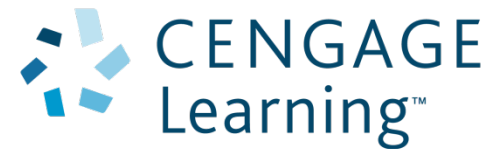


# Fiscal 2010 First Quarter Investor Call

November 12, 2009



## Safe Harbor/Forward-Looking Statements

- The following discussion contains 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 First Quarter Report for the Three Months Ended September 30, 2009 and the "Risk Factors" section of the Annual Report for the Fiscal Year Ended June 30, 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, Unlevered free cash flow and Adjusted EBITDA which are non-GAAP financial measures. Please see the Appendix for a definition of these measures and reconciliations to the most directly comparable financial measures prepared in accordance with GAAP.

# Agenda

 Welcome / Introductions

Dave Faiman

 Business Update

Ron Dunn

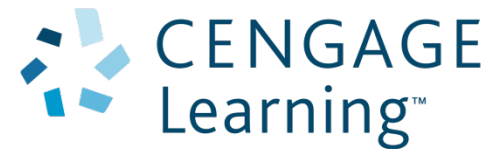
 Financial Results

Dean Durbin

 Questions & Answers

Business Update

Ron Dunn

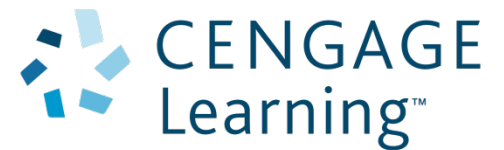


# Business Update

- Market conditions
- Executive changes
- Growth drivers
  - APG
  - Gale

Financial Results

Dean Durbin



# Consolidated Financial Results

## 1st Quarter 2010 compared to 1st Quarter 2009

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 698.5	\$ 761.3	-8.2%
EBITDA	\$ 356.5	\$ 395.6	-9.9%
<i>Margin</i>	<i>51.0%</i>	<i>52.0%</i>	
Capital Expenditures	\$ 32.2	\$ 31.5	2.2%
Unlevered Free Cash Flow	\$ 265.2	\$ 224.1	18.3%

## First Quarter Overview

### Revenue

Decline of \$62.8 reflecting:

- ❖ Decline in APG driven by timing of sales in higher education channel and decrease in school channel sales
- ❖ Decline in Gale driven by unfavorable impact of the economic environment
- ❖ \$5.9 unfavorable impact of foreign currency translation

### EBITDA

Decline of \$39.1 reflecting:

- ❖ Decreased contribution from lower revenues
- ❖ Partially offset by benefit of lower royalty and paper, printing & binding costs

### Unlevered Free Cash Flow

Increase of \$41.1 reflecting:

- ❖ Net changes in working capital driven by increased accounts receivable collections due to timing of sales, partially offset by lower EBITDA

# Academic & Professional Group

## 1st Quarter 2010 compared to 1st Quarter 2009

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 625.5	\$ 681.5	-8.2%
EBITDA	\$ 334.3	\$ 367.6	-9.1%
<i>Margin</i>	<i>53.4%</i>	<i>53.9%</i>	

## First Quarter Overview

### Revenue

Decline of \$56.0 reflecting:

- ❖ Changes in the custom product workflow process and customer ordering patterns that shifted sales from the 1<sup>st</sup> quarter 2010 to the 4<sup>th</sup> quarter 2009
- ❖ Decline in school channel orders due to the impact of the economic conditions on school funding and cyclical state adoption patterns
- ❖ \$5.9 unfavorable impact of foreign currency translation

### EBITDA

Decline of \$33.3 reflecting:

- ❖ Reduced contribution from lower revenues
- ❖ Partially offset by benefit of lower royalty and paper, printing & binding costs and incentive compensation

# Gale

## 1st Quarter 2010 compared to 1st Quarter 2009

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 69.7	\$ 76.1	-8.4%
EBITDA	\$ 27.0	\$ 36.4	-25.8%
<i>Margin</i>	<i>38.7%</i>	<i>47.8%</i>	

## First Quarter Overview

### Revenue

Decline of \$6.4 reflecting:

- ❁ Decline in both print and digital sales driven by the impact of the current economic environment on our customers
- ❁ Partially offset by growth from the acquisition of HighBeam

### EBITDA

Decline of \$9.4 reflecting:

- ❁ Reduced contribution from lower revenues
- ❁ Higher employee costs driven by investments in new product development and the acquisition of HighBeam

# Liquidity and Capital Resources

## Liquidity

<i>(\$ Millions)</i>	<u>September 30, 2009</u>
Cash and cash equivalents	<u>\$ 41.4</u>
Revolving Credit Facility	\$ 300.0
Outstanding Letters of Credit	(5.6)
Outstanding Borrowings	(70.0)
Available under the Revolving Credit Facility	<u>\$ 224.4</u>

