

CAMBIUM LEARNING GROUP, INC.

Form 10-K

March 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

or

☐ **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 001-34575

Cambium Learning Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

27-0587428
(I.R.S. Employer

Identification No.)

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17855 North Dallas Parkway, Suite 400, Dallas, Texas
(Address of Principal Executive Offices)

75287
(Zip Code)

Registrant's telephone number, including area code:

(214) 932-9500

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.001 per share
(Title of class)

The NASDAQ Global Market
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 ☒ No ☐

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

Large accelerated filer ☐ Non-accelerated filer ☒

Accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock, par value \$0.001 per share, held by non-affiliates of the registrant was \$49,769,993 based on the closing sale price of the registrant's common stock on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Global Market. As of March 8, 2012, there were 49,563,824 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2012 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2011.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	12
<u>Item 1B. Unresolved Staff Comments</u>	17
<u>Item 2. Properties</u>	18
<u>Item 3. Legal Proceedings</u>	18
<u>Item 4. (Removed and Reserved)</u>	18
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	19
<u>Item 6. Selected Financial Data</u>	20
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 8. Financial Statements and Supplementary Data</u>	45
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	101
<u>Item 9A. Controls and Procedures</u>	101
<u>Item 9B. Other Information</u>	101
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	102
<u>Item 11. Executive Compensation</u>	102
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	102
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	102
<u>Item 14. Principal Accountant Fees and Services</u>	102
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	102
<u>SIGNATURE PAGE</u>	

PART I

Cautionary Note Regarding Forward-looking Statements.

This report contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties, and which are based on beliefs, expectations, estimates, projections, forecasts, plans, anticipations, targets, outlooks, initiatives, visions, objectives, strategies, opportunities, drivers and intents of our management. Such statements are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, economic performance and results of operations, as well as our business strategy, objectives of management for future operations, and certain information set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements.

Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements.

Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as believes, expects, estimates, projects, forecasts, plans, anticipates, targets, outlooks, initiatives, visions, objectives, strategies, opportunities, drivers, seeks, may, will, or should or the negative of those terms, or other variations of those terms or comparable language, or by discussions of strategy, plans, targets, models or intentions. Forward-looking statements speak only as of the date they are made, and except for our ongoing obligations under the federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements. Accordingly, you are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the date made, expectations may prove to have been materially different from the results expressed or implied by such forward-looking statements, as it is impossible for us to anticipate all factors that could affect our actual results. We discuss certain of these risks in greater detail under the heading Risk Factors in Item 1A of this report. Unless otherwise required by law, we also disclaim any obligation to update our view of any such risks or uncertainties or to announce publicly the results of any revisions to the forward-looking statements made in this report.

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2011. The Company, we, us, or our when used in this report refers to Cambium Learning Group, Inc. and its predecessors and consolidated subsidiaries, as the context requires.

Overview

We are one of the largest providers of proprietary intervention curricula, educational technologies, professional services and other research-based education solutions for students in the Pre-K through 12th grade education market in the United States. The intervention market, where we focus, provides supplemental education solutions to at-risk and special education students. We offer a distinctive, blended intervention solution that combines different forms of instruction techniques, including textbooks, education games, data management, teacher training and student centric e-learning solutions. We believe that our approach builds a more comprehensive and effective instructional model that combines teacher-led instruction and student directed technology and that this approach sets us apart from our competitors and yields better student outcomes for at-risk students.

Our mission is to deliver educational solutions, primarily focused on reading and math, which enable the most challenged learners to reach grade level academic standards. We take a holistic approach to learning and our intervention solutions address both the behavioral and cognitive needs of the students we serve. We believe our specific focus on the Pre-K through 12th grade intervention market compared to those companies focused primarily on the core education market gives us a competitive edge relative to our peers. Further, our products and services are highly results-oriented and enable school districts across the country to improve student performance and better satisfy rigorous accountability standards.

Our research-based intervention programs have demonstrated consistent success with at-risk and special education student populations and have established us as one of the most readily recognized companies focused on serving this market. We operate in three business segments: Voyager, a comprehensive intervention business; Sopris Learning, a supplemental solutions education business; and Cambium Learning Technologies (CLT), a technology-based education business.

We were incorporated under the laws of the State of Delaware in June 2009. On December 8, 2009, we completed the mergers of Voyager Learning Company (VLCY) and VSS-Cambium Holdings II Corp. (Cambium) into two of our wholly owned subsidiaries, resulting in VLCY and Cambium becoming our wholly owned subsidiaries. The results of VLCY are included in the Company's operations beginning with the December 8, 2009 merger date; therefore, the 2009 financial information contained in this report consists of the results of the Company for the full year but only include VLCY for the last 23 days of that year.

The merger transaction was accounted for as an acquisition of VLCY by Cambium, as that term is used under U.S. Generally Accepted Accounting Principles (GAAP), for accounting and financial reporting purposes under the applicable accounting guidance for business combinations. In making this determination, management considered that (a) the newly developed entity did not have any significant pre-combination activity and, therefore, did not qualify to be the accounting acquirer, and (b) the former sole stockholder of Cambium is the majority holder of the combined entity, while the prior owners of VLCY became minority holders in the combined entity. As a result, the historical financial statements of Cambium have become the historical financial statements of the Company.

