

Acquisition of Houghton-Mifflin College Division Summary Deal Terms and Financing

- Cengage Learning completed the acquisition of Houghton-Mifflin's college division on May 30, 2008
- The purchase price represents 9.0x calendar year 2007 EBITDA and we incurred additional debt of 7.3x calendar year 2007 EBITDA of the acquired business, in each case after taking into account synergies of the acquired business.
- Total preliminary purchase price of \$768.3 million reflects the base purchase price of \$750 million, adjusted for estimated working capital and cash flow in calendar year 2008 of the acquired business, but is before adjusting for proceeds from the titles to be divested, as described below. Final purchase price will be determined after an audit of the 2008 working capital and cash flow of the acquired business.
- Financed through \$625 million incremental term loan, \$132.5 million of equity contribution from existing equity sponsors and remainder through on-hand cash. The additional term loan borrowings mature in 2014, bear interest at a floating rate (which is currently 7.5%) and require annual principal payments of 1% of the additional term loan balance.
- Agreement with Department of Justice to divest certain titles with approximately \$15 million of annual revenue.
- Calendar year 2007 audited revenue of the acquired business, including the titles to be divested, was \$234 million.
- Estimated one-time costs expected to be incurred over the next 12 months of \$25 million.