Voyager Learning CO
Form 10-Q
November 06, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

Commission file number 001-07680

Voyager Learning Company

(Exact name of registrant as specified in its charter)

Delaware	**36-3580106**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S.Employer Identification No.)
1800 Valley View Lane, Suite 400, Dallas, Texas	**75234-8923**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(214) 932-9500**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares of the registrant s common stock, $.001 par value, outstanding as of October 30, 2009 was 29,874,145.

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Statements of Operations (Unaudited) for the Three Months and Nine Months Ended September 30, 2009 and September 30, 2008	1
Condensed Consolidated Balance Sheets as of September 30, 2009 (Unaudited) and December 31, 2008	2
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2009 and September 30, 2008	3
Notes to the Condensed Consolidated Financial Statements (Unaudited)	4
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	32
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 6. Exhibits	45
SIGNATURE PAGE	47

EXHIBITS

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

Voyager Learning Company and Subsidiaries

Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net sales	$ 32,575	$ 27,267	$ 79,584	$ 76,418
Cost of sales (exclusive of depreciation and amortization shown separately below)	(10,694)	(9,956)	(26,298)	(27,837)
Gross profit	21,881	17,311	53,286	48,581
Research and development expense	(1,274)	(1,141)	(3,436)	(3,743)
Sales and marketing expense	(8,541)	(8,005)	(22,615)	(25,410)
General and administrative expense	(5,939)	(8,077)	(18,379)	(24,286)
Depreciation and amortization expense	(4,922)	(5,258)	(14,605)	(16,083)
Goodwill impairment	(5,191)		(27,175)	
Lease termination costs				(11,673)
Loss before interest, other income (expense) and income taxes	(3,986)	(5,170)	(32,924)	(32,614)
Net interest income (expense):				
Interest income	9	136	70	712
Interest expense	(135)	(77)	(611)	(231)
Net interest income (expense)	(126)	59	(541)	481
Other income (expense), net	(230)	1	954	790
Loss before income taxes	(4,342)	(5,110)	(32,511)	(31,343)
Income tax benefit (expense)	(366)		81	
Net loss	$ (4,708)	$ (5,110)	$ (32,430)	$ (31,343)
Net loss per common share:				
Basic net loss per common share	$ (0.16)	$ (0.17)	$ (1.09)	$ (1.05)
Diluted net loss per common share	$ (0.16)	$ (0.17)	$ (1.09)	$ (1.05)

Average number of common shares and equivalents outstanding:				
Basic	**29,874**	**29,871**	**29,874**	**29,871**
Diluted	**29,874**	**29,871**	**29,874**	**29,871**

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Voyager Learning Company and Subsidiaries

Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 85,325**	**$ 67,302**
Accounts receivable, net	**14,789**	**7,371**
Income tax receivable	**4,684**	**19,782**
Inventory	**12,568**	**15,196**
Other current assets	**7,451**	**33,826**
Total current assets	**124,817**	**143,477**
Property, equipment and software at cost	**19,708**	**16,543**
Accumulated depreciation and amortization	**(12,498)**	**(9,718)**
Net property, equipment and software	**7,210**	**6,825**
Goodwill	**72,542**	**99,717**
Acquired curriculum intangibles, net	**30,437**	**38,594**
Other intangible assets, net	**4,503**	**5,218**
Developed curriculum, net	**8,994**	**8,903**
Other assets	**1,536**	**1,363**
Total assets	**$ 250,039**	**$ 304,097**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of capital lease obligations	**$ 152**	**$ 149**
Accounts payable	**1,773**	**1,962**
Accrued expenses	**14,699**	**40,866**
Deferred revenue, less long-term portion	**32,216**	**27,917**
Total current liabilities	**48,840**	**70,894**
Long-term liabilities:		
Capital lease obligations, less current maturities	**63**	**96**
Other liabilities	**21,029**	**20,348**

Total long-term liabilities		**21,092**		**20,444**
Commitments and contingencies (See Note 15)				
Shareholders equity:				
Common stock ($.001 par value, 50,000 shares authorized, 30,550 shares issued and 29,874 shares outstanding at September 30, 2009, and December 31, 2008)		**30**		**30**
Capital surplus		**357,823**		**357,741**
Accumulated earnings (deficit)		**(161,657)**		**(129,227)**
Treasury stock, at cost (676 shares at September 30, 2009 and at December 31, 2008)		**(16,836)**		**(16,836)**
Other comprehensive income (loss):				
Pension and postretirement plans, net of tax benefit of $392 and $713 at September 30, 2009 and December 31, 2008, respectively		**788**		**1,093**
Net unrealized gain (loss) on securities, net of tax expense of $39 at September 30, 2009 and December 31, 2008		**(41)**		**(42)**
Accumulated other comprehensive income		**747**		**1,051**
Total shareholders equity		**180,107**		**212,759**
Total liabilities and shareholders equity	**$**	**250,039**	**$**	**304,097**

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Voyager Learning Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended	
	September 30, 2009	September 30, 2008
Operating activities:		
Net loss	$ (32,430)	$ (31,343)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Goodwill impairment	27,175	
Depreciation and amortization	14,605	16,083
Non-cash lease termination costs		673
Stock-based compensation	220	688
Loss (gain) on sale of available for sale securities	1	(136)
Deferred income taxes	60	
Non-cash tax benefit	(321)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,418)	(11,329)
Income tax receivable	15,098	1,445
Inventory	2,628	(1,668)
Other current assets	14,707	4,430
Other assets	(173)	(11)
Accounts payable	(189)	(360)
Accrued expenses	(26,167)	(10,004)
Deferred revenue	6,010	7,593
Other long-term liabilities	(657)	(1,838)
Other, net	(16)	53
Net cash provided by (used in) operating activities	13,133	(25,724)
Investing activities:		
Expenditures for property, equipment, developed curriculum, and software	(6,112)	(5,904)
Purchases of equity investments available for sale	(10)	(675)
Proceeds from sales of equity investments available for sale	11,139	1,756
Net cash provided by (used in) investing activities	5,017	(4,823)
Financing activities:		
Principal payments under capital lease obligations	(127)	(208)

Net cash used in financing activities	**(127)**	**(208)**
Increase (decrease) in cash and cash equivalents	**18,023**	**(30,755)**
Cash and cash equivalents, beginning of period	**67,302**	**53,868**
Cash and cash equivalents, end of period	**$ 85,325**	**$ 23,113**
Non-cash financing and investing activities:		
Acquisition of equipment through capital leases	**$ 97**	**$**

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Voyager Learning Company and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Voyager Learning Company and its Subsidiaries (collectively, unless the context otherwise requires, the Company) and are unaudited. All intercompany transactions are eliminated.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. We believe that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2008. Due to seasonality, the results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain reclassifications to the 2008 Consolidated Financial Statements have been made to conform to the 2009 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Subsequent actual results may differ from those estimates.

The Company s management approach, organizational structure, operating performance measurement and reporting, and operational decision making are performed from a single company perspective. The Company operates as one reportable segment within the United States in fiscal 2008 and 2009.

Note 2 Planned Business Combination

On June 22, 2009 the Company announced that it entered into a definitive merger agreement (the Merger Agreement), dated as of June 20, 2009, to combine with Cambium Learning, Inc. (Cambium), an education company serving the needs of at-risk and special student

Table of Contents

populations in the pre-kindergarten through twelfth grade market. The planned business combination will be effected through a newly-formed company, Cambium Learning Group, Inc. (formerly known as Cambium-Voyager Holdings, Inc.) (Holdings), which will acquire both companies and issue shares in the combined company to stockholders of each of the Company and Cambium. Holdings will be majority owned by VSS-Cambium Holdings III, LLC, which will be majority owned by Veronis Suhler Stevenson, a private equity investor in the information, education and media industries and current majority owner of VSS-Cambium Holdings, LLC, which indirectly owns Cambium. Upon completion of the planned mergers, Holdings will be a public company, and anticipates having its common stock approved for listing on the NASDAQ Global Market.

Under the terms of the Merger Agreement, each stockholder of the Company will be entitled to receive, in exchange for each share of the Company s common stock owned by such stockholder, the following consideration: (i) at the election of the stockholder, either one share of common stock of Holdings or $6.50 in cash, subject to a potential pro-rata reduction; (ii) a pro-rata amount of certain tax refunds received by the Company prior to the closing of the transaction reduced by the amount of the tax refunds contractually required to be placed in escrow at closing; and (iii) a contingent value right payable periodically on the nine and eighteen month anniversary of the effective time of the mergers and on or about October 15, 2013.

Under applicable accounting guidance for business combinations, Cambium is the accounting acquirer and the Company is the acquiree. As such, if and when the planned mergers are completed, the Company will cease to be a reporting entity and Cambium s financial statements will be the historical financial statements of Holdings. The planned merger is subject to approval by the stockholders of the Company and other closing conditions. The Company expects the merger to be completed no later than year end 2009.

Note 3 Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled $0.7 million at September 30, 2009 and December 31, 2008. The allowance for doubtful accounts is based on a review of the outstanding accounts receivable balances and historical collection experience. The allowance for sales returns is based on historical rates of return as well as other factors that management believes could reasonably be expected to cause sales returns to differ from historical experience.

