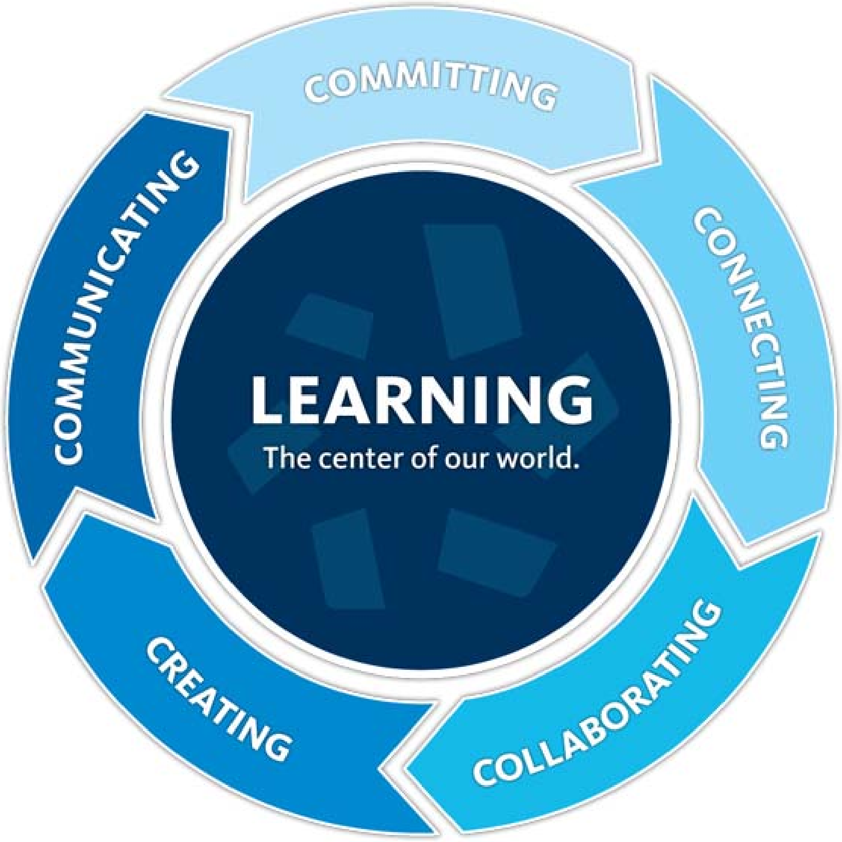
On October 16, 2008, Cengage Learning Holdings II L.P. (the “Company”) modified its Annual Report for the Fiscal Year Ended June 30, 2008, previously issued on September 24, 2008 (the “Annual Report”). The modification relates to the restatement of our results to account for discontinued operations (See Note 4, “Discontinued Operations” in our Annual Report) and consists of a change to the presentation of Selected Quarterly Financial Data presented on page 24 only. It does not change the Consolidated and Combined Balance Sheets, the Consolidated and Combined Statements of Operations, the Consolidated and Combined Statements of Cash Flows or the accompanying notes to the consolidated and combined financial statements included in the Annual Report. The Company’s Fiscal 2008 Year End Investor Call slides and Supporting Schedules have also been modified for consistency.

CENGAGE LEARNING HOLDINGS II L.P.

Annual Report
For The Fiscal Year Ended June 30, 2008


COMMITTING
CONNECTING
COLLABORATING
CREATING
COMMUNICATING
LEARNING
The center of our world.

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 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, 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 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 presentation of financial information in the Cengage Learning Acquisitions, Inc. Offering Memorandum, dated June 22, 2007, relating to the $1,215.6 million 10.50% Senior Notes due 2015 and the $519.0 million 13.25% Senior Subordinated Discount Notes due 2015 (the “Offering Memorandum”). This report is made available pursuant to such obligations and is presented on the basis of Cengage Learning Holdings II L.P. and its consolidated subsidiaries, as successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation (“TOC”), representing the assets, liabilities, revenues and expenses directly attributed to TOC’s Domestic Higher Education and Domestic Library Reference businesses as well as certain international businesses, managed together by a single management team.

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

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

CENGAGE LEARNING HOLDINGS II L.P.

TABLE OF CONTENTS

	Page No.
Description of the Business	1
Risk Factors	9
Properties	17
Legal Proceedings	18
Market for the Registrant’s Common Equity	18
Changes in and Disagreement with Accountants on Accounting and Financial Disclosure	18
Controls and Procedures	18
Directors and Executive Officers	19
Principal Stockholders	21
Certain Relationships and Related Transactions	22
Principal Accounting Fees and Services	22
Selected Financial Data	23
Selected Quarterly Financial Data	24
Management’s Discussion and Analysis of Financial Condition and Results of Operations	25
Quantitative and Qualitative Disclosures About Market Risk	54
Financial Statements	55
Computation of Ratio of Earnings to Fixed Charges	108
Financial Statement Schedule:	
Reports of Independent Auditors on Financial Statement Schedule	109
Valuation and Qualifying Accounts	111

CENGAGE LEARNING HOLDINGS II L.P.

DESCRIPTION OF THE BUSINESS

References in this section to "we," "us," "our," the "Company" and "Cengage" refer to Cengage Learning Holdings II L.P. and its consolidated subsidiaries, unless the context specifically states or implies otherwise.

Overview

Prior to July 5, 2007, we operated under the name "Thomson Learning" and were comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation ("Thomson Reuters" or "TOC") managed together by a single management team. On July 5, 2007, Cengage Learning Holdings II, L.P., a limited partnership controlled by investment funds associated with or designated by Apax Partners L.P. (hereinafter, collectively referred to as "Apax"), acquired the stock of certain companies and certain net assets of Thomson Learning from TOC in exchange for cash consideration of $7,108.9 million, less $17.3 million associated with a working capital purchase price adjustment settled in February 2008 (the "Acquisition") and excluding transaction-related costs. The Acquisition was financed through a common equity capital contribution of $1,703.1 million and $5,580.2 million in aggregate gross proceeds of debt financing. See Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets," to our consolidated and combined financial statements and accompanying notes ("Financial Statements") set forth herein.

On August 31, 2007, we changed our name to "Cengage Learning" and on October 18, 2007, we changed our fiscal year end from December 31 to June 30.

Our Company

We are a leading global provider of textbooks, reference materials and other educational resources for the higher education, professional training and library reference markets. We deliver customized learning solutions for colleges, universities, professors, students, reference centers, government agencies, corporations, and professionals around the world. These solutions are presented through specialized content, applications, and services that support academic excellence and professional development, as well as provide measurable learning outcomes to our customers. Printed textbooks are the most widely used learning resource in our markets, however, we have made significant investments to enhance and complement our core textbooks with innovative digital solutions. In addition, we are a leading provider of library reference materials with a vast collection of proprietary content. Our mission is to shape the future of global learning by consistently delivering better solutions for students, instructors, and institutions.

We have three complementary businesses which we present as reportable segments — Academic & Professional, Gale and International. We present operating segment financial information in "Note 20: Segment Information" in the Financial Statements.

Our Academic & Professional segment, operating in the U.S. and Latin America, provides textbooks and tailored learning solutions, including digital educational materials, to students, faculty, institutions and professionals in the post-secondary education market. Additionally, we deliver reference information, certification test preparation, compliance training and other professional training learning solutions, both in print and electronic delivery formats.

Our Academic & Professional segment supports a diverse range of disciplines to the post-secondary market, including business and economics, mathematics, sciences, humanities and social sciences. In addition, we serve students and professionals in the allied health, technology and trades sectors of the academic, continuing education and professional markets. We tailor our products with integrated digital solutions designed to enhance the teaching and learning experience, and improve outcomes. Our market position has been driven by high-quality content and long-term partnerships with leading authors and professional associations.

We have several industry-wide recognized brands:

- Brooks/Cole draws on a 40-year tradition of innovative, customer-centric publishing, and offers a spectrum of print and digital choices for instructors and students in mathematics, statistics, and the sciences.

- Wadsworth, for more than 50 years, has been a leading provider of books for the humanities and the behavioral and social sciences, and more recently, online and multimedia solutions.

- Heinle is a specialized, multi-level, full-service, integrated language publisher in the higher-education market, and enjoys a reputation for service and publishing excellence.

- The Schirmer name has been associated with music publishing since 1861, when Gustav Schirmer established his sheet music publishing house. Schirmer Books was established in 1970 and offers a distinguished list of textbooks for students of music.

- South-Western strives to meet the lifelong needs of students and teachers of business and economics.

- Course Technology offers print and technology-based products educating students on a wide range of studies related to computer concepts, information technology and software applications.

- Delmar, for 60 years, has been a leading provider of tailored learning solutions in health care, technology, trades, and career education for learning institutions. Delmar also serves the training markets in business, industry, and government.

- Aplia is an interactive learning solution that increases student effort and engagement. This web-based homework and assessment tool has been used by more than 320,000 students in the past year.

- Education To Go (“ed2go”) provides high-quality online learning that is affordable and easy to use.

Our Gale segment is a leading provider of authoritative reference and educational content in the global library reference and e-research market. We are one of the largest worldwide publishers of narrative reference works and maintain one of the largest archives of unique primary source special collections. We have digitized the majority of our library reference content and have derived approximately 60% of our revenue for this segment from digital products during the twelve months ended June 30, 2008. Our vast content repository is also the source for hundreds of proprietary print and microfilm products, as well as nearly 100 unique online research databases that annually support over 200 million user sessions in libraries and learning institutions worldwide.

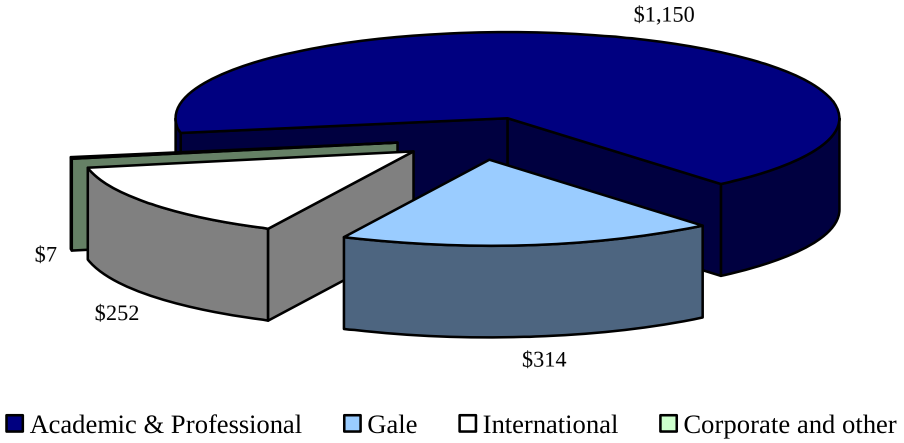
Gale produces thousands of individual single and multi-volume reference and primary source works under such notable brands as Macmillan Reference USA™, Charles Scribner’s Sons®, Gale Reference, Primary Source Microfilm™ and Scholarly Resources, Inc. Gale has more than 65 million pages of primary source material in digital form such as The Shakespeare Collection, The Making of the Modern Law: Supreme Court Records and Briefs, Eighteenth Century Collections Online and The Times Digital Archive.

Gale’s primary customers are academic, public and K-12 libraries. In addition to selling to libraries, Gale also licenses content for integration within web-based information services and has strategic business distribution partnerships with approximately 65 organizations, including Amazon.com, Inc., AOL LLC, Discovery Communications Inc., Dow Jones & Company, Inc., and Microsoft Corporation.

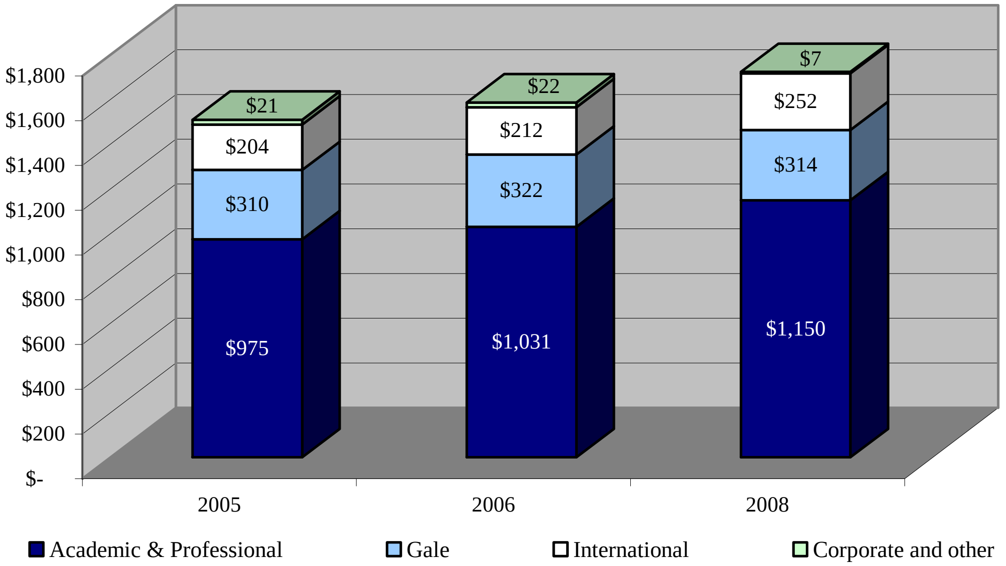
Our International segment sells our U.S. textbooks into international markets, adapts U.S. textbooks for various international markets and publishes and sells textbooks developed with non-U.S. authors. We serve the higher-education, vocational, school, library reference, English language teaching and distance learning markets around the world with a focus on high growth markets.

We have regional businesses that serve a number of international markets generally through local offices and staff. Our three major regional markets are served by business units located in Asia (Singapore), EMEA - Europe, Middle East and Africa (London) and Australia (Melbourne). The business mix and strategic focus of these units differs based on prevailing local market demand for learning products. Each regional business leverages our authoritative print and digital libraries to deliver the most up-to-date and comprehensive content available for inclusion in textbooks and courseware solutions.

For the twelve months ended June 30, 2008, we had revenues from continuing operations of $1,723 million. Revenues from continuing operations, in millions of U.S. dollars, for each of our segments for the same period were as follows:



Revenues from continuing operations, in millions of U.S. dollars, for each of our segments for the years ended December 31, 2006 and 2005 and for the twelve months ended June 30, 2008, respectively, were as follows:



Our Strategy

We intend to maintain our market positions and increase our revenues and profits by:

Continuing to create high-quality content and innovative products. We continue to create high-quality content and to organize that content into products and formats that make it more accessible and useful for our customers. We will add content by publishing new books from our proven authors, attracting additional authors, commissioning new reference materials and exclusively licensing valuable collections of information. We will add additional value to our content by digitizing and customizing it to create innovative products.

Integrating digital tools to enhance our core products. In the post-secondary education market, we have focused on developing innovative and customized digital learning solutions that enhance and complement our core textbooks. For example, our Aplia digital homework tool is an assignable, user-friendly application that improves the teaching and learning processes and can be integrated with some of our textbooks. Gale focuses on creating digital products, databases and tools to make our reference content more accessible and relevant to our customers. Customers can access and search all of Gale's content in an easy-to-use manner through Gale's proprietary *PowerSearch* technology. We continue to develop innovative and customized digital learning solutions.

Selectively pursuing strategic acquisitions. We believe that we are well-positioned to capitalize on selective strategic acquisitions due to our leading market positions and our track record of successfully integrating previously acquired companies. Many of our competitors are smaller businesses which focus on only part of the markets we serve and, as a result, are attractive acquisition opportunities. Accordingly, we selectively pursue acquisitions that offer us the potential to strengthen our market positions, increase our product offerings and/or leverage our scale to achieve cost savings through integration synergies.

Implementing cost savings initiatives. Our management has a proven track record of reducing costs and realizing efficiencies in our business. We pursue additional efficiency initiatives, where feasible, to further reduce costs from our existing operations.

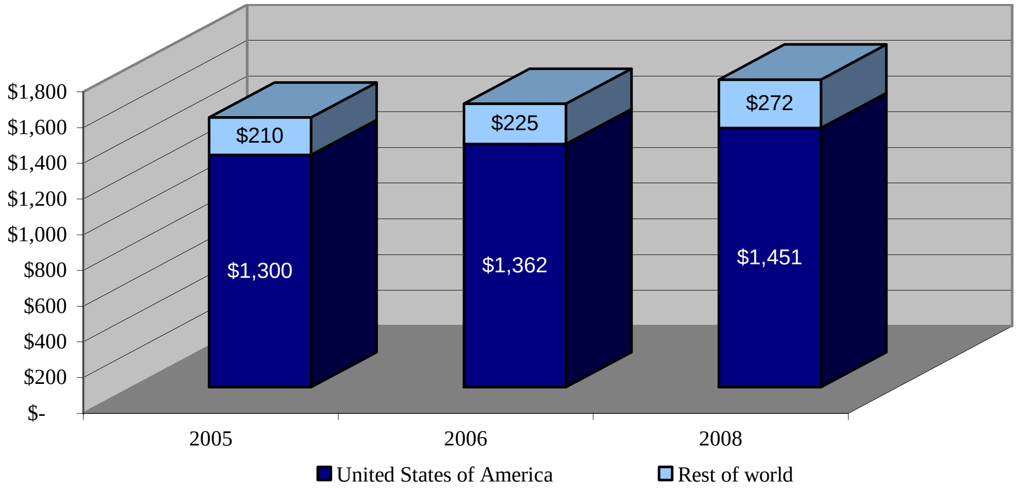
Sources of Revenue

In the academic market, the primary source of our revenue is textbooks and digital learning solutions sold for use in two- and four-year colleges and universities, where professors drive the textbook "adoption" decision by selecting which textbooks will be used in their courses. We sell our products through bookstores, other distribution channels, and in some instances, directly to students. Digital products are more likely to be purchased via online channels as well as in bundles with print products, and typically have a finite life span (e.g., a semester) after which a user's access and support are terminated. Some schools, like career and for-profit schools, make institutional purchases for all students enrolled in their courses and include the textbooks as part of the course fee.

In the professional channel, our business models include licensing agreements with institutions, multi-year contracts with professional associations, direct business to consumer online sales, as well as bookstore and non-bookstore retail distribution.

In the library reference market, we generate revenue from the sale of print and digital reference materials to academic, K-12 and public libraries, as well as subscription-based revenue by providing access to online reference works and digital archives. This type of sale is often direct to libraries. While some states and municipalities have formed buying consortiums to drive uniformity of purchases and achieve economies of scale, the primary decision makers for purchases are librarians. In addition to selling to libraries, we license content for integration within web-based information services.

Revenues from continuing operations, in millions of U.S. dollars, by geography based on country of origin for the years ended December 31, 2006 and 2005 and for the twelve months ended June 30, 2008, respectively, were as follows:



Distribution channels

The key distribution channels for our textbook products are college bookstores. Of these, about 40% are owned by large chains and the rest are independents or small local chains. In addition, we sell through wholesalers like MBS Direct and online retailers like Amazon.com, Inc. Digital products can be sold via these channels or online via dedicated web sites (e.g., Aplia). Career colleges often buy direct at the institutional level for all students and distribute the products themselves. In the U.S., our iChapters.com site sells print and e-books, e-chapters and ancillary materials direct to students online. Gale sells to many libraries directly or to state library consortia, and also sells via distributors.

Printing and binding; raw materials; fulfillment and distribution

Global Production and Manufacturing Services is our centrally managed organization for the production and management of our print and digital assets. This organization is aligned with our business units and charged with driving best practices across our portfolio in the areas of workflow control, cost reduction and content reuse and repurposing.

The global production and manufacturing unit manages the preparation of products within an approved portfolio of pre-press vendors, printers and paper vendors within strict buying guidelines and pricing agreements.

We execute our fulfillment and distribution functions from two primary shared service centers located in Kentucky (U.S.) and Andover (U.K.). These centers are commonly managed and support all of our businesses. Additionally, we maintain small distribution and customer service points, some outsourced, supporting indigenous publishing programs in Australia, Latin America, Asia and Europe. These small distribution and customer service points are locally managed with our corporate oversight. By making use of modern distribution systems and materials-handling technologies, we have created efficiencies and reduced operating costs.

Employees

As of June 30, 2008, we employed approximately 5,800 people. We believe that relations with our employees are satisfactory.

Seasonality

The academic calendar drives the purchasing behavior of many of our customers, with purchases for the fall semester in the third calendar quarter and purchases for the winter/spring semester in the fourth calendar quarter before the holiday break. We produce a significant amount of books in advance of these selling seasons, and approximately two- thirds of our revenue is recorded in the third and fourth quarters of the calendar year.

Intellectual property

Substantially all of our proprietary publications and products are covered by copyright in the U.S. and, by virtue of international treaties and conventions, in most developed countries throughout the world. As the copyright holder, we have the exclusive right to reproduce, distribute, publicly display and perform, and to create derivative versions of the copyrighted works.

In almost all cases copyright ownership has been assigned to us by the original author(s), but in a few instances, the author may retain the copyright, granting us an exclusive license to utilize the work. In both cases, the term of copyright is generally the life of the author plus 70 years (works first published prior to 1978 generally have a copyright term of 95 years from the date of first publication). With respect to materials created as “works made for hire,” the term of copyright is the shorter of 95 years from publication or 120 years from creation. For works first published in the U.S. after 1978, authors have a statutory right to terminate any assignment or license for a five-year period commencing 35 years after the assignment or license is made.

We do not own any franchises or concessions, but we have registered certain patents, trademarks and service marks in connection with our publishing businesses. We believe we have taken, and continue to take, in the ordinary course of business, all appropriate available legal steps to protect our intellectual property in all relevant jurisdictions.

Environmental matters

We generally contract with independent printers and binders for their services, and operations are generally not otherwise affected by environmental laws and regulations. However, as the owner and lessee of real property, regardless of fault, it is possible that we could face liability if contamination were to be discovered on the properties we own or lease. We are currently unaware of any material environmental liabilities or other material environmental issues relating to our properties or operations and anticipate no material expenditures for compliance with environmental laws or regulations. See "Properties" for a description of our leased premises.

Acquisitions

On July 5, 2007, Cengage Learning Holdings II L.P. (i) acquired the stock of certain companies and certain assets; and (ii) assumed certain liabilities, of Thomson Learning from TOC in exchange for cash consideration of $7,108.9 million, subject to working capital purchase price adjustments and excluding transaction-related costs. During the third quarter of fiscal 2008, Cengage Learning and TOC entered into a working capital settlement agreement whereby the parties agreed to a reduction in the purchase price of $17.3 million, which was remitted to us in February 2008.

The Acquisition was financed through (i) a common equity capital contribution of $1,703.1 million (the "Equity Contribution") and (ii) $5,580.2 million in aggregate gross debt financing, less $91.1 million associated with financing fees, (the "Financing Transactions") as follows:

- $3,440.0 million of borrowings under $3,740.0 million of senior secured credit facilities, consisting of a $3,440.0 million term loan facility with a seven-year maturity and a $300.0 million revolving credit facility with a six-year maturity;

- $1,215.6 million aggregate principal amount ($1,200.1 million gross proceeds) of 10.50% senior notes due 2015;

- $519.0 million aggregate principal amount at maturity ($400.1 million gross proceeds) of 13.25% senior subordinated discount notes due 2015, for which no cash interest will accrue between the date of original issuance and July 15, 2009; and

- $540.0 million of borrowings under a senior bridge loan credit facility.

See Note 11, "Debt and Capital Lease Obligation," to our Financial Statements for additional descriptions of the Financing Transactions.

On May 30, 2008, we consummated our acquisition of the college division of Houghton Mifflin Harcourt Publishing Company ("HM College") for $768.3 million in cash, reflecting the base purchase price of $750 million, adjusted for a working capital and a cash flow mechanism, pursuant to the purchase agreement, but before adjusting for proceeds from titles divested pursuant to an agreement with the U.S. Department of Justice ("DOJ") and excluding transaction-related costs. Final purchase price will be determined after an audit of the 2008 working capital and cash flow of the acquired business. The acquisition of HM College assets expands and complements the range of textbooks, study guides, custom publications and digital solutions that we provide to professors and students in two- and four-year colleges and universities.

We financed the acquisition primarily through $625 million of incremental term loan borrowings under the senior secured credit facilities, less $2.3 million associated with financing fees, and through an equity contribution of $132.5 million to the Cengage Learning Holdings II L.P. partnership. See Note 11, "Debt and Capital Lease Obligation," to our Financial Statements for additional description of this transaction.

In July 2008, we completed the sale of titles pursuant to an agreement with the DOJ in connection with the HM College acquisition.

Discontinued Operations

In June 2008, we decided to pursue the sale of certain non-strategic operations comprising our local language academic business located in Spain and our distance learning businesses in the United Kingdom and the Netherlands. We expect these disposals to be completed within the next twelve months. These businesses were previously reported in our International segment and are presented as discontinued operations. See Note 4, "Discontinued Operations" to our Financial Statements.

In August 2008, we completed the sale of our business located in Spain.

Industry

U.S. academic market The U.S. is the largest higher-education market in the world and consists of over 18 million students enrolled at approximately 4,200 institutions. Within this market, domestic spending on new textbooks and related course materials was approximately $4.2 billion in 2007 and is expected to grow to $4.4 billion in 2008. The higher-education publishing market is driven by student enrollment in post-secondary schools and the average price per book, as well as impacted by the number of new books per student. According to the U.S. Census Bureau's 2007 American Community Survey, median income for bachelor degree holders is 1.9 times the income of those who graduated from high school. College enrollment has generally increased in periods of slower economic growth as people return to school for additional training. The National Center for Educational Statistics reports that from 2002 to 2007 enrollments grew on average at approximately 1.6% annually, and expects annual student enrollment growth to be 1.5% over the period from 2007 to 2012. The average price per book has increased at an annual rate of 3.2% per year from 2003 to 2007 according to Monument Information Resources.

Professional career education market Publishers in this market create and sell textbooks, digital applications and other related solutions to students and professionals who are seeking job training, certification or continuing professional education in vocational schools, academic institutions and continuing education programs, and corporations. Students in this market are typically employed in or pursuing vocational and technical jobs. Growth in this market has come from increasing demand for skills training.

Library reference market Providers in this market create and sell specialized encyclopedias and directories, periodical databases, primary-source research collections and other reference material. The customer base is principally comprised of academic, public and K-12 libraries. Users access reference information via online databases, digital collections, eBooks and print. According to a syndicated market research and advisory firm, the $1.7 billion library reference market has been essentially flat from 2006-2008.

The areas of growth in this market have come primarily as a result of increased demand for digital materials and customers' increased interest in accessing proprietary or exclusive content. This has been offset by decreased spending on "traditional" print products. The shift from print to digital reference materials reflects a desire by users to take advantage of technology-based features, such as advanced search functions, that enhance the value of reference material by making it more widely available and accessible. The growth of proprietary content reflects demand for content with credibility, organization and depth that distinguish it from free content available through popular search engines.

International market Publishers and content providers in the international textbook market distribute or adapt existing U.S. textbooks and also create specialized content for academic and reference customers in local markets.

This market has grown primarily because business globalization has created increased demand for educated, English-proficient workers and the ability to cost-effectively adapt or produce and deliver an extensive collection of content into local markets. Worldwide post-secondary enrollment grew 7.9% annually from 2001 to 2006 and, there were approximately 104 million students attending post-secondary institutions outside the U.S. in 2006. The higher education and English language teaching markets are growing rapidly in countries with developing economies. In China and India combined, the 18 to 24 year-old population in 2006 was approximately 300 million, compared with a combined total of approximately 58 million in the U.S., France, Germany, Japan and the United Kingdom.

Competition Our key competitors include Pearson Education, Inc., McGraw-Hill Companies Inc., John Wiley & Sons, Inc., Reed Elsevier Plc., Proquest-CSA LLC., EBSCO Industries, Inc., Oxford Publishing, Inc., Scholastic Inc. and Oxford University Press, Inc., as well as local university or government publishing entities.

Publishers compete on the basis of quality of our content and author reputation, familiarity and, to a lesser extent, price. Increasingly, the digital tools that accompany a textbook (e.g., assessments, homework solutions, etc.) are a key competitive factor in attracting and retaining professors from semester to semester.

In recent years, more public sources of free or relatively inexpensive information have become available, particularly through Internet search engines, such as Google, and we expect this trend to continue. In the library reference market, the key basis of competition is the quality and authoritativeness of the underlying content. Librarians and researchers value content that comes from reliable sources and that is organized and presented in a user-friendly manner. Accordingly, the digital interface and tools that allow users to access and search content and related information is becoming an increasingly important factor in the purchasing decision.

Principal Offices

Cengage's principal executive offices are located at 200 First Stamford Place, Suite. 400, Stamford, CT 06902. The main telephone number is (203) 965-8600. Our Internet address is www.cengage.com. Information contained in, or accessible through, our website is not deemed part of this Annual Report.

RISK FACTORS

The following factors affect our business and the industry in which we operate. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known or that we currently consider immaterial may also have an adverse effect on our business. If any of the matters discussed in the following risk factors were to occur, our business, financial position, results of operations, cash flows, or prospects could be materially adversely affected.

We operate in highly competitive markets and competition may reduce our market share, revenues and profitability.

We operate in highly competitive markets with significant established competitors, such as Pearson Education, Inc., McGraw-Hill Companies Inc., John Wiley & Sons, Inc., ProQuest-CSA LLC, Reed Elsevier Plc, EBSCO Industries, Inc., Oxford University Press, Inc. We compete primarily on the basis of the quality of our content and author reputation, familiarity and, to a lesser extent, price. Many of our competitors have substantial financial resources, recognized brands, technological expertise and market experience. Our competitors are also continuously enhancing their products and services, developing new products and services and investing in technology. Some of our competitors are acquiring additional businesses in key sectors that will allow them to offer a broader array of products and services than they currently provide. Many of our competitors have greater resources than us, and therefore, may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products than we can. We may also face competition from businesses that have not traditionally participated in our markets, such as Internet service companies and search providers, that could pose a threat to some of our businesses by providing more in-depth offerings, adapting their products and services to meet the demands of our customers or combining with one of our traditional competitors to enhance its products and services.

We may not be able to compete successfully with our current and future competitors. Competition may require us to reduce the price of our products and services or make additional capital investments that would adversely affect our profit margins. If we are unable or unwilling to do so, we may lose market share and our business, financial position and results of operations may be adversely affected.

We compete with the used textbook market for sales of our textbooks, and the growth of the used textbook market may adversely affect our business.

Our textbook customers frequently can decide to purchase a new or used textbook, and we only generate revenues from the initial sale of our textbooks. The higher education used textbook market has grown in recent years, driven primarily by more efficient distribution of used books and the cost of new textbooks. Historically, the difficulty in making used textbooks available to students limited the growth of the used textbook market. The Internet, however, has made the used textbook market more efficient and has significantly increased student access to used textbooks. We primarily compete against used textbooks on the basis of supply and price. If the supply of used textbooks increases, students may increasingly look to purchase used textbooks as an alternative to our new textbooks. If we are unable to effectively compete with growing competition presented by the used textbooks market, we could experience a loss in sales and our business, financial position and results of operations may be adversely affected.

Increased accessibility of free or relatively inexpensive information sources may reduce demand for our products and services and adversely affect our financial results.

In recent years, more public sources of free or relatively inexpensive information have become available, particularly through search engines, such as Google, and the Internet, and we expect this trend to continue. For example, some governmental and regulatory agencies have increased the amount of information they make publicly available for free. Public sources of free or relatively inexpensive information may reduce demand for our products and services. To the extent that our customers choose to use these public sources directly for their information needs, our business, financial position and results of operations may be adversely affected.

If we cannot successfully implement our business strategy, then our business, financial position and results of operations could be materially and adversely affected.

Our ability to successfully implement our business strategy is subject to a number of risks, many of which are beyond our control, including:

- rising development costs due to customers' requirements for more customized instructional materials and assessment programs;
- higher technology costs due to the trend toward delivering more educational content in both traditional print and digital formats;
- market acceptance of new technology products, including online or computer-based learning;
- college enrollment trends;
- changing demographics and preferences of college students and professors that may affect product offerings and revenues;
- customer consolidation in the retail and wholesale book market;
- rising advances for popular authors and market pressures to maintain competitive retail pricing;
- a material increase in product returns or in certain costs such as paper; and
- regulatory pressure on textbook prices.

We cannot assure you that we will be able to successfully implement our business strategy or that, if successfully implemented, our strategy will improve our operating results. In addition, we may decide to alter or discontinue aspects of our business strategy and may adopt alternative or additional strategies due to business or competitive factors or factors not currently expected, such as unforeseen costs and expenses or events beyond our control. Any failure to successfully implement our business strategy could materially and adversely affect our business, financial position and results of operations.

We have made, and may be required to make in the future, substantial investments in our technology infrastructure. If we do not make such investments or do not effectively make such investments, our business may be adversely affected.

The method of delivering our products is subject to technological change. Over the past several years, we have made significant investments in technology, including spending on computer hardware, software, electronic systems, telecommunications infrastructure and digitization of our content. We expect our investment in technology to continue at significant levels. If we do not make such investments or do not effectively make such investments, our business may be adversely affected. Additionally, we cannot predict whether technological innovations will, in the future, make some of our products, particularly those printed in traditional formats, wholly or partially obsolete. If this were to occur, we may experience a loss in sales, not be able to effectively compete or we may be required to invest additional significant resources to further adapt to the changing competitive environment.

Our reliance on intellectual property and proprietary rights that may not be adequately protected under current laws may harm our competitive position and materially and adversely affect our business and results of operations.

Our success depends, in part, on our proprietary content. Our products are largely comprised of intellectual property content delivered through a variety of media, including textbooks, digital learning solutions and the Internet. We rely on copyright, trademark and other intellectual property laws to establish and protect our proprietary rights in these products. However, our proprietary rights may be challenged, invalidated or circumvented. Our intellectual property rights in the U.S., the primary jurisdiction in which we conduct business, are well-established. However, we also conduct business in other countries, such as China and India, where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite copyright and trademark protection, third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the Internet. In addition, the lack of Internet-specific legislation relating to intellectual property protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The steps taken by us to protect our proprietary information may not be adequate to prevent misappropriation of our content or technology. If we are not able to adequately protect our intellectual property rights and proprietary rights, our competitive position may be harmed and our business, financial position and results of operations could be adversely affected.

In addition, our proprietary rights may not be adequately protected because:

- people may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting it;
- policing unauthorized use of our intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and
- the laws of other countries in which we may market our products may offer little or no protection for our proprietary technologies.

We may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in our loss of significant rights.

Litigation regarding copyrights and other intellectual property rights is extensive in the publishing industry. Although we are not currently aware of any parties pursuing or intending to pursue material infringement claims against us, we may be subject to such claims in the future. Our third-party suppliers may also become subject to infringement claims, which in turn could negatively impact our business.

We may also initiate claims to defend our intellectual property and maintain our intellectual property. Litigation is expensive and time-consuming and could divert management’s attention from our business and could have a material adverse effect on our business, operating results or financial position. If there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. All of these judgments could materially damage our business. We may have to develop non-infringing technology, and our failure in doing so or obtaining licenses to the proprietary rights on a timely basis could have an adverse effect on our business, results of operations and financial position.

We may not be willing or able to maintain the availability of information obtained through licensing arrangements or the terms of our licensing arrangements may change, which may reduce our profit margins or our market share.