## Leverage Ratios at September 30, 2009

Credit Agreement Leverage Ratio	5.30	Threshold: 8.00
Total Leverage Ratio <sup>1</sup>	7.72	

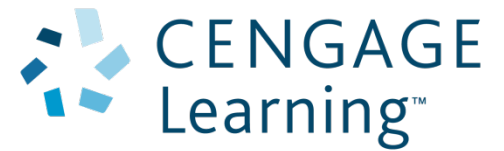
## Net Indebtedness

<i>(\$ Millions)</i>	<u>September 30, 2009</u>
Revolving Credit Facility	\$ 70.0
Term Loan Facility	3,371.2
Incremental Term Loan Facility	605.7
10.50% Senior Notes due 2015	1,204.7
13.25% Senior Subordinated Discount Notes due 2015	407.7
13.75% Senior PIK Notes due 2015	159.6
Indebtedness	<u>5,818.9</u>
Cash and cash equivalents	(41.4)
Net Indebtedness	<u>\$ 5,777.5</u>
Last Twelve Months Adjusted EBITDA <sup>2</sup>	<u>\$ 748.2</u>

<sup>1</sup> Total Leverage Ratio is determined as the ratio of Net Indebtedness to Last Twelve Months Adjusted EBITDA (i.e., \$5,777.5 / \$748.2)

<sup>2</sup> 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 Adjusted EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP is included on page 16 of this presentation.

# 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 from continuing operations before the amortization of identifiable intangible assets, depreciation, and amortization of pre-publication costs. We believe that this measure provides an additional means of analyzing the results of operating activities by eliminating the effects of financing and investing decisions. Our measure of EBITDA is consistent with our measure of Segment Operating Profit. Segment Operating Profit is presented pursuant to the requirements of GAAP in Note 12, “Segment Information” of our First Quarter Report for the Three Months Ended September 30, 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 page 14 of this presentation.

**“Unlevered free cash flow”:** This measure of cash flows represents net cash provided by operating activities of continuing operations excluding cash paid for interest and debt repayments in lieu of interest, less cash expenditures for additions to pre-publication costs and additions to property, equipment and capitalized software for internal use, net of proceeds from disposals. 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 Unlevered Free Cash Flow to the most directly comparable financial measure calculated and presented in accordance with GAAP are included on page 15 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 Adjusted EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP is included on page 16 of this presentation.

## EBITDA Reconciliation – Quarter To Date

	Three Months Ended September 30,	
	2009	2008
Total segment EBITDA	\$ 356.5	\$ 395.6
Less:		
Amortization of pre-publication costs	(49.4)	(53.3)
Depreciation	(11.7)	(14.8)
Amortization of identifiable intangible assets	(41.1)	(45.8)
Operating income from continuing operations	<u>\$ 254.3</u>	<u>\$ 281.7</u>

# Unlevered Free Cash Flow Reconciliation – 1<sup>st</sup> Quarter

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Net cash provided by operating activities of continuing operations	\$ 169.9	\$ 112.5
Addback:		
Cash interest paid	127.5	138.4
Repayments of long-term debt, in lieu of interest	-	4.7
Additions to pre-publication costs	(25.4)	(27.3)
Additions to property, equipment and capitalized software for internal use	(6.8)	(4.2)
Unlevered Free Cash Flow	<u>\$ 265.2</u>	<u>\$ 224.1</u>

# Adjusted EBITDA Reconciliation

	<b>Twelve Months Ended September 30, 2009</b>
Net loss	\$ (984.5)
Adjustments:	
Benefit from income taxes	(45.7)
Interest expense	568.1
Interest income	(0.9)
Mark-to-market of derivative instruments	(47.7)
Gain on early extinguishment of debt	(330.5)
Amortization and impairment of identifiable intangible assets	512.3
Impairment of goodwill	831.6
Depreciation	56.5
Amortization of pre-publication costs	141.0
Non-cash equity-based compensation	6.5
Management fee	10.8
Pro forma EBITDA from acquisitions	4.2
Non-recurring items and other	26.5
Adjusted EBITDA	<u>\$ 748.2</u>

## Revenues and EBITDA – Last Twelve Months

	Twelve Months Ended September 30,		Growth %
	2009	2008	
<b>Revenues</b>			
Academic & Professional	\$ 1,597.1	\$ 1,545.7	3.3%
Gale	290.6	314.5	-7.6%
Corporate and other	7.5	(5.1)	247.1%
Total Revenues	<u>\$ 1,895.2</u>	<u>\$ 1,855.1</u>	2.2%
<b>Segment EBITDA</b>			
Academic & Professional	\$ 615.6	\$ 595.4	3.4%
Gale	116.8	140.8	-17.0%
Corporate and other	(30.7)	(53.3)	42.4%
Total Segment EBITDA	<u>\$ 701.7</u>	<u>\$ 682.9</u>	2.8%