Table of Contents

Note 4 Stock-Based Compensation

The total amount of pre-tax expense for stock-based compensation recognized in general and administrative expense was $0.1 million and $0.2 million in the quarters ended September 30, 2009 and September 30, 2008, respectively, and $0.2 million and $0.7 million in the nine month periods ended September 30, 2009 and September 30, 2008, respectively.

There were no issuances of stock-based compensation awards during the three or nine months ended September 30, 2009.

On April 9, 2009, 440,000 options granted in 2004 to one of the Company s key executives under the Long Term Incentive Performance Plan, were cancelled due to voluntary forfeiture of these options.

Note 5 Net Earnings (Loss) per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period, including the potential dilution that could occur if all of the Company s outstanding stock awards that are in-the-money were exercised, using the treasury stock method. A reconciliation of the weighted average number of common shares and equivalents outstanding used in the calculation of basic and diluted net loss per common share are shown in the table below for the periods indicated:

	Three Months Ended		Nine Months Ended	
(Shares in thousands)	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Basic	29,874	29,871	29,874	29,871
Dilutive effect of awards				
Diluted	29,874	29,871	29,874	29,871

No awards were included in the computation of diluted net loss per common share for the three and nine months ended September 30, 2009 and September 30, 2008 because a loss from continuing operations occurred and to include them would be anti-dilutive.

Table of Contents

Note 6 Fair Value Measurements

Effective fiscal 2008, the Company adopted new accounting guidance on fair value measurements and disclosures that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company adopted the guidance for all recurring financial assets and liabilities beginning fiscal 2008 and for all other nonfinancial assets and liabilities beginning fiscal 2009. The adoption of this accounting guidance had no impact on the Company s Condensed Consolidated Financial Statements.

Fair value is defined by this accounting guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

All of the Company s financial assets and liabilities are valued using quoted prices in active markets, which are considered Level 1 inputs under this accounting guidance.

The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

Note 7 Comprehensive Income (Loss)

Comprehensive loss includes net loss, pension and postretirement liability, net unrealized gain (loss) on available-for-sale securities, and the write-off of tax benefit resulting from the partial settlement of the U.S. defined benefit pension plan (See Note 12 herein).

Comprehensive loss is shown in the table below for the periods indicated:

	Three Months Ended		**Nine Months Ended**	
(Dollars in thousands)	**September 30, 2009**	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Net loss	**$ (4,708)**	**$ (5,110)**	**(32,430)**	**(31,343)**
Other comprehensive income (loss):				
Pension and postretirement plans	**(7)**	**(7)**	**16**	**(20)**
Unrealized gain (loss) on securities		**(11)**	**1**	**(211)**
Write-off of tax benefit on pension settlement			**(321)**	
Comprehensive loss	**$ (4,715)**	**$ (5,128)**	**$ (32,734)**	**$ (31,574)**

Table of Contents

Note 8 Impairment

The changes in the carrying amount of goodwill for the nine months ended September 30, 2009 are as follows:

(Dollars in thousands)	
Balance as of December 31, 2008	**99,717**
Goodwill impairment	**(27,175)**
Balance as of September 30, 2009	**$ 72,542**

Under applicable accounting guidance for goodwill and other intangibles, goodwill and other indefinite-lived intangible assets are no longer amortized but are instead reviewed for impairment at least annually and whenever a triggering event is determined to have occurred in an interim period.

The Company s annual impairment testing is performed during the fourth fiscal quarter. As expected, during 2009 the Company continued to experience the adverse marketplace and economic conditions that began to impact the Company in 2008. As a result of these conditions, the Company performed goodwill impairment tests during the second and third quarters of 2009. Additionally, the Company announced the Merger Agreement during the second quarter of 2009 and this planned business combination was considered a triggering event requiring ongoing goodwill impairment review. See Note 2 for additional information on the planned business combination. Although the terms of the Merger Agreement are fixed, the estimated purchase price may continue to be refined, which could result in future goodwill impairment charges. Additionally, because the terms of the Merger Agreement are fixed, increases in the Company s net assets could result in future goodwill impairment charges.

As a result of these impairment reviews, the Company recorded a goodwill impairment charge of $22.0 million during the second quarter of 2009 and $5.2 million during the third quarter of 2009.

The first step of impairment testing during the second and third quarters of 2009 showed that the book value of the Company s single reporting unit exceeded its fair value; therefore, a second step of testing was required. The fair value was determined using an estimated purchase price from the Merger Agreement. The final total purchase price could materially differ from the value estimated due to numerous factors including the value of Holdings as of the date of the merger, the timing of completion of the merger, stockholder elections to receive cash versus common stock of Holdings, and the

value of cash received by stockholders for tax refunds and the contingent value right. The fair value was estimated as $184.1 million at the time the second quarter test was performed and $184.3 million at the time the third quarter test was performed.

The second step requires the allocation of fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination, and is dependent on multiple assumptions and estimates, including estimated purchase price, future cash flow projections with a terminal value multiple, and the discount rate used to determine the expected present value of the estimated future cash flows. Future cash flow projections are based on management s best estimates of economic and market conditions over the projected period including industry fundamentals such as the state of educational funding, revenue growth rates, future costs and operating margins, working capital needs, capital and other expenditures, and tax rates. The discount rate applied to the future cash flows is a weighted-average cost of capital and takes into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and other relevant factors. As a result of the second step of our second and third quarter impairment tests, the goodwill balance for the reporting unit as of each of these measurement dates was determined to be partially impaired.

In performing our test of goodwill impairment the Company also tested its other long lived assets. No impairment was indicated for these other long lived assets.

Note 9 Other Current Assets

Other current assets at September 30, 2009 and December 31, 2008 consisted of the following:

	As of	
(Dollars in thousands)	**September 30, 2009**	**December 31, 2008**
Available for sale securities	**$ 2,024**	**$ 13,137**
Short-term deferred tax asset	**1,439**	**1,994**
Deferred costs	**2,846**	**1,907**
Insurance receivable		**15,000**
Other	**1,142**	**1,788**
Total	**$ 7,451**	**$ 33,826**

See Note 15 for a description of the legal contingency accrual related to the putative securities class actions and the related receivable from the Company s insurance providers.

Table of Contents

Note 10 Accrued Expenses

Accrued expenses at September 30, 2009 and December 31, 2008 consisted of the following:

	As of	
(Dollars in thousands)	September 30, 2009	December 31, 2008
Salaries, bonuses and benefits	$ 7,897	$ 6,900
Corporate transition costs	1,388	1,879
Pension and post-retirement medical benefits	1,263	6,675
Deferred compensation	629	3,233
Legal contingency accrual	55	20,000
Transaction costs	660	
Other	2,807	2,179
Total	$ 14,699	$ 40,866

See Note 13 for a description of our corporate transition costs.

See Note 15 for a description of the settlement of the legal contingency accrual related to the putative securities class actions.

Transaction costs relate to professional service fees incurred but not paid for the merger with Cambium. See Note 2 for a description of the Merger Agreement.

Note 11 Other Liabilities

Other liabilities at September 30, 2009 and December 31, 2008 consisted of the following:

	As of	
(Dollars in thousands)	September 30, 2009	December 31, 2008
Pension and post-retirement medical benefits, long-term portion	$ 9,595	$ 10,239
Long-term deferred tax liability	2,143	2,638
Long-term deferred revenue	3,301	1,590
Long-term deferred compensation	1,111	2,765
Long-term income tax payable	1,248	640
Other	3,631	2,476
Total	$ 21,029	$ 20,348

Table of Contents

Note 12 Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Three Months Ended			
	U.S Defined Benefit Pension Plan		Other Postretirement Benefits	
(Dollars in thousands)	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Service cost	$	$	$	$
Interest cost	173	311	1	1
Amortization of prior service cost				
Recognized net actuarial (gain) loss		18	(7)	(25)
Net pension and other postretirement benefit cost (income)	$ 173	$ 329	$ (6)	$ (24)

	Nine Months Ended			
	U.S Defined Benefit Pension Plan		Other Postretirement Benefits	
(Dollars in thousands)	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Service cost	$	$	$	$
Interest cost	517	932	4	4
Amortization of prior service cost				
Recognized net actuarial (gain) loss		54	(22)	(74)
Net pension and other postretirement benefit cost (income)	$ 517	$ 986	$ (18)	$ (70)

During the fourth quarter of 2008, the Company provided an opportunity for participants in its Replacement Benefit Plan (RBP) and its U.S. defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. Prior to the distribution opportunity, both plans were frozen, with no participants entitled to make additional contributions or earn additional service years. Based on the number of participants who chose to receive a discounted lump sum payment, the Company paid participants approximately $7.9 million in January 2009 related to these lump sum payments. As a result of the settlements, the Company recorded a gain in January 2009 of $1.3 million, consisting of $1.1 million related to the RBP settlement and $0.2 million related to the settlement of the U.S. defined benefit pension plan. The gain is included in Other Income (Expense) in the Condensed Consolidated Statement of Operations.