We obtain significant information through licensing arrangements with content providers. Some content providers may seek to increase licensing fees for providing their proprietary content to us. In such case, our profit margins may be reduced if we are unable to pass along such price increases to our customers. If we are unable to renegotiate acceptable licensing arrangements with these content providers or find alternative sources of equivalent content, the quality of our content may decline and as a result we may experience a reduction in our market share, and our business, financial position and results of operations may be adversely affected.

We may not be able to attract or retain the key authors that we need to remain competitive and grow.

We depend on our ability to attract and retain talented authors and develop long-term, collaborative relationships with them. We operate in a number of highly visible markets where there is intense competition for successful, published authors. Authorship of a market-leading textbook may increase the market visibility of an author and result in their recruitment by other publishers. Our inability to attract new authors or the loss of certain of our high profile authors could harm our business, results of operations and financial position.

Our business relies on our hosting facilities and electronic delivery systems and any failures or disruptions may adversely affect our ability to serve our customers.

We depend on the capacity, reliability and security of our hosting facilities and electronic delivery systems to provide our on-line library reference materials and other on-line products to our customers. Use of our electronic delivery systems and other factors such as loss of service from third parties, operational failures, sabotage, break-ins and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss or computer viruses could cause our systems to operate slowly or interrupt their availability for periods of time. Although we are working to develop and maintain back-up facilities with respect to our network and hosting facilities, the failure of our electronic delivery systems may result in an interruption in our operations, harm to our reputation and a loss of revenue. If disruptions, failures or slowdowns of our electronic delivery systems occur, our ability to distribute our products and services effectively and to serve our customers may be adversely affected. We do not currently have a back-up facility for our on-line products, and any disruption to or destruction of our current hosting facilities would have an adverse effect on our business, results of operations and financial position.

Increases in the cost of paper and other operating costs could negatively affect our results.

Paper is the principal raw material used in our business. As a result, our business may be negatively impacted by an increase in paper prices. The price of paper may fluctuate significantly in the future, and changes in the market supply of or demand for paper could affect delivery times and prices. We may need to find alternative sources for paper from time to time. We may not continue to have access to paper in the necessary amounts or at reasonable prices and a material increase in the cost of paper may have an adverse effect on our business, results of operations and financial position.

We also have other significant operating costs, and unanticipated increases in these costs could adversely affect our operating margins. Higher energy costs and other factors affecting the cost of publishing, transporting and distributing our products could adversely affect our financial results. Our inability to absorb the impact of increases in paper costs and other costs or any strategic determination not to pass on all or a portion of these increases to customers could adversely affect our business, results of operations and financial position.

Conducting and expanding our operations outside the U.S. involves special challenges that we may not be able to meet and that may adversely affect our business.

While our primary markets are in the U.S., we operate globally and have targeted certain markets outside North America for continued growth. In particular, we are focusing on opportunities in Europe, India and Asia-Pacific for expansion. For the twelve months ended June 30, 2008, approximately 84% of our revenues were from the U.S. and approximately 16% were from markets outside the U.S. International operations and any foreign business expansion we may undertake include numerous risks, including:

- difficulties in penetrating new markets due to established and entrenched competitors;
- difficulties in developing products and services that are tailored to the needs of local customers;
- foreign customers may pay more slowly than customers in North America;
- lack of local acceptance or knowledge of our products and services;
- lack of recognition of our brands;
- unavailability of joint venture partners or local companies for acquisition;
- instability of international economies and governments;
- changes in laws and policies affecting trade and investment in other jurisdictions;
- exposure to varying legal standards, including intellectual property protection laws, in other jurisdictions; and
- changing and conflicting national and local regulatory requirements.

These risks could affect our ability to expand successfully internationally, which may adversely affect our business, results of operations and financial position and our ability to grow.

Fluctuations between foreign currencies and the U.S. dollar could have an unfavorable impact on our financial results.

We derived approximately 16% of our revenues in the twelve months ended June 30, 2008 from our international operations. The financial position and results of operations of our international operations are primarily measured using the foreign currency in the jurisdiction of operation of such business as the functional currency. As a result, we are exposed to currency fluctuations both in receiving cash from our international operations and in translating our financial results back into U.S. dollars. Assets and liabilities of our international operations are translated at the exchange rate in effect at each balance sheet date. Our income statement accounts are translated at the average rate of exchange prevailing during each fiscal quarter. A strengthening of the U.S. dollar against the relevant foreign currency reduces the amount of income we recognize from our international operations. We cannot predict the effects of further exchange rate fluctuations on our future operating results. As exchange rates vary, our results of operations and profitability may be adversely impacted. The risks we face in foreign currency transactions and translation may continue to increase as we further develop and expand our international operations, which could adversely affect our business, results of operations and financial position.

If we are unable to identify, complete and successfully integrate acquisitions, our ability to grow our business may be limited and our business, financial position and results of operations may be adversely impacted.

We may not be able to identify, complete and successfully integrate acquisitions in the future, including, the recently consummated acquisition of HM College, and any failure to do so may limit our ability to grow our business. Our acquisition strategy involves a number of risks, including:

- we may not be able to find suitable businesses to acquire at affordable valuations or on other acceptable terms;
- competition for acquisition targets, which may lead to substantial increases in purchase prices;
- our continued dependence on access to capital;
- our proposed acquisitions may be prohibited by U.S. or foreign antitrust laws;
- the diversion of management's attention from existing operations to the integration of acquired companies;
- our inability to realize expected cost savings and synergies;
- expenses, delays and difficulties of integrating acquired businesses into our existing business structure; and
- difficulty in retaining key customers and management personnel.

If we are unable to continue to acquire and efficiently integrate suitable acquisition candidates, our ability to increase revenues and fully implement our business strategy may be adversely impacted, which could affect our business, results of operations and financial position.

We could incur asset impairment charges for goodwill and identifiable intangible assets.

At June 30, 2008, we had goodwill of $4,411 million and identifiable intangible assets, net of $3,515 million included on the Consolidated Balance Sheet. On an annual basis and on the occurrence of certain events, we are required to perform impairment tests on our goodwill. We test the carrying value of goodwill for impairment at a "reporting unit" level, using a two-step approach. In the first step, the fair value of each reporting unit is determined. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit may be impaired. In this case, the second step is to allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value is less than the carrying value, we would be required to recognize an impairment loss for that excess.

Additionally, we review the carrying values of identifiable intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Our initial test for impairment compares the carrying amounts with the sum of undiscounted cash flows related to the identifiable intangible asset. If the carrying value is greater than the undiscounted cash flows of the asset, the identifiable intangible asset is required to be written down to its estimated fair value.

If expectations for revenue and cash flows decline or if market conditions deteriorate, we may not be able to realize the carrying values of our goodwill and identifiable intangible assets and could be required to record future charges for impairment. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges, which could adversely impact our business, results of operations and financial position.

Consolidation in the markets in which we operate could place us at a competitive disadvantage.

Recently, some of the markets in which we operate have experienced significant consolidation. In particular, the combinations of traditional media content companies and new media distribution companies have resulted in new business models and strategies. Similarly, the consolidation of book retailers has increased our reliance on certain customers. We cannot predict with certainty the extent to which these types of business combinations may occur or the impact that they may have. These combinations could potentially place us at a competitive disadvantage with respect to negotiations, scale, resources and our ability to develop and exploit new media technologies.

Our substantial leverage could adversely affect our financial health and our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of variable rate debt and prevent us from fulfilling our obligations under our outstanding debt agreements.

As of June 30, 2008, our total indebtedness was $6,296 million. We also had an additional $300 million available for borrowing under our revolving credit facility at that date. The terms of the indentures governing the notes and the credit agreements governing our senior credit facilities and senior bridge loan credit facility will not fully prohibit us or our subsidiaries from incurring substantial additional indebtedness. See Note 11, “Debt and Capital Lease Obligation,” to our Financial Statements.

Our leverage could have important consequences, which could adversely impact our business, results of operations and financial position, including:

- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- increasing our vulnerability to general economic industry conditions;
- exposing us to the risk of increased interest rates on certain of our borrowings with variable interest rates;
- making it more difficult for us to make payments and satisfy our debt obligations;
- restricting us from making strategic acquisitions;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

Our debt agreements contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit us and our restricted subsidiaries’ ability to, among other things:

- incur additional indebtedness, make guarantees and enter into hedging arrangements;

- create liens on assets;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations;
- sell assets;
- pay distributions to our equity owners;
- make investments, loans and advances, including acquisitions;
- repay the senior subordinated discount notes or the loans under the senior bridge loan credit facility;
- engage in certain transactions with affiliates; and
- amend material agreements governing the senior subordinated discount notes or the unsecured credit facility.

In addition, under the agreement governing the secured credit facilities, we are required to satisfy and maintain a senior secured leverage test. Our ability to meet such test can be affected by events beyond our control, and we may not be able to meet such test.

A breach of any of these covenants could result in a default under our debt agreements if not cured under the applicable agreements. Upon the occurrence of an event of default under our secured credit facilities, the lenders could elect to declare all amounts outstanding under our secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under the secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. If the lenders under our secured credit facilities accelerate the repayment of borrowings, we may not have sufficient assets to repay our indebtedness. The acceleration of our indebtedness under one agreement would permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. If our indebtedness is accelerated, we may not be able to repay our indebtedness or borrow sufficient funds to refinance such indebtedness. Even if we were able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us.

We have a limited history operating as an independent company and our combined financial information is not necessarily representative of the results that would have been achieved as an independent company and may not be a reliable indicator of our future results.

Prior to July 5, 2007, our business was a carve-out of Thomson Reuters Corporation, formerly The Thomson Corporation (“Thomson Reuters” or “TOC”). Our combined financial information included in this report has been derived from the accounting records of Thomson Reuters. This combined financial information relies on assumptions and estimates that relate to the ownership and operation of our business by Thomson Reuters and, as a result, the financial information may not reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods prior to July 5, 2007 or what our results of operations, financial position and cash flows will be in the future.

Prior to July 5, 2007, Thomson Reuters provided us with many services required to operate our business. Although we entered into a Transition Services Agreement and Human Resources Services Agreement with a subsidiary of Thomson Reuters whereby Thomson Reuters is contractually obligated to provide us with certain services for a specified transitional period, the time period for provision of a portion of the services under the agreements has expired, other services will expire in the near future and the remaining services may not be sustained at the same level as when we were a part of Thomson Reuters and we may be unable to obtain the same benefits from these services. Following the expiration of this agreement or if Thomson Reuters does not or is unable to perform its obligations under this agreement, we will be required to perform these services ourselves or to arrange substitute services from others, which may be at an increased cost. If we are unable to implement substitute arrangements in a timely manner on terms that are at least comparable to it, or at all, we may not be able to operate our business effectively and our financial position and results of operations could be adversely affected.

Changes in governmental programs and private lending practices may reduce our revenues or profitability.

Students comprise a large portion of our consumer base. Many of these students depend on government and private funding, in the form of loans or grants, to pay for their education. Many of these programs are highly regulated and subject to frequent and substantial changes. In recent years, legislative and regulatory changes have resulted in limitations on and, in some cases, reductions in levels of payments to students. Without sufficient government-sponsored loan programs, some of these students may have to forego higher education opportunities. As a result, any decreases or delays in government-sponsored student loans or grants could reduce enrollment and negatively impact our business.

In addition, our library reference customers rely on various sources of governmental funding, primarily from state and local governments, to purchase products and services offered by us. Accordingly, any decreases or delays in government funding for libraries, decreases in budgets or changes in spending patterns could negatively impact our business, our results of operations and financial position.

Attracting and retaining key employees.

Our future success depends on the continued services of key employees and our ability to attract and retain new employees with the experience and capabilities necessary to support our needs. The loss of any of the key employees or the failure to attract and retain suitably skilled new employees could adversely affect our business, our results of operations and financial position.

Apax controls us and may have conflicts of interest with us.

Investment funds associated with or designated by Apax control us. Apax is able to appoint a majority of our board of directors, determine our corporate strategy, management and policies. In addition, Apax has control over our decisions to enter into any corporate transaction and has the ability to prevent any transaction that requires the approval of shareholders regardless of whether we believe that any such transactions are in our best interests. For example, Apax could cause us to make acquisitions that increase the amount of our indebtedness, our secured indebtedness or our senior indebtedness or to sell assets, which may impair our ability to make payments under existing debt obligations.

Additionally, Apax is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Apax may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as investment funds associated with or designated by Apax collectively continue to own a significant amount of our equity, even if such amount is less than 50%, Apax will continue to be able to strongly influence or effectively control our decisions. The interests of Apax may not coincide with our interests and as a result, actions taken by Apax could adversely affect our business, results of operations and financial position.

CENGAGE LEARNING HOLDINGS II L.P.

PROPERTIES

Our principal executive office is located at 200 First Stamford Place, Suite 400, Stamford, Connecticut. The following table describes the approximate building areas, principal uses and the years of expiration on leased premises of our significant operating properties as of June 30, 2008 (excluding properties that are comprised of less than 3,000 square feet, as such properties are deemed immaterial). We believe that these properties are suitable and adequate for our present and anticipated business needs, satisfactory for the uses to which each is put, and, in general, fully utilized.

Location	Owned or Leased (Expiration Date of Leases)	Approximate Area (SF)	Principal Use of Space	Segment
Andover, England	6/23/2013	160,000	Mixed Use	International
Athens, Greece	8/3/2008	14,000	Mixed Use	International
Atlanta, Georgia	7/30/2011	5,609	Office	Academic & Professional
Artarmon, Australia	5/31/2011	16,146	Warehouse	International
Beijing, China	8/31/2009	5,797	Mixed Use	International
Belmont, California	12/31/2013	84,344	Office	Academic & Professional
Belmont, California	Owned	91,000	Mixed Use	Academic & Professional
Bogota, Colombia	2/28/2009	5,000	Mixed Use	Academic & Professional
Boston, Massachusetts	12/31/2014	88,227	Office	Academic & Professional
Buenos Aires, Argentina	10/1/2009	8,611	Office	Academic & Professional
Chelsea, Michigan	8/31/2009	8,250	Office	Gale
Clifton Park, New York	12/31/2011	127,932	Office	Academic & Professional
Eagan, Minnesota	7/15/2011	3,392	Office	Academic & Professional
Farmington Hills, Michigan	Owned	158,364	Office	Gale
Glasgow, Scotland	12/5/2013	17,000	Office	International
Independence, Kentucky	2/29/2012	835,000	Mixed Use	Corporate & Other
Knoxville, Tennessee	4/15/2009	11,453	Office	Academic & Professional
Kowloon, Hong Kong	3/31/2009	3,842	Office	International
Leiden, Netherlands	11/30/2013	21,585	Office	International
London, England	6/22/2009	7,925	Office	International
Lower Hutt, New Zealand	12/31/2009	4,478	Office	International
Madrid, Spain	Rolling Annually	12,469	Office	International
Madrid, Spain	Rolling Annually	19,375	Warehouse	International
Mason, Ohio	7/31/2011	160,069	Office	Corporate & Other
Melbourne, Australia	10/5/2012	33,340	Office	International
Mexico City, Mexico	7/31/2016	13,893	Office	Academic & Professional
Mexico City, Mexico	7/31/2009	37,975	Warehouse	Academic & Professional
New Delhi, India	5/31/2017	5,650	Office	International
Pasig City, Philippines	7/31/2008	4,056	Office	International
Petaling Jaya, Malaysia	6/30/2010	7,200	Mixed Use	Academic & Professional
Phayathai, Thailand	8/31/2009	3,940	Office	International
Reading, England	3/24/2017	20,000	Offices	International
San Carlos, California	10/31/2010	13,851	Office	Academic & Professional
Sao Paulo, Brazil	6/30/2009	39,611	Mixed Use	Academic & Professional
Seoul, Korea	2/15/2009	4,270	Office	International
Singapore	12/31/2009	32,842	Office	International
Stamford, Connecticut	4/30/2019	28,425	Office	Corporate & Other
St. Charles, Illinois	1/21/2012	19,940	Office	Academic & Professional
Taipei, Taiwan	7/15/2009	4,949	Office	International
Temecula, California	8/31/2010	10,299	Office	Academic & Professional
Tokyo, Japan	8/31/2008	3,800	Office	International
Waterville, Maine	3/31/2011	28,000	Office	Gale
Woodbridge, Connecticut	5/31/2010	9,900	Office	Gale
Woodbridge, Connecticut	Owned	26,000	Office	Academic & Professional

In addition to those listed above, we lease certain facilities that are currently vacant as a result of consolidating our operations, and where possible, we intend to sublease these properties.

LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Other than the proceedings disclosed in Note 19, "Commitments, Contingencies and Guarantees" to our Financial Statements, we are not currently aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition, operating results or cash flows.

MARKET FOR THE REGISTRANT'S COMMON EQUITY

Cengage Learning Holdings I, L.P. is the beneficial owner of greater than 99% of Cengage Learning Holdings II, L.P. The Company is privately held. There is no market for the Cengage Learning Holdings II, L.P.'s limited partnership interests.

CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated and combined financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's 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).

CENGAGE LEARNING HOLDINGS II L.P.

DIRECTORS AND EXECUTIVE OFFICERS

Cengage Learning GP I, LLC is the general partner of Cengage Learning Holdings II, L.P. The Board of Directors of Cengage Learning GP I, LLC has functioned as the primary board of the Company since September 2007. Following the Acquisition and continuing until September 2007, the board of directors of Cengage Learning Holdco, Inc. functioned as the primary board of the Company.

Directors

Name	Age	Position	Director Since
Ronald Dunn	61	President, Chief Executive Officer and Director	2007
David Shaffer	65	Executive Chairman and Director	2007
Jacqueline Reses	38	Director	2007
Christian Stahl	37	Director	2007
Paul Fitzsimons	46	Director	2007
Mark Ransford	35	Director	2007
Paul Renaud	54	Director	2007

Ronald Dunn has been president, chief executive officer and a director of Cengage Learning GP I, LLC since September 2007 and of each of Cengage Learning Holdco, Inc., Cengage Learning Acquisitions, Inc., Cengage Learning, Inc., The Gale Group, Inc. and Gale Holdings I Inc. since consummation of the Acquisition in July 2007. Mr. Dunn serves as a director of the Association of American Publishers (the principal trade association of the U.S. book publishing industries). From 2005 to 2007, Mr. Dunn worked as an independent consultant for publishers and equity capital firms. Prior to serving as a consultant, from 1998 to 2005, Mr. Dunn served as chief executive officer of the Academic & International Group of Thomson Learning, formerly a division of TOC. From 1996 to 1998, Mr. Dunn served as the president of the Information Industry Association. From 1993 to 1996, Mr. Dunn served as president of McGraw-Hill’s College Division. From 1991 to 1993, Mr. Dunn served as the president of Macmillan Publishing Co., Inc. Additionally, within Macmillan Publishing Co., Inc., from 1990 to 1991, Mr. Dunn served as the vice president of scientific and electronic publishing where he was the managing director of the Scitechinform joint venture in Russia. Before joining Macmillan, Mr. Dunn worked for 17 years at the American Chemical Society. Mr. Dunn holds an MBA from Ohio State University and a B.A. in Chemistry from Southern Illinois University.

David Shaffer has been executive chairman and a director of Cengage Learning GP I, LLC since September 2007 and of each of Cengage Learning Holdco, Inc., Cengage Learning Acquisitions, Inc., Cengage Learning, Inc., The Gale Group, Inc. and Gale Holdings I Inc. since consummation of the Acquisition in July 2007. Mr. Shaffer previously served as a senior executive and board member at TOC from 1998 to 2006. From 2005 to 2006, Mr. Shaffer served as an executive vice president of TOC. During that time, Mr. Shaffer helped lead a major restructuring of TOC. Prior to that role, from 2002 to 2005, Mr. Shaffer served as the chief executive officer of Thomson Financial. From 2000 to 2002, Mr. Shaffer served as the chief executive officer of Thomson Learning. From 1998 to 2000, Mr. Shaffer served as chief operating officer of TOC. Prior to joining Thomson, Mr. Shaffer held numerous leadership positions within the educational publishing industry including serving as chairman, president and chief executive officer of Macmillan Publishing Co., Inc. Mr. Shaffer and Mr. Dunn have worked together for 12 years at Macmillan Publishing Co., Inc., McGraw-Hill Companies Inc., Thomson Learning and Cengage Learning.

Jacqueline Reses has served as a director of Cengage Learning GP I, LLC since September 2007 and, from June 2007 to September 2007, as a director of Cengage Learning Holdco, Inc., a subsidiary of Cengage Learning GP I LLC (then the main board governing Cengage Learning). Ms. Reses is currently a partner at Apax and head of the US Media Group. Ms. Reses is also an officer of HIT Entertainment Plc and the Learning Annex, LLC. Ms. Reses holds a BSE with Honors from the Wharton School of the University of Pennsylvania.

Christian Stahl has served a director of Cengage Learning GP I, LLC since September 2007 and, from June 2007 to September 2007, as a director of Cengage Learning Holdco, Inc. Mr. Stahl is currently a partner at Apax. He also serves on the board of directors of Central Eastern European Media Enterprises (CME), Inc., Tommy Hilfiger Sàrl and Telcast Media Group GmbH. Mr. Stahl received his B.A. (Hons) in Business Administration from The European Partnership of Business Schools and holds an M.B.A. with distinction from INSEAD.

Paul Fitzsimons has been a director of Cengage Learning GP I, LLC since September 2007 and, from July 2007 to September 2007, he served as a director of Cengage Learning Holdco, Inc. Mr. Fitzsimons is currently a partner at Apax and is a member of the Investment Committee and Approval Committee. Mr. Fitzsimons also serves on the board of Hub International Limited, HIT Entertainment PLC and Stage Three Music Publishing Limited.

Mark Ransford has been a director of Cengage Learning GP I, LLC since September 2007 and, from July 2007 to September 2007, he served as a director of Cengage Learning Holdco, Inc. Mr. Ransford is currently a principal at Apax. Mr. Ransford holds a PhD and M.A. from Cambridge University and an M.B.A. from INSEAD. Prior to this, Mr. Ransford was employed by Goldman Sachs Group, Inc. between 2000 and 2002. He also worked for McKinsey & Company from 1997 to 1999.

Paul Renaud has served as a director of Cengage Learning GP I, LLC since October 2007 and, from July 2007 to October 2007, as a director of Cengage Learning Holdco, Inc. Mr. Renaud joined OMERS in November 2004 as a senior vice president of finance and administration and chief financial officer and was appointed to the position of chief executive officer and president of OMERS Capital Partners in 2006. Prior to joining OMERS, Mr. Renaud was executive vice president and chief financial officer of CAE Inc. Before CAE Inc., he held several senior financial management positions at Southam Inc. and Carling O'Keefe Breweries of Canada. Mr. Renaud completed his Honors in Business from the University of Windsor and is qualified as a chartered accountant and chartered director.

Committees of the Board of Directors

The board of directors has two committees: the Audit Committee and the Compensation Committee. Each of these committees acts pursuant to a written charter.

The Audit Committee

The Audit Committee is responsible for assisting the board of directors with respect to, among other things, reviewing our financial reporting procedures, internal audits and reviewing the performance of our external auditors. The Audit Committee has direct communication channels with our management, as well as with our external auditors to discuss and review specific issues as appropriate. The committee is also responsible for reviewing quarterly financial statements and the annual financial statements. The members of the Audit Committee are Paul Renaud, Chairman, and Jacqueline Reses.

The Compensation Committee

The Compensation Committee is responsible for assisting the board of directors with respect to the assessment and compensation of the chief executive officer and other executive officers of the Company, the assessment of compensation arrangements, plans, policies and programs and the assessment of benefit and welfare plans and programs of the Company. The members of the Compensation Committee are Jacqueline Reses, Christian Stahl, Paul Fitzsimons, Mark Ransford and Paul Renaud.

Executive Officers

The following sets forth certain information regarding our executive officers as of June 30, 2008. Information regarding Ronald Dunn and David Shaffer, both of whom serve as directors and executive officers of the Company, may be found in the section entitled “Directors” above.

Kenneth Carson, 49, has served as general counsel of Thomson Learning since 2001 and Cengage Learning since consummation of the Acquisition in July 2007. At the industry level, Mr. Carson is a member of the Association of American Publishers' Copyright Committee. From 1998 to 2001, Mr. Carson served as assistant general counsel for TOC. From 1994 to 1998, Mr. Carson worked as associate general counsel for TOC. He became general counsel of Thomson Learning in 2001 after acting as TOC's lead in-house counsel in the Harcourt Inc. acquisition. From 1989 to 1994, Mr. Carson was assistant general counsel at Macmillan Publishing Co., Inc. He received his law degree from the University of Maryland.

David Faiman, 35, has served as senior vice president of finance and accounting of Thomson Learning since January 2007 and Cengage Learning since consummation of the Acquisition in July 2007. Prior to that, he held the position of vice president, finance and assistant controller. He became senior vice president of finance and accounting after acting in such capacity during 2006. From 2004 to 2006, Mr. Faiman served as assistant controller. From 2003 to 2004, Mr. Faiman worked as director of financial reporting for CIGNA Corporation. From 1995 to 2003, Mr. Faiman worked at

PricewaterhouseCoopers LLP in the assurance and business advisory practice. He received his B.S. in Business Administration from the University of Connecticut.

Charles Siegel, 62**,** has served as president of Academic & Professional Group of Cengage Learning since consummation of the Acquisition in July 2007. Prior to that position he held the position of senior vice president, operations at Thomson Learning. Mr. Siegel also serves as a member of the board of managers of CourseSmart LLC and as a member of the Association of American Publishers Higher Education Executive Committee beginning in 2008. From 1995 to 1999, Mr. Siegel worked for Primedia, Inc. where he held several executive positions including chief operating officer of the consumer magazine group, chief executive officer of Newbridge Communications and executive vice president of operations for the education group. Mr. Siegel started his career at Prentice Hall and worked at Simon & Schuster and Macmillan Publishing Co., Inc. Mr. Siegel previously held roles as chief executive officer of Brady Communications, president of the Simon & Schuster technical reference group and president of the Maxwell Macmillan international group.

Tan Tat Chu, 55, has served as president of Cengage Learning's Asia-Pacific Group since October 2007. From 2001 to July 2007, Mr. Tan served as managing director of Thomson Learning Asia and then was the managing director of Cengage Learning Asia from July 2007 to October 2007. Mr. Tan was formerly president of Addison Wesley Asia and, prior to that, general manager, editorial services, Singapore Press Holdings. He is a graduate of Nanyang University and the National University of Singapore.

Dennis Hogan, 55, has served as president of Thomson Learning English Language Teaching ("ELT") since October 2000 and Cengage Learning ELT since consummation of the Acquisition in July 2007. Before joining Thomson Learning, Mr. Hogan established his own educational publishing business, Perspective Press, which specialized in highly illustrated texts in allied health and developed a series of texts for co-publication with the American Pharmaceutical Association. He also co-founded an educational software business, Tramline, which sells an online presentation program, TourMaker, used by K-12 teachers and students. Prior to Perspective Press and Tramline, Mr. Hogan held various positions over more than 16 years at Prentice Hall, including president of Prentice Hall Career & Technology, and worked in curriculum areas including Mathematics & Science, Career Education, Business & Economics and English Language Learning. Mr. Hogan is a graduate of Boston College.

Patrick Sommers, 60, has served as president of The Gale Group, a part of Cengage Learning, since October 22, 2007. From 2001 to 2007, Mr. Sommers served as the chief executive officer of SirsiDynix, a leader in strategic technology solutions for libraries. From 2001 to 2007, Mr. Sommers served as president and chief executive officer of the Dialog Corporation. From 1996 to 1998, Mr. Sommers was chairman and chief executive officer of Medicus Systems Corporation, a NASDAQ-listed healthcare technology software company. From 1992 to 1996, he served as president of Ceridian Employer Services, a Fortune 500 human resource and payroll company. From 1990 to 1992, Mr. Sommers served as president of GTE Information Services, a technology and information company. From 1969 to 1990, Mr. Sommers was with Dun & Bradstreet (D&B) Corporation. At D&B, he worked in both the international division and in the corporate headquarters until his appointment in 1986 as president of D&B Information Resources Inc.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics that applies to all employees including our principal executive, financial and accounting officers. The Code is available by written request to Investor Relations, Cengage Learning, 200 First Stamford Place, Suite 400, Stamford, CT, 06902.

PRINCIPAL STOCKHOLDERS

Through investment funds and co-investment vehicles affiliated with Apax Partners, L.P., as well as contractual provisions between affiliates of Apax Partners, L.P. and various passive Apax co-investors, Apax Partners, L.P. and certain of its affiliates, indirectly through holdings in the Company's direct parent entity, Cengage Learning Holdings I, L.P., beneficially own approximately 97% of the limited partnership interests of the Company. Affiliates of OMERS Capital Partners, indirectly through holdings in Cengage Learning Holdings I, L.P., beneficially own approximately 3% of the limited partnership interests of the Company, and certain members of senior management of the Company, indirectly through an investment vehicle controlled by an affiliate of Apax Partners, L.P., beneficially own less than 1% of the limited partnership interests of the Company. In addition, certain members of senior management of the Company also indirectly hold equity incentive interests in Cengage Learning Holdings I, L.P. which may entitle them to interests in future profits of Cengage Learning Holdings I, L.P. and its subsidiaries, including the Company, upon certain future events, including the achievement of various financial performance targets.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Note 18, "Related Party Transactions," to our Financial Statements for additional information set forth herein.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The table below provides a summary of the fees paid by us to our auditors, PricewaterhouseCoopers LLP for the following periods (in millions):

	Twelve Months Ended June 30, 2008	Six Months Ended June 30, 2007
Audit fees	$ 2.9	$ 1.5
Audit-related fees	3.6	-
Tax fees	0.3	0.1
Total	$ 6.8	$ 1.6

Audit Fees were for professional services necessary to perform an audit of the Financial Statements, review of the quarterly reports, statutory and subsidiary audits and other services required to be performed by our independent auditors. Prior to July 5, 2007, audit fees were included as part of the allocation of TOC corporate expenses except for those related to the Acquisition and our fiscal year end change.

Audit-Related Fees comprise of fees for services that are reasonably related to the performance of the audit or review of our financial statements including the support of business acquisition and divestiture activities, independent assessment of controls related to outsourcing services, audit and review of certain of benefit-related programs. The twelve months ended June 30, 2008 includes fees associated with the acquisitions related to Thomson Learning and HM College.

Tax Fees comprise of fees for tax compliance, tax planning, and tax advice. Corporate tax services encompass a variety of permissible services, including technical tax advice related to U.S. international tax matters; assistance with foreign income and withholding tax matters, assistance with sales tax, value added tax and equivalent tax related matters in local jurisdictions; preparation of reports to comply with local tax authority transfer pricing documentation requirements; and assistance with tax audits.

CENGAGE LEARNING HOLDINGS II L.P.
Selected Financial Data
(In millions of U.S. dollars except for ratio of earnings to fixed charges)

	Successor	Predecessor				
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31,		
				2006	2005	2004
Statement of operations data [(1)]						
Revenues	$ 1,705.5	$ 17.9	$ 540.4	$ 1,586.7	$ 1,509.7	$ 1,424.0
Operating income (loss) from continuing operations	146.9	2.8	(100.7)	249.1	237.7	233.6
Statement of cash flows data [(1)]						
Net cash provided by operating activities	301.8	6.5	26.0	328.9	354.8	349.6
Net cash used in investing activities	(8,143.1)	-	(120.2)	(185.4)	(211.0)	(249.6)
Net cash provided by (used in) financing activities	7,873.4	(11.7)	79.0	(133.5)	(155.1)	(82.2)
Balance sheet data						
Cash and cash equivalents	44.3	15.1	18.8	36.1	30.7	37.0
Total assets	9,145.6	2,964.6	2,957.5	3,088.4	3,036.0	3,024.3
Total debt	6,295.8	768.7	769.8	562.7	1,524.7	1,602.6
Other financial data [(1)]						
Additions to pre-publication costs	123.9	-	60.4	118.0	125.1	141.8
Additions to property, equipment and capitalized software for internal use	40.7	-	26.5	43.5	47.9	47.8
Ratio of earnings to fixed charges [(2)]	-	-	-	5.0	2.4	2.8

[(1)] Excludes results of discontinued operations.
[(2)] See Computation of Ratio of Earnings to Fixed Charges.

CENGAGE LEARNING HOLDINGS II L.P.
Selected Quarterly Financial Data
(In millions of U.S. dollars)
(Unaudited)

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the first half of the fiscal year because customer buying patterns are concentrated during this period, while costs are incurred more evenly throughout the year. As a result, operating margins generally decrease as the fiscal year progresses. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year. Unaudited selected quarterly financial data is presented below.

	Successor				Predecessor
	For the Three Months Ended			Period July 5, 2007 to September 30, 2007	Period July 1, 2007 to July 4, 2007
	June 30, 2008	March 31, 2008	December 31, 2007		
Revenues					
Academic & Professional	$ 201.3	$ 157.4	$ 304.5	$ 472.1	14.6
Gale	85.1	61.9	91.4	74.5	1.4
International	57.3	51.2	80.4	61.7	1.8
Corporate and other	3.9	1.8	(2.4)	3.4	0.1
Total Revenues	$ 347.6	$ 272.3	$ 473.9	$ 611.7	$ 17.9
Segment Operating Profit (Loss) [1]					
Academic & Professional	$ 50.7	$ 13.3	$ 131.3	$ 261.5	7.5
Gale	39.0	20.6	44.8	35.5	(0.1)
International	4.2	1.0	23.1	10.4	(0.3)
Corporate and other	(17.0)	(8.0)	(15.7)	(5.9)	(1.6)
Total Segment Operating Profit	$ 76.9	$ 26.9	$ 183.5	$ 301.5	$ 5.5
Operating (loss) income	$ (58.7)	$ (65.2)	$ 81.3	$ 189.5	$ 2.8
Net (loss) income	(308.1)	(195.3)	(75.7)	53.9	1.8

	Predecessor			
	For the Three Months Ended			
	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Revenues				
Academic & Professional	$ 156.7	$ 134.3	$ 300.9	$ 453.4
Gale	83.0	65.5	93.7	80.7
International	45.5	44.6	77.2	55.4
Corporate and other	5.5	5.3	4.8	7.4
Total Revenues	$ 290.7	$ 249.7	$ 476.6	$ 596.9
Segment Operating Profit (Loss) [1]				
Academic & Professional	$ 9.2	$ 2.3	$ 137.4	$ 251.7
Gale	38.7	23.9	41.9	32.1
International	(1.9)	(3.0)	20.9	7.6
Corporate and other	(27.9)	(20.0)	(13.5)	(8.6)
Total Segment Operating Profit	$ 18.1	$ 3.2	$ 186.7	$ 282.8
Operating (loss) income	$ (46.6)	$ (54.1)	$ 112.7	$ 201.4
Net (loss) income	(40.4)	(41.0)	66.4	115.0

[1] In June 2008, we modified this measure to represent operating income (loss) before the amortization and impairment of identifiable intangible assets, depreciation, amortization of pre-publication costs, impairment of goodwill and the allocation of corporate management costs from TOC (Predecessor). Prior period segment data has been restated to conform to this presentation. See Note 20, Segment Information, to our Financial Statements for additional information.

