CENGAGE LEARNING ANNOUNCES THIRD QUARTER FISCAL 2013 RESULTS

Stamford, CT – May 10, 2013 – Cengage Learning, a leading educational content, software and services company serving the academic, professional and library markets worldwide, today reported its financial results for the three and nine months ended March 31, 2013.

Michael Hansen, Chief Executive Officer of Cengage Learning, said, “While we were pleased to generate improved revenues in the third quarter, Cengage Learning continued to face extremely challenging market conditions in the past sales season. We have begun to implement a strategic plan with clear priorities designed to establish Cengage Learning as the company customers look to first for improving learning engagement and outcomes around the world. Our strategic priorities are centered on increasing product innovation, driving incremental growth in research and English Language Teaching, enhancing our go to market excellence, and ensuring our cost structure is aligned with our revised revenue projections. These strategic priorities, which are gaining traction, are critical to the transformation and long-term success of our business, and for positioning the Company to deliver the best course materials, with seamlessly integrated content, digital solutions and services.”

Results of Operations for the Three and Nine Months Ended March 31, 2013

- Revenues for the three months ended March 31, 2013 increased by $16.2 million, or 4.8%, to $353.4 million.
- Revenues for the nine months ended March 31, 2013 decreased by $186.7 million, or 12.6%, to $1,298.6 million.
- Operating loss for the three months ended March 31, 2013 was $2.77 billion compared with $12.3 million for the three months ended March 31, 2012, primarily reflecting a $2.76 billion preliminary goodwill impairment and $12.7 million of operational restructuring charges related to the company’s implementation of strategic priorities, partially offset by higher revenues and lower employee-related costs.
- Operating loss for the nine months ended March 31, 2013 was $2.59 billion compared with operating income of $312.1 million for the three months ended March 31, 2012, primarily reflecting the preliminary goodwill impairment and other factors referenced above.
- Adjusted EBITDA for the three months ended March 31, 2013 increased by $20.9 million, or 29.7%, to $91.3 million, reflecting higher revenues and lower employee-related costs.
• Adjusted EBITDA for the nine months ended March 31, 2013 decreased by $124.7 million, or 21.0%, to $469.5 million, reflecting lower revenues, partially offset by lower employee-related costs.
• Net cash provided by operating activities for the nine months ended March 31, 2013 decreased by $241.0 million, or 61.5%, primarily due to lower net income and lower contribution from working capital, partially offset by lower debt payments in lieu of interest.
• Unlevered Free Cash Flow for the nine months ended March 31, 2013 decreased by $208.4 million, or 36.7%, to $360.2 million, primarily due to lower net income and lower contribution from working capital.

The Company also announced that, to better align selling practices with underlying demand in the marketplace, management has made a decision to discontinue certain customer incentive programs which incentivized customers to place orders early. As a result of this decision, the Company anticipates significantly weaker sales performance in the fourth quarter of fiscal 2013 versus the prior year. The Company anticipates that at least some portion of the sales not realized during the fourth quarter will be realized during the remainder of the sales season in the first half of fiscal 2014.

Update on Liquidity and Capital Structure

As of March 31, 2013, Cengage Learning had cash and cash equivalents of $417.5 million. As previously reported, on March 20, 2013, Cengage Learning Acquisitions, Inc. borrowed $430 million, virtually the entire remaining available amount, under its revolving credit facilities. As of March 31, 2013, the outstanding balance on the July 2013 revolver and July 2017 revolver were $222 million and $296 million, respectively.

Cengage Learning has retained restructuring, financial and legal advisors to assist in developing and analyzing a range of potential restructuring options to strengthen the Company’s balance sheet and position it for long-term growth and success. The Company is preparing to engage in discussions with its major financial stakeholders about the terms of a comprehensive restructuring transaction. Among the options the Company is evaluating is the implementation of a restructuring through a “pre-packaged” or “pre-negotiated” Chapter 11 process, in which the terms would be negotiated with key creditor constituents prior to filing. This type of Chapter 11 process can be an effective way of achieving a fast and efficient debt restructuring with minimal disruption to the business. The Company expects that whatever path it takes with respect to its capital structure, the quality and reliability of its product offerings and high level of service will not be impacted.

Hansen said, “The potential restructuring options we are reviewing are intended to ensure that Cengage Learning’s capital structure will support our strategic plans and business objectives and give us the ability to achieve growth and profitability. Over the near-term, we are focused on successfully negotiating the terms of a comprehensive financial restructuring transaction that will allow us to move forward to strengthen Cengage Learning financially and operationally for the future.”

In addition to this press release, the Company is making available on its website at www.cengage.com/investor information including: the Third Quarter Report for the period ended March 31, 2013; the prepared remarks from the Company’s third quarter conference call; and the slides accompanying the call remarks.

Conference Call and Webcast Details
Cengage Learning CEO Michael Hansen and CFO Dean Durbin will discuss the Company’s third-quarter fiscal 2013 financial results at 9:00 a.m. EDT on Friday, May 10, 2013. Management’s discussion of the quarter, which will not include a question and answer session, will be accessible by webcast through www.InvestorCalendar.com or by dialing 1-877-407-0778 in the U.S. or 1-201-689-8565 outside the United States, Puerto Rico and Canada approximately 15 minutes before the scheduled start of the call. An accompanying presentation will be posted on the Investor Relations section of Cengage Learning’s website at www.cengage.com/investor. Following the conclusion of the call, the Company will post the prepared remarks alongside this press release and the slide presentation and make a replay available at www.cengage.com/investor.

About Cengage Learning

Cengage Learning is a leading educational content, software and services company for the academic, professional and library markets worldwide. The company provides personalized services and course-driven digital solutions that enhance the educational process resulting in a more engaged learner. Through the integration of content, unmatched services and digital solutions, Cengage Learning delivers a best-in-the-industry experience, resulting in better curricula and improved learner outcomes. Cengage Learning is headquartered in Stamford, CT. For more information on Cengage Learning please visit www.cengage.com.

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