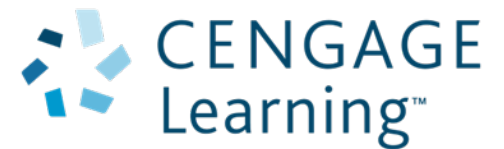


# Fiscal 2010 Third Quarter Investor Call

May 11, 2010



## 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 Third Quarter Report for the Three and Nine Months Ended March 31, 2010 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.

✿ Welcome / Introductions

Dave Faiman

✿ Business Update

Ron Dunn

✿ Financial Results

Dean Durbin

✿ Questions & Answers

Business Update

Ron Dunn



Financial Results

Dean Durbin



# Consolidated Financial Results

## Third Quarter

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 355.8	\$ 310.5	14.6%
EBITDA	\$ 106.4	\$ 59.5	78.8%
<i>Margin</i>	<i>29.9%</i>	<i>19.2%</i>	
Capital Expenditures	\$ 58.1	\$ 48.0	21.0%
Unlevered Free Cash Flow	\$ 106.1	\$ 38.5	175.6%

## Year to Date

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 1,477.6	\$ 1,515.7	-2.5%
EBITDA	\$ 599.8	\$ 608.1	-1.4%
<i>Margin</i>	<i>40.6%</i>	<i>40.1%</i>	
Capital Expenditures	\$ 137.8	\$ 128.9	6.9%
Unlevered Free Cash Flow	\$ 584.6	\$ 546.3	7.0%

## Third Quarter Overview

### Revenue

Increase of \$45.3 reflecting:

- ❁ Growth in the higher education and career channels within our Academic & Professional segment,
- ❁ \$9.1 favorable impact of foreign currency translation, and
- ❁ Growth in our Gale segment primarily driven by revenue from acquisitions

### EBITDA

Increase of \$46.9 reflecting:

- ❁ Increased contribution from higher revenues, and
- ❁ The benefit of cost containment measures,
- ❁ Partially offset by higher employee related healthcare costs

### Capital Expenditures

Increase of \$10.1 reflecting continued investment in products supporting our digital growth strategy as well as development of our global enterprise resource planning system

### Unlevered Free Cash Flow

Increase of \$67.6 reflecting:

- ❁ Increased contribution from higher EBITDA ,
- ❁ Improved working capital management, and
- ❁ \$15.2 lower payments in lieu of interest on debt repurchases,
- ❁ Partially offset by increased capital expenditures

## Third Quarter

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 289.9	\$ 247.4	17.2%
EBITDA	\$ 97.1	\$ 47.4	104.9%
<i>Margin</i>	<i>33.5%</i>	<i>19.2%</i>	

## Year to Date

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 1,272.6	\$ 1,291.3	-1.4%
EBITDA	\$ 554.1	\$ 534.6	3.6%
<i>Margin</i>	<i>43.5%</i>	<i>41.4%</i>	

## Third Quarter Overview

### Revenue

Increase of \$42.5 reflecting:

- ❖ Growth in our higher education and career channels driven by favorable enrollment trends,
- ❖ \$9.1 favorable impact of foreign currency translation, and
- ❖ Growth in our International school and ELT channels

### EBITDA

Increase of \$49.7 reflecting:

- ❖ Contribution from higher revenues, and
- ❖ The benefit of cost containment measures

## Third Quarter

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 63.6	\$ 61.2	3.9%
EBITDA	\$ 19.6	\$ 18.8	4.3%
<i>Margin</i>	<i>30.8%</i>	<i>30.7%</i>	

## Year to Date

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue	\$ 197.2	\$ 217.2	-9.2%
EBITDA	\$ 69.6	\$ 94.9	-26.7%
<i>Margin</i>	<i>35.3%</i>	<i>43.7%</i>	

## Third Quarter Overview

### Revenue

Increase of \$2.4 reflecting:

- ✦ Revenue from Questia Media acquisition, and
- ✦ Demand for print products

### EBITDA

Increase of \$0.8 reflecting:

- ✦ Contribution from higher revenue,
- ✦ Partially offset by higher employee costs driven by investments in new product development

# Liquidity and Capital Resources

## Liquidity

(\$ Millions)	March 31, 2010
Cash and cash equivalents	\$ 17.3
Revolving Credit Facility	\$ 300.0
Outstanding Letters of Credit	(5.7)
Outstanding Borrowings	-
Available under the Revolving Credit Facility	\$ 294.3