CENGAGE LEARNING HOLDINGS II L.P.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

	Page No.
Overview	26
Sources of Revenue	27
Operating Expenses	27
Material Industry Trends and Uncertainties	27
Seasonality	28
The Acquisition and Related Financing Transactions	28
Acquisition of Houghton Mifflin College Assets	30
Discontinued Operations	30
Other Matters	31
Subsequent Events	31
Results of Operations	32
Liquidity and Capital Resources	42
Application of Critical Accounting Policies and Estimates	48
Recent Accounting Pronouncements	52

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

The following Management's Discussion and Analysis ("MD&A") is intended to help you understand the results of operations and financial condition of Cengage Learning Holdings II L.P and its consolidated subsidiaries. Our MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated and combined financial statements and the accompanying notes ("Financial Statements"). The following discussion and analysis of our financial condition and results of operations contains forward-looking statements about our business, operations and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations and intentions. Our future results and financial condition may differ materially from those we currently anticipate. See "*Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*" and "Risk Factors."

Cengage Learning Holdings II L.P. and its consolidated subsidiaries (hereinafter collectively referred to as "Cengage Learning", "Successor", "we", "us", "our", or the "Company" for all periods after July 5, 2007) is the successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation ("TOC"), managed together by a single management team (hereinafter collectively referred to as "Thomson Learning" or "Predecessor" for all periods prior to July 5, 2007).

As described in Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets" in our Financial Statements, on July 5, 2007, Cengage Learning Holdings II L.P. (the "Partnership"), a limited partnership controlled by investment funds associated with or designated by Apax Partners L.P. (hereinafter, collectively referred to as "Apax"), (i) acquired the stock of certain companies and certain assets, and (ii) assumed certain liabilities, of Thomson Learning from TOC in exchange for cash consideration of $7,108.9, less $17.3 associated with a working capital purchase price adjustment settled in February 2008 (the "Acquisition") and excluding transaction-related costs. In August 2007, the company changed its name to "Cengage Learning."

Overview

We are a global print and digital solutions provider of textbooks, reference materials and other educational resources for the higher education, professional training and library reference markets.

We historically operated in three reportable segments worldwide: Domestic Higher Education, Domestic Library Reference and International. On October 1, 2007, we restructured our operations into the following three reportable segments:

- *Academic & Professional* – provider of textbooks and tailored learning solutions, including digital educational materials, for students, faculty, institutions and professionals in the post-secondary education market in the U.S. and Latin America.

- *Gale* – provider of authoritative reference and educational content for libraries, schools, and businesses. With its reference content, Gale creates and maintains databases that are published online, in print and on microfilm.

- *International* – sells our U.S. textbooks into international markets; adapts and translates U.S. textbooks for various international markets; publishes and sells textbooks by non-U.S. authors; and provides learning solutions in various formats to individuals and businesses located outside the U.S. and Latin America, as well as English language teaching products sold globally, including the U.S. market. This reportable segment constitutes an aggregation of various operating segments which have similar economic characteristics and individually do not exceed 10% of our consolidated revenue or segment operating profit.

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

We disclose information about our reportable segments based on the measures we use in assessing the performance of those reportable segments. We use "Segment operating profit" to measure the operating performance of our segments. In June 2008, we modified this measure to represent operating income (loss) before the amortization and impairment of identifiable intangible assets, depreciation, amortization of pre-publication costs, impairment of goodwill and the allocation of corporate management costs from TOC (Predecessor).

Sources of Revenue

The primary source of our revenue is textbooks and digital learning solutions sold for use in two- and four-year colleges and universities, where professors drive the textbook "adoption" decision by selecting which textbooks will be used in their courses. We sell our products through bookstores, other distribution channels and, in some instances, directly to students. Digital products are more likely to be purchased via online channels as well as in bundles with print products, and typically have a finite life span (i.e., a semester) after which a user's access and support is terminated. Some schools, like career and for-profit schools, make institutional purchases for all students enrolled in their courses and include the textbooks as part of the course fee.

In the professional channel, our business models include licensing agreements with institutions, multi-year contracts with professional associations, direct business to consumer online sales, as well as bookstore and non-bookstore retail distribution.

In the library reference market, we generate revenue from the sale of print and digital reference materials to academic, K-12 and public libraries, as well as subscription-based revenue by providing access to online reference works and digital archives. The sale is often direct to libraries. While some states and municipalities have formed consortiums to drive uniformity of purchases and achieve economies of scale, the primary decision makers for purchases are librarians. In addition to selling to libraries, we license content for integration within web-based information services.

Operating Expenses

Our operating expenses are comprised principally of:

- cost of revenues, which are costs directly related to publishing our textbooks and printed proprietary reference materials such as royalty payments to our authors, the cost of paper, printing and binding and the cost of publishing our digital proprietary reference materials, such as hosting and subscription services costs. In addition, cost of revenues includes amortization of pre-publication costs, which are costs related to the creation of a book, reference material or other media and includes costs for the associated delivery method when such media is digital;

- selling, general & administrative expenses, which are the salaries and related costs for our sales personnel and our other employees and the marketing and administrative costs of operating our business; and

- depreciation and amortization, which represent the depreciation of our property, equipment and capitalized software for internal use as well as the amortization of our identifiable intangible assets.

In addition, in the normal course of business, we review our businesses, assets and personnel, which may result in changes that could, in the future, result in restructuring charges.

Material Industry Trends and Uncertainties

We provide print and digital textbooks, reference materials and other educational resources for the higher education, professional training and library reference markets. Both our industry and our own sales have been growing as a result of:

- growth in student enrollment in post-secondary schools;

- awareness of the value of a higher education degree;

- increased demand for worker training and continuing education;
- increased demand for digital materials;
- growing interest in accessing proprietary or exclusive content with credibility, organization and depth; and
- increased demand for educated and English-proficient workers.

Our business also faces a number of challenges and uncertainties, including the following:

Technological change The pace at which post-secondary faculty and students will adopt digital products is unknown. We have tried to plan our technology and product development expense to match what we believe to be the trends in the market and any acceleration in these trends is beneficial. We also have the ability to increase or decrease that investment, but some of it has significant lead time and therefore any rapid shifts in the market's adoption could lead to our efforts being over, or under-funded, in a given period.

Introduction of new products Our continued success depends on our ability to predict which products will do well as revisions, source new products through collaborations with authors and develop new technology products. We must then market and launch those products effectively. Should changes in the market make this materially more difficult or costly, it would impact our ability to grow.

Competition and price pressures Should our competitors seek to gain market share by taking aggressive price reductions on their textbooks or reference products, this could have a material adverse impact on us. Similarly, should any given competitor, including new competitors such as internet service providers and commercial search firms make aggressive investments to develop breakthrough technology products and succeed in driving penetration, this could impact our competitive position.

Distribution channels We are highly dependent on the college bookstore channel and two companies control a substantial portion of this channel. If these companies, or significant number of independent stores, decide to change their behavior in a way that adversely affected publishers, this could hamper our ability to access the market.

Seasonality

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the second half of the calendar year because customer buying patterns are concentrated during this period while costs are incurred more evenly throughout the year. As a result, operating margins are generally lower in the first half of the calendar year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year.

The Acquisition and Related Financing Transactions

On July 5, 2007, Cengage Learning Holdings II L.P. (i) acquired the stock of certain companies and certain assets; and (ii) assumed certain liabilities, of Thomson Learning from TOC in exchange for a cash consideration of $7,108.9, subject to working capital purchase price adjustments and excluding transaction-related costs. During the third quarter of fiscal 2008, Cengage Learning and TOC entered into a working capital settlement agreement whereby the parties agreed to a reduction in the purchase price of $17.3, which was remitted to us in February 2008.

The Acquisition was financed through (i) a common equity capital contribution of $1,703.1 (the "Equity Contribution") and (ii) $5,580.2 in aggregate gross debt financing, less $91.1 associated with financing fees, (the "Financing Transactions") as follows:

- $3,440.0 of borrowings under $3,740.0 of senior secured credit facilities, consisting of a $3,440.0 term loan facility with a seven-year maturity and a $300.0 revolving credit facility with a six-year maturity;

- $1,215.6 aggregate principal amount ($1,200.1 gross proceeds) of 10.50% senior notes due 2015;

- $519.0 aggregate principal amount at maturity ($400.1 gross proceeds) of 13.25% senior subordinated discount notes due 2015, for which no cash interest will accrue between the date of original issuance and July 15, 2009; and

- $540.0 of borrowings under a senior bridge loan credit facility.

The Financing Transactions, together with the Acquisition and Equity Contribution, are hereinafter referred to as the "Transactions." See discussion below under "Cash Position, Indebtedness and Liquidity" for additional descriptions of the Financing Transactions.

Transition Services Agreements with TOC

Concurrent with the consummation of the Acquisition, we entered into a Transition Services Agreement with a subsidiary of TOC. Under the Transition Services Agreement, the TOC subsidiary provides various services to us, including services relating to payroll, telecommunications and information technology. Under the Transition Services Agreement, the cost of each transition service generally is based on a flat fee.

Unless specifically indicated below, all services provided under the Transition Services Agreement are provided for a specified period of time, and we can terminate those services in advance upon 30 days written notice without penalty and in certain circumstances, the TOC subsidiary can terminate some services. We have developed and are implementing a plan to increase our own internal capabilities to reduce our reliance on TOC for these services**.**

We incurred costs under the Transition Services Agreement of approximately $0.5 for the period from July 5, 2007 to June 30, 2008.

Concurrent with the consummation of the Acquisition, we also entered into a Human Resources Services Agreement with the same TOC subsidiary. Under the Human Resources Services Agreement, the TOC subsidiary provides to us certain employee benefit plan, payroll, administration and other human resources services. Under the terms of the agreement, we are required to establish and maintain certain employee benefit plans pursuant to an administrative service contract, insurance or other arrangement entered into between ourselves and a vendor approved by the TOC subsidiary and the third-party service provider to be used by the TOC subsidiary in providing the services under the agreement.

The cost of each service provided under the Human Resources Services Agreement is based on either a flat fee or an allocation (based on size or usage) of the cost incurred by TOC in providing the service. All services provided under the Human Resources Services Agreement are provided for a specified period of time, generally two years from the date of the Acquisition, and we do not have the ability to terminate those services or the Human Resources Services Agreement in advance. The TOC subsidiary can generally terminate the services upon six months prior notice. Prior to the termination of the contract, we may incur costs to transition from the current arrangement.

We incurred costs under the Human Resources Services Agreement of approximately $2.7 for the period from July 5, 2007 to June 30, 2008.

Stand-Alone Company

After July 5, 2007 and the consummation of the Acquisition, we operated as a stand-alone company. Prior to the Acquisition, we operated as divisions of TOC and not as a stand-alone company. The combined financial statements included in this report for periods prior to July 5, 2007 have been derived from the accounting records of TOC using the historical results of operations and the historical basis of assets and liabilities directly attributable to Thomson Learning. The historical financial information included in this report may not reflect what our results of operations, financial position and cash flows would have been had we operated as a separate, stand-alone company without the shared resources of TOC for the periods presented and may not be indicative of our future results of operations, financial position and cash flows. We were allocated general corporate expenses from TOC for corporate-related functions based on our revenue in proportion to the total revenue of TOC. General corporate expense allocations include executive management, internal and external audit fees, treasury, investor relations, strategic sourcing and risk management. We were allocated general corporate expenses from TOC of: $0.8 for the four day period ended July 4, 2007, $25.3 and $21.8 during the six months ended June 30, 2007 and 2006, and $47.7 and $41.0 for the years ended December 31, 2006 and 2005, respectively.

We believe the assumptions and methodologies underlying the allocations of general corporate expenses from TOC are reasonable. However, such expenses are not indicative of, nor is it practical or meaningful for us to estimate for all historical periods presented, the actual level of expenses that would have been incurred had we been operating as a separate, stand-alone public or private company.

Concurrent with the consummation of the Acquisition, our employees ceased to be active participants in all TOC sponsored employee benefit and equity-based compensation plans. Post-Acquisition, we did not retain any obligations under, or liabilities with respect to these plans.

Acquisition of Houghton Mifflin College Assets

On May 30, 2008, we consummated our acquisition of the college division of Houghton Mifflin Harcourt Publishing Company ("HM College") for $768.3 in cash, reflecting the base purchase price of $750, adjusted for a working capital and a cash flow mechanism, pursuant to the purchase agreement, but before adjusting for proceeds from titles divested pursuant to an agreement with the U.S. Department of Justice ("DOJ") and excluding transaction-related costs. Final purchase price will be determined after an audit of the 2008 working capital and cash flow of the acquired business. The acquisition of HM College assets expands and complements the range of textbooks, study guides, custom publications and digital solutions that we provide to professors and students in two- and four-year colleges and universities. In June 2008, we recognized revenue of $15.7 attributable to this acquired business which is included in the results of our Academic & Professional segment

We financed the acquisition primarily through (i) a common equity capital contribution of $132.5 and (ii) $625.0 of incremental term loan borrowings under the senior secured credit facilities, less $2.3 associated with financing fees. See discussion below under "Cash Position, Indebtedness and Liquidity" for additional description of the financing transaction.

In connection with the regulatory review of this acquisition, we reached an agreement with the DOJ to divest certain higher education titles. In July 2008, we completed the sale of those titles.

Concurrent with the consummation of the HM College acquisition, we entered into a transition services agreement with Houghton Mifflin Company. Under this agreement, Houghton Mifflin provides various services to us, including services relating to real estate, telecommunications and information technology. Under the transition services agreement, the cost of each transition service generally is based on a pro rata allocation of Houghton Mifflin's actual expenses related to such services. This transition services agreement remains in effect until May 2009, with us having the ability to terminate specific services upon 15 days' notice. We incurred costs under this agreement of approximately $1.2 during June 2008.

Also concurrent with the consummation of the HM College acquisition, we entered into a high school distribution agreement with Houghton Mifflin pursuant to which Houghton Mifflin will provide marketing and selling services for our college products into the high school advanced placement market. We will fulfill and deliver such products beginning September 2008.

Discontinued Operations

In June 2008, we decided to pursue the sale of certain non-strategic operations comprising our local language academic business located in Spain and our distance learning businesses in the United Kingdom and the Netherlands. These businesses were previously reported in our International segment. As a result, we restated these businesses as discontinued operations in our Financial Statements for all periods presented. See Note 4, "Discontinued Operations," to our Financial Statements for additional information. In August 2008, we completed the sale of our business located in Spain.

Other Matters

In May 2008, affiliates of our limited partners amended their partnership agreement to reflect the formation and admission of Cengage Management L.P. as a limited partner. The amendment further authorized the issuance of four classes of limited partnership interests, designated as Class A, B, C and D units, and provided certain employees of the Company with the option to purchase Class B units in Cengage Management L.P. As a result, the Company received $4.3 in cash during the fourth quarter of fiscal 2008.

Also in May 2008, certain employees of Cengage Learning were granted Class C and D units in Cengage Management L.P. as compensation for services rendered to the Company. These units bear economic characteristics similar to options to purchase shares of stock and the related compensation expense is incurred by Cengage Learning since the grantees are employees of the Company. In conjunction with the vesting of certain Class C and D units, we recognized compensation expense of $5.6. At June 30, 2008, there was an estimated $17.3 of total unrecognized compensation cost related to the Class C units, which is expected to be recognized over a remaining weighted-average period of four years. See Note 15, "Equity-Based Compensation," to our Financial Statements for additional description of these transactions.

In the fourth quarter of fiscal 2008, we conducted our annual impairment test of goodwill in accordance with our policy and recorded an aggregate $39.2 impairment charge relating to our business in Australia and two of our EMEA (Europe, Middle East and Africa) reporting units, each included within our International segment. This impairment primarily reflects the result of adverse changes in market conditions since the Acquisition and declines in our expectations of revenue and cash flows driven by softness in higher education sales in the United Kingdom and Australia. See discussion below under "Application of Critical Accounting Policies and Estimates" for further information of our goodwill.

During the fourth quarter of fiscal 2008, we determined that certain international transactions should be accounted for on a net basis in accordance with Emerging Issues Task Force Issue ("EITF") No 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent,* based on our rights and obligations pursuant to the contractual arrangements in place. Although the presentation of these transactions on a net basis does not impact our net income or cash flows, revenues and cost of revenues in the prior period financial statements have been adjusted so that the presentation is consistent for all periods presented. The offsetting impact between "Revenues" and "Costs of revenues, excluding amortization of pre-publication costs and depreciation" was $7.7, $20.8 and $13.8 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. We believe these adjustments are not material to our Consolidated and Combined Statements of Operations.

Also in the fourth quarter of fiscal 2008, we began classifying all of our revenues into a single line as "Revenues" on the Consolidated and Combined Statements of Operations. In prior periods, we segregated our revenues into "Products" and "Services and other." Consequently, we also began classifying our cost of revenues, excluding amortization of pre-publication costs and depreciation into a single line item. This reclassification had no impact on net (loss) income.

On October 18, 2007, we changed our fiscal year end from December 31 to June 30.

Subsequent Events

In July 2008, we acquired Gatlin Education Services ("Gatlin"), a leading partner to colleges and universities delivering online continuing education certificate programs to adult learners. Gatlin will be integrated into our Education To Go (ed2go) business, which will expand service in the e-learning market, simplifying the delivery of digital education solutions to a growing audience with more selection and functionality. The net assets and results of operations of Gatlin Education will be included as part of our Academic & Professional segment.

Also in July and September 2008, we purchased and retired $12.1 and $32.0, respectively, of the senior bridge loan facility that resulted in a gain of $10.6 to be recognized in the first quarter of fiscal 2009. See discussion below under "Cash Position, Indebtedness and Liquidity" for additional descriptions of the financing transactions

Results of Operations

The results for the period July 5, 2007 through June 30, 2008 relate to Cengage Learning and the financial results for the period July 1, 2007 through July 4, 2007, six months ended June 30, 2007 and 2006, and the years ended December 31, 2006 and 2005 relate to Thomson Learning. For comparative purposes, we have aggregated the periods from July 1, 2007 through June 30, 2008 in our discussion below to enhance the reader's understanding of the results of operations for the periods presented. This aggregation ("the Cumulative Period Ended June 30, 2008") is not a GAAP measure.

	Successor	Predecessor	
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Cumulative Period Ended June 30, 2008
Revenues			
Academic & Professional	$ 1,135.3	$ 14.6	$ 1,149.9
Gale	312.9	1.4	314.3
International	250.6	1.8	252.4
Corporate and other	6.7	0.1	6.8
Total revenues	1,705.5	17.9	1,723.4
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	714.9	7.7	722.6
Amortization of pre-publication costs	130.7	0.9	131.6
Total cost of revenues, excluding depreciation stated below	845.6	8.6	854.2
Selling, general & administrative, excluding depreciation stated below	401.8	4.7	406.5
Allocation of management costs from TOC	-	0.8	0.8
Depreciation	59.3	0.7	60.0
Impairment of goodwill	39.2	-	39.2
Amortization and impairment of identifiable intangible assets	212.7	0.3	213.0
Total costs and expenses	1,558.6	15.1	1,573.7
Operating income from continuing operations	146.9	2.8	149.7
Gain on sale of equity investee	0.8	-	0.8
Interest income	7.0	-	7.0
Interest expense	(559.1)	-	(559.1)
(Loss) income before taxes from continuing operations	(404.4)	2.8	(401.6)
Provision for income taxes	(1.9)	(1.0)	(2.9)
Equity losses of investees, net of taxes	(3.1)	(0.1)	(3.2)
(Loss) income from continuing operations	(409.4)	1.7	(407.7)
(Loss) income from discontinued operations, net of tax	(115.8)	0.1	(115.7)
Net (loss) income	$ (525.2)	$ 1.8	$ (523.4)

The Period July 1, 2007 through July 4, 2007

The period July 1, 2007 through July 4, 2007 has been separately reported in our Financial Statements because it represents the Predecessor period prior to the Acquisition date. As a result of being only a four day period, we believe a comparison of the results of operations to the prior year comparative period is not meaningful.

The Cumulative Period Ended June 30, 2008 Compared with the Six Months Ended June 30, 2007

We believe that the comparison of the results of operations of the Cumulative Period Ended June 30, 2008 with the Six Months Ended June 30, 2007 is not a meaningful comparison because the comparative period includes only six months of operations as compared with twelve months of operations for the Cumulative Period Ended June 30, 2008. Given the seasonality of our business, the results of our operations are not proportional throughout the fiscal year and can not be reasonably compared on this basis.

In order to enhance the reader's understanding of the results of our operations on a consistent basis, we have presented supplemental discussions below on the Cumulative Period Ended June 30, 2008 Compared with the Year Ended December 31, 2006, the Six Months Ended June 30, 2007 Compared with the Six Months Ended June 30, 2006, and the Year Ended December 31, 2006 Compared with the Year Ended December 31, 2005.

The Cumulative Period Ended June 30, 2008 Compared with the Year Ended December 31, 2006

	Cumulative Period Ended June 30, 2008	Year Ended December 31, 2006	Percentage Change
Revenues	$ 1,723.4	$ 1,586.7	8.6%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	722.6	673.8	7.2%
Amortization of pre-publication costs	131.6	123.6	6.5%
Total cost of revenues, excluding depreciation stated below	854.2	797.4	7.1%
Selling, general & administrative, excluding depreciation stated below	406.5	395.8	2.7%
Allocation of management costs from TOC	0.8	47.7	-98.3%
Depreciation	60.0	53.4	12.4%
Impairment of goodwill	39.2	-	NM
Amortization and impairment of identifiable intangible assets	213.0	43.3	NM
Total costs and expenses	1,573.7	1,337.6	17.7%
Operating income from continuing operations	149.7	249.1	NM
Gain on sale of equity investee	0.8	-	NM
Gain on nonmonetary transaction	-	1.3	-100.0%
Interest expense with TOC	-	(36.1)	-100.0%
Interest income	7.0	-	NM
Interest expense	(559.1)	(5.5)	NM
(Loss) income before taxes from continuing operations	(401.6)	208.8	NM
Provision for income taxes	(2.9)	(83.1)	NM
Equity losses of investees, net of taxes	(3.2)	(6.9)	-53.6%
(Loss) income from continuing operations	(407.7)	118.8	NM
(Loss) income from discontinued operations, net of tax	(115.7)	5.4	NM
Net (loss) income	$ (523.4)	$ 124.2	NM

NM = Not meaningful

Revenues increased by $136.7, or 8.6%, to $1,723.4 primarily due to growth in our Academic & Professional and International segments, including growth from acquisitions of 2.5% and the favorable impact of foreign currency translation of 1.5%, partially offset by a decline within Gale and Corporate and other revenues. Included in the current period is (i) a $20.2 reduction of revenue reported in our Corporate and other segment during the Cumulative Period Ended June 30, 2008 associated with purchase accounting adjustments to deferred revenue related to the Acquisition and a (ii) $20.1 of revenue during the Cumulative Period Ended June 30, 2008 on transactions with a former affiliate of Thomson Learning which were reported as a reduction of expenses in periods prior to July 5, 2007. Such transactions with the former affiliate reduced expenses for the year ended December 31, 2006 by $19.0. Included within the revenues of $1,723.4 for the Cumulative Period Ended June 30, 2008 is $17.9 incurred during the period July 1, 2007 to July 4, 2007.

Cost of revenues, excluding depreciation increased by $56.8, or 7.1%. Our cost of revenues predominantly consist of author royalties, paper, printing and binding costs, all of which vary as revenues increase or decrease, as well as a component of fixed direct and indirect costs incurred to support delivery of print products. Cost of revenues also include the variable cost of royalties and hosting as well as a component of fixed direct and indirect costs incurred to support delivery of digital and service related products. In addition, prior to July 5, 2007, income on transactions with a former affiliate of Thomson Learning was reported as a reduction of expenses. During the year ended December 31, 2006, $19.0 was included in cost of revenues relating to such transactions. The increase in cost of revenues arose primarily as a result of the impact of these transactions, increased royalties due to increased sales as well as the impact of a shift in the mix of sales to products with higher average royalty costs, partially offset by a reduction in fixed costs attributable to the warehousing and distribution of print products. Included within costs of revenues for the Cumulative Period Ended June 30, 2008 is $8.6 incurred during the period July 1, 2007 to July 4, 2007.

Pre-publication costs are amortized upon publication of a title over its estimated economic life. The increase in amortization expense of $8.0, or 6.5%, is attributable to the timing of publication releases, partially offset by lower historical pre-publication spending. Included within amortization of pre-publication costs for the Cumulative Period Ended June 30, 2008 is $0.9 incurred during the period July 1, 2007 to July 4, 2007.

Selling, general & administrative, excluding depreciation increased by $10.7, or 2.7%, primarily reflecting the $9.9 of advisory fees and costs incurred to establish our own internal support infrastructure previously provided by TOC and the compensation expense of $5.6 related to the units of Cengage Management L.P. granted to certain employees of Cengage Learning as well as one month of operating cost incurred since our acquisition of HM College. Partially offsetting this increase is the absence of $2.0 of costs associated with employee retention bonuses and professional services fees incurred during the year ended December 31, 2006, as well as lower expenses from fewer employees, lower travel and entertainment costs and improved overall expense management. Included within selling, general & administrative, excluding depreciation for the Cumulative Period Ended June 30, 2008 is $4.7 incurred during the period July 1, 2007 to July 4, 2007.

Allocation of management costs from TOC decreased by $46.9, or 98.3%, reflecting the cessation of allocated costs from TOC as a result of the Acquisition. Included within allocation of management costs from TOC for the Cumulative Period Ended June 30, 2008 is $0.8 incurred during the period July 1, 2007 to July 4, 2007.

Depreciation increased by $6.6, or 12.4%, primarily reflecting higher historical spending for purchased and internally-developed software as well as the impact of purchase accounting adjustments to the fair value of buildings and building improvements and purchased and internally-developed software, partially offset by declining investments in other property and equipment in prior periods. Included within depreciation expense is $0.7 incurred during the period July 1, 2007 to July 4, 2007.

Impairment of goodwill primarily reflects the result of adverse changes in market conditions and declines in our expectations of revenue and cash flows driven by softness in higher education and library reference sales in the United Kingdom and Australia. As a result, we recorded an aggregate $39.2 impairment charge to certain reporting units within our International segment.

Amortization and impairment of identifiable intangible assets increased by $169.7 due to the fair valuation of amortizable identifiable intangible assets established in purchase accounting for the Acquisition, partially offset by an impairment charge of $2.9 recorded in the prior year period. Included within amortization and impairment of identifiable intangible assets expense for the Cumulative Period Ended June 30, 2008 is $0.3 incurred during the period July 1, 2007 to July 4, 2007.

Gain on sale of equity investee resulted from the sale of our investment in Universitas 21 Global ("U21") in November 2007. U21 was a joint venture between us and a consortium of 19 universities from around the world. We accounted for U21 using the equity method and recognized a gain as a result of the sale.

Gain on nonmonetary transaction reflects a non-monetary exchange of book titles and content with another publisher we completed during the year ended December 31, 2006.

Interest expense with TOC decreased 100% due to the Acquisition, as notes payable with TOC were not acquired by Cengage Learning.

Interest income increased as a result of interest earned on cash investments held with third party financial institutions. Prior to the Acquisition, cash investments were held with TOC. Interest income of less than $0.1 was earned during the period July 1, 2007 to July 4, 2007.

Interest expense increased by $553.6 resulting from new debt incurred in connection with the Acquisition. Interest expense of less than $0.1 was incurred during the period July 1, 2007 to July 4, 2007.

Provision for income taxes decreased by $80.2. In the year ended December 31, 2006, our tax deductible interest expense and identifiable intangible assets amortization were significantly lower, and as a result, our effective tax rate was much higher on a federal, state and international jurisdictional level. Further, in the Cumulative Period Ended June 30, 2008, for jurisdictions that are loss-making for the full year, no tax provision has been recorded as such jurisdictions are not expected to realize the associated tax benefits in the near future. Included within the provision for income taxes for the Cumulative Period Ended June 30, 2008 is $1.0 incurred during the period July 1, 2007 to July 4, 2007.

Our effective tax rate is subject to change based on nonrecurring events as well as recurring factors including geographical mix of income or loss before taxes and the related tax rates in those jurisdictions. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable.

Equity losses of investees, net of taxes decreased by $3.7, or 53.6% resulting from the sale of our investment in U21 in November 2007, partially offset by equity losses of another investee. Included within the equity losses of investees, net of taxes for the Cumulative Period Ended June 30, 2008 is $0.1 incurred during the period July 1, 2007 to July 4, 2007.

(Loss) income from discontinued operations, net of tax declined to a loss of $115.7 primarily relating to the write-down of net assets of $103.0, including goodwill of $95.7, to their estimated market value less estimated selling costs, coupled with overall revenue and operating income decline in these businesses.

Segment Operating Results

Academic & Professional

	Cumulative Period Ended June 30, 2008	**Year Ended December 31, 2006**	**Percentage Change**
Revenue	$ 1,149.9	$ 1,031.1	11.5%
Segment operating profit	464.3	385.0	20.6%
Margin	*40.4%*	*37.3%*	

Revenues Our Academic & Professional segment revenue increased by $118.8, or 11.5% for the Cumulative Period ended June 30, 2008 on revenue from acquisitions, which contributed 3.1%, growth in higher education and increased sales in the career market which is benefiting from the successful expansion of sales programs in the for-profit sector. In the professional market, increased focus on sales through this channel continues to show benefits. Partially offsetting this growth was the impact of additional returns reserve charges and the cessation of sales to certain distributors, both occurring in Latin America. Foreign currency translation had a nominal impact. In addition, the change reflects the recognition of $18.9 of revenue on transactions with a former affiliate of Thomson Learning which were reported as a reduction of expenses in periods prior to July 5, 2007. Such transactions with the former affiliate reduced expenses for the year ended December 31, 2006 by $18.4. Included within the $1,149.9 revenue for the Cumulative Period Ended June 30, 2008 is $14.6 recognized during the period July 1, 2007 to July 4, 2007.

Segment operating profit Our Academic & Professional segment operating profit during the Cumulative Period ended June 30, 2008 increased by $79.3, or 20.6%, due to increased gross profit contribution on higher sales and lower costs attributable to reductions in staff levels, increased efficiency in the warehousing and distribution of print products, lower travel and entertainment costs and overall better expense management, partially offset by lower development fee income on sales by the International segment.

Gale

	Cumulative Period Ended June 30, 2008	Year Ended December 31, 2006	Percentage Change
Revenue	$ 314.3	$ 322.4	-2.5%
Segment operating profit	139.8	139.3	0.4%
Margin	*44.5%*	*43.2%*	

Revenues Gale's revenue decline of $8.1, or 2.5%, during the Cumulative Period Ended June 30, 2008 reflects decline in sales of print reference material, as customers continue to migrate to digital forms of products, and the decline in film products, partially offset by growth in digital products, particularly e-books. Included within the $314.3 revenue for the Cumulative Period Ended June 30, 2008 is $1.4 recognized during the period July 1, 2007 to July 4, 2007.

Segment operating profit Gale's segment operating profit during the Cumulative Period ended June 30, 2008 increased by $0.5, or 0.4%, due to cost reduction initiatives resulting in fewer employees and lower travel and entertainment costs as well as cost savings from realignment of existing resources and the consolidation of an editorial operation within the U.S., which reduced overhead costs, partially offset by reduced gross margin contribution on lower sales. Included in segment operating profit is $1.6 of a restructuring charge incurred to execute on these initiatives.

International

	Cumulative Period Ended June 30, 2008	Year Ended December 31, 2006	Percentage Change
Revenue	$ 252.4	$ 211.5	19.3%
Segment operating profit	38.4	24.6	56.1%
Margin	*15.2%*	*11.6%*	

Revenue Our International segment revenues increased by $40.9, or 19.3%, during the Cumulative Period Ended June 30, 2008 reflecting the favorable impact of foreign currency translation of 9.9%, growth in our English language teaching businesses in EMEA, growth in school and distance learning sales in Australia, growth in higher education and library reference sales in Asia and growth from acquisitions of 3.9%. Partially offsetting this growth was softness in higher education sales in Australia and United Kingdom, the latter compounded by the cessation of sales to certain distributors. The change also reflects the recognition of $1.2 of revenue during the Cumulative Period Ended June 30, 2008 on transactions with a former affiliate of Thomson Learning which were reported as a reduction of expenses in periods prior to July 5, 2007. Such transactions with the former affiliate reduced expenses for the year ended December 31, 2006 by $0.6. Included within the $252.4 of revenue for the Cumulative Period Ended June 30, 2008 is $1.8 recognized during the period July 1, 2007 to July 4, 2007.

Segment operating profit Our International segment operating profit during the Cumulative Period ended June 30, 2008 increased by $13.8, or 56.1%, due to growth in revenues discussed above and expense reductions across all regions.

The Six Months Ended June 30, 2007 Compared with the Six Months Ended June 30, 2006

	Six Months Ended June 30,		Percentage
	2007	**2006**	**Change**
Revenues	$ 540.4	$ 513.2	5.3%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	284.1	270.3	5.1%
Amortization of pre-publication costs	46.3	45.0	2.9%
Total cost of revenues, excluding depreciation stated below	330.4	315.3	4.8%
Selling, general & administrative, excluding depreciation stated below	235.0	195.3	20.3%
Allocation of management costs from TOC	25.3	21.8	16.1%
Depreciation	30.0	25.7	16.7%
Amortization and impairment of identifiable intangible assets	20.4	20.1	1.5%
Total costs and expenses	641.1	578.2	10.9%
Operating loss from continuing operations	(100.7)	(65.0)	54.9%
Interest expense with TOC	(9.6)	(18.7)	-48.7%
Interest expense	(2.2)	(2.6)	-15.4%
Loss before taxes from continuing operations	(112.5)	(86.3)	30.4%
Benefit from income taxes	40.1	33.5	19.7%
Equity losses of investee, net of taxes	(4.9)	(4.0)	22.5%
Loss from continuing operations	(77.3)	(56.8)	36.1%
Loss from discontinued operations, net of tax	(4.1)	(0.4)	925.0%
Net loss	$ (81.4)	$ (57.2)	42.3%

Revenues increased by $27.2, or 5.3%, mainly due to growth in the Academic & Professional and International segments, including the impact of foreign currency translation of 1.3% and growth from acquisitions of 0.9%.

Cost of revenues, excluding depreciation increased by $13.8, or 5.1%, primarily related to increased costs to support our higher revenues. These costs predominantly include paper, printing and binding costs, as well as author royalties, all of which vary as revenues increase or decrease. The increase was directly a result of revenue growth and the impact of currency translation in our international operations.

Amortization of pre-publication costs increased by $1.3, or 2.9%, due primarily to higher sales and growth in the business.

Selling, general & administrative, excluding depreciation increased by $39.7, or 20.3%, due primarily from retention and other bonus arrangements and professional service fees of approximately $28.0 incurred in advance of the Transactions as well as higher costs to support the growth in the business.

Allocation of management costs from TOC increased by $3.5, or 16.1%, due primarily to higher compensation costs and professional fees allocated by TOC.

Depreciation increased by $4.3, or 16.7%, due primarily to a $1.9 impairment of internally developed software applications that no longer supported our business operations and the impact of prior years' investments.

Amortization and impairment of identifiable intangible assets increased by $0.3, or approximately 1.5%, due primarily on amortization of identifiable intangible assets on acquisitions.

Interest expense with TOC decreased by $9.1, or 48.7%, due principally to lower average net borrowings from TOC.

Interest expense decreased by $0.4, or 15.4%, was attributed to lower long-term debt reflecting the principal payments of $35.0 in 2006.

Benefit from income taxes increased by $6.6, or 19.7%, principally to the increased loss before taxes. Our effective tax rate for the six months ended June 30, 2007 was 35.6% and for the six months ended June 30, 2006 was 38.9%.

Our effective tax rate is subject to change based on nonrecurring events as well as recurring factors including geographical mix of income or loss before taxes and the related tax rates in those jurisdictions. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable.