Note 13 Corporate Transition

On February 12, 2007, after the sale of ProQuest Business Solutions and ProQuest Information and Learning, the Company s Board

of Directors approved the closing of the corporate office in Ann Arbor, Michigan and this plan was announced to employees. The transition plan, which was completed by year-end 2008, included the elimination of redundant positions and transitioning the performance of certain operational activities to Dallas, Texas. The Company expects to incur approximately $4.1 million in severance and retention expense related to the transition plan, all of which was accrued in prior years. As of September 30, 2009, approximately $1.7 million remains accrued. In May 2009 one of the affected employees signed a new employment agreement that reduced the applicable severance payments by $0.3 million. This change in estimate was recorded in the second quarter in general and administrative expense. The change in the accruals for corporate transition costs related to severance and retention payments and reduction in accrual for change in employment agreement for the nine month period ended September 30, 2009 is as follows:

(Dollars in thousands)	
Balance as of December 31, 2008	**$ 2,556**
Accrual changes	**(342)**
Payments made	**(493)**
Balance as of September 30, 2009	**$ 1,721**
Current portion	**$ 1,388**
Long-term portion	**$ 333**

Note 14 Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 31, 2008	**$ 14,616**
Increases for changes in estimates during the current period	**722**
Decreases related to settlements	**(136)**
Balance as of September 30, 2009	**$ 15,202**

During the three and nine months ended September 30, 2009, the Company recorded an increase to its liability for unrecognized tax benefits of approximately $0.7 million, primarily related to an increase in estimate related to an existing tax position, and a decrease to its liability of approximately $0.1 million, primarily related to settlement of a state income tax filing position.

Table of Contents

Included in the balance of unrecognized tax benefits at September 30, 2009 are approximately $1.2 million of tax benefits that, if recognized, would affect the effective tax rate. Because of the impact of deferred tax accounting and the availability of tax attributes, the majority of the tax positions would ordinarily not affect the effective tax rate or the payment of cash to the taxing authorities. However, due to the limited evidence to support the realization of these tax assets a valuation allowance is required.

The Company files income tax returns in the U.S. federal jurisdiction and various U.S. state jurisdictions. The Company is currently under examination by the IRS for 2006 and 2007.

Under the sale agreements with Snap-On Incorporated and Cambridge Scientific Abstracts, LP (CSA), the Company is liable to indemnify Snap-On Incorporated or CSA for any income taxes assessed against ProQuest Business Solutions (PQBS) or ProQuest Information and Learning (PQIL) for periods prior to the sale of PQBS or PQIL. The Company has established a liability for those matters where it is not probable that the position will be sustained. The amount of the liability is based on management s best estimate given the Company s history with similar matters and interpretations of current laws and regulations.

Note 15 Contingent Liabilities

Putative Securities Class Actions

Between February and April 2006, four putative securities class actions, consolidated and designated In re ProQuest Company Securities Litigation, were filed in the U.S. District Court for the Eastern District of Michigan (the Court) against the Company and certain of its former and then-current officers and directors. Each of these substantially similar lawsuits alleged that the Company and certain officers and directors (the Defendants) violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as the associated Rule 10b-5, in connection with the Company s proposed restatement.

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs counsel.

On July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action law suit filed against it and certain officers and directors in the U.S.

Table of Contents

District Court for the Eastern District of Michigan for $20 million. A Stipulation and Agreement of Settlement was signed by the parties and the Court granted preliminary approval of such agreement. During January 2009, the Company paid $4.0 million into an escrow account and our insurers funded the remaining portion of the settlement into the escrow account as well. The Court entered final approval of the settlement on March 30, 2009. This Final Order and Judgment fully resolves the securities matters raised in this litigation.

Shareholder Derivative Lawsuits

On April 18, 2006 and December 19, 2006, respectively, two shareholder derivative lawsuits were filed in the U.S. District Court for the Eastern District of Michigan (the Court), purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company s shareholders. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated order staying the litigation pending completion of the Company s restatement and a special committee investigation into the restatement.

On January 29, 2008, the Court entered an order consolidating the two cases and approving co-lead and co-liaison counsel representing plaintiffs. On March 20, 2008, plaintiffs filed a consolidated amended complaint alleging claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, rescission, imposition of a constructive trust, violations of the Sarbanes-Oxley Act of 2002 and violations of the Securities Exchange Act of 1934 against current and former officers or directors of the Company and one of its subsidiaries. On December 3, 2008 the Company reached an agreement in principle to settle the shareholder derivative litigation law suit filed against it and certain officers and directors in the Court. Under the terms of the agreement, the Company and its insurers would pay an amount not to exceed $650,000 in attorneys fees and agree to maintain or adopt additional corporate governance standards. The Company s portion of this amount is equal to $500,000. The parties entered into a Stipulation of Settlement on January 9, 2009. This Stipulation of Settlement was approved by the Court and a Final Judgment and Order was signed by the Court on March 31, 2009. Subject to an annual review of the corporate governance standards by the Court, this Final Judgment and Order fully resolves the matters asserted in this litigation.

Table of Contents

Other Contingent Liabilities

The Company is also involved in various legal proceedings incidental to our business. Management believes that the outcome of these proceedings will not have a material adverse effect upon our consolidated operations or financial condition and we believe we have recognized appropriate reserves as necessary based on facts and circumstances known to management.

The Company has letters of credit in the amount of $0.8 million outstanding as of September 30, 2009 to support workers compensation insurance coverage as well as certain of the Company s credit card programs. The Company has a certificate of deposit in the amount of $1.1 million collateralizing these letters of credit, certain other credit card programs and the Automated Clearinghouse (ACH) program. The certificate of deposit is recorded in other assets.

Note 16 Subsequent Events

The Company has evaluated subsequent events through November 6, 2009, which is the date on which these Condensed Consolidated Financial Statements were issued. There were no identified subsequent events.

Table of Contents

Item 2.

Management s Discussion and Analysis of
Financial Condition and Results of Operations

This section should be read in conjunction with the Consolidated Financial Statements of Voyager Learning Company and Subsidiaries (collectively the Company) and the notes thereto included in the annual report on Form 10-K for the year December 31, 2008, as well as the accompanying interim financial statements for the three and nine month periods ended September 30, 2009.

Safe Harbor for Forward-looking Statements

Except for the historical information and discussions contained herein, statements contained in this document may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terminology such as may , should , expects , plan anticipates , believes , estimates , predicts , potential , continue , projects , intends , prospects , priorities such terms or similar terminology. These statements involve a number of risks, uncertainties and other factors, including those described in Item 1A. Risk Factors, among others, which could cause actual results to differ materially. These factors may cause our actual results to differ from any forward-looking statements. All forward-looking statements made by us or by persons acting on our behalf apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update any of our forward-looking statements.

Merger Agreement

On June 22, 2009 we announced that we had entered into a definitive merger agreement (the Merger Agreement), dated as of June 20, 2009, to combine with Cambium Learning, Inc. (Cambium), an education company serving the needs of at-risk and special student populations in the pre-kindergarten through twelfth grade market. The planned business combination will be effected through a newly-formed company, Cambium Learning Group, Inc. (formerly known as Cambium-Voyager Holdings, Inc.) (Holdings), which will acquire both companies and issue shares in the combined company to stockholders of each of the Company and Cambium. Holdings will be majority owned by VSS-Cambium Holdings III, LLC, which will be majority owned by Veronis Suhler Stevenson, a private equity investor in the information, education and media industries and current majority

owner of VSS-Cambium Holdings, LLC, which indirectly owns Cambium. Upon completion of the planned mergers, Holdings will be a public company, and anticipates having its common stock approved for listing on the NASDAQ Global Market.

Under the terms of the Merger Agreement, each of our stockholders will be entitled to receive, in exchange for each share of our common stock owned by the stockholder, the following consideration: (i) at the election of the stockholder, either one share of common stock of Holdings or $6.50 in cash, subject to a potential pro-rata reduction; (ii) a pro-rata amount of certain tax refunds received by us prior to the closing of the transaction reduced by the amount of the tax refunds contractually required to be placed in escrow at closing; and (iii) a contingent value right payable periodically on the nine and eighteen month anniversary of the effective time of the mergers and on or about October 15, 2013.

Under applicable accounting guidance for business combinations, Cambium is the accounting acquirer and the Company is the acquiree. As such, if and when the planned mergers are completed, the Company will cease to be a reporting entity and Cambium s financial statements will be the historical financial statements of Holdings. The planned merger is subject to approval by the stockholders of the Company and other closing conditions. The Company expects the merger to be completed no later than year end 2009.

Overview

During the third quarter, we began to see the positive impact, both directly and indirectly, of the American Reinvestment and Recovery Act (ARRA) passed in February 2009. The Act provides significant new federal funding for various education initiatives over the next two years. While the education funding is for a broad set of education initiatives, we believe that schools and districts may choose to direct some of the funding for programs which use our products. In some instances, if ARRA funding is not used directly for programs using our products, we may still be receiving an indirect benefit. When the ARRA funding is used to assist schools in general to meet their overall financial needs, funds may be freed up to use for our programs. While success in winning some of these funds for our products is not certain at this time, we believe it has the potential to continue to stabilize some of the negative funding trends which emerged in 2008.