## Leverage Ratios at March 31, 2010

### Credit Agreement:

Threshold	7.75
Leverage Ratio	5.06
Total Leverage Ratio <sup>1</sup>	7.34

## Net Indebtedness

(\$ Millions)	March 31, 2010
Term Loan	\$ 3,354.0
Incremental Term Loan	603.7
10.50% Senior Notes due 2015	1,205.8
13.25% Senior Subordinated Discount Notes due 2015	407.7
13.75% Senior PIK Notes due 2015	133.2
Indebtedness	5,704.4
Cash and cash equivalents	(17.3)
Net Indebtedness	\$ 5,687.1
Last Twelve Months Adjusted EBITDA <sup>2</sup>	\$ 775.2

<sup>1</sup> Total Leverage Ratio is determined as the ratio of Net Indebtedness to Last Twelve Months Adjusted EBITDA (i.e., \$5,687.1 / \$775.2)

<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 15 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 (loss) 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 13, "Segment Information" of our Third Quarter Report for the Three and Nine Months Ended March 31, 2010. 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 13 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 cash expenditures 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 14 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 15 of this presentation.

# EBITDA Reconciliation

## Three and Nine Months Ended March 31, 2010 and 2009

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Total Segment EBITDA	\$ 106.4	\$ 59.5	\$ 599.8	\$ 608.1
Less:				
Amortization of pre-publication costs	(26.9)	(24.7)	(109.9)	(111.7)
Depreciation	(10.7)	(15.2)	(36.2)	(46.0)
Impairment of goodwill	-	(831.6)	-	(831.6)
Amortization and impairment of identifiable intangible assets	(41.6)	(385.0)	(123.8)	(476.2)
Operating income (loss) from continuing operations	<u>\$ 27.2</u>	<u>\$ (1,197.0)</u>	<u>\$ 329.9</u>	<u>\$ (857.4)</u>

# Unlevered Free Cash Flow Reconciliation

## Three and Nine Months Ended March 31, 2010 and 2009

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Net cash provided by (used in) operating activities of continuing operations	\$ 16.1	\$ (54.5)	\$ 377.8	\$ 313.6
Addback:				
Cash interest paid	148.1	125.8	337.3	337.9
Repayments of long-term debt, in lieu of interest	-	15.2	7.3	23.7
Additions to pre-publication costs	(40.1)	(37.6)	(100.6)	(96.7)
Additions to property, equipment and capitalized software for internal use, net	(18.0)	(10.4)	(37.2)	(32.2)
Unlevered Free Cash Flow	<u>\$ 106.1</u>	<u>\$ 38.5</u>	<u>\$ 584.6</u>	<u>\$ 546.3</u>

# Adjusted EBITDA Reconciliation

	<b>Twelve Months Ended March 31, 2010</b>
Net Income	\$ 68.4
Adjustments:	
Benefit from income taxes	(4.1)
Interest expense	529.5
Interest income	(0.3)
Mark-to-market of derivative instruments	(67.1)
Gain on early extinguishment of debt	(149.0)
Amortization and impairment of identifiable intangible assets	164.6
Depreciation	49.8
Amortization of pre-publication costs	143.1
Non-cash equity-based compensation	5.7
Management fee	10.7
Pro forma EBITDA from acquisitions	4.9
Other	19.0
Adjusted EBITDA	<u>\$ 775.2</u>

# Revenues and EBITDA

## Last Twelve Months Ended March 31

	Twelve Months Ended March 31,		Growth %
	2010	2009	
<b>Revenues</b>			
Academic & Professional	\$ 1,634.4	\$ 1,554.8	5.1%
Gale	277.0	302.3	-8.4%
Corporate and other	8.5	6.2	NM
Total Revenues	<u>\$ 1,919.9</u>	<u>\$ 1,863.3</u>	3.0%
<b>Segment EBITDA</b>			
Academic & Professional	\$ 668.4	\$ 589.3	13.4%
Gale	100.9	133.9	-24.6%
Corporate and other	(36.8)	(38.2)	3.7%
Total Segment EBITDA	<u>\$ 732.5</u>	<u>\$ 685.0</u>	6.9%
<b>Margin</b>	<b>38.2%</b>	<b>36.8%</b>	

NM = Not meaningful