Equity losses of investee, net of taxes increased by $0.9, or 22.5%, primarily as a result of our recognition of an impairment to the carrying value of U21, our equity investee, of $1.7.

Loss from discontinued operations, net of tax increased $3.7 in the six months ended June 30, 2007 primarily due to an impairment of identifiable intangible assets of $1.7 associated with a product line in one of the businesses held for sale.

Segment Operating Results

Academic & Professional

	Six Months Ended June 30,		Percentage
	2007	**2006**	**Change**
Revenue	$ 291.0	$ 276.8	5.1%
Segment operating profit	11.5	(4.1)	NM
Margin	*4.0%*	*- %*	

NM = Not meaningful

Revenues Our Academic & Professional segment revenue increased by $14.2, or 5.1%, driven by an increase in the recognition of deferred revenue associated with higher levels of deferrable sales in the prior periods, increased sales of higher education and English language teaching products in Latin America and growth from acquisitions of 0.8%, partially offset by fewer shipping days at the end of the period and lower school sales as a result of fewer opportunities for our products to be adopted by instructors.

Segment operating profit Our Academic & Professional segment operating profit increased by $15.6 due mainly on higher revenue flow through and lower employee costs, partially offset by bad debt reserve charges in Latin America.

Gale

	Six Months Ended June 30,		Percentage
	2007	**2006**	**Change**
Revenue	$ 148.5	$ 148.0	0.3%
Segment operating profit	62.6	65.3	-4.1%
Margin	*42.2%*	*44.1%*	

Revenues Gale's revenue increased by $0.5, or 0.3% due primarily to growth in digital products, partially offset by a decline in print reference material and microfilm.

Segment operating profit Gale's segment operating profit decreased by $2.7, or 4.1%, mainly on variable costs of royalties, hosting and other subscription-related costs partially offset by lower employee costs.

International

	Six Months Ended June 30,		Percentage
	2007	2006	Change
Revenue	$ 90.1	$ 78.9	14.2%
Segment operating loss	(4.9)	(3.9)	25.6%
Margin	*-5.4%*	*-4.9%*	

Revenues Our International segment increased by $11.2, or 14.2%, reflecting the favorable impact of foreign currency translation of 6.7%, growth in our English language teaching businesses primarily in EMEA, higher distance learning sales in Australia, higher education and library reference sales in Asia and growth from acquisitions of 2.9%. Partially offsetting this growth was the impact of softness in higher education sales in Australia and EMEA.

Segment operating loss Our International segment operating loss increased by $1.0, or 25.6%, resulting mainly from a mix change from higher margin and higher education sales in Australia and EMEA to lower margin sales in Asia.

The Year Ended December 31, 2006 Compared with the Year Ended December 31, 2005

	Years Ended December 31,		Percentage
	2006	2005	Change
Revenues	$ 1,586.7	$ 1,509.7	5.1%
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	673.8	660.3	2.0%
Amortization of pre-publication costs	123.6	119.0	3.9%
Total cost of revenues, excluding depreciation stated below	797.4	779.3	2.3%
Selling, general & administrative, excluding depreciation stated below	395.8	365.0	8.4%
Allocation of management costs from TOC	47.7	41.0	16.3%
Depreciation	53.4	47.6	12.2%
Amortization and impairment of identifiable intangible assets	43.3	39.1	10.7%
Total costs and expenses	1,337.6	1,272.0	5.2%
Operating income from from continuing operations	249.1	237.7	4.8%
Gain on nonmonetary transaction	1.3	-	NM
Interest expense with TOC	(36.1)	(87.3)	-58.6%
Interest expense	(5.5)	(5.8)	-5.2%
Income before taxes from continuing operations	208.8	144.6	44.4%
Provision for income taxes	(83.1)	(58.7)	41.6%
Equity losses of investee, net of taxes	(6.9)	(7.9)	-12.7%
Income from continuing operations	118.8	78.0	52.3%
Income from discontinued operations, net of tax	5.4	4.3	25.6%
Net income	$ 124.2	$ 82.3	50.9%

NM - Not meaningful

Revenues increased by $77.0, or 5.1%, due primarily on growth across all segments, including the impact of acquisitions of 1.0% and favorable impact of foreign currency translation of 0.2%.

Cost of revenues, excluding depreciation increased by $18.1, or 2.3%, due primarily to increased costs to support increased product and digital revenue. These costs predominantly include paper, printing and binding costs, as well as author royalties, all of which vary as revenues increase or decrease. These costs also include the variable cost of royalties, hosting and subscription-related costs, largely in our Gale segment.

Amortization of pre-publication costs increased by $4.6, or 3.9%, to $123.6 for the year ended December 31, 2006 from $119.0 for the year ended December 31, 2005. This increase was due primarily to investments in pre-publication costs, higher sales and growth in the business.

Selling, general & administrative, excluding depreciation increased by $30.8, or 8.4%, largely from restructuring costs associated with various businesses, corporate and shared service functions as well as strategic investments in various international businesses and infrastructure in China and India.

Allocation of management costs from TOC increased by $6.7, or 16.3%, due primarily to higher compensation costs and professional services fees incurred by TOC.

Depreciation increased by $5.8, or 12.2%, due primarily to depreciation of property and equipment related to infrastructure investments.

Amortization and impairment of identifiable intangible assets increased by $4.2, or 10.7%, due primarily to an impairment charge of $2.9 associated with a product within our Gale segment and to the impact of having a full year of amortization for completed acquisitions.

Gain on nonmonetary transaction of $1.3 for the year ended December 31, 2006 reflects a non-monetary exchange of book titles and content with another publisher.

Interest expense with TOC decreased by $51.2, or 58.6%, due principally to a capital contribution of $906.0 in March 2006 from TOC that was used to reduce Notes payable to TOC.

Interest expense decreased by $0.3, or 5.2%, due primarily to lower long-term debt reflecting the principal payment made during 2006 in the amount of $35.0, offset by higher interest on our capital lease obligation.

Provision for income taxes increased by $24.4, or 41.6 %, due to an increase in income before taxes from continuing operations. Our effective tax rate for the year ended December 31, 2006 was 39.8% and for the year ended December 31, 2005 was 40.6%.

Our effective tax rate is subject to change based on nonrecurring events as well as recurring factors including geographical mix of income or loss before taxes and the related tax rates in those jurisdictions. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable.

Equity losses of investee, net of taxes decreased by $1.0, or 12.7%, as a result of reduced expenses incurred by U21.

Income from discontinued operations, net of tax increased $1.1, or 25.6%, on growth in revenues and flow through of such revenue growth through to net income.

Segment Operating Results

Academic & Professional

	Years Ended December 31, 2006	Years Ended December 31, 2005	Percentage Change
Revenue	$ 1,031.1	$ 975.4	5.7%
Segment operating profit	385.0	360.0	6.9%
Margin	*37.3%*	*36.9%*	

Revenues Our Academic & Professional segment revenue increased by $55.7, or 5.7%, on strong growth in the domestic higher education, career and professional channels, growth from acquisitions of 1.2% as well as English language teaching and higher education sales in Latin America. Partially offsetting this growth is a decrease in the recognition of deferred revenue associated with lower sales of deferrable sales in the prior periods.

Segment operating profit Our Academic & Professional segment operating profit grew by $25.0, or 6.9%, mainly on higher revenue flow through and lower employee and sampling costs.

Gale

	Years Ended December 31, 2006	Years Ended December 31, 2005	Percentage Change
Revenue	$ 322.4	$ 309.5	4.2%
Segment operating profit	139.3	124.8	11.6%
Margin	*43.2%*	*40.3%*	

Revenues Gale's revenue increased by $12.9, or 4.2%, due primarily from an increase in digital products (largely archives, subscriptions and e-books) partially offset by flat print revenues as libraries continue to migrate from print to digital products and decline in film sales.

Segment operating profit Gale's segment operating profit increased by $14.5, or 11.6%, on higher revenue flow through and cost containment measures.

International

	Years Ended December 31, 2006	Years Ended December 31, 2005	Percentage Change
Revenue	$ 211.5	$ 203.8	3.8%
Segment operating profit	24.6	37.1	-33.7%
Margin	*11.6%*	*18.2%*	

Revenues Our International segment revenues increased by $7.7, or 3.8%, reflecting growth from acquisitions of 2.0%, the favorable impact of foreign currency translation of 0.9%, growth in our English language teaching businesses in EMEA, Asia and U.S., higher distance learning sales in Australia and higher education sales in Asia and Australia. Partially offsetting this growth was lower sales of library reference material in EMEA and lower school sales in Australia.

Segment operating profit Our International segment operating declined by $12.5, or 33.7%, reflecting a mix of sales to lower margin regions and products coupled with spending for strategic investment purposes and growth in targeted regions.

Liquidity and Capital Resources

As discussed above, the Cumulative Period Ended June 30, 2008 is not a GAAP measure but has been provided to enhance the reader's understanding of the results of operations for the periods presented.

	Successor	Predecessor	
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Cumulative Period Ended June 30, 2008
Other Financial Data			
Additions to property, equipment and capitalized software for internal use	$ 40.7	$ -	$ 40.7
Additions to pre-publication costs	123.9	-	123.9
Statements of Cash Flows			
Net cash provided by (used in) of continuing operations			
Net cash provided by operating activities	$ 301.8	$ 6.5	$ 308.3
Net cash used in investing activities	(8,143.1)	-	(8,143.1)
Net cash provided by (used in) financing activities	7,873.4	(11.7)	7,861.7
Net cash (used in) provided by discontinued operations	(3.1)	1.5	(1.6)
Impact on cash and cash equivalents from change in foreign currency	0.2	-	0.2
Net increase (decrease) in cash and cash equivalents	$ 29.2	$ (3.7)	$ 25.5

The following table sets forth other financial data and our cash flows from operating, investing and financing activities for the Cumulative Period Ended June 30, 2008, for the six month periods ended June 30, 2007 and 2006, and the years ended December 31, 2006 and 2005 (Thomson Learning).

	Cumulative Period Ended June 30,	Six Months Ended June 30,		Years Ended December 31,	
	2008	2007	2006	2006	2005
Other Financial Data					
Additions to property, equipment and capitalized software for internal use	$ 40.7	$ 26.5	$ 16.9	$ 43.5	$ 47.9
Additions to pre-publication costs	123.9	60.4	55.4	118.0	125.1
Statements of Cash Flows					
Net cash provided by (used in) of continuing operations					
Net cash provided by (used in) operating activities	$ 308.3	$ 26.0	$ (42.3)	$ 328.9	$ 354.8
Net cash used in investing activities	(8,143.1)	(120.2)	(77.8)	(185.4)	(211.0)
Net cash provided by (used in) financing activities	7,861.7	79.0	115.1	(133.5)	(155.1)
Net cash (used in) provided by discontinued operations	(1.6)	(2.9)	(0.8)	(6.1)	6.6
Impact on cash and cash equivalents from change in foreign currency	0.2	0.8	0.1	1.5	(1.6)
Net increase (decrease) in cash and cash equivalents	$ 25.5	$ (17.3)	$ (5.7)	$ 5.4	$ (6.3)

Operating activities. Net cash provided by operating activities from continuing operations for the Cumulative Period Ended June 30, 2008 decreased by $20.6, or 6.3%, compared to the year ended December 31, 2006. This decrease was attributable primarily to the change in net cash interest payments of $337.6, partially offset by improved operating results before depreciation, amortization and impairment of identifiable intangible assets and pre-publication costs as well as favorable working capital movements.

Net cash provided by operating activities from continuing operations was $26.0 for the six months ended June 30, 2007, as compared to net cash used of $42.3 for the six months ended June 30, 2006. This net improvement of $68.3 was attributable to more favorable timing of payments of accounts payable and accruals for professional fees and management bonuses incurred in the current period which were paid subsequent to the Acquisition, partially offset by increased losses during the period.

Net cash provided by operating activities from continuing operations for the year ended December 31, 2006 decreased by $25.9, or 7.3%, to $328.9 from $354.8 for the year ended December 31, 2005. This decrease was due primarily to higher bonus and royalty payments.

Investing activities. Net cash used in investing activities from continuing operations for the Cumulative Period Ended June 30, 2008 was $8,143.1 as compared to $185.4 for the year ended December 31, 2006, primarily reflecting the impact of the acquisitions of Thomson Learning and HM College for $7,977.3, partially offset by lower capital infusions and higher proceeds from the sale associated with U21, formerly an equity investment.

Net cash used in investing activities from continuing operations for the six months ended June 30, 2007 increased by $42.4, or 54.5%, to $120.2 from $77.8 for the same period in 2006. This increase resulted from acquisitions of businesses, a capital infusion of $5.2 into U21, higher spending on pre-publication costs and increased additions to property, equipment and capitalized software for internal-use, primarily for the ongoing development of a disaster recovery center for our shared services center in Independence, Kentucky.

Net cash used in investing activities from continuing operations for the year ended December 31, 2006 decreased by $25.6, or 12.1%, to $185.4 from $211.0 for the year ended December 31, 2005. This decrease was due primarily to lower spending for acquisitions of businesses, reduced capital infusions into U21 and lower spending on pre-publication costs as well as property, equipment and capitalized software for internal use.

Financing activities. Net cash provided by financing activities from continuing operations for the Cumulative Period Ended June 30, 2008 was $7,861.7 as compared to net cash used of $133.5 for the year ended December 31, 2006, primarily reflecting the Financing Transactions and the cessation of financing activities with TOC. Also included in current period financing activities is a principal payment of $25.8 on our long-term debt and the settlement of our capital lease obligation associated with the property located in Farmington Hills, Michigan of $26.0.

Net cash provided by financing activities from continuing operations for the six months ended June 30, 2007 decreased by $36.1, or 31.4%, to $79.0 from $115.1 for the same period in 2006 primarily due to a decrease in the net investment of TOC partially offset by the proceeds from notes payable/receivable to TOC.

Net cash used in financing activities from continuing operations for the year ended December 31, 2006 decreased by $21.6, or approximately 13.9%, to $133.5 from $155.1 for the year ended December 31, 2005. This decrease was due primarily to an increase in cash overdrafts, an increase in investment by TOC, a decrease in repayments of a term loan with TOC, offset, in part, by higher repayments of notes payable/receivable to TOC.

Cash Position, Indebtedness and Liquidity

As of June 30, 2008, our total cash and cash equivalents were $44.3 and we had total indebtedness of approximately $6,295.8. We consummated our acquisition of the college division of Houghton Mifflin Harcourt Publishing Company ("HM College"), which we financed primarily through $625.0 of term loan borrowings under the Senior Secured Credit Facilities and through equity contributions to us. As of June 30, 2007, our total cash and cash equivalents were $18.8 and we had total indebtedness of approximately $769.8, including Notes payable to TOC and Notes payable due in 2008 totaling $743.8 that we did not assume as part of the Acquisition.

Our principal uses of cash are to fund the payment of interest and principal on our outstanding debt, acquisitions, as well as operating costs and capital expenditures, including investments in products and technology offerings. We expect our cash flows from operations, combined with availability under our revolving credit facility, to provide sufficient liquidity to fund our current obligations, debt service requirements, projected working capital requirements, restructuring obligations, debt principal repayments, authorized debt repurchases and capital spending over the next twelve months; however, there can be no assurance that our business will generate sufficient cash flow from operations, that anticipated net sales growth and operating improvements will be realized or that future borrowings will be available under our revolving credit facility, or any other facility, in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs beyond such period. The seasonality of our business is such that a greater portion of revenue and operating cash flow is derived in the second half of the calendar year, while costs are incurred more evenly throughout the calendar year and the likelihood of seasonal borrowings under our revolver varies accordingly.

Prior to the Acquisition, our principal sources of liquidity were our existing cash, internally generated cash flow from operations and borrowings under our arrangements with TOC. We periodically lent to or borrowed money from various subsidiaries of TOC as part of TOC's overall cash management and capitalization program. Certain of these arrangements were subject to written loan agreements specifying repayment terms and interest payments. These notes were reflected separately in the Combined Balance Sheet based on their legal form. Since these notes were part of TOC's overall capitalization of us, changes in the notes' balances were reflected as financing activities in the Combined Statement of Cash Flows.

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

Senior Secured Credit Facilities

The senior secured credit facilities provide the borrower, Cengage Learning Acquisitions, Inc. ("CL Acquisitions"), an indirect wholly-owned subsidiary of Cengage Learning Holdings II L.P., with variable rate financing of $3,740.0, consisting of a seven year $3,440.0 term loan facility and a six year $300.0 revolving credit facility (together, the "Senior Credit Facilities"). Concurrent with the Acquisition, CL Acquisitions borrowed $3,440.0 under the term loan facility and incurred $58.7 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the term of the Senior Credit Facilities.

Concurrent with the acquisition of HM College on May 30, 2008, CL Acquisitions borrowed $625.0 aggregate principal amount at maturity ($610.4 in gross proceeds) of incremental term loans under the existing senior secured credit facilities (the "Incremental Term Loan Facility") and incurred $2.3 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the term of the Incremental Term Loan Facility.

Under the Senior Credit Facilities, the borrower can elect the term of each drawdown and loan rollover, as well as which benchmark interest rate would apply, plus a predefined margin based on our leverage ratio. In addition, during the period July 5, 2007 to June 30, 2008, CL Acquisitions borrowed and repaid $35 of term loans under the revolver at an average annual rate of 8.07%. The interest rate for term loan borrowings under the term loan facility and the revolving credit facility were the applicable LIBOR rate plus a margin of 2.75% during the period July 5, 2007 to February 18, 2008 and LIBOR rate plus a margin of 2.5% during the period February 19, 2008 to June 30, 2008. The interest rate for the Incremental Term Loan Facility was the applicable LIBOR rate (limited to a minimum contractual rate of 3.75%) plus a margin of 3.75% during the period May 30, 2008 to June 30, 2008. CL Acquisitions also borrowed and repaid $6.5 of swing line loans under the revolver during the period July 5, 2007 to June 30, 2008 at an average annual rate of 9.86%. The interest rate for swing line loans under the revolving credit facility were the applicable base rate (prime) plus a margin of 1.75% for the period outstanding. Under the revolver, up to $150 is available for the issuance of letters of credit, of which $6.9 was outstanding as at June 30, 2008 at a cost of 2.25% per annum. At June 30, 2008, CL Acquisitions has $293.1 available under our revolving credit facility.

In addition, there is an annual commitment fee of 0.50% on unused borrowings under the revolving credit facility. The commitment fee, letter of credit fee and margin for borrowings under both the term loan facility and the revolving credit facility may vary in the future if we attain certain leverage ratios.

The borrower is required to pay quarterly installments of 1% of the aggregate principal amount at issuance of the term loans with the remaining amount payable on July 3, 2014. Principal amounts not previously repaid under the revolving credit facility are payable on July 5, 2013. In addition, CL Acquisitions is required to make quarterly interest payments.

All obligations under the Senior Credit Facilities are guaranteed on a senior basis by Cengage Learning Holdings II L.P. and substantially all of its material wholly-owned domestic subsidiaries (except CL Acquisitions, as borrower), and are secured by substantially all of the assets of Cengage Learning Holdings II L.P., the borrower and such guarantors, subject to certain customary exceptions.

The Senior Credit Facilities require, among other things, that we maintain an agreed upon senior secured leverage ratio. As of June 30, 2008, we were in compliance with the applicable senior secured leverage ratio.

Subject to certain exceptions, the credit agreement limits the amount CL Acquisitions can repay under the senior subordinated discount notes and the loans under the senior bridge loan credit facility as well as CL Acquisition's ability to enter into amendments to the senior subordinated discount notes or the senior bridge loan credit facility that are materially adverse to the lenders under the Senior Credit Facilities. The Senior Credit Facilities include provisions whereby a portion of excess cash flow, all of the proceeds from any non-permitted debt issuance and a portion of the proceeds from non-ordinary course asset dispositions, subject to certain exceptions and reinvestment rights, would have to be used to partially prepay the term loan. The Senior Credit Facilities also contain certain other customary conditions to borrowing, restrictions, affirmative covenants, negative covenants and events of default.

Senior Notes and Senior Subordinated Discount Notes

CL Acquisitions issued $1,215.6 aggregate principal amount at maturity ($1,200.1 in aggregate gross proceeds) of senior notes due 2015 (the "Senior Notes") and $519.0 aggregate principal amount at maturity ($400.1 in aggregate gross proceeds) of senior subordinated discount notes due 2015 (the "Senior Subordinated Discount Notes" and, together with the Senior Notes, the "Notes"). CL Acquisitions incurred $21.5 of related financing costs for the issuance of the Notes, which are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the term of the Notes.

Interest on the Senior Notes accrues at an annual rate of 10.50% and is payable in cash semi-annually in arrears on January 15 and July 15 of each year. The Senior Subordinated Discount Notes will not accrue cash interest prior to July 15, 2009. Thereafter, cash interest will accrue on the Senior Subordinated Discount Notes at an annual rate of 13.25 % and is payable on January 15 and July 15 of each year, commencing on January 15, 2010.

The Senior Notes are unsecured senior obligations. The Senior Subordinated Discount Notes are unsecured, senior subordinated obligations and are subordinate to all senior indebtedness, including the Senior Credit Facilities and the Senior Notes. The Notes are effectively subordinated to all of CL Acquisitions secured debt (including the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior Notes are guaranteed on an unsecured senior basis by Cengage Learning Holdings II L.P. and each of its material wholly-owned domestic subsidiaries that guarantees the Senior Credit Facilities. The Senior Subordinated Discount Notes are guaranteed on an unsecured senior subordinated basis by Cengage Learning Holdings II L.P. and each of its material wholly-owned subsidiaries that guarantees the Senior Credit Facilities. The guarantees of the Notes are effectively subordinated to all of each guarantor's secured debt, to the extent of the value of the assets securing such debt.

In accordance with regulations issued by the IRS, to the extent the Senior Subordinated Discount Notes are considered applicable high yield discount obligations, CL Acquisitions must make a mandatory principal redemption plus accrued interest at the end of each accrual period ending after July 5, 2012.

The registration rights agreements governing the Notes provide that in the event that an exchange offer registration statement with respect to the Notes is not filed with the Securities and Exchange Commission on or prior to the 360th day after the original issuance date of the Notes, additional interest will accrue on the Notes and CL Acquisitions will be required to pay such interest until the Notes may be resold without restriction under U.S. securities laws. Accordingly, CL Acquisitions incurred $0.1 in additional interest because CL Acquisitions did not file a registration statement on or prior to the 360th day after issuance of the Notes. The Notes became freely tradable under Rule 144 of the Securities Act of 1933 and additional interest ceased to accrue following the 365th day after the issuance of the Notes.

The indentures that govern the Notes contain certain covenants, agreements and events of default, which are customary for similar securities.

Senior Bridge Loan Credit Facility

The senior bridge loan credit agreement (the "Senior Bridge Facility") provides Cengage Learning Holdco, Inc. ("CL Holdco"), a direct wholly-owned subsidiary of Cengage Learning Holdings II L.P., as borrower, with financing of $540.0. At the borrower's option, all interest thereunder may be paid in cash, or capitalized through an increase in the principal amount outstanding ("PIK"). This election must be made in advance of each three-month interest period. Concurrent with the Acquisition, CL Holdco borrowed $540.0 under the Senior Bridge Facility and incurred $10.9 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the full term of the Senior Bridge Facility.

Borrowings under the Senior Bridge Facility ("Senior PIK Loans") currently bear interest at the applicable LIBOR rate plus a margin of 8.25% to 8.75%. The applicable margin increased by 50 basis points on January 5, 2008 to 12.89%, and will increase by an additional 50 basis points at the end of every three month interest period, up to a maximum interest rate of 13.75% per annum.

CL Holdco elected to capitalize interest due on the loan in the amount of $74.9 for the period from July 5, 2007 to June 30, 2008, as an increase to the principal amount of the loan. In accordance with regulations issued by the IRS, to the extent these loans are considered applicable high yield discount obligations; CL Holdco must make mandatory principal prepayments and accrued interest payments in cash beginning in the second half of 2012.

Between January 6, 2008 and July 5, 2008, subject to certain conditions, the arrangers of the Senior Bridge Facility had the right to request us to issue bonds and use the proceeds to repay the Senior PIK Loans outstanding under the Senior Bridge Facility. In July 2008, subsequent to our 2008 fiscal year-end, CL Holdco and Cengage Learning Holdings II L.P. entered into an amendment (the "First Amendment") under which, among other things, the holders relinquished such rights. In addition, the First Amendment also set the interest rate on the borrower's Senior PIK Loans at 13.75% per annum, effective July 5, 2008 through October 31, 2008, the date the Senior PIK Loans will automatically convert into senior PIK notes (as described below).

The Senior PIK Loans are structurally subordinated to the debt and other liabilities of all of CL Holdco's subsidiaries and effectively subordinated to all of CL Holdco's secured debt (including CL Holdco's senior secured guarantee of the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior PIK Loans are guaranteed on a subordinated unsecured basis by Cengage Learning Holdings II L.P. The guarantee of the Senior PIK Loans is subordinated to all of Cengage Learning Holdings II L.P. senior debt (including CL Holdco's senior guarantees of the Senior Credit Facilities and the Senior Notes) as well CL Holdco's guarantee of the Senior Subordinated Discount Notes.

The Senior Bridge Facility contains certain affirmative covenants, negative covenants and events of default, which are customary for a bridge loan facility.

Under the First Amendment, the Senior PIK Loans will automatically convert into notes in an aggregate principal amount equal to the unpaid principal amount of such loans on October 31, 2008 ("Senior PIK Notes"). The Senior PIK Notes will mature on July 15, 2015, bear interest at 13.75% per annum compounded semi-annually and will have covenants substantially similar to the covenants and events of default applicable to the Senior Notes and Senior Subordinated Discount Notes issued by CL Acquisitions (a direct wholly-owned subsidiary of CL Holdco). The Senior PIK Notes will have no registration rights.

The Senior PIK Notes will be structurally subordinated to the debt and other liabilities of all of CL Holdco's subsidiaries and effectively subordinated to all of CL Holdco's secured debt (including CL Holdco's senior secured guarantee of the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior PIK Notes will be guaranteed on a subordinated unsecured basis by Cengage Learning Holdings II L.P. The guarantee of the Senior PIK Notes will be subordinated to all of Cengage Learning Holdings II L.P. senior debt (including CL Holdco's senior guarantees of the Senior Credit Facilities and the Senior Notes) as well CL Holdco's guarantee of the Senior Subordinated Discount Notes.

As a result of the First Amendment, CL Holdco incurred and capitalized $16.2 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the full term of the Senior PIK notes.

Contractual Obligations and Commitments

The following table summarizes our future contractual obligations as of June 30, 2008, except as noted below:

	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years	Total
Contractual Obligations					
Outstanding debt:					
Senior secured credit facilities[1]	$ 40.7	$ 81.4	$ 81.4	$ 3,835.8	4,039.3
10.50% Senior notes, due 2015[1]	-	-	-	1,215.6	1,215.6
13.25% Senior subordinated discount notes[1]	-	-	-	519.0	519.0
Senior bridge loan facility[2]	-	-	-	502.1	502.1
Interest payments on outstanding debt[3]	343.2	783.2	1,434.9	806.3	3,367.6
Management advisory fee obligations[4]	20.4	20.0	20.0	50.0	110.4
Operating lease obligations [5]	21.2	37.9	20.8	30.3	110.2
Purchase obligations [6]	12.7	9.6	2.9	1.5	26.7
Other [7]	6.9	-	-	-	6.9
Total	$ 445.1	$ 932.1	$ 1,560.0	$ 6,960.6	$ 9,897.8

[1] Amounts reflect scheduled maturity principal payments.

[2] Amount reflects the impact of our purchase and retirement of $12.1 and $32.0 (that had an original issue principal amount of $37.9) of the senior bridge facility in July and September 2008, respectively, as well as the agreed conversion of the facility to a note on October 31, 2008 with a scheduled maturity of July 15, 2015.

[3] Interest on variable rate debt is estimated based upon the rate in effect as of June 30, 2008 and interest on fixed rate debt is presented using the stated interest rate. Interest on the Senior Bridge Facility is estimated based upon the rate in effect as of July 5, 2008 and assuming that Cengage Learning elects to capitalize all interest through July 15, 2011. All amounts exclude amortization of debt discounts and the amortization of debt issuance costs which would be included in interest expense in our Consolidated Statements of Operations.

The Senior Subordinated Discount Notes and the Senior Bridge Facility are considered applicable high yield discount obligations that require us to pay all accrued and unpaid interest on July 15, 2012.

[4] Represents payments related to the advisory fee agreements with Apax and OMERS. Fees to fiscal 2008 could not be paid until July 5, 2008 per restrictions in our debt agreement. As of July 5, 2008, payments are due in advance on a quarterly basis. These fees are subject to increase upon our purchase of another business or the merging of our Company with another business. At any time in connection with or in anticipation of a change of control or an initial public offering, Apax or OMERS may elect to receive their advisory fees in a single lump sum cash payment equal to the present value of future fees payable for a period of 10 years. See Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets," to our Financial Statements.

[5] Represents minimum rental payments for operating leases having initial or remaining non-cancelable lease terms. We lease many of our facilities as well as other property and equipment under operating leases in the normal course of business. The minimum lease payments do not include contingent rental expense. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease agreements. Future operating

lease obligations are not recognized in our Consolidated Balance Sheet. See Note 19, "Commitments, Contingencies and Guarantees," to our Financial Statements.

[6] Purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding and specifying all significant terms, including the following: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur.

Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. In addition, contracts that can be unilaterally cancelled with no termination fee or with proper notice are excluded from our total purchase obligations except for the amount of the termination fee or the minimum amount of goods that must be purchased during the requisite notice period. Purchase obligations are not recognized on our Consolidated Balance Sheet. See Note 19, "Commitments, Contingencies and Guarantees," to our Financial Statements.

[7] Primarily related to the transition services arrangements with TOC for $3.2 and Houghton Mifflin Company for $2.6 based on current levels of usage and/or costs of provider. See Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets," to our Financial Statements.

The table above does not include our deferred tax liabilities or estimated liability for unrecognized tax benefits under Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109,* because we are uncertain if or when they will ultimately be settled in cash. (See Note 16, "Income Taxes," to our Financial Statements.)

Off-Balance Sheet Transactions

In the ordinary course of business, we may engage in financial transactions that are not recorded on the consolidated balance sheet, or may be recorded on the consolidated balance sheet in amounts that are different than the full contract or notional amount of the transactions, including facilities and other operating equipment leases. With the exception of the operating lease obligations and purchase commitments described in Note 12, "Financial Instruments," to our Financial Statements and in the "Contractual Obligations and Commitments" section above, we do no have any material off-balance sheet transactions.

Application of Critical Accounting Policies and Estimates

Our Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In preparing our Financial Statements, we apply various accounting policies and are required to use estimates and assumptions. While we believe we have considered all available information, actual results could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We believe that, of the significant accounting policies discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," to our Financial Statements, the following accounting policies require our most subjective or complex judgments:

Revenue Recognition: We deliver learning solutions for universities, students, professors, libraries, professionals and corporations around the world. These solutions are delivered through specialized content, applications and services. Although printed materials continue to be the most widely-sold learning resource, we are increasingly providing customers with digital resources. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. We recognize revenue from the sale of print and digital products, less estimated returns, when the product is shipped and title passes to the customer and revenues from sales of subscription-based products ratably over the term of the subscription.

When a sales arrangement requires the delivery of more than one product or service, the individual deliverables are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each deliverable on a relative basis if reliable and objective evidence of fair value for each deliverable is available. The amount allocated to each unit is then recognized when each unit is delivered, provided that all other relevant revenue recognition criteria are met with respect to that unit. If, however, evidence of fair value is only available for undelivered elements, the revenue is allocated first to the undelivered items, with the remainder of the revenue being allocated to the delivered items, according to a calculation known as the residual method. Amounts allocated to delivered items are deferred if there are further obligations with respect to the delivered items. If evidence of fair value is only available for the delivered items, but not the undelivered items, the arrangement is considered a single element arrangement and revenue is recognized as the relevant recognition criteria are met.

Allowance for Doubtful Accounts and Reserve for Sales Returns: Accounts receivable are reflected net of an allowance for doubtful accounts and sales returns. Management periodically assesses the allowance for doubtful accounts by evaluating general factors such as the length of time individual receivables are past due, historical collection experience, a credit evaluation of our customer and the economic environment. A change in our evaluation of a customer's credit could affect the estimated allowance. Accounts receivable losses are charged against the allowance when the receivable is determined to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The aggregate allowance for doubtful accounts as of June 30, 2008 and June 30, 2007 was $10.9 and $27.9, respectively.

The estimated reserve for sales returns is based on a review of our historical sales returns experience and our estimate of future returns associated with various product types and various sales channels, as well as current market trends in the businesses in which we operate. A change in the pattern or trends in returns could affect our estimated reserve for sales returns. Sales returns reserve is presented net of estimated inventory and royalty costs. Sales returns are charged against the reserve as products are returned to inventory and any remaining reserve is reversed at the end of the estimated returns cycle.

The aggregate allowance for sales returns reserve as of June 30, 2008 and June 30, 2007 was $98.6 and $85.2, respectively.

Inventories: Inventories, which are principally comprised of books, other print products and digital media, are stated at lower of cost or market value, with cost determined generally using the weighted average method. Allowances are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value. The allowance is based upon our historical unit sales by title and considers our assessment of current market conditions, including estimates of customer demand, and publication revision cycles. A change in sales trends could affect our estimated allowance.

The aggregate allowance for inventory obsolescence as of June 30, 2008 and June 30, 2007 was $27.4 and $60.9, respectively.

Pre-publication Costs: Pre-publication costs are costs to create a book or other media, and include costs for the associated delivery method when such media is digital. Pre-publication costs are amortized upon publication of the title over estimated economic lives of one to six years, being the estimated operating life cycle of the title, with a higher proportion of the amortization taken in the earlier years. We periodically evaluate our amortization methods and rates. In addition, we review the recoverability of pre-publication costs periodically based on expected undiscounted cash flows and may, when appropriate, change our estimate of the remaining estimated economic life of a particular title based upon historical unit sales and our assessment of current market conditions, including estimates of customer demand, and publication revision cycles.

Impairment of Long-lived Assets: We evaluate the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The initial test for impairment compares the carrying amounts with the sum of undiscounted cash flows related to the asset. If the carrying value is greater than the undiscounted cash flows of the asset, the asset is written down to its estimated fair value.

Identifiable Intangible Assets and Goodwill: Upon acquisition, identifiable intangible assets are recorded at fair value. Identifiable intangible assets with finite lives are amortized over their estimated useful lives. We review the carrying values of these identifiable intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Our initial test for impairment compares the carrying amounts with the sum of undiscounted cash flows related to the identifiable intangible asset. If the carrying value is greater than the undiscounted cash flows of the asset, the identifiable intangible asset is required to be written down to its estimated fair value.

Goodwill represents the excess of the cost of acquired businesses over fair values attributed to underlying net tangible assets and identifiable intangible assets. We test the carrying value of goodwill at least annually for impairment at a "reporting unit" level, using a two-step approach. In the first step, the fair value of each reporting unit is determined. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit may be impaired. In this case, the second step is to allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value is less than the carrying value, we would be required to recognize an impairment loss for that excess.