The growth in our net sales during the third quarter is attributable in large part to our success in the market for our Vmath and ExploreLearning products. Vmath is our grade 2 8 math

Table of Contents

intervention and ExploreLearning is our online math and science simulation product. We introduced our current Vmath intervention product in 2005 and have made a series of expansions, investments and revisions. We believe these investments, along with better sales execution and assistance from the ARRA funding, have led to the improvement in sales of Vmath. We acquired ExploreLearning in 2005 and have continued to invest in its development and in expanding the product s sales and marketing efforts. We believe these investments have resulted in increased sales of ExploreLearning since the acquisition.

While ARRA is beginning to provide a positive impact, throughout the third quarter of 2009 we continued to experience the adverse developments in the education funding environment, including the reductions in Reading First funding and reductions in available state and local funds as property tax receipts decline, which significantly decreased the funding available to schools to purchase our products and services. Some school districts have found it difficult to secure alternative funding sources in the midst of the current market conditions. These market conditions may continue to have an impact on our future sales, profits, cash flows and carrying value of assets.

The following trends have or may have had an impact on our revenues and profitability:

Sales of our online subscription based products grew significantly in 2008. We continue to see growth in 2009 and expect this trend to continue in the coming years.

We believe our product diversification, such as growth in the online offerings, math intervention and new reading intervention products for higher grades, will allow us to strengthen our ability to sustain market share in a troubled market and capture market share when the market recovers.

We believe our focus on product usage and an overall partnership approach with the customer to implement our solutions with fidelity will result in higher success rates, and such success, if achieved, will lead to customer retention and growth through reference sales.

Efforts were taken in 2008 to reduce our cost structure for 2009, including a reduction in force, which better aligns our cost structure to current market conditions.

We performed a goodwill impairment analysis in both the second and third quarters of 2009 as a result of the execution of the Merger Agreement in late June, which is considered a triggering event, and in consideration of the continuing impact of adverse

Table of Contents

marketplace and economic conditions. As a result of these analyses, we recorded a goodwill impairment charge of $22.0 million in the second quarter and $5.2 million in the third quarter. Because the terms of the Merger Agreement are fixed, increases in Voyager s booked net assets could result in future goodwill impairment charges.

Sales and gross profit are subject to seasonality with the first and fourth quarters being the weakest.

Third Quarter of Fiscal 2009 Compared to the Third Quarter of Fiscal 2008

	Three Months Ended					
	September 30, 2009		**September 30, 2008**		**Year Over Year Change Favorable / (Unfavorable)**	
(Dollars in millions)	**Amount**	**% of sales**	**Amount**	**% of sales**	**$**	**%**
Net sales	**$ 32.6**	**100.0**	**$ 27.3**	**100.0**	**$ 5.3**	**19.4**
Cost of sales (exclusive of depreciation and amortization shown separately below)	**(10.7)**	**(32.8)**	**(10.0)**	**(36.6)**	**(0.7)**	**(7.0)**
Gross profit	**21.9**	**67.2**	**17.3**	**63.4**	**4.6**	**26.6**
Research and development expense	**(1.3)**	**(4.0)**	**(1.1)**	**(4.0)**	**(0.2)**	**(18.2)**
Sales and marketing expense	**(8.6)**	**(26.4)**	**(8.0)**	**(29.3)**	**(0.6)**	**(7.5)**
General and administrative expense	**(5.9)**	**(18.1)**	**(8.1)**	**(29.7)**	**2.2**	**27.2**
Depreciation and amortization expense	**(4.9)**	**(15.0)**	**(5.3)**	**(19.4)**	**0.4**	**7.5**
Goodwill impairment	**(5.2)**	**(16.0)**			**(5.2)**	**(100.0)**
Loss before interest, other income and income taxes	**(4.0)**	**(12.3)**	**(5.2)**	**(19.0)**	**1.2**	**23.1**
Net interest income (expense)	**(0.1)**	**(0.3)**	**0.1**	**0.3**	**(0.2)**	**(200.0)**
Other income (expense)	**(0.2)**	**(0.6)**			**(0.2)**	**(100.0)**
Income tax expense	**(0.4)**	**(1.2)**			**(0.4)**	**(100.0)**
Net loss	**$ (4.7)**	**(14.4)**	**$ (5.1)**	**(18.7)**	**$ 0.4**	**7.8**

Net Sales.

Total net sales increased $5.3 million, or 19.4%, to $32.6 million in the third quarter of 2009 compared to the third quarter of 2008. The increase in net sales is attributable to an increase in order volume primarily as a result of the positive impact of the American Reinvestment and Recovery Act (ARRA) and its effect on the availability of funds available to school districts, and strong performance by our Vmath and ExploreLearning products. This growth was partially offset by higher revenue deferrals in the third quarter of 2009 versus the third quarter of 2008.

We defer revenue associated with certain services and technology components and recognize the revenue over the period they are

delivered. During the third quarter of 2009, the impact of revenue deferrals resulted in a larger decrease in net sales than in the third quarter of 2008. This is reflective of the higher order volume in the third quarter of 2009 compared to the third quarter of 2008, as well as a greater mix of technology in our sales during the third quarter of 2009, which negatively impacts the year over year revenue comparison, partly offset by the impact of a stabilization of deferral rates in 2009 compared to 2008, which positively impacts the year over year revenue comparison. In fiscal 2008, we had an increase in revenue deferral rates due to more of these service and technology components in our products. These deferral rates have stabilized in 2009. During the third quarter of 2009, deferred revenue balances increased $13.7 million, totaling $21.8 million at June 30, 2009 and $35.5 million at September 30, 2009. Comparatively, during the third quarter of 2008, deferred revenue balances increased $8.2 million, totaling $20.5 million at June 30, 2008 and $28.7 million at September 30, 2008.

Gross Profit.

Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Our gross profit as a percentage of revenue for third quarter of 2009 increased 3.8 percentage points to 67.2% compared to 63.4% for the third quarter of 2008. The improvement in margin is due to the increase in the mix of revenue we recognized from technology, which is at a higher margin.

Research and Development.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the third quarter of 2009 increased $0.2 million to $1.3 million compared to the third quarter of 2008, due to the timing of expenditures and the ratio of capitalizable versus non-capitalizable activities performed during the respective quarters.

Sales and Marketing.

Sales and marketing expenditures include all costs related to selling efforts and marketing. Sales and marketing expense for the third quarter of 2009 increased $0.6 million to $8.6 million compared

Table of Contents

to the third quarter of 2008, due to higher commission costs commensurate with the increased sales volume in the third quarter of 2009 compared to the third quarter of 2008, partially offset by costs savings from the Company s overall initiative to lower costs as a response to the market slow down.

General and Administrative.

Overall, general and administrative expenses decreased $2.2 million, or 27.2%, to $5.9 million compared to the third quarter of fiscal 2008. General and administrative activities for the third quarter of 2009 included $1.0 million of costs directly related to the merger transaction. Excluding these merger costs, general and administrative expenses for the third quarter of 2009 were $4.9 million, a decrease of $3.2 million, or 39.5%, over the prior year quarter. This decrease is primarily attributable to a significant decline in corporate expenses and one-time costs related to activities based in Ann Arbor, Michigan that were required to finalize the restatement effort, to bring our SEC filings current, and to transition the corporate office to Dallas, Texas. These activities were brought to conclusion by the end of fiscal 2008.

Depreciation and Amortization Expense.

Our depreciation and amortization expense in the third quarter of 2009 decreased $0.4 million, or 7.5%, to $4.9 million compared to the third quarter of 2008. The decrease is primarily due to the use of an accelerated depreciation method on our acquired curriculum, which resulted in higher amortization expense in the previous period when compared to the current period.

Goodwill Impairment.

We review the carrying value of goodwill for impairment at least annually, and whenever certain triggering events occur. The signing of the Merger Agreement in late June is such a triggering event and so we performed goodwill impairment analyses in both the second and third quarters of 2009, giving due consideration to the continuing impact of adverse marketplace and economic conditions. As a result of these analyses, we recorded goodwill impairment charges of $22.0 million in the second quarter and $5.2 million in the third quarter of 2009.

Table of Contents

Net Interest Income (Expense).

(Dollars in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Year Over Year Change Favorable / (Unfavorable) $	Year Over Year Change Favorable / (Unfavorable) %
Interest income	$	$ 0.1	(0.1)	100.0
Interest expense	(0.1)		(0.1)	(100.0)
Total	$ (0.1)	$ 0.1	$ (0.2)	(200.0)

Net interest income (expense) for the third quarter of 2009 decreased $0.2 million to ($0.1) million compared to the third quarter of 2008. Interest income declined from $0.1 million in the third quarter of 2008 to near zero for the third quarter of 2009 since the Company traditionally invests very conservatively in cash deposits and U.S. Treasuries, and the safety and liquidity of these investments in the current economic crisis has led to an interest rate yield near 0%. Interest expense for the third quarter of 2009 was primarily related to tax-related liabilities resulting from the sales agreement with Snap-On Incorporated and CSA.

Other Income (Expense).

Other income (expense) decreased $0.2 million for the third quarter of 2009 from zero in the third quarter of 2008. Other expense was primarily related to changes in estimates of certain tax-related receivables and liabilities denominated in foreign currencies resulting from the sale agreement with Snap-On Incorporated and Cambridge Scientific Abstracts, L.P. (CSA).

