.4%. Included in the three months ended September 30, 2011 was: (i) $10.2 of principal payments on our term loans, (ii) $109.9 associated with the purchase of Senior Subordinated Discount Notes and Senior PIK Notes and (iii) borrowings of $265.0 and repayments of $159.0 under our revolving credit facility. Included in the three months ended September 30, 2010 was: (i) $10.2 of principal payments on our term loans, (ii) $8.1 associated with the purchase of Senior PIK Notes and (iii) borrowings of $145.0 and repayments of $211.0 under our revolving credit facility.

(In millions of U.S. dollars unless otherwise indicated)

Unlevered Free Cash Flow. Unlevered Free Cash Flow decreased $14.8, or 5.2%, to $268.4 for the three months ended September 30, 2011, primarily due to increases in working capital, partially offset by increased income from continuing operations.

Covenant Compliance

Under the terms of our debt agreements, we are required to comply with certain customary covenants, including a requirement to maintain specified financial ratios. Our ability to meet these required ratios may be affected by events beyond our control. As of September 30, 2011, we were in compliance with all of these covenants.

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

Senior Secured Debt includes all borrowings secured by a lien at September 30, 2011 of $4,037.1, less the average aggregate cash and cash equivalent balance over the preceding four quarters of $82.5. At September 30, 2011, our Senior Secured Debt was $3,954.6. A reconciliation of Net income for the twelve months ended September 30, 2011 to Bank EBITDA for the twelve months ended September 30, 2011, is presented below:

Net income	$	27.9
Adjustments:		
Provision for income taxes		45.1
Interest expense		455.7
Interest income		(0.8)
Mark-to-market of derivative instruments		(51.6)
Gain on early extinguishment of debt		(42.2)
Amortization of identifiable intangible assets		166.5
Depreciation		50.0
Amortization of pre-publication costs		154.5
Non-cash equity-based compensation		8.2
Sponsor management fee		10.7
Pro forma run rate cost savings		6.8
Pro forma EBITDA from acquisitions		2.5
Restructuring, integration and business optimization expenses		8.5
Other		6.8
Bank EBITDA	$	848.6

Our senior secured leverage ratio was 4.66 at September 30, 2011. A hypothetical 10% decline in our Bank EBITDA, as defined by the terms of our Senior Secured Credit Facility, would reduce Bank EBITDA to $763.7 and result in a senior secured leverage ratio of 5.18.

(In millions of U.S. dollars unless otherwise indicated)

Contractual Obligations and Commitments

During the three months ended September 30, 2011, we purchased $174.1 of Senior Subordinated Discount Notes and $14.1 of Senior PIK Notes. Following the debt purchases, our mandatory principal redemptions in July 2012 are $72.1, which are calculated in accordance with the applicable high yield discount obligation regulations issued by the U.S. Internal Revenue Service. Future debt principal payments associated with these notes are zero for the remainder of fiscal 2012, $72.1 for fiscal years 2013-2014, and $288.5 for fiscal years 2015-2016. As of September 30, 2011, interest payments on our outstanding debt was $233.4 for the remainder of fiscal 2012, $690.5 for fiscal years 2013-2014, and $191.7 for fiscal years 2015-2016.

Reconciliations of Non-GAAP Financial Measures

The following table reconciles Net income to Adjusted EBITDA:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Net income	$ 169.2	$ 104.6
Adjustments:		
Loss from discontinued operations, net of tax	-	0.2
Equity losses of affiliates, net of taxes	1.4	0.7
Provision for income taxes	12.7	5.3
Interest expense, net	98.3	123.9
Mark-to-market of derivative instruments	-	(11.9)
Gain on early extinguishment of debt	(42.2)	(1.9)
Amortization of identifiable intangible assets	40.9	41.9
Depreciation	13.4	10.7
Restructuring charges	-	2.5
Amortization of pre-publication costs	55.1	42.8
Adjusted EBITDA	$ 348.8	$ 318.8

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Percentage Change
Net cash provided by operating activities of continuing operations	$ 142.9	$ 179.9	-20.6%
Add back:			
Net cash interest paid	140.2	147.5	-4.9%
Repayments of long-term debt, in lieu of interest	35.0	4.4	NM
Additions to pre-publication costs	(37.4)	(34.2)	9.4%
Additions to property, equipment and capitalized software for internal use	(12.3)	(14.4)	-14.6%
Unlevered Free Cash Flow	$ 268.4	$ 283.2	-5.2%

NM = Not meaningful

CENGAGE LEARNING HOLDINGS II, L.P.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce our earnings and cash flow volatility resulting from shifts in market rates. As permitted, we designate certain of these derivative contracts for hedge accounting treatment in accordance with authoritative guidance. However, certain of these instruments may not qualify for, or we may choose not to elect, hedge accounting treatment and, accordingly, the results of our operations may be exposed to some level of volatility. Volatility in our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period.

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

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

We continue to review liquidity sufficiency by performing various stress test scenarios. 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.

CENGAGE LEARNING HOLDINGS II, L.P.

CONTROLS AND PROCEDURES

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

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

LEGAL PROCEEDINGS

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

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Fixed Charges		
Interest expense	$ 98.4	$ 124.1
Portion of rental expense which represents interest factor	2.3	2.0
Total fixed charges	$ 100.7	$ 126.1
Earnings available for fixed charges		
Earnings[1]	$ 183.3	$ 110.8
Add fixed charges	100.7	126.1
Total earnings available for fixed charges	$ 284.0	$ 236.9
Ratio of earnings to fixed charges [2]	2.8	1.9

[1] Earnings are comprised of income before taxes from continuing operations and equity losses of affiliates.

[2] For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before taxes from continuing operations before fixed charges. Fixed charges include: interest expense, whether expensed or capitalized, amortization of debt issuance cost and the portion of rental expense representative of the interest factor. Our earnings in accordance with the SEC definition under Item 503(d) of Regulation S-K were adequate to cover fixed charges for the three months ended September 30, 2011 and 2010.