In the fourth quarter of fiscal 2008, we conducted our annual impairment test of goodwill in accordance with our policy. In order to determine the fair value of each reporting unit, we considered various valuation techniques and determined that a weighted average of a discounted cash flow based methodology, market related multiples and comparable transaction related multiples were the most meaningful to us. The applied weighting of these methodologies varied by reporting unit and was either 50% or 80% towards a discounted cash flow value, 10% or 30% towards market related multiples and 10% or 20% towards comparable transaction related multiples. We weighted our valuation in this manner because we believe that a discounted cash flow currently provides the most reliable indication of fair value in the market place. Our reduced weighting towards market related multiples and comparable transaction related multiples reflects our assessment of the inherent limitations of these models specifically associated with identifying a pool of comparable organizations with publicly disclosed financial data and the limited number of comparable transactions executed within the most recent twelve months.

We applied certain assumptions as inputs to the valuation calculations. These assumptions represent our best estimates based upon historic performance of the respective reporting units, trends within the market place and our consideration of the potential impact of political, economic and social factors that are considered beyond our control. Significant assumptions included within our discounted cash flow valuation include revenue growth rates, operating profit margins, discount rates used and terminal growth rates.

- Revenue growth rates and operating profit margins were determined based upon the historic performance of each reporting unit and our projections of future performance assuming successful execution of our strategic objectives as well as considering trends within the market place.

- Terminal growth rates were estimated based upon the historic performance of each reporting unit and our projections of future performance. Given the inherent limitations associated with projecting this far into the future, our terminal growth rates do not exceed the inflation rate of the jurisdiction in which the reporting unit operates.

- Discount rates represent the industry standard weighted average cost of capital or required rate of return on total capitalization. It is comprised of the estimated required rate of return on equity plus the current tax-effected rate of return on long-term debt, weighted by the relative percentages of equity and debt in actual capital structures of public companies in the industry. The discount rates, which varied from 8.3% to 10.0% depending on the systemic risk coefficient applied to each particular investment, was determined for each reporting unit.

Significant assumptions included within our market related multiples varied by reporting unit from 1.25 times to 4.50 times and 8.0 times to 14.0 times revenue and earnings before interest, tax, depreciation and amortization, respectively.

Significant assumptions included within our comparable transaction related multiples varied by reporting unit from 1.25 times to 4.5 times and 9.0 times to 14.5 times revenue and earnings before interest, tax, depreciation and amortization, respectively.

In the fourth quarter of fiscal 2008, we conducted our annual impairment test of goodwill in accordance with our policy and recorded an aggregate $39.2 impairment charge relating to our business in Australia and two of our EMEA reporting units, each included within our International segment. This impairment primarily reflects the result of adverse changes in market conditions since the Acquisition and declines in our expectations of revenue and cash flows driven by softness in higher education sales in the United Kingdom and Australia.

A change in any of the assumptions may have a significant impact on the determined fair value of individual reporting units. Furthermore, if expectations for revenue and cash flows decline or if market conditions deteriorate, we may not be able to realize the carrying values of our goodwill and identifiable intangible assets and could be required to record future charges for impairment.

Acquisitions: Acquisitions are accounted for using the purchase method and the results of acquired businesses are included in the Financial Statements from the dates of acquisition. Under the purchase method of accounting, the cost, including transaction costs, are allocated to the underlying net tangible and identifiable intangible assets, based on their respective estimated fair values. Such estimates include expected cash flows to be generated by those assets and the expected useful lives based on historical experience, current market trends and synergies to be achieved from the acquisition as well as the expected tax basis of assets acquired. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Restructuring Charges: Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, facility closing or other activity, are recognized when they are incurred. Where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize severance costs when they are both probable and estimable. Additionally, we may incur restructuring charges in connection with acquisitions when we implement plans to restructure and integrate the acquired operations. For restructuring charges associated with a business acquisition that are identified in the first year after the acquisition date, the related costs are recorded as additional goodwill because they are considered to be liabilities assumed in the acquisition.

Legal Contingencies: We are involved in a variety of claims, lawsuits, investigations and proceedings concerning intellectual property law, employment law and Employee Retirement Income Security Act, see Note 19, "Commitments, Contingencies and Guarantees," in the Financial Statements for further information. We determine whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information and develop our views on estimated losses in consultation with outside counsel handling our defense in these matters. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Equity-Based Compensation Plans: We account for our equity-based compensation plan under the fair value recognition provisions of Statements of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment.* See Note 15, "Equity-Based Compensation," for further information related to this plan.

Prior to the Acquisition, TOC administered all equity-based compensation plans on behalf of Thomson Learning and had applied the fair value recognition provisions of SFAS No. 123R to calculate the effect of such compensation on Thomson Learning's net (loss) income for the period July 1, 2007 to July 4, 2007, the six months ended June 30, 2007 and the year ended December 31, 2006, and SFAS No. 123, *Accounting for Stock-based Compensation*, for the year ended December 31, 2005.

The effects of our equity-based compensation expense are included on our Consolidated and Combined Statements of Operations as follows:

	Successor	Predecessor			
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31, 2006	 2005
Selling, general and administrative, excluding depreciation	$ 5.6	$ -	$ 0.5	$ 1.3	$ 0.8
Allocation of management costs from TOC	-	-	0.3	2.6	2.2
Income tax benefit	-	-	(0.4)	(1.3)	(1.2)

Income Taxes: Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against deferred income tax assets if management determines that it is more likely than not that such deferred income tax assets will not be realized in the near future. The income tax provision for the periods shown is the taxes payable or receivable for the period and the change during the period in deferred income tax assets and liabilities.

The computation of the provision for income taxes requires certain estimates and significant judgment including, but not limited to, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

Effective January 1, 2007, Thomson Learning adopted the provisions FIN 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. As a result of this change in accounting policy, Thomson Learning recorded a non-cash charge of $2.1 to its opening retained earnings as of January 1, 2007 with an offsetting increase to "Net investment of TOC." Pursuant to the terms of the Acquisition, TOC agreed to indemnify Cengage Learning against certain taxes and associated expenses, including those related to unrecognized tax benefits, imposed on or payable by us for any taxable period that ends on or before July 5, 2007 or is allocable to the period ending on the same date.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements, to be applied under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective the first fiscal year beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for one year for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis. As such, the adoption of this standard on July 1, 2008 is limited to financial assets and liabilities, which primarily affects the valuation of the Company's derivative instruments. We are currently evaluating the impact of this standard on our Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS 115*. This guidance provides the option to measure and report certain assets and liabilities at their fair value. SFAS No. 159 is effective as of the beginning of the first fiscal year after November 15, 2007. We are currently evaluating the impact of this standard on our Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations.* This guidance requires the acquiring entity in a business combination to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with separate recognition of the costs of the acquisition. SFAS No. 141(R) also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, and the noncontrolling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) is effective as of the beginning of the first fiscal year after December 15, 2008 and early adoption is not permitted. We will adopt this standard in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any business combinations subject to this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.* This guidance requires disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. We adopted early, as permitted, the provisions of SFAS No. 161 as of June 30, 2008. The adoption of this standard did not have any material effect on our Financial Statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized identifiable intangible asset under SFAS 142, *Goodwill and*

Other Intangible Assets. The guidance in FSP 142-3 for determining the useful life of a recognized identifiable intangible asset shall be applied prospectively to identifiable intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. This FSP is effective for fiscal years beginning after December 31, 2008. Early adoption is not permitted. We will adopt this standard in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any acquired identifiable intangible assets subject to this standard.

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 under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. However, certain of these instruments may not qualify for hedge accounting treatment and, accordingly, the results of our operations may be exposed to some level of volatility. Volatility in our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period.

Periodically we may enter into derivative contracts, including interest rate and cross currency interest rate swap agreements and interest rate collars to manage interest rate exposures, and foreign currency spot, forward, swap and option contracts to manage foreign currency exposures. These instruments are held solely as risk management tools and not for trading or speculative purposes. The fair market values of all our 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 interest rate swap agreements do not include ratings based collateral triggers nor do they require us to post collateral regardless of the size of our market to market exposure.

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

At June 30, 2008, we have $4,639.6 million in outstanding variable rate debt and $1,656.2 million in outstanding fixed rate debt. Additionally, financial instruments, including interest rate swap agreements, have been used to manage interest rate exposures on the variable component of the variable rate debt. Our unhedged variable rate debt is sensitive to future increases or decreases in the applicable interest rate. A hypothetical 10% increase in interest rates for the unhedged variable rate debt would adversely affect net loss by approximately $14.8 million.

See Note 12, “Financial Instruments,” to our Financial Statements for a detailed description of derivative instruments we have entered into to hedge the variable interest rate component of certain of our indebtedness.

CENGAGE LEARNING HOLDINGS II L.P.

Page No.

Financial Statements:

Reports of Independent Auditors 56

Consolidated Balance Sheet at June 30, 2008 (Successor) and Combined Balance Sheet at June 30, 2007 (Predecessor) 58

Consolidated Statement of Operations for the Period July 5, 2007 to June 30, 2008 (Successor), Combined Statements of Operations for the Period July 1, 2007 to July 4, 2007 (Predecessor), the Six Months Ended June 30, 2007 (Predecessor) and the Years Ended December 31, 2006 and 2005 (Predecessor) 59

Consolidated Statement of Cash Flows for the Period July 5, 2007 to June 30, 2008 (Successor), Combined Statements of Cash Flows for the Period July 1, 2007 to July 4, 2007 (Predecessor), the Six Months Ended June 30, 2007 (Predecessor) and the Years Ended December 31, 2006 and 2005 (Predecessor) 60

Combined Statements of Owners' Equity and Comprehensive Income (Loss) for the Period July 1, 2007 to July 4, 2007, the Six Months Ended June 30, 2007 and the Years Ended December 31, 2006 and 2005 (Predecessor) 61

Consolidated Statement of Partners' Capital and Comprehensive Loss for the Period July 5, 2007 to June 30, 2008 (Successor) 62

Notes to Consolidated and Combined Financial Statements:

1. Basis of Presentation and Summary of Significant Accounting Policies 63
2. Acquisitions of Thomson Learning and Houghton Mifflin College Assets 72
3. Other Acquisitions 76
4. Discontinued Operations 78
5. Inventories 79
6. Property, Equipment and Capitalized Software for Internal Use 79
7. Identifiable Intangible Assets and Goodwill 80
8. Investments 82
9. Accounts Payable and Accrued Expenses 83
10. Restructuring 83
11. Debt and Capital Lease Obligations 84
12. Financial Instruments 88
13. Benefit Plans 90
14. Equity 91
15. Equity-Based Compensation 92
16. Income Taxes 97
17. Supplemental Cash Flow Information 99
18. Related Party Transactions 100
19. Commitments, Contingencies and Guarantees 101
20. Segment Information 103
21. Subsequent Events 107

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286 6000

Report of Independent Auditors

To the Board of Directors and partners of Cengage Learning Holdings II L.P.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of operations, cash flows and partners' capital and comprehensive loss present fairly, in all material respects, the financial position of Cengage Learning Holdings II L.P. and its subsidiaries (the "Successor") at June 30, 2008, and the results of their operations and their cash flows for the period from July 5, 2007 to June 30, 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes", effective January 1, 2007.

PricewaterhouseCoopers LLP

September 22, 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286 6000

Report of Independent Auditors

To the Board of Directors and management of Cengage Learning Holdings II L.P. (successor to Thomson Learning, a combination of certain assets and liabilities of Thomson Reuters Corporation, formerly The Thomson Corporation):

In our opinion, the accompanying combined balance sheets and the related combined statements of operations, cash flows and owners' equity and comprehensive income (loss)**,** present fairly, in all material respects, the financial position of Cengage Learning Holdings II L.P. and its subsidiaries (successor to Thomson Learning, a combination of certain assets and liabilities of Thomson Reuters Corporation, formerly The Thomson Corporation) (the "Predecessor") at June 30, 2007 and the results of their operations and their cash flows for the period from July 1, 2007 to July 4, 2007, the six months period ended June 30, 2007 and each of the two years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 18, the Company and The Thomson Corporation ("TOC") and its subsidiaries engaged in extensive intercompany transactions, and the Company relied on TOC for a significant portion of its administrative support, for which it was allocated costs on a basis that management believe is appropriate under the circumstances. The amounts recorded for these transactions and allocations are not necessarily representative of the amounts that would have been reflected in the financial statements had the Company been an entity operated independently of TOC.

As discussed in Note 1 to the financial statements, the Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes", effective January 1, 2007.

PricewaterhouseCoopers LLP

September 22, 2008

CENGAGE LEARNING HOLDINGS II L.P.
Consolidated Balance Sheet at June 30, 2008 (Successor)
and Combined Balance Sheet at June 30, 2007 (Predecessor)
(In millions of U.S. dollars unless otherwise indicated)

	Successor	Predecessor
	June 30, 2008	June 30, 2007
Assets		
Cash and cash equivalents	$ 44.3	$ 18.8
Accounts receivable, net	273.9	208.2
Notes receivable from TOC	-	23.8
Inventories	214.1	181.4
Current deferred tax assets	62.3	57.3
Prepaid expenses and other current assets	32.5	37.0
Current assets of discontinued operations	32.7	36.3
Total current assets	659.8	562.8
Property, equipment and capitalized software for internal use, net	160.3	149.3
Pre-publication costs, net	245.7	231.6
Author advances	25.5	24.8
Identifiable intangible assets, net	3,514.5	569.8
Goodwill	4,411.4	1,367.6
Non-current deferred tax assets	0.6	4.8
Deferred financing costs	80.8	-
Other non-current assets	20.9	19.8
Non-current assets of discontinued operations	26.1	27.0
Total assets	$ 9,145.6	$ 2,957.5
Liabilities and Partners' Capital and Owners' Equity		
Accounts payable and accrued expenses	$ 360.8	$ 235.4
Deferred revenue	104.9	86.7
Current portion of long-term debt	40.7	35.0
Capital lease obligation	-	26.0
Notes payable to TOC	-	693.9
Current taxes payable	6.8	12.4
Current fair value of derivative instruments	58.8	-
Other current liabilities	9.0	22.1
Current liabilities of discontinued operations	51.0	52.8
Total current liabilities	632.0	1,164.3
Long-term debt	6,255.1	14.9
Non-current deferred tax liabilities	922.5	311.8
Non-current fair value of derivative instruments	35.3	-
Other non-current liabilities	22.0	10.7
Non-current liabilities of discontinued operations	2.1	2.0
Total liabilities	7,869.0	1,503.7
Commitments, contingencies and guarantees (Note 19)		
Net investment of TOC	-	1,402.5
Partners' capital	1,320.3	-
Accumulated other comprehensive (loss) income	(43.7)	51.3
Total partners' capital and owners' equity	1,276.6	1,453.8
Total liabilities and partners' capital owners' equity	$ 9,145.6	$ 2,957.5

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

CENGAGE LEARNING HOLDINGS II L.P.

Consolidated Statement of Operations for the Period July 5, 2007 to June 30, 2008 (Successor) and Combined Statements of Operations for the Period July 1, 2007 to July 4, 2007, the Six Months ended June 30, 2007, and the Years Ended December 31, 2006 and 2005 (Predecessor)

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

	Successor	Predecessor			
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31,	
				2006	2005
Revenues	$ 1,705.5	$ 17.9	$ 540.4	$ 1,586.7	$ 1,509.7
Cost of revenues, excluding amortization of pre-publication costs and depreciation stated below	714.9	7.7	284.1	673.8	660.3
Amortization of pre-publication costs	130.7	0.9	46.3	123.6	119.0
Total cost of revenues, excluding depreciation stated below	845.6	8.6	330.4	797.4	779.3
Selling, general & administrative, excluding depreciation stated below	401.8	4.7	235.0	395.8	365.0
Allocation of management costs from TOC (Note 18)	-	0.8	25.3	47.7	41.0
Depreciation	59.3	0.7	30.0	53.4	47.6
Impairment of goodwill	39.2	-	-	-	-
Amortization and impairment of identifiable intangible assets	212.7	0.3	20.4	43.3	39.1
Total costs and expenses	1,558.6	15.1	641.1	1,337.6	1,272.0
Operating income (loss) from continuing operarations	146.9	2.8	(100.7)	249.1	237.7
Gain on sale of equity investee	0.8	-	-	-	-
Gain on nonmonetary transaction	-	-	-	1.3	-
Interest expense with TOC	-	-	(9.6)	(36.1)	(87.3)
Interest income	7.0	-	-	-	-
Interest expense	(559.1)	-	(2.2)	(5.5)	(5.8)
(Loss) income before taxes from continuing operarations	(404.4)	2.8	(112.5)	208.8	144.6
(Provision for) benefit from income taxes	(1.9)	(1.0)	40.1	(83.1)	(58.7)
Equity losses of investees, net of taxes	(3.1)	(0.1)	(4.9)	(6.9)	(7.9)
(Loss) income from continuing operations	(409.4)	1.7	(77.3)	118.8	78.0
(Loss) income from discontinued operations, net of tax	(115.8)	0.1	(4.1)	5.4	4.3
Net (loss) income	$ (525.2)	$ 1.8	$ (81.4)	$ 124.2	$ 82.3

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

CENGAGE LEARNING HOLDINGS II L.P.
Consolidated Statement of Cash Flows for the Period July 5, 2007 to June 30, 2008 (Successor) and Combined Statements of Cash Flows for the Period July 1, 2007 to July 4, 2007, the Six Months ended June 30, 2007, and the Years Ended December 31, 2006 and 2005 (Predecessor)
(In millions of U.S. dollars unless otherwise indicated)

	Successor	Predecessor			
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31, 2006	 2005
Cash Flows from Operating Activities					
Net (loss) income	$ (525.2)	$ 1.8	$ (81.4)	$ 124.2	$ 82.3
Loss (income) from discontinued operations, net of tax	115.8	(0.1)	4.1	(5.4)	(4.3)
(Loss) income from continuing operations	(409.4)	1.7	(77.3)	118.8	78.0
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities of continuing operations:					
Amortization of pre-publication costs	130.7	0.9	46.3	123.6	119.0
Depreciation	59.3	0.7	30.0	53.4	47.6
Impairment of goodwill	39.2	-	-	-	-
Amortization and impairment of identifiable intangible assets	212.7	0.3	20.4	43.3	39.1
Amortization of debt discounts and deferred financing costs	68.9	-	-	-	-
Non-cash interest on senior bridge loan facility	74.9	-	-	-	-
Non-cash interest on interest rate swaps	13.8	-	-	-	-
Non-cash equity-based compensation expense	5.6	-	-	-	-
(Benefit from) provision for deferred taxes	(11.0)	0.8	38.7	29.2	9.0
Equity losses of investees, net of taxes	3.1	0.1	4.9	6.9	7.9
Changes in operating assets and liabilities, net of acquisitions	114.3	2.2	(39.3)	(48.2)	52.6
Other, net	(0.3)	(0.2)	2.3	1.9	1.6
Net cash provided by operating activities of continuing operations	301.8	6.5	26.0	328.9	354.8
Net cash (used in) provided by operating activities of discontinued operations	(1.4)	1.5	(1.8)	3.3	8.0
Net cash provided by operating activities	300.4	8.0	24.2	332.2	362.8
Cash Flows from Investing Activities					
Acquisitions of businesses, less cash therein	(7,980.3)	-	(27.5)	(18.0)	(33.8)
Proceeds from sale of equity of investees	2.0	-	-	-	-
Capital infusion into equity investees	(0.8)	-	(5.2)	(5.2)	(7.5)
Additions to pre-publication costs	(123.9)	-	(60.4)	(118.0)	(125.1)
Additions to property, equipment and capitalized software for internal use	(40.7)	-	(26.5)	(43.5)	(47.9)
Proceeds from disposition of property, equipment and capitalized software for internal use	0.6	-	0.6	0.5	0.2
Other, net	-	-	(1.2)	(1.2)	3.1
Net cash used in investing activities of continuing operations	(8,143.1)	-	(120.2)	(185.4)	(211.0)
Net cash used in investing activities of discontinued operations	(1.7)	-	(1.1)	(9.4)	(1.4)
Net cash used in investing activities	(8,144.8)	-	(121.3)	(194.8)	(212.4)
Cash Flows from Financing Activities					
Proceeds from issuance of debt	6,190.4	-	-	-	-
Debt issuance costs	(93.4)	-	-	-	-
Repayments of long-term debt	(25.8)	-	(20.0)	(35.0)	(35.0)
Borrowings under the revolving credit facility	41.5	-	-	-	-
Repayments under the revolving credit facility	(41.5)	-	-	-	-
Repayments of capital lease obligation	(26.0)	-	-	-	-
Capital contributions from partners	1,839.9	-	-	-	-
Change in cash overdrafts	(11.7)	(6.9)	3.9	6.7	(4.3)
(Repayments) proceeds from notes payable/receivable to TOC, net	-	(5.2)	240.4	(936.3)	44.4
Repayment of term loan with TOC	-	-	-	-	(93.9)
Increase (decrease) in net investment of TOC	-	0.4	(145.3)	831.1	(66.3)
Net cash provided by (used in) financing activities of continuing operations	7,873.4	(11.7)	79.0	(133.5)	(155.1)
Impact on Cash and Cash Equivalents from Change in Foreign Currency	0.2	-	0.8	1.5	(1.6)
Net Increase (Decrease) in Cash and Cash Equivalents	29.2	(3.7)	(17.3)	5.4	(6.3)
Cash and Cash Equivalents					
Beginning of period	15.1	18.8	36.1	30.7	37.0
End of period	$ 44.3	$ 15.1	$ 18.8	$ 36.1	$ 30.7

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

CENGAGE LEARNING HOLDINGS II L.P.
Combined Statements of Owners' Equity and Comprehensive Income (Loss)
(Predecessor)
(In millions of U.S. dollars unless otherwise indicated)

	Net Investment of TOC	Accumulated Other Comprehensive Income	Total Owners' Equity	Comprehensive Income (Loss)
December 31, 2005	$ 671.9	$ 33.0	$ 704.9	
Increase in net investment of TOC	832.6	-	832.6	
Net income	124.2	-	124.2	$ 124.2
Foreign currency translation adjustment	-	12.5	12.5	12.5
Unrealized gains on derivative instruments	-	0.2	0.2	0.2
Comprehensive income				136.9
December 31, 2006	1,628.7	45.7	1,674.4	
Opening balance adjustment for income tax accounting change (Note 1):				
Adjustment to retained earnings	(2.1)	-	(2.1)	
Adjustment to net investment of TOC	2.1	-	2.1	
Decrease in net investment of TOC	(144.8)	-	(144.8)	
Net loss	(81.4)	-	(81.4)	(81.4)
Foreign currency translation adjustment	-	5.8	5.8	5.8
Unrealized gains on derivative instruments	-	(0.2)	(0.2)	(0.2)
Comprehensive loss				(75.8)
June 30, 2007	1,402.5	51.3	1,453.8	
Increase in net investment of TOC	0.4	-	0.4	
Net income	1.8	-	1.8	1.8
Foreign currency translation adjustment	-	2.3	2.3	2.3
Comprehensive income				$ 4.1
July 4, 2007	$ 1,404.7	$ 53.6	$ 1,458.3	

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

CENGAGE LEARNING HOLDINGS II L.P.
Consolidated Statement of Partners' Capital and Comprehensive Loss
(Successor)
(In millions of U.S. dollars unless otherwise indicated)

	General Partner's Capital	Limited Partners' Capital	Total Partners' Capital	Accumulated Other Comprehensive (Loss)	Total Owners' Equity	Comprehensive Loss
July 5, 2007	$ -	$ -	$ -	$ -	$ -	
Capital contribution on July 5, 2007[1]	-	1,703.1	1,703.1	-	1,703.1	
Additional capital contributions	-	136.8	136.8	-	136.8	
Non-cash equity-based compensation expense	-	5.6	5.6	-	5.6	
Net loss	-	(525.2)	(525.2)	-	(525.2)	$ (525.2)
Foreign currency translation adjustment	-	-	-	35.0	35.0	35.0
Unrealized loss on derivative instruments	-	-	-	(78.7)	(78.7)	(78.7)
Comprehensive loss						$ (568.9)
June 30, 2008	$ -	$ 1,320.3	$ 1,320.3	$ (43.7)	$ 1,276.6	

[1] The General Partner's contribution in whole U.S. dollars was $1.00 on July 5, 2007.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Business

Cengage Learning Holdings II L.P. and its consolidated subsidiaries (hereinafter collectively referred to as "Cengage Learning", "Successor", "we", "us", "our", or the "Company" for all periods after July 5, 2007) is the successor to Thomson Learning, which was comprised of wholly-owned indirect subsidiaries and divisions of Thomson Reuters Corporation, previously The Thomson Corporation ("TOC"), managed together by a single management team (hereinafter collectively referred to as "Thomson Learning" or "Predecessor" for all periods prior to July 5, 2007).

As described in Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets", on July 5, 2007, Cengage Learning Holdings II L.P. (the "Partnership"), a limited partnership controlled by investment funds associated with or designated by Apax Partners L.P. (hereinafter, collectively referred to as "Apax"), (i) acquired the stock of certain companies and certain assets, and (ii) assumed certain liabilities, of Thomson Learning from TOC in exchange for cash consideration of $7,108.9, less $17.3 associated with a working capital purchase price adjustment settled in February 2008 (the "Acquisition") and excluding transaction-related costs. In August 2007, the Company changed its name to 'Cengage Learning'.

We have three complementary businesses which we present as reportable segments – Academic & Professional, Gale and International. We present operating segment financial information in Note 20, "Segment Information."

Basis of Presentation

The accompanying consolidated and combined financial statements present separately the financial position, results of operations, cash flows and changes in equity and partners' capital for both us and Thomson Learning. In connection with the Acquisition, we established a new accounting basis as of the acquisition date based on the allocation of the purchase price to the underlying net assets acquired. Financial information for the pre- and post-acquisition periods have been separated by a vertical line on the face of the consolidated and combined financial statements to highlight that the financial information for such periods have been prepared under two different historical cost bases of accounting. The consolidated financial statements of Cengage Learning together with the combined financial statements of Thomson Learning are hereinafter collectively referred to as the "Financial Statements."

We prepare our Financial Statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Cengage Learning and all of our controlled subsidiary companies. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership), are accounted for using the equity method of accounting. In addition, we consolidate variable interest entities ("VIEs"), if we are deemed to be the primary beneficiary of the entity from the date the determination is made. As of June 30, 2008, we did not have any investments in VIEs. All intercompany accounts and transactions have been eliminated.

In June 2008, we decided to pursue the sale of certain non-strategic operations comprising our local language academic business located in Spain and our distance learning businesses in the United Kingdom and the Netherlands. These businesses were previously reported in our International segment. As a result, we restated these businesses as discontinued operations in our Financial Statements for all periods presented. See Note 4, "Discontinued Operations," for additional information.

During the fourth quarter of fiscal 2008, we determined that certain international transactions should be accounted for on a net basis in accordance with Emerging Issues Task Force Issue ("EITF") No 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, based on our rights and obligations pursuant to the contractual arrangements in place. Although the presentation of these transactions on a net basis does not impact our net income or cash flows, revenues and cost of revenues in the prior period financial statements have been adjusted so that the presentation is consistent for all periods presented. The offsetting impact between "Revenues" and "Costs of revenues, excluding amortization of pre-publication costs and depreciation" was $7.7, $20.8 and $13.8 for the six months ended June 30, 2007 and the years ended

December 31, 2006 and 2005, respectively. We believe these adjustments are not material to our Consolidated and Combined Statements of Operations.

Also in the fourth quarter of fiscal 2008, we began classifying all of our revenues into a single line as “Revenues” on the Consolidated and Combined Statements of Operations. In prior periods, we segregated our revenues into “Products” and “Services and other.” Consequently, we also began classifying our cost of revenues, excluding amortization of pre-publication costs and depreciation into a single line item. This reclassification had no impact on net (loss) income.

For all periods prior to the closing of the Acquisition, the combined financial statements of Thomson Learning reflect the assets, liabilities, revenues and expenses directly attributed to TOC’s Domestic Higher Education and Domestic Library Reference businesses as well as certain international businesses. The predecessor financial statements for the periods presented herein are combined on the basis of common control.

The combined financial statements have been derived from the accounting records of TOC using the historical results of operations and the historical basis of assets and liabilities of Thomson Learning adjusted as necessary to conform to GAAP. All significant transactions between Thomson Learning and other entities of TOC are included in these combined financial statements. Management believes the assumptions underlying the combined financial statements are reasonable. However, the combined financial statements included may not necessarily reflect Thomson Learning's results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been had it operated independently of TOC during the periods presented.

As described in Note 18,”Related Party Transactions,” Thomson Learning and other subsidiaries of TOC engaged in extensive intercompany transactions, and Thomson Learning relied on TOC for some of its administrative support for which it was allocated costs using methodologies that management believes were reasonable. The amounts recorded for these transactions and allocations were not necessarily representative of the amounts that would have been reflected in the combined financial statements had Thomson Learning been an entity operated independently of TOC. Other than those reflected as notes payable to or receivable from TOC, these transactions are presented in the combined financial statements as related party transactions, the net effect of which is presented within "Net investment of TOC" on the combined balance sheet. All transactions recorded through the "Net investment of TOC" are reflected as financing activities in the accompanying Combined Statements of Cash Flows.

Costs incurred by Thomson Learning for employee retention bonuses and professional services fees in connection with the Acquisition amounted to approximately $0.5 during the four day period ended July 4, 2007, $28.0 during the six months ended June 30, 2007, and $2.0 during the year ended December 31, 2006, and have been recorded in “Selling, general & administrative, excluding depreciation.”

Change of Fiscal Year End

On October 18, 2007, we changed our fiscal year end from December 31 to June 30 resulting in a six-month transition period ended June 30, 2007. For comparability, certain financial information for the resulting six-month transition period ended June 30, 2007 and 2006 is presented below:

	Predecessor	
	Six Months Ended June 30,	
	2007	2006
		(unaudited)
Revenues	$ 540.4	$ 513.2
Cost of revenues, excluding depreciation stated below	330.4	315.3
Selling, general & administrative, excluding depreciation stated below	235.0	195.3
Allocation of management costs from TOC (Note 18)	25.3	21.8
Depreciation	30.0	25.7
Amortization and impairment of identifiable intangible assets	20.4	20.1
Total costs and expenses	641.1	578.2
Operating loss from continuing operations	(100.7)	(65.0)
Interest expense, net	(11.8)	(21.3)
Loss before taxes from continuing operations	(112.5)	(86.3)
Benefit from income taxes	40.1	33.5
Equity losses of investee, net of tax	(4.9)	(4.0)
Loss from continuing operations	(77.3)	(56.8)
Loss from discontinued operations, net of tax	(4.1)	(0.4)
Net loss	$ (81.4)	$ (57.2)
Net cash provided by (used in) operating activities of continuing operations	$ 26.0	$ (42.3)
Net cash used in investing activities of continuing operations	(120.2)	(77.8)
Net cash provided by financing activities of continuing operations	79.0	115.1
Net cash used in discontinued operations	(2.9)	(0.8)
Impact on cash and cash equivalents from change in foreign currency	0.8	0.1
Net decrease in cash and cash equivalents	(17.3)	(5.7)
Cash and cash equivalents		
Beginning of period	36.1	30.7
End of period	$ 18.8	$ 25.0

Seasonality and Comparability

Typically, a greater portion of our revenue, operating profit and operating cash flow is derived in the second half of the calendar year because customer buying patterns are concentrated during this period, while costs are incurred more evenly throughout the year. As a result, operating margins are generally lower in the first half of the calendar year. For these reasons, the performance of our businesses may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year. In addition, as a result of the Acquisition, assets and liabilities have been adjusted to their fair values and, accordingly, historical valuation reserves were eliminated on the acquisition date.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results could differ from those estimates. These estimates include, but are not limited to, reserve for sales returns, inventory obsolescence reserve, allowance for doubtful accounts, realization of deferred tax assets, restructuring and related charges, the allocation of certain expenses to Thomson Learning (for periods prior to July 5, 2007), the determination of fair values related to purchase accounting and equity-based compensation, as well as fair value used in the assessment of the realizability of long-lived assets, goodwill and identifiable intangible assets.

Summary of Significant Accounting Policies

Revenue Recognition: We deliver learning solutions for universities, students, professors, libraries, professionals and corporations around the world. These solutions are delivered through specialized content, applications and services. Although printed materials continue to be the most widely-sold learning resource, we are increasingly providing customers with digital resources. We recognize revenue when the following four criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fee is fixed or determinable; and
- collectibility is probable.

Print and Digital Products - We recognize revenue from the sale of print and digital products, less estimated returns, when the product is shipped and title passes to the customer. We classify amounts billed to customers for shipping and handling as revenue.

Subscription-Based Products - We recognize revenues from sales of subscription-based products ratably over the term of the subscription. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period.

Multiple Element Arrangements - When a sales arrangement requires the delivery of more than one product or service, the individual deliverables are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each deliverable on a relative basis if reliable and objective evidence of fair value for each deliverable is available. The amount allocated to each unit is then recognized when each unit is delivered, provided that all other relevant revenue recognition criteria are met with respect to that unit. If, however, evidence of fair value is only available for undelivered elements, the revenue is allocated first to the undelivered items, with the remainder of the revenue being allocated to the delivered items, according to a calculation known as the residual method. Amounts allocated to delivered items are deferred if there are further obligations with respect to the delivered items. If evidence of fair value is only available for the delivered items, but not the undelivered items, the arrangement is considered a single element arrangement and revenue is recognized as the relevant recognition criteria are met.

Advertising Costs: Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expenses are included as a component of “Selling, general & administrative, excluding depreciation” on the Consolidated and Combined Statements of Operations, and amounted to $56.6, $31.9, $54.6 and $56.9 for the period from July 5, 2007 to June 30, 2008, six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Advertising expense for the period July 1, 2007 through July 4, 2007 was not significant.

Accumulated Other Comprehensive (Loss) Income: Other comprehensive (loss) income is defined as the change in equity of a business enterprise during a period from transactions and other events or circumstances from non-owner sources. Accumulated other comprehensive (loss) income consisted of the following:

	Successor	**Predecessor**
	Period	**Six Months**
	July 5, 2007 to	**Ended**
	June 30, 2008	**June 30, 2007**
Foreign currency translation adjustment	$ 35.0	$ 51.3
Unrealized loss on derivative instruments	(78.7)	-
Total accumulated other comprehensive (loss) income	$ (43.7)	$ 51.3

Allowance for Doubtful Accounts and Reserve for Sales Returns: Most of our accounts receivable are due from universities, bookstores, students, libraries, professionals and corporations. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable are reflected net of an allowance for doubtful accounts and sales returns. Management periodically assesses the allowance for doubtful accounts and estimates the amount of future returns by evaluating general factors such as the length of time individual receivables are past due, historical collection experience and sales returns experience, and the economic and competitive environment. Accounts receivable losses are charged against the allowance when the receivable is determined to be uncollectible. Subsequent recoveries, if any, are credited to the allowance. Sales returns are charged against the reserve as products are returned to inventory and any remaining reserve is reversed at the end of the estimated returns cycle.

The aggregate allowance for doubtful accounts and sales returns reserve as of June 30, 2008 and June 30, 2007 was $109.5 and $113.1, respectively.

Concentration of Credit Risk: At June 30, 2008, one customer accounted for approximately 11% of our gross accounts receivable. At June 30, 2007, no customer accounted for more than 10% of Thomson Learning’s gross accounts receivable. No customer accounted for more than 10% of our revenue during the period from July 5, 2007 to June 30, 2008, the period from July 1 to July 4, 2007, the six months ended June 30, 2007 or the years ended December 31, 2006 and 2005.