Income Tax Expense.

We recorded an income tax expense of ($0.4) million for the third quarter of 2009. We revised our tax provision estimate during the quarter to derive an effective annualized tax rate for 2009 of approximately 0%, other than the impact of changes in estimates related to uncertain tax positions.

We recorded no income tax benefit or expense for the net loss in the third quarter of 2008 because we could not assume future taxable income.

Nine Month Period ended September 30, 2009 Compared to the Nine Month Period ended September 30, 2008

	Nine Months Ended					
	September 30, 2009		September 30, 2008		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	Amount	% of sales	Amount	% of sales	$	%
Net sales	$ 79.6	100.0	$ 76.4	100.0	$ 3.2	4.2
Cost of sales (exclusive of depreciation and amortization shown separately below)	(26.3)	(33.0)	(27.8)	(36.4)	1.5	5.4
Gross profit	53.3	67.0	48.6	63.6	4.7	9.7
Research and development expense	(3.4)	(4.3)	(3.7)	(4.9)	0.3	8.1
Sales and marketing expense	(22.6)	(28.4)	(25.4)	(33.2)	2.8	11.0
General and administrative expense	(18.4)	(23.1)	(24.3)	(31.8)	5.9	24.3
Depreciation and amortization expense	(14.6)	(18.3)	(16.1)	(21.1)	1.5	9.3
Goodwill impairment	(27.2)	(34.2)			(27.2)	(100.0)
Lease termination costs			(11.7)	(15.3)	11.7	100.0
Loss before interest, other income and income taxes	(32.9)	(41.3)	(32.6)	(42.7)	(0.3)	(0.9)
Net interest income (expense)	(0.5)	(0.6)	0.5	0.7	(1.0)	200.0
Other income (expense)	1.0	1.3	0.8	1.0	0.2	25.0
Income tax benefit						
Net loss	$ (32.4)	(40.7)	$ (31.3)	(41.0)	(1.1)	(3.5)

Net Sales.

Total net sales increased $3.2 million, or 4.2%, to $79.6 million in the nine month period ended September 30, 2009 compared to the nine month period ended September 30, 2008. The increase in net sales is attributable to an increase in revenue recognized from prior period deferred revenue, as well as the increase in order volume primarily resulting from the positive impact of the American Reinvestment and Recovery Act (ARRA) and its effect on the availability of funds available to school districts that we began to experience in the third quarter of 2009 and strong performance by our Vmath and ExploreLearning products.

We defer revenue associated with certain services and technology components and recognize the revenue over the period they are delivered. In fiscal 2008 we had an increase in revenue deferral rates due to more of these service and technology components in our products. These deferral rates have stabilized in 2009. During the nine month period ended September 30, 2009, deferred revenue balances increased $6.0 million, totaling $29.5 million at December 31, 2008 and $35.5 million at September 30, 2009. Comparatively, during the nine month period ended September 30, 2008, deferred revenue balances increased $7.6 million, totaling $21.1 million at December 31, 2007 and $28.7 million at September 30, 2008.

23

Table of Contents

Gross Profit.

Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Our gross profit as a percentage of revenue for the nine month period ended September 30, 2009 increased 3.4 percentage points to 67.0% compared to 63.6% for the nine month period ended September 30, 2008. The improvement in margin is due to the increase in the mix of revenue we recognized from technology, which is at a higher margin.

Research and Development.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the nine month period ended September 30, 2009 decreased $0.3 million to $3.4 million compared to the nine month period ended September 30, 2008, due to the timing of expenditures and the ratio of capitalizable versus non-capitalizable activities performed during the respective quarters.

Sales and Marketing.

Sales and marketing expenditures include all costs related to selling efforts and marketing. Sales and marketing expense for the nine month period ended September 30, 2009 decreased $2.8 million to $22.6 million compared to the nine month period ended September 30, 2009, due to prior year costs associated with our participation in several 2008 state adoptions, and our overall initiative to lower costs as a response to the market slow down, partially offset by higher commission costs commensurate with the increased sales volume.

General and Administrative.

Overall, general and administrative expenses for the nine month period ended September 30, 2009 decreased $5.9 million, or 24.3%, to $18.4 million compared to the nine month period ended September 30, 2008. General and administrative activities for the nine month period ended September 30, 2009 include $6.1 million of costs directly related to the merger transaction. Excluding these merger costs, general and administrative expenses for the nine month period ended September 30, 2009 were $12.3 million, a decrease of $12.0 million, or 49.4%, over the nine month period ended September 30, 2008. This decrease is primarily attributable to a significant decline in corporate expenses and one-time costs related to activities based in Ann Arbor, Michigan that were required to finalize the restatement effort, to bring our SEC filings current, and to transition the corporate office to Dallas, Texas. These activities were brought to conclusion by the end of fiscal 2008.

Depreciation and Amortization Expense.

Our depreciation and amortization expense decreased $1.5 million, or 9.3%, to $14.6 million in the nine month period ended September 30, 2009 compared to the nine month period ended September 30, 2008. The decrease is primarily due to the use of an accelerated depreciation method on our acquired curriculum, which resulted in higher amortization expense in the previous period when compared to the current period.

Goodwill Impairment.

We review the carrying value of goodwill for impairment at least annually, and whenever certain triggering events occur. The signing of the Merger Agreement in late June is such a triggering event and so we performed goodwill impairment analyses in both the second and third quarters of 2009, giving due consideration to the continuing impact of adverse marketplace and economic conditions. As a result of these analyses, we recorded goodwill impairment charges of $22.0 million in the second quarter and $5.2 million in the third quarter of 2009.

Lease Termination Costs.

On January 1, 2008, we entered into an agreement with one of our lessors, Relational, LLC f/k/a Relational Funding Corporation (Relational) and ProQuest LLC (formerly known as ProQuest-CSA LLC and CSA relating to certain obligations regarding the capital and operating leases for certain property and equipment used at our facilities at 777 Eisenhower Parkway (the 777 Facility) and 789 Eisenhower Parkway (the 789 Facility) in Ann Arbor, Michigan. The aforementioned leases originated as early as fiscal 2005 with up to five year terms. Effective January 1, 2008, we conveyed, assigned, transferred and delivered to CSA all of our right, title and interest and benefit of certain property and equipment. We were released from any and all obligations relating to these leases and Relational, as lessor, consented to such assignments and releases. Due to these assignments, the write off of certain assets and liabilities under capital leases, such as office furniture, phone and power supply systems, and video equipment, totaled a net charge of $0.1 million in the first quarter of 2008.

On January 25, 2008, we entered into a series of agreements with our current landlord, Transwestern Great Lakes, LP (Transwestern) and CSA relating to certain obligations regarding the long term leases for the facilities in Ann Arbor, Michigan. On March 4, 2008, we paid CSA $11.0 million, a portion of which was distributed to

Transwestern for termination of the lease relating to office space at the 777 Facility. Upon the Closing Date of March 7, 2008, we were released from any and all obligations relating to the 15 year lease we previously entered into for the 777 Facility. Through assignment, we were also released from any and all obligations relating to the 15 year lease we previously entered into for office space at the 789 Facility. We assigned all of our rights under the lease for the 789 Facility to CSA and CSA assumed the obligations of tenant under such lease, as amended. Transwestern, as landlord, consented to such assignment. In connection with the termination and assignment of these long term facility leases, certain leasehold improvements and deferred rent were written off, which totaled a net charge of $0.6 million in the first quarter of 2008. We recorded a total charge to expense in the first quarter of 2008 of $11.7 million for all lease termination costs.

Net Interest Income (Expense).

	Nine Months Ended		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	**September 30, 2009**	**September 30, 2008**	**$**	**%**
Interest income	**$ 0.1**	**$ 0.7**	**(0.6)**	**(85.7)**
Interest expense	**(0.6)**	**(0.2)**	**(0.4)**	**(200.0)**
Total	**$ (0.5)**	**$ 0.5**	**$ (1.0)**	**(200.0)**

Net interest income (expense) for the nine month period ended September 30, 2009 decreased $1.0 million to ($0.5) million compared to the nine month period ended September 30, 2008. Interest income declined from $0.7 million in the nine month period ended September 30, 2008 to $0.1 million for the nine month period ended September 30, 2009 since the Company traditionally invests very conservatively in cash deposits and U.S. Treasuries, and the safety and liquidity of these investments in the current economic crisis has led to an interest rate yield near 0%. Interest expense for the nine month period ended September 30, 2009 was primarily related to tax-related liabilities resulting from the sales agreement with Snap-On Incorporated and CSA.

Other Income (Expense).

From the date of the sale of ProQuest Information and Learning (PQIL) in February 2007, we subleased substantial space to the buyer of PQIL through March 2008, resulting in sublease income totaling $0.8 million, which was recognized in other income, during the first quarter of fiscal 2008. Because this sublease expired in

Table of Contents

the first quarter of fiscal 2008, we did not recognize any sublease income during the nine month period ended September 30, 2009.