Cash and Cash Equivalents: We consider cash and cash equivalents to consist of cash on deposit in banks. Cash equivalents have original maturities of less than 90 days. Prior to the Acquisition, Thomson Learning and TOC maintained an agreement whereby TOC periodically swept Thomson Learning’s cash receipts and funded Thomson Learning’s cash disbursements as necessary. With the exception of that which is included in “Notes receivable from TOC” and “Notes payable to TOC”, such activity is included in “Net investment of TOC” on the Combined Balance Sheet.

Notes Receivable and Notes Payable with TOC: Thomson Learning periodically lent to, or borrowed money from, various subsidiaries of TOC as part of TOC's overall cash management and capitalization program. These arrangements were subject to written loan agreements specifying repayment terms and interest payments. These notes are reflected separately in the Combined Balance Sheet based on their legal form. As the balances pursuant to these notes fluctuated on a frequent basis, Thomson Learning had classified both the “Notes receivable from TOC” and “Notes payable to TOC” as a current asset and a current liability, respectively. As these notes were part of TOC's overall capitalization of Thomson Learning, changes in the notes’ balances have been reflected as financing activities in the Combined Statements of Cash Flows. See Note 2, “Acquisitions of Thomson Learning and Houghton Mifflin College Assets.”

In March 2006, TOC contributed capital of $906.0 that Thomson Learning used to reduce “Notes Payable to TOC.” This contribution is included in “(Decrease) increase in net investment of TOC” on the accompanying Combined Statements of Cash Flows. In the U.S., the agreements required interest to be paid or received at variable market rates of 5.3%, 3.9% and 6.3% for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Outside the U.S., the agreements required interest to be paid or received at variable market rates of 5.4%, 4.2% and 4.0% for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Interest on all loans is reflected in “Interest expense with TOC” on the Combined Statements of Operations. Other intercompany activity with TOC was not subject to written loan agreements.

Term Loan with TOC: During the year ended December 31, 2005, Thomson Learning repaid a term loan in the amount of $93.9 to a wholly-owned subsidiary of TOC. The loan carried an interest rate that varied based on the London Inter Bank Offered Rate (“LIBOR”) plus a specified margin of 2.25%. The interest expense on such loan was $1.5 for the year ended December 31, 2005 and is included in “Interest expense with TOC” on the Combined Statements of Operations.

Inventories: Inventories, which are principally comprised of books, other print products and digital media, are stated at lower of cost or market value, with cost determined generally using the weighted average method. Allowances are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value.

Capitalized Software: We capitalize certain costs incurred in connection with software to be used internally once a project has progressed beyond a conceptual, preliminary stage to that of application development. Costs which qualify for capitalization include both internal and external costs, but are limited to those that are directly related to a specific project. The capitalized amounts, net of accumulated depreciation, are included in "Property, equipment and capitalized software for internal use, net" on the Consolidated and Combined Balance Sheets. We depreciate these costs over their expected useful lives, which range from three to five years.

Property, Equipment and Capitalized Software for Internal Use: Property, equipment and capitalized software for internal use is stated at cost less accumulated depreciation.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Purchased and internally-developed software	3-5 years
Computer hardware	3-5 years
Buildings and building improvements	10-40 years
Machinery and equipment	7-10 years
Furniture and fixtures	5-10 years
Office equipment	3-5 years
Automobiles	4-7 years
Leasehold improvements	Lesser of lease term or estimated useful life

Pre-publication Costs: Pre-publication costs are costs to create a book or other media, and include costs for the associated delivery method when such media is digital. Pre-publication costs are amortized upon publication of the title over estimated economic lives of one to six years, being the estimated operating life cycle of the title, with a higher proportion of the amortization taken in the earlier years.

Royalties and Author Advances: We pay royalties to certain vendors and authors either as a lump-sum prepayment or as products are sold, in accordance with the respective contracts. Such payments are recognized as a component of "Cost of revenues, excluding amortization of pre-publication costs and depreciation" on the Consolidated and Combined Statements of Operations as revenue from the associated products or services are recognized.

Identifiable Intangible Assets and Goodwill: Upon acquisition, identifiable intangible assets are recorded at fair value. Identifiable intangible assets with finite lives are amortized over their estimated useful lives. We review the carrying values of these identifiable intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Our initial test for impairment compares the carrying amounts with the sum of undiscounted cash flows related to the identifiable intangible asset. If the carrying value is greater than the undiscounted cash flows of the asset, the identifiable intangible asset is required to be written down to its estimated fair value.

Goodwill represents the excess of the cost of acquired businesses over fair values attributed to underlying net tangible assets and identifiable intangible assets. We test the carrying value of goodwill at least annually for impairment at a "reporting unit" level, using a two-step approach. In the first step, the fair value of each reporting unit is determined. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit may be impaired. In this case, the second step is to allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value is less than the carrying value, we would be required to recognize an impairment loss for that excess. See Note 7, "Identifiable Intangible Assets and Goodwill," for further information related to our goodwill.

Investments in Affiliates: Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Under the equity method, investments are initially recorded at cost and the carrying amounts are adjusted to reflect our share of net earnings or losses of the investee companies, and are reduced by dividends received. When the estimated fair values of investments fall below their carrying values, the investments are written down if such declines are considered to be other than temporary. During fiscal 2008, we sold our 50% investment in Universitas 21 Global ("U21"), a joint venture between us and a consortium of 19 universities from around the world, for $2.0.

Acquisitions: Acquisitions are accounted for using the purchase method and the results of acquired businesses are included in the Financial Statements from the dates of acquisition. Under the purchase method of accounting, the cost, including transaction costs, are allocated to the underlying net tangible and identifiable intangible assets, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Impairment of Long-lived Assets: Management evaluates the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The initial test for impairment compares the carrying amounts with the sum of undiscounted cash flows related to the asset. If the carrying value is greater than the undiscounted cash flows of the asset, the asset is written down to its estimated fair value.

Restructuring Charges: Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, plant closing or other activity, are recognized when they are incurred. Additionally, we may incur restructuring charges in connection with acquisitions when we implement plans to restructure and integrate the acquired operations. For restructuring charges associated with a business acquisition that are identified in the first year after the acquisition date, the related costs are recorded as additional goodwill because they are considered to be liabilities assumed in the acquisition. All other restructuring charges, all integration costs and any charges related to our pre-existing businesses are included in "Cost of revenues, excluding amortization of pre-publication costs and depreciation" and "Selling, general & administrative, excluding depreciation" on the Consolidated and Combined Statements of Operations.

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. From time to time, we may enter into derivative contracts to manage these risks. See Note 12, "Financial Instruments," for further information related to our derivative financial information.

Prior to the Acquisition, in the ordinary course of business, TOC entered into derivative financial instruments on behalf of Thomson Learning to hedge forecasted cash flows denominated in currencies other than the functional currency of a business for up to a one year period.

Fair Value of Financial Instruments: The carrying amounts of our financial instruments, which include accounts receivable, accounts payable and accrued expenses, approximate their fair values due to the short-term nature of these instruments. The fair value of derivative instruments is estimated based upon discounted cash flows using applicable current market rates. The carrying amounts of "Notes receivable from TOC" and "Notes payable to TOC" approximate their fair values as these notes bear floating rates of interest. The fair value of long-term debt is estimated based on either quoted market prices for similar issues or through the use of a discounted cash flow model using current rates available for debt of the same maturity. See Note 11, "Debt and Capital Lease Obligation," for further information related to our debt.

Equity-Based Compensation Plans: We account for our equity-based compensation plan under the fair value recognition provisions of Statements of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment.* See Note 15, "Equity-Based Compensation," for further information related to this plan.

Prior to the Acquisition, TOC administered all equity-based compensation plans on behalf of Thomson Learning and had applied the fair value recognition provisions of SFAS No. 123R to calculate the effect of such compensation on Thomson Learning's net (loss) income for the period July 1, 2007 to July 4, 2007, the six months ended June 30, 2007 and the year ended December 31, 2006, and SFAS No. 123, *Accounting for Stock-based Compensation*, for the year ended December 31, 2005.

The effects of our equity-based compensation expense are included in our Consolidated and Combined Statements of Operations as follows:

	Successor	**Predecessor**			
	Period	**Period**	**Six Months**	**Years Ended**	
	July 5, 2007 to	**July 1, 2007 to**	**Ended**	**December 31,**	
	June 30, 2008	**July 4, 2007**	**June 30, 2007**	**2006**	**2005**
Selling, general and administrative, excluding depreciation	$ 5.6	$ -	$ 0.5	$ 1.3	$ 0.8
Allocation of management costs from TOC	-	-	0.3	2.6	2.2
Income tax benefit	-	-	(0.4)	(1.3)	(1.2)

Foreign Currency Translation: The functional currencies of certain foreign operations are the local currencies of those foreign locations. Balance sheet accounts of these foreign operations are translated from foreign currencies into the reporting currency (U.S. dollars) at period-end exchange rates while revenues and expenses are translated at average exchange rates during the period. Currency gains or losses arising from transactions denominated in a currency other than the functional currency are recorded in "Selling, general & administrative, excluding depreciation" on the accompanying Consolidated and Combined Statements of Operations. Net gains were $2.0 and $0.4 for the period from July 5, 2007 to June 30, 2008 and the year ended December 31, 2006, respectively. Net gains (losses) were not material for the period July 1 to July 4, 2007, six months ended June 30, 2007 and the year ended December 31, 2005.

Taxes Collected from Customers and Remitted to Governmental Agencies: We record taxes on customer transactions but due to governmental agencies as a receivable and a liability on our balance sheet.

Income Taxes: We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes,* applied to Cengage Learning Holdings II L.P. and each of its consolidated subsidiaries, which may be liable for tax in each of their jurisdictions. No provision for income taxes is recorded for the limited partnership, Cengage Learning Holdings II L.P., as any liabilities or benefits for income taxes flow to the partners and are their obligations or benefits.

The effective tax rate is dependent upon the geographic distribution of worldwide earnings or losses, tax regulations in each jurisdiction, the availability of tax credits and carry-forwards, and the effectiveness of our tax planning strategies.

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against deferred income tax assets if management determines that it is more likely than not that such deferred income tax assets will not be realized in the near future. The income tax provision for the periods shown is the taxes payable or receivable for the period and the change during the period in deferred income tax assets and liabilities.

We recognize interest and penalties related to income tax matters as a component of income tax expense.

Prior to the Acquisition, income taxes were presented as if the subsidiaries were operated as separate stand-alone tax-paying entities (separate return basis). Current taxes payable attributable to divisions of TOC were $44.9 as of June 30, 2007 and are included in "Net investment of TOC" on the combined balance sheet. Income taxes payable by subsidiaries that file separate returns are included in "Current taxes payable" on the combined balance sheet. TOC filed individual and combined tax returns that included Thomson Learning as required within each jurisdiction.

The computation of the provision for income taxes requires certain estimates and significant judgment including, but not limited to, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

Effective January 1, 2007, Thomson Learning adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement*

No. 109. As a result of this change in accounting policy, Thomson Learning recorded a non-cash charge of $2.1 to its opening retained earnings as of January 1, 2007 with an offsetting increase to "Net investment of TOC." Pursuant to the terms of the Acquisition, TOC agreed to indemnify Cengage Learning against certain taxes and associated expenses, including those related to unrecognized tax benefits, imposed on or payable by us for any taxable period that ends on or before July 5, 2007 or is allocable to the period ending on the same date.

New Accounting Standards and Accounting Changes

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements, to be applied under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective the first fiscal year beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for one year for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis. As such, the adoption of this standard on July 1, 2008 is limited to financial assets and liabilities, which primarily affects the valuation of the Company's derivative instruments. We are currently evaluating the impact of this standard on our Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS 115*. This guidance provides the option to measure and report certain assets and liabilities at their fair value. SFAS No. 159 is effective as of the beginning of the first fiscal year after November 15, 2007. We are currently evaluating the impact of this standard on our Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations.* This guidance requires the acquiring entity in a business combination to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with separate recognition of the costs of the acquisition. SFAS No. 141(R) also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, and the noncontrolling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) is effective as of the beginning of the first fiscal year after December 15, 2008 and early adoption is not permitted. We will adopt this standard in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any business combinations subject to this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.* This guidance requires disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. We adopted early, as permitted, the provisions of SFAS No. 161 as of June 30, 2008. The adoption of this standard did not have any material effect on our Financial Statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized identifiable intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to identifiable intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all identifiable intangible assets recognized as of, and subsequent to, adoption. This FSP is effective for fiscal years beginning after December 31, 2008. Early adoption is not permitted. We will adopt this standard in fiscal year 2010 and its effects on future periods will depend on the nature and significance of any acquired identifiable intangible assets subject to this standard.

2. ACQUISITIONS OF THOMSON LEARNING AND HOUGHTON MIFFLIN COLLEGE ASSETS

Acquisition of Thomson Learning

On July 5, 2007, Cengage Learning Holdings II L.P. (i) acquired the stock of certain companies and certain assets, and (ii) assumed certain liabilities, of Thomson Learning from TOC in exchange for a cash consideration of $7,108.9, subject to a working capital purchase price adjustment and excluding transaction-related costs. During the third quarter of fiscal 2008, Cengage Learning and TOC entered into a working capital settlement agreement whereby the parties agreed to a reduction in the purchase price of $17.3, which was remitted to us in February 2008.

The Acquisition was financed through (i) a common equity capital contribution of $1,703.1 (the “Equity Contribution”) and (ii) $5,580.2 in aggregate gross debt financing, less $91.1 associated with financing fees, (the “Financing Transactions”) as follows:

- $3,440.0 of borrowings under $3,740.0 of senior secured credit facilities, consisting of a $3,440.0 term loan facility with a seven-year maturity and a $300.0 revolving credit facility with a six-year maturity;
- $1,215.6 aggregate principal amount ($1,200.1 gross proceeds) of 10.50% senior notes due 2015;
- $519.0 aggregate principal amount at maturity ($400.1 gross proceeds) of 13.25% senior subordinated discount notes due 2015, for which no cash interest will accrue between the date of original issuance and July 15, 2009; and
- $540.0 of borrowings under a senior bridge loan credit facility.

The Financing Transactions, together with the Acquisition and Equity Contribution, are hereinafter referred to as the “Transactions.” See Note 11, “Debt and Capital Lease Obligation,” for additional descriptions of the Financing Transactions.

Allocation of the Purchase Price

The Acquisition was accounted for under the purchase method of accounting. Under this method, the costs of the transactions were allocated to the underlying net tangible and identifiable intangible assets, based on their respective fair values as follows:

Acquisition consideration	$	7,108.9
Working capital purchase price adjustment		(17.3)
Transaction costs (a)		58.8
Retirement of U.K. pension obligation (b)		40.2
Total purchase price allocated	$	7,190.6

	Weighted Average Useful Lives	Allocation of Purchase Price
Thomson Learning net assets as of July 4, 2007		$ 1,458.2
Assets and liabilities retained by TOC, net (c)		748.8
Deferred tax adjustments (d)		105.7
Historical net investment of TOC as adjusted for assets and liabilities not acquired		2,312.7
Purchase accounting adjustments:		
Reverse historical intangible assets and goodwill (e)		(1,962.0)
Deferred taxes relating to purchase accounting		(728.1)
Deferred revenue		36.0
Fair value adjustments to property, equipment and capitalized software for internal use		26.7
Other, net		(15.7)
		(330.4)
Identifiable intangible assets:		
Customer relationships	21 years	315.2
Database/Content	21 years	694.2
Trade names	15 years	404.2
Publishing rights	23 years	1,824.0
Non-compete and other	5 years	32.0
Goodwill (f)		4,251.4
		$ 7,190.6

(a) Includes $36.4 of fees and $0.3 of out-of-pocket expenses paid to certain affiliates of Apax in connection with the Acquisition. See Note 18, "Related Party Transactions."

(b) Represents £20 paid primarily to fund The Thomson Corporation PLC pension plan pursuant to Sections 75 and 75A of the U.K. Pensions Act of 1995 and the Occupations Pension Schemes (Employer Debt) Regulations 2005.

(c) Pursuant to the Acquisition, we did not acquire notes receivable from TOC, notes payable to TOC, current and long-term portions of long-term debt and certain other indebtedness related to management retention plans.

(d) Historical deferred taxes and liabilities of three of the Thomson Learning entities are eliminated upon the consummation of the Acquisition because the acquisition of the entity is accounted for as an asset purchase for income tax purposes.

(e) Historical intangible assets and goodwill are eliminated upon the consummation of the Acquisition.

(f) Represents the excess purchase price over the fair value of net identifiable assets acquired. Goodwill is attributable to Cengage Learning's three segments. Approximately $1,269.6 of goodwill is deductible for tax purposes. See Note 7, "Identifiable Intangible Assets and Goodwill," for additional information related to goodwill acquired.

Transition Services Agreements with TOC

Concurrent with the consummation of the Acquisition, we entered into a Transition Services Agreement with a subsidiary of TOC. Under the Transition Services Agreement, the TOC subsidiary provides various services to us, including services relating to payroll, telecommunications and information technology. Under the Transition Services Agreement, the cost of each transition service generally is based on a flat fee.

Unless specifically indicated below, all services provided under the Transition Services Agreement are provided for a specified period of time, and we can terminate those services in advance upon 30 days written notice without penalty and, in certain circumstances, the TOC subsidiary can terminate some services.

We incurred costs under the Transition Services Agreement of approximately $0.5 for the period from July 5, 2007 to June 30, 2008.

Concurrent with the consummation of the Acquisition, we also entered into a Human Resources Services Agreement with the same TOC subsidiary. Under the Human Resources Services Agreement, the TOC subsidiary provides to us certain employee benefit plan, payroll, administration and other human resources services. Under the terms of the agreement, we are required to establish and maintain certain employee benefit plans pursuant to an administrative service contract, insurance or other arrangement entered into between ourselves and a vendor approved by the TOC subsidiary and the third-party service provider to be used by the TOC subsidiary in providing the services under the agreement.

The cost of each service provided under the Human Resources Services Agreement is based on either a flat fee or an allocation (based on size or usage) of the cost incurred by TOC in providing the service. All services provided under the Human Resources Services Agreement are provided for a specified period of time, generally two years from the date of the Acquisition, and we do not have the ability to terminate those services or the Human Resources Services Agreement in advance. The TOC subsidiary can generally terminate the services upon six months prior notice.

We incurred costs under the Human Resources Services Agreement of approximately $2.7 for the period from July 5, 2007 to June 30, 2008.

Benefit Plans

Concurrent with the consummation of the Acquisition, all employees of Thomson Learning ceased to be active participants in all TOC sponsored employee benefit and equity-based compensation plans described in Note 13, "Benefit Plans" and Note 15, "Equity-Based Compensation." Post Acquisition, we did not retain any obligations under, or liabilities with respect to, these plans.

Acquisition of Houghton Mifflin College Assets

On May 30, 2008, we consummated our acquisition of the college division of Houghton Mifflin Harcourt Publishing Company ("HM College") for $768.3 in cash, reflecting the base purchase price of $750.0, adjusted for a working capital and a cash flow mechanism, pursuant to the purchase agreement, but before adjusting for proceeds from titles divested pursuant to an agreement with the U.S. Department of Justice ("DOJ") and excluding transaction-related costs. The final purchase price will be determined after an audit of the 2008 working capital and cash flow of the acquired business. The acquisition of HM College assets expands and complements the range of textbooks, study guides, custom publications and digital solutions that we provide to professors and students in two- and four-year colleges and universities. The acquired assets have been included as part of our Academic & Professional segment since the date of acquisition.

We financed the acquisition primarily through (i) a common equity capital contribution of $132.5 and (ii) $625.0 of incremental term loan borrowings under the senior secured credit facilities, less $2.3 associated with financing fees. See Note 11, "Debt and Capital Lease Obligation," for additional description of this transaction.

In connection with the regulatory review of this acquisition, we reached an agreement with the DOJ to divest certain higher education titles. In July 2008, we completed the sale of those titles.

Preliminary Allocation of the Purchase Price

The HM College acquisition was accounted for under the purchase method of accounting. We performed a preliminary allocation of the purchase price using information currently available that was based on preliminary estimates of the fair value of assets acquired and liabilities assumed in connection with the acquisition. Under the purchase method of accounting, the cost was allocated to the underlying net tangible and identifiable intangible assets, based on their respective estimated fair values as follows:

Acquisition consideration	$ 750.0
Preliminary working capital and cash flow purchase price adjustments	18.3
Transaction costs (a)	18.4
Total preliminary purchase price to be allocated	$ 786.7

	Weighted Average Useful Lives	Allocation of Purchase Price
Inventories		$ 34.3
Prepaid expenses and other current assets		0.6
Property and equipment		5.3
Pre-publication costs		29.0
Author advances		4.2
Identifiable intangible assets:		
Publishing rights	22 years	399.0
Trade names	15 years	50.0
Non-compete	3 years	13.0
Goodwill (b)		285.4
Other non-current assets		0.2
Total assets		821.0
Accounts payable and accrued expenses		21.0
Other current liabilities		7.3
Other non-current liabilities		6.0
Total liabilities		34.3
Net assets		$ 786.7

(a) Includes $7.7 of fees paid to certain affiliates of Apax. See Note 18, “Related Party Transactions.”

(b) Represents the excess purchase price over the fair value of net identifiable assets acquired. Goodwill is attributable to the Academic & Professional segment. Approximately $271.3 of goodwill is deductible for tax purposes. See Note 7, “Identifiable Intangible Assets and Goodwill,” for additional information related to goodwill acquired.

Concurrent with the consummation of the HM College acquisition, we entered into a transition services agreement with Houghton Mifflin Company. Under this agreement, Houghton Mifflin provides various services to us, including services relating to real estate, telecommunications and information technology. Under the transition services agreement, the cost of each transition service generally is based on a pro rata allocation of Houghton Mifflin’s actual expenses related to such services. This transition services agreement remains in effect until May 2009, with us having the ability to terminate specific services upon 15 days’ notice. We incurred costs under this agreement of approximately $1.2 during June 2008.

Also concurrent with the consummation of the HM College acquisition, we entered into a high school distribution agreement with Houghton Mifflin pursuant to which Houghton Mifflin will provide marketing and selling services for our college products into the high school advanced placement market. We will fulfill and deliver such products beginning September 2008.

Pro Forma Financial Information (unaudited)

The pro forma results below include the effects of the acquisitions of Thomson Learning and HM College as if they had been consummated as of July 1, 2007, January 1, 2007 and January 1, 2006, respectively. The pro-forma results include: (i) the amortization associated with the estimated value of acquired identifiable intangible assets; (ii) interest expense associated with the debt used to fund these acquisitions; and (iii) advisory fees payable to Apax and OMERS Capital Partners ("OMERS") (see Note 18, "Related Party Transactions"). The pro forma results do not include any anticipated benefits from cost savings or adjustments to exclude the allocation of management costs from TOC. Accordingly, the pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had these acquisitions been consummated as of these dates.

	Year Ended June 30, 2008	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Revenue	$ 1,929.3	$ 583.0	$ 1,791.8
Operating income (loss) from continuing operations	168.3	(262.6)	37.1
Net loss	(555.7)	(564.8)	(555.4)

3. OTHER ACQUISITIONS

During the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, Thomson Learning completed 17 acquisitions. These acquisitions augmented Thomson Learning's content offerings.

The following provides a brief description of the more significant acquisitions:

Date	Company	Segment	Description
July 2005	Outernet	Academic & Professional	Provider of customized print and media learning resources for students enrolled in chemistry and biology lab courses.
December 2005	USA Real Estate	Academic & Professional	Provider of exam preparation, pre- and post-license courses and other professional development materials to prospective and current real estate license holders.
August 2006	New Editions	International	An international publisher of English language teaching materials focused on the English primary and secondary markets.
March 2007	Aplia, Inc.	Academic & Professional	Provider of online educational content and interactive tools for economic and finance courses.

Pro forma financial information for these acquisitions has not been included because such acquisitions were not deemed to be material either individually or in aggregate.

Details of net assets acquired of these acquisitions are as follows:

	Six Months Ended June 30, 2007	Years Ended December 31, 2006	2005
Cash	$ 1.2	$ 0.3	$ -
Accounts receivable	-	2.4	(0.5)
Inventories	0.8	3.0	0.8
Prepaid expenses and other current assets	0.1	2.6	-
Property and equipment	5.8	1.2	0.8
Identifiable intangible assets	8.4	25.1	22.8
Goodwill	17.7	12.6	13.8
Other non-current assets	3.0	0.3	0.4
Total assets	37.0	47.5	38.1
Accounts payable and accrued expenses	2.0	9.1	2.5
Deferred revenue	1.5	2.9	1.8
Other current liabilities	-	1.1	-
Deferred tax liability	3.2	5.5	-
Other non-current liabilities	0.1	-	-
Total liabilities	6.8	18.6	4.3
Net assets	$ 30.2	$ 28.9	$ 33.8

Approximately $13.5, $1.2 and $13.1 of the goodwill arising from the acquisitions during the six months ended June 30, 2007 and years ended December 31, 2006 and 2005, respectively, is deductible for tax purposes.

In December 2007, we paid the remaining $1.5 due for the purchase of a business acquired in May 2007.

The identifiable intangible assets acquired through these acquisitions are summarized as follows:

	Six Months Ended June 30, 2007		Years Ended December 31, 2006		2005	
Finite Useful Lives	Amount	Weighted Average Amortization Period (years)	Amount	Weighted Average Amortization Period (years)	Amount	Weighted Average Amortization Period (years)
Database / Content	$ 6.4	6	$ 20.0	11	$ 18.3	11
Customer relationships	-		3.3	9	2.7	9
Trade names	2.0	8	1.4	5	1.2	8
Non-compete and other	-		0.4	2	0.6	3
	$ 8.4		$ 25.1		$ 22.8	

Thomson Learning had obligations to pay additional consideration for certain prior acquisitions, typically based upon performance measures contractually agreed to at the time of purchase. Any subsequent payments under such agreements were considered additional purchase price. Additional payments in connection with transactions during the six months ended June 30, 2007 and the years ended December 31, 2006, and 2005 did not have a material impact on the Combined Financial Statements.

In November 2006, Thomson Learning entered into a non-monetary exchange of book titles and content with another publisher. The transaction was accounted for in accordance with SFAS No. 153, *Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29* with a value of $3.0 and resulted in the recognition of a $1.3 gain.

4. DISCONTINUED OPERATIONS

In June 2008, we decided to pursue the sale of certain non-strategic operations comprising our local language academic business located in Spain and our distance learning businesses in the United Kingdom and the Netherlands. These businesses were previously reported in our International segment. As a result, we classified these businesses as assets held for sale and restated them as discontinued operations in our Financial Statements for all periods presented. The major classes of assets and liabilities of discontinued operations included in the Consolidated and Combined Balance Sheets are summarized as follows:

	Successor	Predecessor
	June 30, 2008	June 30, 2007
Assets		
Accounts receivable, net	$ 24.5	$ 28.5
Inventories	2.5	4.1
Prepaid expenses and other current assets	5.7	3.7
Property, equipment and capitalized software for internal use, net	0.6	1.0
Pre-publication costs, net	1.4	2.2
Identifiable intangible assets, net	11.3	2.5
Goodwill	12.8	20.3
Non-current deferred tax asset	-	1.0
Total assets of discontinued operations	$ 58.8	$ 63.3
Liabilities		
Accounts payable and accrued expenses	$ 8.7	$ 5.8
Deferred revenue	42.3	47.0
Other non-current liabilities	2.1	2.0
Total liabilities of discontinued operations	$ 53.1	$ 54.8

Included in the (loss) income from discontinued operations in the Consolidated and Combined Statements of Operations are the following:

	Successor	Predecessor			
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31,	
				2006	2005
Revenues	$ 54.3	$ 0.8	$ 28.7	$ 62.9	$ 55.3
(Loss) income before taxes	(116.1)	0.1	(4.9)	7.9	6.3

Included in the loss before taxes in the period July 5, 2007 to June 30, 2008 was a charge of $103.0 representing a write-down of net assets of discontinued operations to their estimated fair market value less estimated selling costs. Fair value represents management’s best estimate of the amounts for which the net assets could be sold in the market. The charge, which includes goodwill of $95.7, reflects the result of adverse changes in market conditions since the Acquisition.

The sale of these operations is expected to be completed within the next twelve months.

5. INVENTORIES

Inventories consist of the following:

	Successor June 30, 2008	Predecessor June 30, 2007
Raw materials	$ 6.4	$ 7.4
Work-in-progress	0.2	4.1
Finished goods	234.9	230.7
	241.5	242.2
Obsolescence reserve	(27.4)	(60.8)
Inventories, net	$ 214.1	$ 181.4

6. PROPERTY, EQUIPMENT AND CAPITALIZED SOFTWARE FOR INTERNAL USE

Property, equipment and capitalized software for internal use consist of the following:

	Successor June 30, 2008	Predecessor June 30, 2007
Purchased and internally-developed software	$ 85.1	$ 179.8
Buildings and building improvements	37.7	41.1
Computer hardware	31.1	80.8
Leasehold improvements	18.2	28.7
Land and land improvements	15.2	1.2
Machinery and equipment	14.8	29.4
Furniture and fixtures	5.4	18.2
Office equipment	1.9	5.7
Automobiles	1.3	2.7
Total property, equipment and capitalized software for internal use, gross	210.7	387.6
Less: Accumulated depreciation	(50.4)	(238.3)
Total property, equipment and capitalized software for internal use, net	$ 160.3	$ 149.3

Depreciation expense (excluding impairment charges) for the period from July 5, 2007 to June 30, 2008, the period July 1, to July 4, 2007, six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 was $59.3, $0.7, $28.1, $53.4 and $47.6, respectively.

We are continuously developing software for internal use designed to provide access to our digital content through digital portals. In June 2007, Thomson Learning recorded an impairment loss of $1.9 associated with specific software assets which, as a result of changing technologies, no longer supported the business operations. The impairment is included in "Depreciation" on the Combined Statements of Operations and is reported within the "Corporate and other" segment.

7. IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets, net consist of the following:

	Successor					
	Customer Relationships	Database / Content	Trade Names	Publishing Rights	Non-Compete and Other	Total
As of June 30, 2008						
Identifiable intangible assets, gross	$ 714.9	$ 690.3	$ 449.6	$ 1,827.1	$ 45.0	$ 3,726.9
Accumulated amortization	(61.2)	(45.7)	(32.3)	(50.2)	(23.0)	(212.4)
Identifiable intangible assets, net	$ 653.7	$ 644.6	$ 417.3	$ 1,776.9	$ 22.0	$ 3,514.5

	Predecessor					
	Customer Relationships	Database / Content	Trade Names	Publishing Rights	Non-Compete and Other	Total
As of June 30, 2007						
Identifiable intangible assets, gross	$ 140.7	$ 395.7	$ 118.0	$ 269.4	$ 75.9	$ 999.7
Accumulated amortization	(57.5)	(134.2)	(52.8)	(145.9)	(39.5)	(429.9)
Identifiable intangible assets, net	$ 83.2	$ 261.5	$ 65.2	$ 123.5	$ 36.4	$ 569.8

The preliminary allocation of the HM College acquisition purchase price used information currently available, including estimates of the fair value of the acquired identifiable intangible assets. Management estimated the fair value of the identifiable intangible assets using valuation techniques appropriate to the nature of the identifiable intangible asset and consistent with the market, income and cost approaches. The valuation techniques required management to make certain estimates and assumptions including, but not limited to, revenue and expense growth rates, interest rates, economic useful lives of the identifiable intangible assets and obsolescence rates.

Amortization expense for identifiable intangible assets (excluding impairment charges) was $212.7, $0.3, $20.4, $40.4 and $39.1 for the period from July 5, 2007 to June 30, 2008, for the period July 1 to July 4, 2007, six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

At June 30, 2008, estimated annual amortization expense for each of the next five fiscal years is as follows:

Years Ending June 30,	
2009	$ 182.0
2010	182.0
2011	181.7
2012	177.7
2013	177.7

Thomson Learning performed a recoverability analysis of the identifiable intangible assets associated with a product within its Gale segment during the year ended December 31, 2006 due to underperformance of such product in 2006 relative to expectations. Using a projected cash flow approach to determine the fair value, Thomson Learning recognized an impairment of $2.9. The identifiable intangible assets impaired were Database / Content of $2.0, Customer relationships of $0.8 and Trade names of $0.1 and the impairment is included in “Amortization and impairment of identifiable intangible assets” on the Combined Statements of Operations.

The following table shows the changes in the carrying amounts of goodwill by segment:

	Successor			
	Academic & Professional	Gale	International	Total
Balance at July 5, 2007	$ -	$ -	$ -	$ -
Acquisition of Thomson Learning	3,116.1	747.9	287.4	4,151.4
Acquisition of HM College	285.4	-	-	285.4
Other acquisition	0.1	-	-	0.1
Impairment of goodwill	-	-	(39.2)	(39.2)
Translation	-	-	13.7	13.7
Balance at June 30, 2008	$ 3,401.6	$ 747.9	$ 261.9	$ 4,411.4

	Predecessor			
	Academic & Professional	Gale	International	Total
Balance at December 31, 2005	$ 1,013.5	$ 256.7	$ 60.7	$ 1,330.9
Additions	2.8	-	6.5	9.3
Purchase accounting adjustments	0.7	-	-	0.7
Translation	-	-	6.6	6.6
Balance at December 31, 2006	1,017.0	256.7	73.8	1,347.5
Additions	17.7	-	-	17.7
Purchase accounting adjustments	(0.2)	-	0.3	0.1
Translation	-	-	2.3	2.3
Balance at June 30, 2007	1,034.5	256.7	76.4	1,367.6
Additions	-	-	-	-
Purchase accounting adjustments	-	-	-	-
Translation	-	-	1.1	1.1
Balance at July 4, 2007	$ 1,034.5	$ 256.7	$ 77.5	$ 1,368.7

In the fourth quarter of fiscal 2008, we conducted our annual impairment test of goodwill in accordance with our policy. In order to determine the fair value of each reporting unit, we considered various valuation techniques and determined that a weighted average of a discounted cash flow based methodology, market related multiples and comparable transaction related multiples were the most meaningful to us. The applied weighting of these methodologies varied by reporting unit and was either 50% or 80% towards a discounted cash flow value, 10% or 30% towards market related multiples and 10% or 20% towards comparable transaction related multiples. We weighted our valuation in this manner because we believe that a discounted cash flow currently provides the most reliable indication of fair value in the market place. Our reduced weighting towards market related multiples and comparable transaction related multiples reflects our assessment of the inherent limitations of these models specifically associated with identifying a pool of comparable organizations with publicly disclosed financial data and the limited number of comparable transactions executed within the most recent twelve months.

We applied certain assumptions as inputs to the valuation calculations. These assumptions represent our best estimates based upon historic performance of the respective reporting units, trends within the market place and our consideration of the potential impact of political, economic and social factors that are considered beyond our control. Significant assumptions included within our discounted cash flow valuation include revenue growth rates, operating profit margins, discount rates and terminal growth rates.

- Revenue growth rates and operating profit margins were determined based upon the historic performance of each reporting unit and our projections of future performance assuming successful execution of our strategic objectives as well as considering trends within the market place.

- Terminal growth rates were estimated based upon the historic performance of each reporting unit and our projections of future performance. Given the inherent limitations associated with projecting this far into the future, our terminal growth rates do not exceed the inflation rate of the jurisdiction in which the reporting unit operates.

- Discount rates represent the industry standard weighted average cost of capital or required rate of return on total capitalization. It is comprised of the estimated required rate of return on equity plus the current tax-effected rate of return on long-term debt, weighted by the relative percentages of equity and debt in actual capital structures of public companies in the industry. The discount rates, which varied from 8.3% to 10.0% depending on the systemic risk coefficient applied to each particular investment, was determined for each reporting unit.

Significant assumptions included within our market related multiples varied by reporting unit from 1.25 times to 4.50 times and 8.0 times to 14.0 times revenue and earnings before interest, tax, depreciation and amortization, respectively.

Significant assumptions included within our comparable transaction related multiples varied by reporting unit from 1.25 times to 4.5 times and 9.0 times to 14.5 times revenue and earnings before interest, tax, depreciation and amortization, respectively.

Based upon the results of our annual impairment test, we recorded an aggregate $39.2 impairment charge relating to our business in Australia and two of our EMEA (Europe, Middle East and Africa) reporting units, each included within our International segment. This impairment primarily reflects the result of adverse changes in market conditions since the Acquisition and declines in our expectations of revenue and cash flows driven by softness in higher education sales in the United Kingdom and Australia.

8. INVESTMENTS

As of June 30, 2008, we owned 33% of CourseSmart, LLC, a joint venture of the largest U.S. education textbook publishers. Our ownership interest in this joint venture increased from 27% to 33% as a result of our acquisition of HM College. CourseSmart provides cost effective ebooks to students and time-efficient review of textbooks for professors. We account for this joint venture using the equity method of accounting and it is included in “Other non-current assets” in our Consolidated Balance Sheet.

We previously owned 50% of U21, formerly a joint venture between Thomson Learning and a consortium of 19 universities from around the world, which it accounted for using the equity method. In November 2007, we sold our U21 investment for cash proceeds of $2.0 and recognized a gain of $0.8 as a result of the sale.

As a result of the decision in June 2007 to dispose of its interest in U21, Thomson Learning performed an evaluation of the fair value thereof. In performing this evaluation, Thomson Learning considered general market conditions in the industry, the status of U21’s product development efforts, the ability of U21 to meet business milestones and its financial condition and near-term prospects, including the rate at which it is utilizing cash and the potential for additional funding requirements. The result of this evaluation was that the carrying value of the interest had experienced an other-than-temporary decline and Thomson Learning recorded an impairment charge of $1.7 which is presented within “Equity losses of investees, net of taxes” on the Combined Statements of Operations.

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	Successor	Predecessor
	June 30, 2008	June 30, 2007
Accounts payable	$ 94.6	$ 71.1
Accrued interest payable	64.1	-
Accrued royalties	49.8	42.7
Accrued management incentive plans	53.3	32.8
Accrued payroll	13.3	10.4
Accrued other	85.7	78.4
	$ 360.8	$ 235.4

10. RESTRUCTURING

Total restructuring activity for the period from July 5, 2007 to June 30, 2008 was as follows:

Severance	Thomson Learning Acquisition [(1)]	Gale[(2)]	HM College Acquisition [(3)]	London Relocation [(4)]	Total
Restructuring provision/charges	$ 13.9	$ 1.2	$ 3.5	$ 1.4	$ 20.0
(Reversal) additions	(0.7)	0.4	-	-	(0.3)
Cash payments	(10.0)	(0.8)	-	-	(10.8)
Balance at June 30, 2008	$ 3.2	$ 0.8	$ 3.5	$ 1.4	$ 8.9

[(1)] In connection with the Acquisition, we initiated programs related to downsizing our employee base, exiting certain activities and engaging in other actions designed to reduce our cost structure and improve productivity. Accordingly, we recorded restructuring liabilities in our July 5, 2007 opening balance sheet of $13.9. The liabilities relate to the severance costs associated with the elimination of approximately 390 positions throughout the organization. During the third quarter of fiscal 2008, we reduced our estimates by $0.7 as a result of lower than expected costs being incurred as the actions for this program are implemented. The restructuring-related payments are expected to be completed by December 31, 2008.

[(2)] In December 2007, we announced additional programs and recorded restructuring charges of $1.2 for severance costs associated with the elimination of approximately 12 positions within our Gale segment. In the third quarter of fiscal 2008, we recorded an additional $0.4 related to this program. The restructuring-related payments are expected to be completed by June 30, 2009.

[(3)] In connection with the acquisition of HM College, we initiated programs to eliminate redundant activities and reduce our cost structure. Accordingly, we recorded restructuring liabilities in the opening balance sheet of $3.5. The liabilities relate to the severance costs associated with the elimination of approximately 130 positions. The restructuring, as well as all related payments, are expected to be completed by December 31, 2009.

[(4)] In June 2008, we decided to consolidate certain of our offices located in the United Kingdom. As a result, we recorded restructuring charges of $1.4 for severance costs associated with the elimination of approximately 50 positions in our London office. The restructuring, as well as all related payments, are expected to be completed by September 30, 2009.

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Thomson Learning Acquisition	Gale	HM College Acquisition	London Relocation	Total
Academic & Professional	$ 6.6	$ -	$ 3.5	$ -	$ 10.1
Gale	0.7	1.6	-	-	2.3
International	0.9	-	-	1.2	2.1
Corporate and other	5.0	-	-	0.2	5.2
Total provisions/charges	$ 13.2	$ 1.6	$ 3.5	$ 1.4	$ 19.7

11. DEBT AND CAPITAL LEASE OBLIGATION

The current-portion of our long-term debt consists of the following:

	Weighted Average Annual Interest Rate	Successor	Predecessor
	at June 30, 2008	June 30, 2008	June 30, 2007
Current portion of senior secured credit facilities:			
Term loan facility	6.91%	$ 34.4	$ -
Incremental term loan facility	7.50%	6.3	-
Current portion of notes payable, due 2008		-	35.0
Capital lease obligation		-	26.0
Notes payable to TOC		-	693.9
		$ 40.7	$ 754.9

Long-term debt consists of the following:

	Weighted Average Annual Interest Rate at June 30, 2008	**Successor**	**Predecessor**
		June 30, 2008	**June 30, 2007**
Senior secured credit facilities:			
Term loan facility	6.91%	$ 3,414.2	$ -
Incremental term loan facility	7.50%	625.0	-
Unamortized discount on incremental term loan facility		(14.5)	-
Fixed rate notes:			
10.50% Senior Notes due 2015	10.50%	1,215.6	-
Unamortized discount on 10.50% Notes due 2015		(13.5)	-
13.25% Senior Subordinated Discount Notes due 2015	13.25%	519.0	-
Unamortized discount on 13.25% Notes due 2015		(64.9)	-
Senior Bridge Loan Credit Facility	13.12%	614.9	-
Notes payable, due 2008			50.0
Unamortized discount on notes payable due 2008			(0.1)
Total long-term debt		6,295.8	49.9
Less: current portion		(40.7)	(35.0)
		$ 6,255.1	$ 14.9

Scheduled principal payments due on long-term debt as of June 30, 2008 and for the next five fiscal years and thereafter are as follows:

Fiscal Year Ending June 30,						
2009	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
$ 40.7	$ 40.7	$ 40.7	$ 40.7	$ 40.7	$ 6,185.2	$ 6,388.7

Senior Secured Credit Facilities

The senior secured credit facilities provide the borrower, Cengage Learning Acquisitions, Inc. ("CL Acquisitions"), an indirect wholly-owned subsidiary of Cengage Learning Holdings II L.P., with variable rate financing of $3,740.0, consisting of a seven year $3,440.0 term loan facility and a six year $300.0 revolving credit facility (together, the "Senior Credit Facilities"). Concurrent with the Acquisition, CL Acquisitions borrowed $3,440.0 under the term loan facility and incurred $58.7 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the term of the Senior Credit Facilities.

Concurrent with the acquisition of HM College on May 30, 2008, CL Acquisitions borrowed $625.0 aggregate principal amount at maturity ($610.4 in gross proceeds) of incremental term loans under the existing senior secured credit facilities (the "Incremental Term Loan Facility") and incurred $2.3 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the term of the Incremental Term Loan Facility.

Under the Senior Credit Facilities, the borrower can elect the term of each drawdown and loan rollover, as well as which benchmark interest rate would apply, plus a predefined margin based on our leverage ratio. In addition, during the period July 5, 2007 to June 30, 2008, CL Acquisitions borrowed and repaid $35 of term loans under the revolver at an average annual rate of 8.07%. The interest rate for term loan borrowings under the term loan facility and the revolving credit facility were the applicable LIBOR rate plus a margin of 2.75% during the period July 5, 2007 to February 18, 2008 and LIBOR rate plus a margin of 2.5% during the period February 19, 2008 to June 30, 2008. The interest rate for the Incremental Term Loan Facility was the applicable LIBOR rate (limited to a minimum contractual rate of 3.75%) plus a margin of 3.75% during the period May 30, 2008 to June 30, 2008. CL Acquisitions also borrowed and repaid $6.5 of swing line loans under the revolver during the period July 5, 2007 to June 30, 2008 at an average annual rate of 9.86%. The interest rate for swing line loans under the revolving credit facility were the applicable base rate (prime) plus a margin of 1.75% for the period outstanding. Under the revolver, up to $150 is available for the issuance of letters of credit, of which $6.9 was outstanding as at June 30, 2008 at a cost of 2.25% per annum. At June 30, 2008, CL Acquisitions has $293.1 available under our revolving credit facility.

In addition, there is an annual commitment fee of 0.50% on unused borrowings under the revolving credit facility. The commitment fee, letter of credit fee and margin for borrowings under both the term loan facility and the revolving credit facility may vary in the future if we attain certain leverage ratios.

The borrower is required to pay quarterly installments of 1% of the aggregate principal amount at issuance of the term loans with the remaining amount payable on July 3, 2014. Principal amounts not previously repaid under the revolving credit facility are payable on July 5, 2013. In addition, CL Acquisitions is required to make quarterly interest payments.

All obligations under the Senior Credit Facilities are guaranteed on a senior basis by Cengage Learning Holdings II L.P. and substantially all of its material wholly-owned domestic subsidiaries (except CL Acquisitions, as borrower), and are secured by substantially all of the assets of Cengage Learning Holdings II L.P., the borrower and such guarantors, subject to certain customary exceptions.

The Senior Credit Facilities require, among other things, that we maintain an agreed upon senior secured leverage ratio. As of June 30, 2008, we were in compliance with the applicable senior secured leverage ratio.

Subject to certain exceptions, the credit agreement limits the amount CL Acquisitions can repay under the senior subordinated discount notes and the loans under the senior bridge loan credit facility as well as CL Acquisition’s ability to enter into amendments to the senior subordinated discount notes or the senior bridge loan credit facility that are materially adverse to the lenders under the Senior Credit Facilities. The Senior Credit Facilities include provisions whereby a portion of excess cash flow, all of the proceeds from any non-permitted debt issuance and a portion of the proceeds from non-ordinary course asset dispositions, subject to certain exceptions and reinvestment rights, would have to be used to partially prepay the term loan. The Senior Credit Facilities also contain certain other customary conditions to borrowing, restrictions, affirmative covenants, negative covenants and events of default.

Senior Notes and Senior Subordinated Discount Notes

CL Acquisitions issued $1,215.6 aggregate principal amount at maturity ($1,200.1 in aggregate gross proceeds) of senior notes due 2015 (the “Senior Notes”) and $519.0 aggregate principal amount at maturity ($400.1 in aggregate gross proceeds) of senior subordinated discount notes due 2015 (the “Senior Subordinated Discount Notes” and, together with the Senior Notes, the “Notes”). CL Acquisitions incurred $21.5 of related financing costs for the issuance of the Notes, which are included in “Deferred financing costs” on the Consolidated Balance Sheet and are being amortized over the term of the Notes.

Interest on the Senior Notes accrues at an annual rate of 10.50% and is payable in cash semi-annually in arrears on January 15 and July 15 of each year. The Senior Subordinated Discount Notes will not accrue cash interest prior to July 15, 2009. Thereafter, cash interest will accrue on the Senior Subordinated Discount Notes at an annual rate of 13.25 % and is payable on January 15 and July 15 of each year, commencing on January 15, 2010.

The Senior Notes are unsecured senior obligations. The Senior Subordinated Discount Notes are unsecured, senior subordinated obligations and are subordinate to all senior indebtedness, including the Senior Credit Facilities and the Senior Notes. The Notes are effectively subordinated to all of CL Acquisitions secured debt (including the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior Notes are guaranteed on an unsecured senior basis by Cengage Learning Holdings II L.P. and each of its material wholly-owned domestic subsidiaries that guarantees the Senior Credit Facilities. The Senior Subordinated Discount Notes are guaranteed on an unsecured senior subordinated basis by Cengage Learning Holdings II L.P. and each of its material wholly-owned subsidiaries that guarantees the Senior Credit Facilities. The guarantees of the Notes are effectively subordinated to all of each guarantor's secured debt, to the extent of the value of the assets securing such debt.

In accordance with regulations issued by the IRS, to the extent the Senior Subordinated Discount Notes are considered applicable high yield discount obligations, CL Acquisitions must make a mandatory principal redemption plus accrued interest at the end of each accrual period ending after July 5, 2012.

The registration rights agreements governing the Notes provide that in the event that an exchange offer registration statement with respect to the Notes is not filed with the Securities and Exchange Commission on or prior to the 360th day after the original issuance date of the Notes, additional interest will accrue on the Notes and CL Acquisitions will be required to pay such interest until the Notes may be resold without restriction under U.S. securities laws. Accordingly, CL Acquisitions incurred $0.1 in additional interest because CL Acquisitions did not file a registration statement on or prior to the 360th day after issuance of the Notes. The Notes became freely tradable under Rule 144 of the Securities Act of 1933 and additional interest ceased to accrue following the 365th day after the issuance of the Notes.

The indentures that govern the Notes contain certain covenants, agreements and events of default, which are customary for similar securities.

Senior Bridge Loan Credit Facility

The senior bridge loan credit agreement (the "Senior Bridge Facility") provides Cengage Learning Holdco, Inc. ("CL Holdco"), a direct wholly-owned subsidiary of Cengage Learning Holdings II L.P., as borrower, with financing of $540.0. At the borrower's option, all interest thereunder may be paid in cash, or capitalized through an increase in the principal amount outstanding ("PIK"). This election must be made in advance of each three-month interest period. Concurrent with the Acquisition, CL Holdco borrowed $540.0 under the Senior Bridge Facility and incurred $10.9 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the full term of the Senior Bridge Facility.

Borrowings under the Senior Bridge Facility ("Senior PIK Loans") currently bear interest at the applicable LIBOR rate plus a margin of 8.25% to 8.75%. The applicable margin increased by 50 basis points on January 5, 2008 to 12.89%, and will increase by an additional 50 basis points at the end of every three month interest period, up to a maximum interest rate of 13.75% per annum.

CL Holdco elected to capitalize interest due on the loan in the amount of $74.9 for the period from July 5, 2007 to June 30, 2008, as an increase to the principal amount of the loan. In accordance with regulations issued by the IRS, to the extent these loans are considered applicable high yield discount obligations; CL Holdco must make mandatory principal prepayments and accrued interest payments in cash beginning in the second half of 2012.

Between January 6, 2008 and July 5, 2008, subject to certain conditions, the arrangers of the Senior Bridge Facility had the right to request us to issue bonds and use the proceeds to repay the Senior PIK Loans outstanding under the Senior Bridge Facility. In July 2008, subsequent to our 2008 fiscal year-end, CL Holdco and Cengage Learning Holdings II L.P. entered into an amendment (the "First Amendment") under which, among other things, the holders relinquished such rights. In addition, the First Amendment also set the interest rate on the borrower's Senior PIK Loans at 13.75% per annum, effective July 5, 2008 through October 31, 2008, the date the Senior PIK Loans will automatically convert into senior PIK notes (as described below).

The Senior PIK Loans are structurally subordinated to the debt and other liabilities of all of CL Holdco's subsidiaries and effectively subordinated to all of CL Holdco's secured debt (including CL Holdco's senior secured guarantee of the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior PIK Loans are guaranteed on a subordinated unsecured basis by Cengage Learning Holdings II L.P. The guarantee of the Senior PIK Loans is subordinated to all of Cengage Learning Holdings II L.P. senior debt (including CL Holdco's senior guarantees of the Senior Credit Facilities and the Senior Notes) as well CL Holdco's guarantee of the Senior Subordinated Discount Notes.

The Senior Bridge Facility contains certain affirmative covenants, negative covenants and events of default, which are customary for a bridge loan facility.

Under the First Amendment, the Senior PIK Loans will automatically convert into notes in an aggregate principal amount equal to the unpaid principal amount of such loans on October 31, 2008 ("Senior PIK Notes"). The Senior PIK Notes will mature on July 15, 2015, bear interest at 13.75% per annum compounded semi-annually and will have covenants substantially similar to the covenants and events of default applicable to the Senior Notes and Senior Subordinated Discount Notes issued by CL Acquisitions (a direct wholly-owned subsidiary of CL Holdco). The Senior PIK Notes will have no registration rights.

The Senior PIK Notes will be structurally subordinated to the debt and other liabilities of all of CL Holdco's subsidiaries and effectively subordinated to all of CL Holdco's secured debt (including CL Holdco's senior secured guarantee of the Senior Credit Facilities), to the extent of the value of the assets securing such debt. The Senior PIK Notes will be guaranteed on a subordinated unsecured basis by Cengage Learning Holdings II L.P. The guarantee of the Senior PIK Notes will be subordinated to all of Cengage Learning Holdings II L.P. senior debt (including CL Holdco's senior guarantees of the Senior Credit Facilities and the Senior Notes) as well CL Holdco's guarantee of the Senior Subordinated Discount Notes.

As a result of the First Amendment, CL Holdco incurred and capitalized $16.2 of related financing costs. Such costs are included in "Deferred financing costs" on the Consolidated Balance Sheet and are being amortized over the full term of the Senior PIK notes.

Capital Lease Obligation

Due to the change in control of Thomson Learning resulting from the Acquisition, the capital lease of the building located in Farmington Hills, Michigan, terminated. We negotiated an extension of the current lease term and on October 31, 2007, purchased the property by settling the outstanding capital lease obligation of $26.0, plus accrued interest of $0.2.

Notes Payable, Due 2008

The notes payable bore interest at a rate of 3.5% per year, subject to increase in certain circumstances. We did not assume this liability as part of the Acquisition. See Note 2, "Acquisitions of Thomson Learning and Houghton Mifflin College Assets."

12. FINANCIAL INSTRUMENTS

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect our operating results, financial position and cash flows. Exposure to these market risks is managed through the regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are used to hedge economic exposures as well as reduce earnings and cash flow volatility resulting from shifts in market rates. As permitted, certain of these derivative contracts may be designated for hedge accounting treatment under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. However, certain of these instruments may not qualify for hedge accounting treatment and, accordingly, the results of operations may be exposed to some level of volatility. Volatility to our results of operations will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period.

We periodically may enter into derivative contracts, including interest rate and cross currency interest rate swap agreements and interest rate collars to manage interest rate exposures, and foreign currency spot, forward, swap and option contracts to manage foreign currency exposures. The fair market values of all these derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held by us 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. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

Interest rate swap agreements are used to manage interest rate exposure in order to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged. Thomson Learning did not hold any interest rate swap instruments as of June 30, 2007.

In July and August 2007, we entered into three respective interest rate swaps with an amortizing aggregate notional amount of $3,056 which were designated and accounted for as cash flow hedges from inception. These swaps were structured to hedge the variable LIBOR interest rate component of the term loan borrowings under the Senior Credit Facilities, converting a declining percentage of the debt from a variable rate commitment to a fixed rate commitment, starting initially at 90%, and reducing to 40% over four years. The notional amount of the interest rate swaps as of June 30, 2008 was $3,033.0.

On December 21, 2007, we entered into an interest rate basis swap with an amortizing notional amount of $3,044.0 in anticipation of changes in the term and benchmark interest rate for loan rollovers for the next twelve months. The new swap was structured to convert the variable LIBOR interest rate component of the long-term borrowings under the Senior Credit Facilities from a one-month LIBOR rate to a three month LIBOR rate for a twelve month period. As a result, we de-designated the original swaps for cash flow hedge accounting purposes and designated and accounted for both the original and new basis swaps as a cash flow hedge. At that time, the after tax fair value of these hedges recorded in Accumulated Other Comprehensive Loss (“AOCL”) was $85.5, which will be amortized into interest expense to correspond to the recognition of interest expense on the hedged debt. All components of each derivative’s gain or loss were included in the assessment of hedge effectiveness and no amount of ineffectiveness was recorded in the Consolidated Statement of Operations.

Our interest rate swap agreements do not include ratings based collateral triggers nor do they require us to post collateral regardless of the size of our market to market exposure.

Other Foreign Currency Derivatives

We economically hedge the impact resulting from changes in exchange rates on various foreign currency-denominated net asset positions through the use of forward contracts that are not necessarily designated as accounting hedges. The gains and losses on these derivatives are largely expected to offset transaction losses and gains on the underlying foreign currency-denominated assets and liabilities, both of which are recorded in “Selling, general & administrative, excluding depreciation”, net in the Consolidated Statements of Operations.

The following is a summary of our derivative instruments as of June 30, 2008:

	Interest Rate Swaps	Interest Rate Basis Swaps	Foreign Exchange Contracts
Initial notional amount	$ 3,044.0	$ 3,056.0	$ 233.2
Weighted average interest rate paid	4.88%-5.31%	3.20%	
Weighted average interest rate received	4.25%	3.66%	
Basis	LIBOR	LIBOR	
Maturity (calendar year)	2008	2009-2011	2008

	Interest Rate Contracts	Foreign Exchange Contracts
Ending balances as of June 30, 2008:		
Current fair value of derivative instruments	$ 57.1	$ 1.7
Non-current fair value of derivative instruments	35.3	-
For the Period July 5, 2007 to June 30, 2008:		
Selling, general & administrative, excluding depreciation stated below	$ -	$ 1.7
Interest expense	13.8	-

During the period July 5, 2007 to June 30, 2008, a $92.4 after-tax decrease in the fair value of cash flow hedges was recorded in AOCL while an amount of $13.8 was reclassified into earnings. During the six months ended June 30, 2007, a $0.2 after-tax increase in the fair value of cash flow hedges was recorded in AOCL. No amounts were transferred to earnings as a result of scheduled payments and receipts on the Company's cash flow hedges during the period, which resulted in an ending unrealized gain position relating to derivative instruments in AOCL of $0.2 as of June 30, 2007.

Fair Value of Other Financial Instruments:

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

	Successor		Predecessor	
	June 30, 2008		June 30, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 44.3	$ 44.3	$ 18.8	$ 18.8
Accounts receivable, net	273.9	273.9	208.2	208.2
Short-term portion of senior secured credit facilities:				
Term loan facility	34.4	31.0	-	-
Incremental Term Loan Facility	6.3	5.7	-	-
Notes payable	-	-	35.0	35.0
Notes payable to TOC	-	-	693.9	693.9
Senior secured credit facilities:				
Term loan facility	3,379.8	3,050.3	-	-
Incremental Term Loan Facility	604.2	558.4	-	-
10.50% Senior Notes due 2015	1,202.1	1,051.5	-	-
13.25% Senior Subordinated Discount Notes due 2015	454.1	378.9	-	-
Senior Bridge Loan Credit Facility	614.9	485.8	-	-
Notes payable, due 2008	-	-	14.9	14.9

13. BENEFIT PLANS

Defined Contribution Plans

Subsequent to the Acquisition, we established the Cengage Learning 401(k) Savings Plan in the U.S. The Company matches 100% of employee contributions up to 4% of the employee's compensation, as defined in the plan. These matching contributions vest based upon an employee's years of service, including years of service earned as an employee of Predecessor, and become fully vested after four years of service. We also initiated defined contribution plans for employees outside the U.S. Our contributions to all plans, net of plan forfeitures, were $11.3 for the period from July 5, 2007 to June 30, 2008.

Prior to the Acquisition, certain Predecessor employees in the U.S. participated in a defined contribution savings plan, administered by TOC, under Section 401(k) of the Internal Revenue Code. The plan covered substantially all U.S. based employees who met minimum age and service requirements and allowed participants to defer a portion of their annual compensation on a pre-tax basis. Thomson Learning matched 50% of employee contributions up to the first 6% of the employee contribution. For new employees, beginning March 2006, Thomson Learning matched 50% of employee contributions up to the first 8% of the employee contribution. These matching contributions vest based upon an employee's years of service and become fully vested after four years of service. Matching contribution expense directly attributable to Thomson Learning's employees for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 was $3.4, $5.6 and $6.0, respectively.

Certain employees based outside the U.S participated in similar plans sponsored by TOC. Under these defined contribution plans, the cost of contributing to the plans is charged to expense as incurred. For the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, the expense associated with these plans was $0.6, $1.3 and $1.1, respectively. The expense for these plans for the period July 1, 2007 through July 4, 2007 was not significant.

Defined Benefit Pension Plans

Certain employees in the U.S. participated in a defined benefit pension plan sponsored and administered by TOC. The pension plan called for benefits to be paid to eligible employees at retirement, based primarily on years of service and compensation rates near retirement. The majority of the participants became 100% vested in their accrued benefit after completing 5 years of service. Thomson Learning's expense, as allocated by TOC to us and other TOC businesses based primarily on the number of participants in the plan, was $7.5, $12.8 and $10.3 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. The plan was closed to new participants in March 2006.

Certain employees based outside the U.S. participated in similar plans sponsored by TOC. Under these defined benefit plans, Thomson Learning's cost of contributing to the plans for its employees was determined by TOC and was charged to expense as incurred. For the six months ended June 30, 2007, and the years ended December 31, 2006 and 2005, the expense associated with these plans was $0.4, $0.7 and $0.1, respectively.

Additionally, select employees participated in supplemental executive retirement plans. These plans provided qualified employees with additional retirement benefits above that received from the TOC qualified plan. For the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, the expense associated with these plans was $0.8, $1.7 and $2.0, respectively. The expense for these plans for the period July 1, 2007 through July 4, 2007 was not significant.

Other Post-Retirement Benefits Plans

Certain employees in the U.S. participated in a defined post-retirement benefit plan sponsored and administered by TOC. The plan called for certain medical costs, after deductibles, to be paid for after an eligible employee's retirement. The plan had been closed to new participants since 1993. Predecessor's expense, as allocated by TOC based primarily on the number of participants in the plan, was $1.0, $1.7 and $1.0 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

Certain employees based outside the U.S. participated in similar plans sponsored by TOC. Under these defined benefit plans, Thomson Learning's cost of contributing to the plans for its employees was determined by TOC and is charged to expense as incurred. For the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, the expense associated with these plans was not significant.

14. EQUITY

Under the Cengage Learning Holdings II L.P. partnership agreement, Cengage Learning Holdings II L.P.'s loss and income are allocated to the general partner and the limited partners on a pro rata basis in accordance with the amount of the partners' contributions to Cengage Learning Holdings II L.P. Partners make capital contributions to the Partnership in such amounts and at such times as they mutually agree. The General Partner has absolute discretion to make any distributions to a partner, which include a return of all or any part of such partner's capital contribution, provided that upon the dissolution of the Partnership, the assets of the Partnership must be distributed as provided in Section 17-804 of the Delaware Revised Uniform Limited Partnership Act.

In connection with the HM College acquisition in May 2008, Apax and OMERS made an additional equity investment of $132.5 in cash. Also in May 2008, affiliates of our limited partners amended their partnership agreement to reflect the formation and admission of Cengage Management L.P. as a limited partner. The amendment further authorized the issuance of four classes of limited partnership interests, designated as Class A, B, C and D units, and provided certain employees of the Company with the option to purchase Class B units in Cengage Management L.P. As a result, the Company received $4.3 in cash during the fourth quarter of fiscal 2008.

15. EQUITY-BASED COMPENSATION

Successor Management Equity Incentive Plan

In May 2008, certain employees of Cengage Learning were granted Class C units in Cengage Management L.P. as compensation for services rendered to the Company. These units bear economic characteristics similar to options to purchase shares of stock and the related compensation expense is incurred by Cengage Learning since the grantees are employees of the Company. The Class C units were issued for no consideration and vest in 20% increments annually on the last day of the first five fiscal years following the grant date starting in fiscal 2008, based on the attainment of specified performance targets. If the performance targets are not met in any given year, the units remain unvested until, if in any subsequent year, the specific target for that year is achieved at which time the current year's and all prior year's units that are unvested will become vested, provided the employee remains employed through the last day of such following year. Under the terms of the plan, both the performance targets and a valuation for the unvested units are determined annually at the beginning of each fiscal year.

The number of Class C units available for issuance under the Management Equity Incentive plan is 150.0 units. As of June 30, 2008, 25.5 Class C units were available for grant under this plan. The following table summarizes the Class C unit activity under the Management Equity Incentive Plan:

	Successor	
(Units in millions and dollars in whole U.S. dollars)	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at July 5, 2007		
Granted	132.5	$ 0.17
Forfeited	(8.0)	0.17
Vested	(24.9)	0.17
Nonvested at June 30, 2008	99.6	0.17

As a result of performance targets being achieved in fiscal 2008, we recognized compensation expense of $4.3, which represents the total fair value of units vested during the fourth quarter of fiscal 2008. At June 30, 2008, there was an estimated $17.3 of total unrecognized compensation cost related to these units, which is expected to be recognized over a remaining weighted-average period of four years. At grant date and subsequent reporting periods, we make an assessment of whether the performance targets will be met and will adjust our compensation costs accordingly based on our periodic assessment.

Also in May 2008, 3.3 fully vested Class D units in Cengage Management L.P. were granted. These units bear economic characteristics similar to options to purchase shares of stock and the related compensation expense is incurred by Cengage Learning since the grantee is an employee of the Company. As a result, we recognized compensation expense of $1.3 during the fourth quarter of fiscal 2008. At June 30, 2008, there are no more Class D units available for grant under this Management Equity Incentive Plan.

Cengage Learning's outstanding partnership interests are privately held and there is no established public trading market for our partnership interests. Management followed guidelines set forth in the American Institute of Certified Public Accountants ("AICPA") *Practice Aid Valuation of Privately-Held Company Equity Securities Issued as Compensation* (the "AICPA Practice Aid"). Management used Level A, as defined by the AICPA Practice Aid to determine the fair value of the units. The estimated fair value of the units on the date of grant was based on the option pricing method, whereby each class of partnership interests was modeled as a call option with a distinct claim on the enterprise value of Cengage Learning. The characteristics of each class of interest, as determined by the partnership agreement, determine each class of equity's unique claim on our assets. We used the Black-Scholes option pricing model to value the call options with the following assumptions:

	Successor
	Period Ended July 5, 2007 to June 30, 2008
Risk-free interest rate	2.2%
Dividend yield	N/A
Volatility factor	19.0%
Expected life (years)	3.8

The expected life represents our estimate of the remaining period of time to when a liquidity event may occur. Since the Company's partnership interests are not publicly traded, we estimated the volatility factor based on the historical volatility of peer group public companies.

Predecessor Equity-Based Compensation Plans

Effective July 5, 2007, employee participants ceased to be active of all Predecessor equity-based compensation plans. Prior to the Acquisition, TOC accelerated the vesting of all outstanding shares and rights. Cengage Learning did not retain any obligations or liabilities with respect to these plans.

Employee Stock Purchase Plan

In 2005, TOC initiated an Employee Stock Purchase Plan ("ESPP") under which eligible U.S. employees of Thomson Learning could purchase common shares of TOC. Each quarter, participating employees could elect to withhold up to 10% of their eligible compensation, up to a maximum of $21,250 (whole U.S. dollars) per year, to purchase TOC common shares at a price equal to 85% of the closing price of the shares on the New York Stock Exchange as of the last business day of the quarter. Expense recognized by Thomson Learning relating to the ESPP was not significant during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005. There was no expense recognized for the period July 1 to July 4, 2007 relating to this plan.

Stock Appreciation Rights

Certain employees of Thomson Learning participated in a TOC-administered plan that provided for the granting of stock appreciation rights ("SAR's"). These rights provided the holder with the opportunity to earn a cash award equal to the fair market value of TOC's common shares less the price at which the SAR was issued. Compensation expense was measured based on the market price of TOC common shares at the end of the reporting period. The SAR's outstanding under the plan were granted at the closing price of TOC's common shares on the day prior to the date of grant, vested over a four to eight-year period, and expired five to eleven years after the grant date. The compensation expense was recognized over the applicable period in "Selling, general & administrative, excluding depreciation" and "Allocation of management costs from TOC" in the Combined Statement of Operations.

A summary of the activity and status of awards to Thomson Learning employees is as follows:

	Predecessor			
	Period July 1, 2007 to July 4, 2007		**Six Months Ended June 30, 2007**	
(SARs in thousands and dollars in whole Canadian dollars)	**SARs**	**Weighted Average Exercise Price**	**SARs**	**Weighted Average Exercise Price**
Outstanding at the beginning of the period	39.5	$ 42.20	57.0	$ 42.12
Exercised	-	-	(7.5)	42.89
Forfeited	-	-	(10.0)	41.26
Outstanding at the end of the period	39.5	42.20	39.5	42.20
Exercisable at the end of the period	39.5	42.20	20.4	43.13

	Years Ended December 31,			
	2006		**2005**	
(SARs in thousands and dollars in whole Canadian dollars)	**SARs**	**Weighted Average Exercise Price**	**SARs**	**Weighted Average Exercise Price**
Outstanding - January 1	73.0	$ 41.53	63.0	$ 40.52
Granted	-	-	25.0	40.77
Exercised	(16.0)	39.44	(15.0)	36.00
Outstanding - December 31	57.0	42.12	73.0	41.53
Exercisable - December 31	28.5	42.94	31.3	41.69

The exercised SAR's resulted in cash payments of Canadian $0.1 during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005. There were no cash payments for the period July 1 to July 4, 2007.

Stock Incentive Plan

Under the plan, the exercise price of an option equaled the closing market price of TOC's stock on the New York Stock Exchange on the day prior to the date of the grant and the maximum term of an option was 10 years. In general, grants vested 25% per year from the date of issuance. TOC settled employee stock option exercises with newly issued common shares. Under the plan, options were granted in either Canadian or U.S. dollars. The exercise price for options granted during the year ended December 31, 2005 was $35.13 (whole U.S. dollars) and represented the fair value of TOC shares of common stock at the grant date. The weighted average grant date fair value of such granted options was $8.12 and $7.28 (whole U.S. dollars) for the years ended December 31, 2006 and 2005, respectively.

The fair value for these options was estimated at the date of the grant by TOC using the Black-Scholes option pricing model. This model requires the use of subjective assumptions, including expected stock price volatility. The principal assumptions used in applying the Black-Scholes option-pricing model were as follows:

	Predecessor	
	Years Ended December 31,	
	2006	**2005**
Risk-free interest rate	4.6%	4.4%
Dividend yield	2.3%	2.3%
Volatility factor	18.5%	18.8%
Expected life (years)	6	6

There were no options granted from July 1, 2007 to July 4, 2007 and for the six months ended June 30, 2007.