During the fourth quarter of 2008, the Company provided an opportunity for participants in its Replacement Benefit Plan (RBP) and its U.S. defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. Prior to the distribution opportunity, both plans were frozen, with no participants entitled to make additional contributions or earn additional service years. Based on the number of participants who chose to receive a discounted lump sum distribution, the Company paid participants approximately $7.9 million in January 2009 for these lump sum payments. As a result of the settlements, the Company recorded a gain in January 2009 of $1.3 million, consisting of $1.1 million related to the RBP settlement and $0.2 million related to the settlement of the U.S. defined benefit pension plan.

Other expense of $0.2 million was recorded in the nine months ended September 30, 2009 related to changes in estimates of certain tax-related receivables and liabilities denominated in foreign currencies resulting from the sale agreement with Snap-On Incorporated and CSA.

Income Tax Benefit.

For the nine months ended September 30, 2009, we attributed no income tax benefit to continuing operations. Pre-tax losses at statutory tax rates provided a tax benefit of approximately $11.4 million. The impairment charges to non-deductible goodwill did not result in a tax benefit. Certain transaction costs attributable to the pending merger with Cambium also did not result in a tax benefit. Finally, we continue to maintain a valuation allowance on its deferred tax assets. The requirement of maintaining a valuation allowance against our deferred tax assets eliminated almost all of the deferred tax benefit generated from the Federal net operating loss incurred in the nine month period ended September 30, 2009.

We recorded no income tax benefit or expense for the net loss in the nine month period ended September 30, 2008 because we could not assume future taxable income.

Liquidity and Capital Resources

As of September 30, 2009, we did not have any debt with the exception of certain capital leases. Cash and cash equivalents

Table of Contents

increased to $85.3 million at September 30, 2009, compared to $67.3 million at December 31, 2008.

During the nine month period ended September 30, 2009, cash provided by operating activities was $13.1 million. We received income tax refunds of $15.1 million, primarily from U.S. Federal income tax refunds for tax years 2003 and 2004, plus another $1.7 million of tax-related receivables from CSA. Use of cash beyond normal season operating use included $7.9 million related to the partial settlement of our legacy employee benefit plans, $4.0 million escrowed in connection with the settlement of the consolidated shareholder securities class actions lawsuit, and $6.1 million used for costs directly related to the merger transaction.

Cash is seasonal with positive net cash typically generated in the second half of the year. The first half of the year generally results in net cash usage. Positive cash flow is historically generated during the second half of the year because the buying cycle of school districts generally starts at the beginning of each new school year in the fall.

Other significant uses of cash during the nine month period ended September 30, 2009 included:

$6.1 million of expenditures related to property, equipment, curriculum development costs, and software; and

$0.1 million for principal payments on capital leases.

Net proceeds generated from the sale or maturities of marketable securities were $11.1 million.

Our management believes that current cash, cash equivalents and short term investment balances, expected income tax refunds, and cash generated from operations will be adequate to fund the working capital and capital expenditures necessary to support our currently expected sales in the next twelve months.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements at September 30, 2009 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our business.

Contractual Obligations

As of September 30, 2009, there have been no material changes in the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

Recently Issued Financial Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued new accounting guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB delayed the effective date of this guidance for non-recurring measurements of non-financial assets and liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted this guidance for all recurring financial assets and liabilities beginning fiscal 2008 and for other nonfinancial assets and liabilities beginning fiscal 2009. The adoption of this accounting guidance did not have a material effect on the Company s financial condition, results of operations or cash flows.

In December 2007, the FASB issued new accounting guidance on business combinations. This guidance establishes principles and requirements for how an acquirer accounts for business combinations. This issuance includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquirer s income tax valuation allowance. This accounting guidance applies prospectively and is effective for business combinations made by the Company beginning January 1, 2009. The provisions are effective as of our first quarter ended March 31, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

In December 2007, the FASB issued new accounting guidance on noncontrolling interests in consolidated financial statements. Currently, the Company does not have an outstanding noncontrolling interest in one or more subsidiaries, nor does it deconsolidate any subsidiaries. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The provisions are effective as of our first quarter ended March 31, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

Table of Contents

In April 2008, the FASB issued new accounting guidance on the determination of the useful life of intangible assets. The new guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under previous guidance for goodwill and other intangible assets. This issuance is effective for fiscal years beginning after December 15, 2008. The provisions are effective as of our first quarter ended March 31, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

In April 2009, the FASB issued new accounting guidance on recognition and presentation of other-than-temporary impairments, which provides operational guidance for determining other-than-temporary impairments (OTTI) for debt and equity securities classified as available-for-sale and held-to-maturity. This guidance is effective for interim and annual periods ending after June 15, 2009. The provisions are effective as of our second quarter ended June 30, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

In April 2009, the FASB issued new guidance related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly, which provides additional guidance for estimating fair value in accordance with the guidance for fair value measurements, when the volume and level of activity for the asset or liability have significantly decreased. This issuance also includes guidance on identifying circumstances that indicate a transaction is not orderly. The new accounting guidance is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. The provisions are effective as of our second quarter ended June 30, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

In April 2009, the FASB issued new accounting guidance on interim disclosures about fair value of financial instruments, which amends previous guidance on disclosures about fair value of financial instruments to require disclosure about fair value of financial instruments in interim financial statements. This new guidance is effective for interim and annual periods ending after June 15, 2009. The provisions were effective as of our second quarter ended June 30,

2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

In May 2009, the FASB issued new accounting guidance relating to subsequent events. This guidance establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued and shall be applied to subsequent events not addressed in other applicable generally accepted accounting principles. This issuance, among other things, sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for the Company s interim and annual financial periods ending after June 15, 2009. The provisions were effective as of our second quarter ended June 30, 2009; however, adoption did not have a material effect on the Company s financial condition, results of operations or cash flows.

During the third quarter of 2009, the Company adopted the new Accounting Standards Codification (ASC) as issued by the FASB. The ASC has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC did not have a material effect on the Company s financial condition, results of operations or cash flows.

Table of Contents

Item 3.
Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company does not have material interest rate risk. As of September 30, 2009, the Company does not have any interest rate forwards or option contracts outstanding.

Foreign Currency Risk

The Company does not have material exposure to changes in foreign currency rates. As of September 30, 2009, the Company does not have any outstanding foreign currency forwards or option contracts.

Item 4.
Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15 (e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) pursuant to Rule 13a-15 of the Exchange Act. The Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2009 to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar

Table of Contents

functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The Company is involved in various legal proceedings incidental to its business. Management believes that the outcome of these proceedings will not have a material adverse effect upon the Company s consolidated operations or financial condition and management believes the Company has recognized appropriate reserves as necessary based on facts and circumstances known to management.

Item 1A. Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2008 and the Condensed Consolidated Financial Statements of the Company and the notes thereto included herein for the nine months ended September 30, 2009.

Changes in funding for public schools could cause the demand for our products to decrease.

We derive a significant portion of our revenues from public schools, which are heavily dependent on federal, state and local government funding. In addition, the school appropriations process is often slow, unpredictable and subject to many factors outside of our control. Budget cuts, curtailments, delays, changes in leadership, shifts in priorities or general reductions in funding could reduce or delay our revenues. Funding difficulties experienced by schools, which have been exacerbated by the current economic downturn and state budget deficits, could also cause those institutions to demand price decreases and could slow or reduce purchases of intervention products, which in turn could materially harm our business.

Table of Contents

Our business may be adversely affected by changes in state educational funding, resulting from changes in legislation, both at the federal and state levels, changes in the state procurement process, changes in government leadership, emergence of other priorities and changes in the condition of the local, state or U.S. economy. While in the past few years the availability of state and federal funding for elementary and high school education has increased as a result of legislation such as the No Child Left Behind Act and its Reading First initiative, recent reductions in related appropriations and other declines in budgeted revenues in states that have traditionally purchased products and services from us have caused some school districts to reduce spending on the types of products and services that we produce, and we have been affected by these reductions. Moreover, future reductions in federal funding and the state and local tax bases could create an unfavorable environment, leading to budget shortfalls resulting in a further decrease in educational funding. Any decreased funding for public schools may harm our recurring and new business materially if our customers are not able to find and obtain alternative sources of funding.

We receive significant sales from certain states and reductions in public education spending in those states could cause the demand for our products to decrease.

In 2008, we derived more than 10% of our sales from the following three states in the following approximate percentages: California 12%, Florida 17% and Texas 16%. California and Florida have specifically experienced significant budget problems in 2009 as a result of the current economic downturn and have announced that they anticipate reductions in their 2009/2010 spending for education relative to fiscal 2008/2009 levels. To the extent that the economic situation in any of these states causes reductions in public school spending, our sales to these states could be materially reduced which could harm our business and financial condition.

We participate in state adoptions and sales may be materially reduced if we are not able to replace sales in years subsequent to the first year of adoption or if states elect to defer or eliminate adoption purchases.

We participate in state-wide adoptions for education products, as well as intervention products when states issue specific adoption calls for intervention products. The cost of participating in such adoptions is high, with no guarantee of future sales. In addition, sales are traditionally high in the first year of adoption but decline in subsequent years, making it difficult to replace first year sales. After an adoption has occurred, states may elect to allow school districts to use adoption funds for alternative purposes other

Table of Contents

than the purposes stated in the initial adoption, as has occurred in Florida in 2009. Postponements of district-level adoptions could also limit market potential in other states, notably California, where the state has withheld more than $4 billion in scheduled allocations to school districts year-to-date in 2009 pending enactment of a budget for the fiscal year that began on July 1, 2009. We may not be able to recover costs we incur for participating in adoptions and sales may be materially reduced if we are not able to replace sales in years subsequent to adoption years or if states elect to defer or eliminate adoption purchases.