A summary of the activity and status of the options granted and exercised in Canadian dollars is as follows:

	Predeccesor			
	Period July 1, 2007 to July 4, 2007		**Six Months Ended June 30, 2007**	
(Options in thousands and dollars in whole Canadian dollars)	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the period	480.5	$ 49.87	519.5	$ 50.05
Exercised	-	-	(10.0)	48.40
Forfeited	-	-	(29.0)	53.68
Outstanding at the end of the period	480.5	49.87	480.5	49.87
Exercisable at the end of the period	480.5	49.87	480.5	49.87

	December 31,			
	2006		**2005**	
(Options in thousands and dollars in whole Canadian dollars)	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding - January 1	616.5	$ 50.13	661.5	$ 49.82
Exercised	(16.0)	41.00	(27.0)	41.00
Forfeited	(81.0)	52.46	(18.0)	52.40
Outstanding - December 31	519.5	50.05	616.5	50.13
Exercisable - December 31	519.5	50.05	616.5	50.13

The exercised options in Canadian dollars had an intrinsic value of Canadian $0.1 for both the years ended December 31, 2006 and 2005. The intrinsic value was not material for the exercised options in the six months ended June 30, 2007. Total cash received from employees as a result of employee stock option exercises was Canadian $0.5, $0.7 and $1.1 during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. In connection with those exercises, the tax benefits realized by Thomson Learning were not material in the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005. There was no tax benefit realized for the period July 1 to July 4, 2007 relating to this plan.

Options vested were 97.1 (shares in thousands) during the year ended December 31, 2005 and had an aggregate fair values of $0.8.

A summary of the activity and status of the options granted and exercised in U.S. dollars is as follows:

	Predecessor			
	From July 1, 2007 to July 4, 2007		Six Months Ended June 30, 2007	
(Options in thousands and dollars in whole U.S. dollars)	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the period	1,040.2	$ 33.07	1,105.4	$ 33.07
Granted	-	-	-	-
Exercised	-	-	(28.4)	31.27
Forfeited	-	-	(36.9)	34.49
Outstanding at the end of the period	1,040.2	33.07	1,040.1	33.07
Exercisable at the end of the period	1,040.2	31.35	502.8	31.35

	Years Ended December 31,			
	2006		2005	
(Options in thousands and dollars in whole U.S. dollars)	**Options**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding - January 1	1,381.7	$ 32.74	979.4	$ 31.46
Granted	20.0	37.99	442.0	35.12
Exercised	(128.3)	31.22	(27.3)	26.54
Forfeited	(168.0)	32.33	(12.5)	30.52
Outstanding - December 31	1,105.4	33.07	1,381.6	32.74
Exercisable - December 31	545.0	31.42	433.3	30.45

The exercised options had an aggregate intrinsic value of $0.3, $1.2, and $0.3 during the six months ended June 30, 2007 and the years ended December 31, 2006, and 2005, respectively. Total cash received from employees as a result of employee stock option exercises was $0.9, $4.0, and $0.7 during the six months ended June 30, 2007 and the years ended December 31, 2006, and 2005, respectively. In connection with those exercises, the tax benefits realized by Thomson Learning were $0.1, $0.5, and $0.1 during the six months ended June 30, 2007 and the years ended December 31, 2006, and 2005, respectively. There was no activity for the period July 1 to July 4, 2007 relating to this plan.

Options vested were: 0.8, 311.2 and 242.7 (options in thousands) during six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. These options had associated aggregate fair values of $0, $2.2 and $1.8, respectively.

The compensation expense for this plan was recognized over the applicable period in “Selling, general & administrative, excluding depreciation” and “Allocation of management costs from TOC” in the Combined Statement of Operations. Total unrecognized compensation expense related to non-vested awards as of June 30, 2007 was $4.0.

16. INCOME TAXES

The components of (loss) income before income taxes from continuing operations by jurisdiction are as follows:

	Successor	Predecessor			
	Period	Period	Six Months	Years Ended	
	July 5, 2007 to	July 1, 2007 to	Ended	December 31,	
	June 30, 2008	July 4, 2007	June 30, 2007	2006	2005
United States of America	$ (313.3)	$ 3.2	$ (99.9)	$ 183.1	$ 113.4
Other jurisdictions	(91.1)	(0.4)	(12.6)	25.7	31.2
Total (loss) income before income taxes from continuing operations	$ (404.4)	$ 2.8	$ (112.5)	$ 208.8	$ 144.6

The components of (provision for) benefit from income taxes from continuing operations by jurisdiction are as follows:

	Successor	Predecessor			
	Period	Period	Six Months	Years Ended	
	July 5, 2007 to	July 1, 2007 to	Ended	December 31,	
	June 30, 2008	July 4, 2007	June 30, 2007	2006	2005
United States of America:					
Current	$ (5.2)	$ 0.4	$ 76.2	$ (44.3)	$ (39.9)
Deferred	8.7	(0.8)	(38.8)	(30.3)	(9.9)
Total United States of America	3.5	(0.4)	37.4	(74.6)	(49.8)
Other jurisdictions:					
Current	(7.7)	(0.6)	2.6	(9.6)	(9.8)
Deferred	2.3	-	0.1	1.1	0.9
Total other jurisdictions	(5.4)	(0.6)	2.7	(8.5)	(8.9)
Total worldwide	$ (1.9)	$ (1.0)	$ 40.1	$ (83.1)	$ (58.7)

The tax effects of the significant components of temporary differences giving rise to deferred tax assets and liabilities at June 30, 2008 and 2007 are as follows:

	Successor	Predecessor
	June 30, 2008	June 30, 2007
Accounts receivable	$ 31.7	$ 30.6
Inventory	20.7	19.1
Accrued expenses	18.2	15.9
Financial instruments	87.0	-
Net operating losses	120.0	9.5
Other tax assets	9.7	4.5
Total deferred tax assets	287.3	79.6
Valuation allowance	(220.9)	(8.6)
Net deferred tax assets	66.4	71.0
Identifiable intangible assets	(818.5)	(133.5)
Goodwill	(35.3)	(170.3)
Other long-lived assets [(1)]	(72.2)	(16.9)
Total deferred tax liabilities	(926.0)	(320.7)
Net deferred tax liabilities	$ (859.6)	$ (249.7)

[1] Other long-lived assets are comprised of property, equipment and capitalized software for internal use and pre-publication costs.

For the period from July 5, 2007 to June 30, 2008, the Company is a stand alone tax filer. For the periods prior to the Acquisition, we were required to assess the realization of its deferred tax assets and the need for a valuation allowance on a stand-alone basis. The assessment required judgment on the part of management with respect to benefits that could be realized from future taxable income, as well as other positive and negative factors influencing the realization of deferred tax assets. As a result of Cengage Learning's history of net operating losses and expected future losses in certain jurisdictions, a valuation allowance has been established for those items where it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The balance as of June 30, 2007 in "Other tax assets" represents the deferral of tax charges generated from the transfers of technology platforms from one jurisdiction to another. In accordance with GAAP, the tax impact on intercompany transactions must be deferred and amortized to income as the underlying asset is amortized.

The "Net operating losses" reflected as of June 30, 2007 represent tax net operating losses that Thomson Learning has generated on a stand-alone basis. These losses have been calculated solely for the purposes of these Financial Statements.

In accordance with Accounting Principles Board Opinion No. 23, *Accounting for Income Taxes – Special Areas*, we have not recorded U.S. income taxes for our outside basis differences related to Non-U.S. subsidiaries. For the period from July 5, 2007 to June 30, 2008, we have determined that the undistributed earnings of our non-US subsidiaries will be permanently invested in our non-U.S. operations to support continued growth or could be distributed without a U.S. tax cost. The amount of such earnings, as of June 30, 2008, was approximately $5.7. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

In the Consolidated and Combined Balance Sheets, deferred tax assets and liabilities are shown net if they are in the same jurisdiction. The components of the net deferred tax liability are as follows:

	Successor	Predecessor
	June 30, 2008	June 30, 2007
Current deferred tax assets	$ 62.3	$ 57.3
Non-current deferred tax assets	0.6	4.8
Non-current deferred tax liabilities	(922.5)	(311.8)
Net deferred tax liabilities	$ (859.6)	$ (249.7)

A reconciliation of the statutory U.S. federal income tax rate to our effective tax rate for the period from July 5, 2007 to June 30, 2008, the period July 1 to July 4, 2007, six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively, is as follows:

	Successor	Predecessor			
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31, 2006	Years Ended December 31, 2005
Statutory rate	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
Valuation allowance	(30.5)%	- %	- %	- %	- %
Goodwill impairments	(2.8)%	- %	- %	- %	- %
Foreign tax differential	(0.7)%	(1.5)%	(1.5)%	(1.2)%	(2.3)%
State and local tax	(1.1)%	4.2 %	4.2 %	3.8 %	3.5 %
Other	(0.4)%	(1.6)%	(2.1)%	2.2 %	4.4 %
Effective rate	(0.5)%	36.1 %	35.6 %	39.8 %	40.6 %

As discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies", we adopted a new policy for accounting for uncertain income tax positions effective January 1, 2007. As a result of this change, we recorded a non-cash charge of $2.1 to opening retained earnings as of January 1, 2007 with an offsetting increase to "Net investment of

TOC." Such unrecognized tax benefits are recognized in "Net investment of TOC" in the accompanying Combined Balance Sheet as the liabilities are indemnified by TOC subsequent to the disposition of Thomson Learning.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at July 5, 2007	$ 10.5
Decrease due to change in ownership on July 5, 2007	(6.6)
Decrease due to lapse in the applicable statute of limitations	(0.8)
Balance at June 30, 2008	$ 3.1

If recognized, all of these unrecognized tax benefits would favorably affect our income tax expense.

The unrecognized tax benefits in the amount of $6.6 lapsed due to the change in ownership resulting from the Acquisition and associated tax grouping statutes within a specific tax jurisdiction. Unrecognized tax benefits in the amount of $0.8 lapsed due to the expiration of the applicable statue of limitations in a specific jurisdiction. As of June 30, 2008 and 2007, we had accrued an aggregate of $1.7 and $1.6, respectively, related to interest and penalties associated with these tax positions. We anticipate $0.1 of unrecognized tax benefits will lapse during fiscal 2009 due to the expiration of the applicable statute of limitations in a specific jurisdiction.

The entities within these Combined Financial Statements are included within consolidated tax returns filed by certain TOC affiliates. As of June 30, 2008, the tax years subject to examination for these TOC affiliates by major jurisdiction are as follows:

Jurisdiction	**Tax Year**
United States – Federal	2003 – 2008
United Kingdom	2006 – 2008

At June 30, 2008, we had net operating loss carry-forwards for income tax purposes of $419.6 that will expire in 2009 through 2028, if not utilized, and $9.2 available to offset future taxable income indefinitely. Of the net operating loss carry-forwards, $21.1 and $7.4, respectively, were in existence prior to the Acquisition. The remaining balance consists of estimated net operating loss-carry forwards generated in the current year for income tax purposes of $400.3.

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Successor	**Predecessor**			
	Period July 5, 2007 to June 30, 2008	**Period July 1, 2007 to July 4, 2007**	**Six Months Ended June 30, 2007**	**Years Ended December 31, 2006**	**2005**
Accounts receivable, net	$ (46.0)	$ (9.4)	$ 118.5	$ (42.1)	$ (9.4)
Inventories	2.0	0.8	(22.9)	10.3	(3.0)
Prepaid expenses and other current assets	18.6	(1.0)	(5.3)	(1.4)	1.4
Accounts payable and accrued expenses	54.5	8.6	(112.2)	(38.4)	51.9
Accrued interest payable	64.1	-	-	-	-
Deferred revenue	27.3	3.9	(28.0)	10.3	5.9
Current taxes payable	(0.4)	(0.1)	0.5	3.6	3.7
Author advances, net	2.1	-	6.8	(0.3)	(1.5)
Other, net	(7.9)	(0.6)	3.3	9.8	3.6
	$ 114.3	$ 2.2	$ (39.3)	$ (48.2)	$ 52.6

We paid cash for interest expense on debt and the capital lease, excluding interest paid to TOC, of $337.6 for the period from July 5, 2007 to June 30, 2008 and $2.0, $9.2 and $3.7 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Income taxes paid, net of any refunds, amounted to $4.8 for the period from July

5, 2007 to June 30, 2008 and $4.1, $5.0 and $5.3 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. There were no interest and income taxes payments for the period July 1 to July 4, 2007.

18. RELATED PARTY TRANSACTIONS

Because of the related party relationships outlined below and elsewhere within these Financial Statements, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Acquisition and Post-acquisition Transactions

Limited Partnership Agreement

Certain affiliates of Apax and OMERS, certain other co-investors and two management investment vehicles are parties to an amended and restated limited partnership agreement for our ultimate parent entity, Cengage Learning Holdings I, L.P. Apax manages and controls the business and affairs of Cengage Learning Holdings I, L.P.'s general partner and therefore controls Cengage Learning Holdings I, L.P. The limited partnership agreement contains restrictions on the transferability of the interests in the partnership, the economic rights of the limited partnership interests and the rights of the limited partners to participate in certain asset sales by the partnership or sales of interests in the partnership by certain affiliates of Apax and OMERS.

Advisory Fee Agreements

Concurrent with the consummation of the Acquisition, we entered into advisory fee agreements with Apax and OMERS (together, the "Advisory Fee Agreements"). Pursuant to the agreement with Apax, we paid a fee of $36.4 and $7.7 upon closing of the acquisitions of Thomson Learning and HM College, respectively, in consideration of services, advice and assistance provided in connection with these acquisitions. We are also obligated to pay an aggregate annual fee of $10.0, payable quarterly in advance on the first day of each quarter during the term of the Advisory Fee Agreements, in consideration of the services provided under these Advisory Fee Agreements. We are also obligated to pay associated out of pocket expenses incurred by Apax and OMERS.

At any time in connection with or in anticipation of a change of control or an initial public offering, Apax and OMERS may elect to receive their advisory fees payable under the Advisory Fee Agreements in a single lump sum cash payment equal to the present value of the then unpaid current and future advisory fees payable under the applicable Advisory Fee Agreement, assuming each agreement terminates on the tenth anniversary of the notice date of such election.

Payment of the fees under the Advisory Fee Agreements is subject to deferral due to restrictions imposed upon us in connection with debt financing. Deferred payments will bear interest at an annual rate of 10%, compounded quarterly, until paid.

The fees under the Advisory Fee Agreements may be increased, by mutual agreement of the parties, in the event that we enter into a significant acquisition.

Each Advisory Fee Agreement terminates upon the earlier of (i) the date on which Apax's or OMERS' direct or indirect ownership is below 5%; (ii) payment of the remaining advisory fees in a lump sum; or (iii) as agreed between the parties to each Advisory Fee Agreement.

We recorded expense for Advisory Fees of $9.9 for the period from July 5, 2007 to June 30, 2008, which is included in "Selling, general & administrative, excluding depreciation" in the Consolidated Statements of Operations. The accrued advisory fees along with the accrued interest of $10.4 are included in "Accounts payable and accrued expenses" on the Consolidated Balance Sheet.

Agreements with Nelson

We entered into a Master Services Agreement with Nelson Education, Ltd. (“Nelson”). Nelson is majority owned by funds affiliated with OMERS, with Apax holding the minority interest. Under the Master Services Agreement, we are to provide Nelson with various services including services relating to business and technology services, content services, commission’s services, customer service and operations, management services, fulfillment services and business information support services and Nelson is to provide us with certain real estate services. The cost of each of the services provided under the Master Services Agreement is based on a set fee. No fees are payable under the Master Services Agreement for services provided prior to July 1, 2008.

All services under the Master Services Agreement are provided for a specified period of time, and Nelson can generally terminate those services in advance upon 30 days written notice without penalty.

In addition, we are party to an operating agreement with Nelson under which Nelson is our exclusive authorized distributor for sale and /or distribution of print and digital publications in Canada. Nelson also has the exclusive right to adapt, customize and translate our publications. The operating agreement sets certain restrictions on the use of our content, including restricting Nelson’s ability to adapt certain texts, limiting the dollar amount of sales of “first edition” texts and restricting Nelson from marketing adaptations or translations it has created outside of Canada.

Nelson is required by the operating agreement to pay us royalties of a percentage of net sales for certain specified publications, adaptations of textbooks created by Nelson, translations of textbooks by Nelson and certain Nelson customized products.

Initially the operating agreement has an 11-year term to January 1, 2018, and thereafter it is subject to automatic one year extensions unless cancelled by one of the parties. The operating agreement may also be terminated upon material breach, bankruptcy or the mutual agreement of the parties.

We recorded revenue from Nelson of $21.9 for the period from July 5, 2007 to June 30, 2008. At June 30, 2008, we recorded a receivable of $11.1 and payable of $0.4 from Nelson, which are included in “Accounts receivable, net” and “Accounts payable and accrued expenses”, respectively, on the Consolidated Balance Sheet.

Pre-Acquisition Transactions

In accordance with Securities and Exchange Commission Staff Accounting Bulletin 1-B, *Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity,* the Combined Financial Statements include an allocation of TOC corporate expenses. The nature of these costs relate to the office of the chief executive and chief financial officers, internal and external audit fees, treasury, investor relations, strategic sourcing and risk management. Such costs were allocated to Thomson Learning based on its revenue in proportion to the total revenue of TOC. The amounts allocated to Thomson Learning for the period July 1 to July 4, 2007, six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 were $0.8, $25.3, $47.7, and $41.0 respectively. Such amounts were selling, general & administrative in nature and are included in “Allocation of management costs from TOC” on the Combined Statements of Operations.

Thomson Learning generated revenue from related parties of $4.9, $11.5 and $11.4 during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

19. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Claims and Legal Actions

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

Laney v. Dow Jones & Co. (including as a defendant the Gale Group, Inc. ("Gale"; *Gerald Posner v. Gale Group, Inc* (including Gale as a defendant); and *The Authors Guild, Inc. v.The Dialog Corp.* (including Gale as a defendant). These three related cases were filed in August and September 2000. In each, a number of individual freelance writers allege that they are the authors of certain articles previously published in printed periodicals that were republished by defendants in electronic form without the plaintiffs' authorization and in violation of the U.S. Copyright Act. Each case is styled as a putative class action and seeks to assert claims on behalf of all similarly-situated freelance writers. Upon plaintiffs' motion, the Multidistrict Panel consolidated all of the cases in the Southern District of New York under the caption *In Re Literary Works in Electronic Databases Copyright Litigation*.

In June 2001, the Supreme Court of the U.S. ruled in favor of freelance writers in a similar case, *Tasini v. The New York Times*, and held in effect that electronic republication of individual articles, absent a contractual grant, may constitute copyright infringement. On January 29, 2003, the parties reached an industry-wide agreement in principle to settle each of these actions. A final class settlement was approved which, subject to a limited number of removals that had already been implemented, permitted us to publish all of the allegedly infringed freelance content.

Subsequent to the approval of the settlement by the district court, certain objectors filed an appeal in the U.S. Court of Appeals for the Second Circuit. As a result of the appeal, the class settlement was vacated and remanded back to the District Court by the Second Circuit holding that there was no jurisdiction over a substantial number of the class who did not have registered works. The Second Circuit denied a petition for *en banc* review on April 15, 2008. A petition for Certiorari was filed with the U.S. Supreme Court on July 22, 2008. Based upon the stage of proceedings, it is not possible to reasonably estimate the amount of loss or range of probable loss that might result from an adverse judgment or settlement of this matter.

Heather Robertson v. The Thomson Corp., Thomson Canada Ltd., Thomson Affiliates, Information Access Co. and Bell Globemedia Publishing Inc. ("*Robertson I*"). The *Robertson I* action was certified as a class action in 1999. The class includes all persons who were the authors or creators of literary or original artistic works published in Canada in any print media that were electronically republished by the defendants on or after April 24, 1979, which the plaintiffs claim constitutes an infringement of their rights under the Canadian Copyright Act. The named plaintiff moved for partial summary judgment for aspects of the claims relating to works first published in The Globe and Mail in May 2001. The Ontario Superior Court of Justice rendered a decision on October 3, 2001, refusing partial summary judgment and refusing the injunction claimed. The court made declarations of law on a number of common issues. The court stated further that it required a trial to determine whether The Globe and Mail had, over the years, acquired implied rights from freelancers to archive and make available the written contents of the newspaper on electronic databases and CD-ROM. The plaintiff appealed certain of the declarations of law and the defendants cross-appealed certain declarations of law. The appeal and cross-appeal were dismissed by the Court of Appeal in October 2004. The Supreme Court of Canada in October 2006 dismissed the plaintiffs' appeal in its entirety and allowed the defendants' cross-appeal as it related to CD-ROMs, but dismissed the appeal as it related to electronic databases. The parties are involved in discussions regarding possible settlement, and in addition, are discussing time tables for litigation in case the settlement discussions are not successful.

Any loss incurred in the *Robertson* action is reimbursable by primary and excess insurance policies applicable to our costs of defense and potential liability, although the precise extent of our primary coverage is in dispute. Based upon the stage of proceedings, it is not possible to reasonably estimate the amount of loss or range of probable loss that might result from an adverse judgment or settlement of this matter.

Leases

We lease certain facilities and other operating equipment under non-cancelable operating lease arrangements expiring at various dates through 2091. Future minimum lease payments under these leases were as follows:

Years Ending June 30,		
2009	$	21.2
2010		19.4
2011		18.5
2012		12.7
2013		8.1
thereafter		30.3
	$	110.2

Rent expense was approximately $29.4 for the period from July 5, 2007 to June 30, 2008 and $14.3, $30.8 and $28.1 for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

Other Commitments

As of June 30, 2008, we had approximately $26.7 of outstanding purchase commitments which are not recorded in the Financial Statements. Such agreements were entered into with third parties for commitments to purchase or license content to be used in our educational products and for royalty guarantees derived from minimum usage requirements in agreements with content providers.

The committed purchase amounts by year are as follows:

Year Ending June 30		
2009	$	12.7
2010		7.6
2011		2.0
2012		1.4
2013		1.5
thereafter		1.5
	$	26.7

Guarantees

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

20. SEGMENT INFORMATION

We historically operated in three reportable segments worldwide: Domestic Higher Education, Domestic Library Reference and International. On October 1, 2007, we restructured our operations into the following three reportable segments: Academic & Professional, Gale and International. Such segments are strategic business groups that offer products and services to target markets and reflect the manner in which the chief operating decision maker of the Successor entity regularly reviews the operating results of the business and makes decisions about resources to be allocated. Prior period segment data has been restated to conform to this presentation. The accounting policies applied by the segments are the same as those applied by the Company. All transactions between reportable segments are eliminated upon consolidation or combination and are reflected in the "Corporate and other" reporting line item. Our segments are:

Academic & Professional. The Academic & Professional segment provides higher-education textbooks and tailored learning solutions, including digital educational materials, for students, faculty, institutions and professionals in the U.S. and Latin America.

Gale. The Gale segment is a provider of authoritative reference and educational content for libraries, schools, and businesses. With its reference content, Gale creates and maintains databases that are published online, in print and in microfilm.

International. The International segment sells our U.S. textbooks into international markets; adapts U.S. textbooks for various international markets; publishes and sells textbooks by non-U.S. authors; and provides learning solutions in various formats to individuals and businesses located outside the U.S. and Latin America, as well as English language teaching products sold globally, including the U.S. market. This reportable segment constitutes an aggregation of various operating segments which have similar economic characteristics and individually do not exceed 10% of our consolidated revenue or segment operating profit.

We disclose information about our reportable segments based on the measures we use in assessing the performance of those reportable segments. We use "Segment operating profit" to measure the operating performance of our segments. In June 2008, we modified this measure to represent operating income (loss) before the amortization and impairment of identifiable intangible assets, depreciation, amortization of pre-publication costs, impairment of goodwill and the allocation of corporate management costs from TOC (Predecessor).

Segment operating profit does not have any standardized meaning prescribed by GAAP. Total asset information by segment is not shown because it is not provided to or reviewed by the chief operating decision maker.

Select financial information for our segments is as follows:

	Successor			
Period July 5, 2007 to June 30, 2008	**Revenues**	**Amortization of Pre-publication Costs**	**Depreciation**	**Segment Operating Profit (Loss)**
Academic & Professional	$ 1,135.3	$ 84.6	$ 10.1	$ 456.8
Gale	312.9	33.4	12.7	139.9
International	250.6	12.7	3.8	38.7
Segment totals	1,698.8	130.7	26.6	635.4
Corporate and other	6.7	-	32.7	(46.6)
Total	$ 1,705.5	$ 130.7	$ 59.3	$ 588.8

Revenues for the period from July 5, 2007 to June 30, 2008 include inter-segment revenues of $1.6, $3.3, $0.7 and $4.5 recorded by Academic & Professional, Gale, International and Corporate and other, respectively.

	Predecessor			
Period July 1, 2007 to July 4, 2007	**Revenues**	**Amortization of Pre-publication Costs**	**Depreciation**	**Segment Operating Profit (Loss)**
Academic & Professional	$ 14.6	$ 0.8	$ 0.1	$ 7.5
Gale	1.4	-	0.1	(0.1)
International	1.8	0.1	-	(0.3)
Segment totals	17.8	0.9	0.2	7.1
Corporate and other	0.1	-	0.5	(1.6)
Total	$ 17.9	$ 0.9	$ 0.7	$ 5.5

Inter-segment revenues for the period July 1 to July 4, 2007 were not material.

	Predecessor			
Six Months Ended June 30, 2007	**Revenues**	**Amortization of Pre-publication Costs**	**Depreciation**	**Segment Operating Profit (Loss)**
Academic & Professional	$ 291.0	$ 26.3	$ 6.3	$ 11.5
Gale	148.5	14.9	6.5	62.6
International	90.1	5.1	1.7	(4.9)
Segment totals	529.6	46.3	14.5	69.2
Corporate and other	10.8	-	15.5	(47.9)
Total	$ 540.4	$ 46.3	$ 30.0	$ 21.3

Revenues for the six months ended June 30, 2007 include inter-segment revenues of $1.1, $1.6, $0.2 and $1.9 recorded by Academic & Professional, Gale, International and Corporate and other, respectively.

	Predecessor			
Year Ended December 31, 2006	**Revenues**	**Amortization of Pre-publication Costs**	**Depreciation**	**Segment Operating Profit (Loss)**
Academic & Professional	$ 1,031.1	$ 83.7	$ 7.4	$ 385.0
Gale	322.4	30.4	14.1	139.3
International	211.5	9.5	2.5	24.6
Segment totals	1,565.0	123.6	24.0	548.9
Corporate and other	21.7	-	29.4	(31.8)
Total	$ 1,586.7	$ 123.6	$ 53.4	$ 517.1

Revenues for the year ended December 31, 2006 include inter-segment revenues of $1.0, $3.5, $0.7 and $3.9 recorded by Academic & Professional, Gale, International and Corporate and other, respectively.

	Predecessor			
Year Ended December 31, 2005	**Revenues**	**Amortization of Pre-publication Costs**	**Depreciation**	**Segment Operating Profit (Loss)**
Academic & Professional	$ 975.4	$ 82.9	$ 9.7	$ 360.0
Gale	309.5	29.0	13.5	124.8
International	203.8	7.1	2.3	37.1
Segment totals	1,488.7	119.0	25.5	521.9
Corporate and other	21.0	-	22.1	(37.5)
Total	$ 1,509.7	$ 119.0	$ 47.6	$ 484.4

Revenues for the year ended December 31, 2005 include inter-segment revenues of $0.6, $3.3, $0.2 and $3.3 recorded by Academic & Professional, Gale, International and Corporate and other, respectively.

The following table reconciles segment operating profit per the business segment information to operating income (loss) per the Consolidated and Combined Statements of Operations:

	Successor	Predecessor
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007
Segment operating profit	$ 588.8	$ 5.5
Less:		
Amortization of pre-publication costs	(130.7)	(0.9)
Allocation of management costs from TOC	-	(0.8)
Depreciation	(59.3)	(0.7)
Amortization and impairment of identifiable intangible assets	(212.7)	(0.3)
Impairment of goodwill	(39.2)	-
Operating income from continuing operations	$ 146.9	$ 2.8

	Predecessor		
	Six Months Ended June 30, 2007	Years Ended December 31, 2006	2005
Segment operating profit	$ 21.3	$ 517.1	$ 484.4
Less:			
Amortization of pre-publication costs	(46.3)	(123.6)	(119.0)
Allocation of management costs from TOC	(25.3)	(47.7)	(41.0)
Depreciation	(30.0)	(53.4)	(47.6)
Amortization and impairment of identifiable intangible assets	(20.4)	(43.3)	(39.1)
Operating (loss) income from continuing operations	$ (100.7)	$ 249.1	$ 237.7

Geographic Information

We have business operations throughout the world. The following table contains revenue and long-lived assets information by country of origin:

	Successor		Predecessor	
	Period July 5, 2007 to June 30, 2008	As of June 30, 2008	Period July 1 to July 4, 2007	As of July 4, 2007
	Revenue	Long-lived Assets	Revenue	Long-lived Assets
United States of America	$ 1,434.7	$ 3,527.1	$ 16.0	$ -
Rest of world	270.8	294.0	1.9	-
Total	$ 1,705.5	$ 3,821.1	$ 17.9	$ -

	Predecessor					
	Six Months Ended June 30, 2007	As of June 30, 2007	Year Ended December 31, 2006	As of December 31, 2006	Year Ended December 31, 2005	As of December 31, 2005
	Revenue	Long-lived Assets	Revenue	Long-lived Assets	Revenue	Long-lived Assets
United States of America	$ 445.2	$ 870.6	$ 1,362.0	$ 865.0	$ 1,299.7	$ 923.4
Rest of world	95.2	80.2	224.7	79.9	210.0	58.1
Total	$ 540.4	$ 950.8	$ 1,586.7	$ 944.9	$ 1,509.7	$ 981.5

Long-lived assets are comprised of property, equipment and capitalized software for internal use, pre-publication costs and identifiable intangible assets.

21. SUBSEQUENT EVENTS

In July 2008, we acquired Gatlin Education Services (“Gatlin”), a leading partner to colleges and universities delivering online continuing education certificate programs to adult learners. Gatlin will be integrated into our Education To Go (ed2go) business, which will expand service in the e-learning market, simplifying the delivery of digital education solutions to a growing audience with more selection and functionality. The net assets and results of operations of Gatlin Education will be included as part of our Academic & Professional segment.

Also in July and September 2008, we purchased and retired $12.1 and $32.0, respectively, of the Senior Bridge Loan Facility (See Note 11, “Debt and Capital Lease Obligation”) that resulted in a gain of $10.6 to be recognized in the first quarter of fiscal 2009.

In August 2008, we completed the sale of our local language academic business located in Spain (See Note 4, “Discontinued Operations”).

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

	Successor	Predecessor				
	Period July 5, 2007 to June 30, 2008	Period July 1, 2007 to July 4, 2007	Six Months Ended June 30, 2007	Years Ended December 31,		
				2006	2005	2004
Fixed Charges						
Interest expense	$ 559.1	$ -	$ 11.8	$ 41.6	$ 93.1	$ 76.5
Portion of rental expense which represents interest factor	9.7	-	4.7	10.1	9.3	9.2
Total fixed charges	$ 568.8	$ -	$ 16.5	$ 51.7	$ 102.4	$ 85.7
Earnings available for fixed charges						
Earnings[1]	$ (404.4)	$ 2.8	$ (112.5)	$ 208.8	$ 144.6	$ 157.1
Add fixed charges	568.8	-	16.5	51.7	102.4	85.7
Total earnings available for fixed charges	$ 164.4	$ 2.8	$ (96.0)	$ 260.5	$ 247.0	$ 242.8
Ratio of earnings to fixed charges [2]	-	-	-	5.0	2.4	2.8

[1] Earnings comprise pre-tax (loss) income from continuing operations before adjustments for equity losses of investees, net of taxes.

[2] For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes plus 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 calculated in accordance with U.S. GAAP were inadequate to cover fixed charges for the period from July 5, 2007 to June 30 2008 and the six months ended June 30, 2007 by $973.2 and $129.0, respectively.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286 6000

Report of Independent Auditors On Financial Statement Schedule

To the Board of Directors and partners of Cengage Learning Holdings II L.P.:

Our audit of the consolidated financial statements referred to in our report dated September 22, 2008 appearing in the Annual Report as of June 30, 2008 and for the period from July 5, 2007 to June 30, 2008 of Cengage Learning Holdings II L.P and its subsidiaries (the "Successor") (which report and consolidated financial statements are included in this Annual Report) also included an audit of the financial statement schedule listed as "Valuation and Qualifying Accounts" in this Annual Report. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

September 22, 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286 6000

Report of Independent Auditors
On
Financial Statement Schedule

To the Board of Directors and management of Cengage Learning Holdings II L.P. (successor to Thomson Learning, a combination of certain assets and liabilities of Thomson Reuters Corporation, formerly The Thomson Corporation):

Our audits of the combined financial statements referred to in our report dated September 22, 2008 appearing in the Annual Report as of June 30, 2007 and for the period from July 1, 2007 to July 4, 2007, the six months period ended June 30, 2007 and each of the two years in the period ended December 31, 2006 of Cengage Learning Holdings II L.P and its subsidiaries (successor to Thomson Learning, a combination of certain assets and liabilities of Thomson Reuters Corporation, formerly The Thomson Corporation) (the "Predecessor") (which report and combined financial statements are included in this Annual Report) also included an audit of the financial statement schedule listed as "Valuation and Qualifying Accounts" in this Annual Report. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined financial statements.

PricewaterhouseCoopers LLP

September 22, 2008

CENGAGE LEARNING HOLDINGS II L.P.
Valuation and Qualifying Accounts
(In millions of U.S. dollars)

		Additons				
Description	**Balances at Beginning of Period**	**Charge to Costs and Expenses**	**Charge to Other Accounts**	**Write Off**	**Translation**	**Balances at End of Period**
Successor						
For the Period July 5, 2007 to June 30, 2008						
Allowance for doubtful accounts	$ -	$ 10.2	$ -	$ -	$ 0.7	$ 10.9
Sales return reserves	88.0	310.7	10.6	(312.3)	1.6	98.6
Inventory obsolescence reserves	-	(28.4)	-	-	1.0	(27.4)
Deferred tax valuation allowance	-	107.7	112.1	-	1.1	220.9
Predecessor						
For the Period July 1, 2007 to July 4, 2007						
Allowance for doubtful accounts	$ 27.9	$ 1.7	$ -	$ -	$ -	$ 29.6
Sales return reserves	85.2	2.8	-	-	-	88.0
Inventory obsolescence reserves	60.9	0.7	-	-	-	61.6
Deferred tax valuation allowance	8.6	-	-	-	-	8.6
Six Months Ended June 30, 2007						
Allowance for doubtful accounts	$ 22.9	$ 7.4	$ -	$ (3.5)	$ 1.1	$ 27.9
Sales return reserves	171.7	81.3	(3.1)	(165.0)	0.3	85.2
Inventory obsolescence reserves	63.0	7.8	-	(10.1)	0.2	60.9
Deferred tax valuation allowance	3.8	1.5	3.3	-	-	8.6
Year Ended December 31, 2006						
Allowance for doubtful accounts	$ 28.3	$ 6.8	$ -	$ (13.6)	$ 1.4	$ 22.9
Sales return reserves	169.8	288.5	5.7	(292.9)	0.6	171.7
Inventory obsolescence reserves	59.7	18.5		(15.5)	0.3	63.0
Deferred tax valuation allowance	2.3	0.8	-	-	0.7	3.8
Year Ended December 31, 2005						
Allowance for doubtful accounts	$ 25.1	$ 7.9	$ -	$ (3.7)	$ (1.0)	$ 28.3
Sales return reserves	165.4	276.3	-	(271.4)	(0.5)	169.8
Inventory obsolescence reserves	62.3	19.7	-	(22.0)	(0.3)	59.7
Deferred tax valuation allowance	3.0	(0.6)	-	-	(0.1)	2.3

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