Failure to attract and retain customers could harm the business.

We sell products that may be purchased by our customers for use over multiple school years. Therefore, our ability to maintain and grow sales and profitability will depend significantly upon the ability to acquire new customers or increase sales to existing customers. Acquiring new customers or expanding student use within existing customers could prove challenging as a result of competition from larger, better capitalized competitors, reductions in state and local funding, customer preferences and any requirement to provide enhancements to product capabilities. We may also be adversely affected by existing customers who reduce or discontinue use of our products and services, which may occur if our product offering is less competitive with those of our competitors, or a result of budgetary constraints which are becoming increasingly problematic in the current economic downturn. If we are not successful in continuing to acquire additional customers or expanding business from the existing customers, our earnings may be adversely affected.

Changes in school procurement policies may adversely affect our business.

Many school districts have de-centralized their purchasing of educational products. Increasingly, purchasing decisions are being made at the school or classroom level, rather than at the school district level. This change has caused some educational product manufacturers to market through catalogs or other direct sales channels, rather than through distributors and sales representatives. Additionally, educational products are marketed over the Internet. If we are not able to respond to these new and evolving marketing techniques, our sales could suffer materially.

We will incur significant transaction and merger-related costs in connection with the merger.

We will incur significant legal, accounting and other transaction fees and other costs related to the planned merger transaction. The bulk of these costs are payable regardless of whether the mergers are completed. Moreover, under specified circumstances, we may be required to pay termination fees or to reimburse expenses in connection with the termination of the merger agreement.

Our sales and profitability will depend on our ability to continue to develop new products and services that appeal to customers and end users and respond to changing customer preferences.

We operate in markets that are characterized by continuous and rapid change, including product introductions and enhancements, changes in customer demands and evolving industry standards. In a period of rapid change, the technological and curriculum life cycles of our products are difficult to estimate. The demand for some of our more mature products and services has begun to migrate to other, newer products and services. As a result, we will need to continuously reassess our product and service offerings. We could make investments in new products and services that may not be profitable, or whose profitability may be significantly lower than we have experienced historically. If we are unable to anticipate trends and develop new products or services responding to changing customer preferences, our revenues and profitability could be adversely affected. Our business could be harmed if we are unable to develop new products and invest in existing products in an appropriate balance to remain competitive in the marketplace.

Our business is seasonal and our operating results fluctuate seasonally.

Our business is subject to seasonal fluctuations. Historically, revenue and income from our operations have been higher during the second and third calendar quarters. In addition, our quarterly results have fluctuated in the past, and can be expected to continue to fluctuate in the future, as a result of many factors, including:

- general economic trends;
- state and local budgets for education;
- the traditional cyclical nature of educational material sales;
- school, library and consumer purchasing decisions;
- unpredictable funding of schools and libraries by federal, state and local governments;
- consumer preferences and spending trends;
- the need to increase inventories in advance of the primary selling season; and
- the timing of introductions of new products and services.

Table of Contents

If we are unable to compete effectively, we may be unable to successfully attract and retain customers and our profitability could be materially harmed.

The market for our products and services is highly competitive and is characterized by frequent product developments and enhancements of existing products. We do not assure you that products or services introduced by others will not be harmful to our business. Many companies, both privately and publicly owned, develop products and services similar to our products. These competitors include both basal suppliers, such as Houghton Mifflin/Harcourt, Scott Foresman (Pearson), and McGraw-Hill, which offer, often as part of their core reading programs, intervention products, and supplemental suppliers, such as Scientific Learning Corporation and Scholastic Corporation. Several of our competitors have substantially greater financial, research and development, manufacturing and marketing resources than we do, as well as greater name recognition and larger customer bases. Accordingly, our competitors may be able to respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers and devote greater resources to the development and sale of their products and services. These competitors may be successful in developing products and services that are more effective or less costly than any products or services that we provide currently or may develop in the future. Any incursions by competitors could materially and adversely affect our ability to attract and retain customers and thus may materially harm our business.

Our intellectual property protection may be inadequate, which may allow others to use our technologies and thereby reduce our ability to compete.

The technology underlying our services and products may be vulnerable to attack by our competitors. We rely on a combination of trademark, copyright and trade secret laws, employee and third party nondisclosure agreements and other contracts to establish and protect our technology and other intellectual property rights. The steps that we have taken in order to protect our proprietary technology may not be adequate to prevent misappropriation of our technology or to prevent third parties from developing similar technology independently.

Table of Contents

Technology content licensed from third parties may not continue to be available.

We license from third parties technology content upon which we rely to deliver products and services to customers. This technology may not continue to be available to us on commercially reasonable terms or at all. Moreover, we may face claims from persons who claim that our licensed technologies infringe upon or violate those persons proprietary rights. These types of claims, regardless of the outcome, may be costly to defend and may divert management s efforts and resources.

Our products could infringe on the intellectual property of others, which may cause us to engage in costly litigation and to pay substantial damages or restrict or prohibit us from selling our products.

Third parties may assert infringement or other intellectual property claims against us based on their intellectual property rights. If any of these claims are successful, we may be required to pay substantial damages, possibly including treble damages, for past infringement on our part. We also may be prohibited from selling our products or providing certain content without first obtaining a license from the third party, which, if available at all, may require us to pay additional fees or royalties to the third party. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, is often expensive and may divert management attention away from other business concerns.

Our success will depend in part on our ability to attract and retain key personnel.

Our success depends in part on our ability to attract and retain highly qualified executives and management, as well as creative and technical personnel. Members of our senior management team have substantial industry experience that is critical to the execution of our business plan. If they or other key employees were to leave the company, and we were unable to find qualified and affordable replacements for these individuals, our business could be harmed materially.

Our customer contracts are not likely to insulate us from potential reductions in revenues.

We provide products and services to several governmental agencies, school districts and educational facilities under contractual arrangements that, in most cases, are terminable at-will. We may have no recourse in the event of a customer s cancellation of a contract that is terminable at-will. In addition, contracts awarded pursuant to a procurement process are subject to challenge by

competitors and other parties during and after that process. The termination or successful challenge of significant contracts could materially and adversely affect our business, financial condition, results of operations and liquidity.

Increases in operating costs and expenses, many of which are beyond our control, could materially and adversely affect our operating performance.

We must control our employee compensation expenses and our printing, paper and distribution (such as postage, shipping and fuel) costs in order to be profitable. Our ability to control compensation expenses is limited by our need to offer our employees competitive salaries and benefit packages in order to attract and retain the quality of employees required to grow and expand our business. Our ability to control compensation expenses is also limited by general economic factors, including those affecting costs of health insurance, as well as by trends specific to the employee skills that we require. Paper prices fluctuate based on worldwide demand and supply for paper, in general, as well as for the specific types of paper we use. If there is a significant disruption in the supply of paper or a significant increase in paper costs, which would generally be beyond our control, or if our strategies to manage these costs are ineffective, our results of operations could be materially and adversely affected.

Acquisitions, if completed, could adversely affect our operations.

We may seek potential acquisitions of products, technologies and businesses in the education industry that could complement or expand our current product and service offerings and businesses. In the event that we identify appropriate acquisition candidates, we may not be able to successfully negotiate, finance or integrate the acquired products, technologies or businesses. Furthermore, such an acquisition could cause a diversion of management s time and resources. Any particular acquisition, when completed, may materially and adversely affect our business, results of operations, financial condition or liquidity.

The failure to manage growth properly could have a material adverse effect upon our business, results of operations, financial condition or liquidity.

The educational products industry is a fragmented industry. If this industry becomes more concentrated over time, it will be important for us to grow and to manage our growth effectively. Our

ability to manage growth, if any, will require us to expand our management team and assure that our systems and controls are designed to support this growth. Any measurable growth in business will result in additional demands on customer support, sales, marketing, administrative and technical resources, and upon our systems and controls. We may not be able to successfully address these additional demands, and our operating and financial control systems may not be adequate to support future operations and anticipated growth.

We use the Internet extensively, and federal or state governments may adopt laws or regulations that could expose us to substantial liability and/or taxation in connection with these activities.

As a result of increasing usage of the Internet, federal and state governments may adopt laws or regulations regarding commercial online services, the Internet, user privacy, intellectual property rights, content and taxation of online communications. Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent and could expose us to substantial liability. Furthermore, various proposals at the federal, state and local levels could impose additional taxes on Internet sales. These laws, regulations and proposals could decrease Internet commerce and other Internet uses and adversely affect the success of our online products and business.

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in the delivery of electronic content to customers and ultimately may cause us to lose customers.

Any significant delays, disruptions or failures in the systems, or errors in the software, that we use for the technology-based component of our products, as well as for internal operations, could harm our business materially. We have occasionally suffered computer and telecommunication outages or related problems in the past. The growth of our customer base, as well as the number of websites we may provide, could strain our systems in the future and will likely magnify the consequences of any computer and telecommunications problems that we may experience.

Many of the systems that we use to deliver our services to customers are located in multiple facilities across several states. However, destruction or disruption at a single site can cause a system-wide failure. Although we maintain property insurance on these premises, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures associated with

third party hosting providers or by failures of third party technology used in our products, and we may have no control over remedying these failures.

Any failures or problems with our systems or software could force us to incur significant costs to remedy the failure or problem, decrease customer demand for our products, tarnish our reputation and harm our business materially.

Our systems will face security risks and we need to ensure the privacy of our customers.

Our systems and websites may be vulnerable to unauthorized access by hackers, computer viruses and other disruptive problems. Any security breaches or problems could lead to misappropriation of our customers information, our websites, our intellectual property and other rights, as well as disruption in the use of our systems and websites. Any security breach related to our websites could tarnish our reputation and expose us to damages and litigation. We also may incur significant costs to maintain our security precautions or to correct problems caused by security breaches. Furthermore, to maintain these security measures, we may be required to monitor our customers access to our websites, which may cause disruption to customers use of our systems and websites. These disruptions and interruptions could harm our business materially.

We have a single distribution center and could experience significant disruption of business and ultimately lose customers in the event it was damaged or destroyed.

We store and distribute the majority of our printed materials through a single warehouse in Dallas, Texas. In the event that warehouse were damaged or destroyed, we would likely experience significant delays in responding to customer requests. Customers often purchase materials very close to the beginning of the school year, and any delivery delays could cause our customers to turn to competitors for products that they need immediately. Although we maintain adequate property insurance on our distribution center, the loss of customers could have a long-term, detrimental impact on our reputation and business.

The complexity of our distribution operations may subject us to technological risk.

Our distribution centers are highly automated, which means that our operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software

and hardware, electronic or power interruptions and other system failures. Risks associated with upgrading or expanding these centers may significantly disrupt or increase the cost of operating these centers.

Our business may not grow as anticipated if we are not able to maintain and enhance our brands.

We believe that maintaining and enhancing our brands is important to attracting and retaining customers. Our success in growing brand awareness will depend in part on our ability to continually provide high quality programs and solutions that enhance the learning process. Competitors may offer goods and services similar to those offered by the combined company, which may diminish the value of our brand. In addition, some of our brand names are new, or have changed or may be changed, and we may not successfully maintain and grow our brand equity.

Failure to efficiently manage our direct marketing initiatives could negatively affect our business.

We use various direct marketing strategies to market our products, including direct mailings, catalogs, online marketing and telemarketing. In each case, we rely on our customer list, which is a database containing information about current and prospective customers. We use this database to develop and implement our direct marketing campaigns. Managing the frequency of our direct marketing campaigns and delivering appropriately tailored products in these campaigns is crucial to maintaining and increasing our customer base and achieving adequate results from our direct marketing efforts. We also face the risk of unauthorized access to our customer database or the corruption of our database as a result of technology failure or otherwise. Enhancing and refreshing the database, maintaining the ability to use the information available from the database, and properly using the available information is vital to the success of our business, and our failure to do so could lead to decreased sales and could materially and adversely affect our results of operations, financial condition and liquidity.

We have been subjected to material accounting irregularities in recent years, which could result in enhanced regulatory scrutiny in the future and could undermine the confidence that some investors may have in the integrity of our financial statements.

In early 2006, we announced that we had identified potential material irregularities in our accounting that were to be investigated by our audit committee, with the assistance of outside experts. In July 2006, we announced that our audit committee had

completed its investigation and issued a statement that detailed the key findings, including that the evidence indicated that a single individual was responsible for the misstatements. After completion of that investigation, we restated certain of our previously filed financial statements. The fact that we have experienced material accounting irregularities within the past six years could result in enhanced regulatory scrutiny and could impair the confidence of investors and potential acquirers in the integrity of our financial statements.

The proposed transaction may not be completed, which may significantly harm the market price of our common stock and our future business and financial results.

Although Cambium and Voyager have signed the merger agreement in furtherance of the proposed mergers of Cambium and Voyager with and into newly formed subsidiaries of Holdings, the completion of the merger transaction is subject to stockholder and regulatory approvals and other closing conditions, and there is no assurance that all of the conditions to closing will be met or that the mergers will be completed on a timely basis or at all. In addition, Cambium and Voyager each may unilaterally terminate the merger agreement without the payment of a fee if the mergers are not completed on or before December 31, 2009, and Cambium has the right to terminate the merger agreement at any time, for any reason not otherwise specified in the merger agreement, subject only to its obligation to pay to Voyager a termination fee of $4.5 million. The Merger Agreement may also be terminated for several other reasons, all as more fully described in the Merger Agreement. Although we expect to continue operations if the transaction is not completed for any reason, we may be harmed in a number of ways, including the following:

- to the extent that the current market price of our common stock reflects an increase resulting from a market assumption that the transaction will be completed, the market price of our common stock may decline by the value attributed to this assumption, or could decline even more;

- we may be required to pay a termination fee of up to $7.5 million if the mergers are terminated under specified circumstances, and if any of this fee were to be paid, we would experience a material negative effect on our financial condition and results of operations;

- an adverse reaction from our investors and potential investors may reduce future opportunities for financings or business combinations;

- the pendency of the mergers, as well as customary covenants in the merger agreement that limit each party s ability to take specified actions without the other party s consent, may cause

Table of Contents

- us to defer or potentially lose business opportunities that we might have otherwise pursued;
- matters relating to the mergers require substantial commitments of time and resources by our management, which could otherwise have been devoted to other opportunities that may have been beneficial to Voyager; and
- Our costs and expenses related to the transaction, including legal and accounting fees and fees payable to our financial advisors, as well as expenses relating to printing of proxy materials and solicitation of proxies, must be paid even if the planned merger is not completed.

In addition, we could be subject to litigation related to any failure to complete the planned merger. If the planned merger is not completed, any of these risks may materialize and may materially and adversely affect the stock price of Voyager and our financial results and ongoing business.

Our stock price may be volatile, and the market price of our common stock may decline in value.

Historically, the market price of our common stock has fluctuated. Any price fluctuations of our common stock may be unrelated or disproportionate to our actual operating performance, and may be due to factors beyond our control.

Broad market and industry factors, as well as factors specifically relating to our business, may adversely affect the market price of our common stock. Some of the factors that may cause our market price to fluctuate include:

- actual or anticipated variations in our financial results;
- changes in estimates or recommendations by securities analysts, if any, covering our common stock;
- our failure to meet analysts expectations;
- conditions or trends in the industry in which we operate, including governmental or regulatory changes affecting education;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- additions or departures of key personnel;
- the entry into, or termination of, key agreements or arrangements affecting our business or operations; and
- future sales of our securities, including sales of common stock by our directors and officers or strategic investors.

The stock markets in general have experienced substantial and unprecedented volatility in recent years, which volatility generally

has been unrelated to the operating performance of individual companies. Should this market volatility continue, these broad market fluctuations could materially and adversely affect the trading price of our common stock. In the past, companies that have experienced significant volatility in the market price of their stock have been the objects of securities class action litigation.

If we were to become the object of securities class action litigation, it could result in substantial costs and a diversion of our management s attention and resources.

We do not expect to pay dividends on our common stock in the short term.

It is unlikely that we will pay any dividends to holders of our common stock in the short term, and we may never pay any dividends. We anticipate that we will retain our earnings, if any, for future growth. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual limitations, restrictions imposed by applicable law, business and investment strategy and any other factors that our board of directors deems relevant. As a result, the appreciation, if any, of the price of our common stock may be the only source of a return to stockholders.

We may seek to raise additional funds, finance additional acquisitions or develop strategic relationships by issuing additional securities, including capital stock.

In the future, we may seek to raise additional funds, finance additional acquisitions or develop or engage in strategic relationships by issuing equity or debt securities. The issuance of equity securities, including debt securities that are convertible into equity, would reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued equity securities could have rights, preferences and privileges senior to those of the holders of our common stock. The issuance of new debt securities could subject us to covenants which constrain our ability to grow or otherwise take steps that may be favored by holders of our common stock.

Item 6. Exhibits

(a) Exhibits:

The following exhibits are filed as part of this Quarterly Report. The exhibit numbers preceded by an asterisk (*) indicate exhibits previously filed and incorporated herein by reference.

Index Number	Description
*10.24	Waiver and Termination of Registration Rights Agreement, dated as of July 21, 2009, by and between Voyager Learning Company and Keystone Group, L.P. and The Anne T. and Robert M. Bass Foundation is incorporated by reference to Voyager Learning Company s Form 8-K dated July 27, 2009, File No. 001-07680.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Certification of Richard J. Surratt, President and Chief Executive Officer of Voyager Learning Company pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Bradley C. Almond, Vice President, Chief Financial Officer, and Assistant Secretary of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	VOYAGER LEARNING COMPANY
Date: November 6, 2009	/s/ Richard J. Surratt President and Chief Executive Officer
Date: November 6, 2009	/s/ Bradley C. Almond Vice President and Chief Financial Officer

Table of Contents

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