Cambium Learning, Inc., a subsidiary of Cambium (Cambium Learning), was founded in December 2002 to create a leading company focused on the at-risk and special student populations. In 2007, Cambium Learning was acquired by a consortium of equity sponsors led by Veronis Suhler Stevenson (VSS). A significant portion of Cambium Learning's growth has resulted from the acquisition and growth of companies acquired by Cambium Learning and from newly introduced programs developed by authors and researchers. In October 2003, Cambium Learning acquired Metropolitan Teaching & Learning, Inc. Metropolitan Teaching & Learning, Inc. was founded in 1998, and has developed culturally responsive instructional materials and customized programs for use in urban markets, with particular emphasis on mathematics. In February 2004, Cambium Learning acquired Sopris West Educational Services, Inc., a provider of intervention programs in literacy, mathematics, and behavior. In April 2005, Cambium Learning acquired Kurzweil Educational Systems, Inc., which develops reading enabling technologies for struggling readers and individuals with visual impairments. In February 2006, Cambium Learning acquired IntelliTools, Inc., a provider of assistive hardware and software technologies for the special education and at-risk market segments in math and literacy.

Strategy for Growth and Development

Our strategy for growth and development is based upon the following:

Continued Focus on the Pre-K through 12th Grade Intervention Market: The intervention market has been characterized by favorable long-term growth trends and historically strong government support, although there has been recent funding stress particularly at the state and local level in recent years. We devote most of our resources to better serve this market and we believe that our concentrated focus positions us to capture increased market share over time. We are a leading provider of comprehensive instructional material, professional development and learning technology solutions specifically designed for the intervention market. We also believe that this focus allows us to deliver better designed products to our customers, resulting in more favorable student outcomes and ultimately increasing brand value as a leader in serving the at-risk student population. We plan to continue to employ a broad-based approach to compete across segments and build scale and market share.

Growth through Acquisitions: One of our primary strategies for growth is to leverage our brand, experience, national sales reach and corporate infrastructure through acquisitions. We will continue to search for companies in the intervention, education technologies and other related markets that we believe we can scale with our experienced sales force and robust content delivery and data management systems. Our strong cash flows and an additional \$20.0 million equity infusion from our majority shareholder resulted in a cash balance of \$63.2 million at December 31, 2011. Additionally, we have an asset-backed revolving credit facility, which had \$18.0 million available at December 31, 2011. In all, we have a very liquid balance sheet with which to continue our strategy of acquisitions.

Depending on the size and nature of each acquisition, we may use our available cash or issue additional debt or equity. Additionally, we do not expect to issue dividends or repay our outstanding debt in the short term.

As a part of this strategy, in October 2011, we completed the acquisition of Class.com, which provides high-quality, research proven, online instruction, supplemental education, and intervention programs through its fully accredited high school, Lincoln National Academy (LNA). LNA programs serve at-risk and general education students. LNA/Class.com partner with public schools throughout the country to provide programs that schools need to serve the wide range of student needs. LNA/Class.com is positioned as a leading provider of mastery-based student-directed learning as well as a master teacher through a blended model in a virtual world.

Increased Offering of Technology-Based Learning Solutions: We have a wide range of technology-based learning solutions offered as either standalone tools or as part of our blended model (which integrates these technology-based learning solutions with our print-based products). Our standalone technology-based solutions include online supplemental reading, writing and vocabulary lessons and books as well as interactive simulations in math and science. Such solutions are employed by our customers for their at-risk students as well as their on-track students where the solutions are equally effective as a means to enhance the student's proficiency levels. Across much of our product offering, we utilize a comprehensive student data reporting system with multiple years of results. We believe this ability to assess, track and report results is crucial to providing educators with the tools required to achieve and provide accountability for student outcomes. Going forward, we expect to continue to diversify our portfolio of products to expand math, service offerings and technology-enabled solutions. We expect the technology solutions to focus especially on student-directed learning as well as mastery-based or competency-based solutions. We may significantly increase our investments in certain technology products, particularly in our CLT segment, to promote both short-term and long-term growth.

Leverage Nationally Recognized Brands, Sales Force and Scalable Platform: We believe our portfolio of premier brands and research-based products and services has consistently delivered superior learning outcomes for school districts. We plan to leverage our reputation for quality and our experienced field and inside sales force to generate new business and capture a greater share of business from existing customers across our national footprint. Further, we plan to utilize our portfolio of technology-driven products and services and an easily replicable implementation model to rapidly meet customer needs.

Funding Sources and Industry Information

The intervention market is focused on administering supplemental education solutions to at-risk students and students with disabilities receiving special education within the Pre-K through 12th grade segment. At-risk students and students with disabilities are those students that are underperforming when evaluated against their peers. These large groups of students exhibit serious academic deficits requiring intervention, particularly in reading and math, and their numbers are conservatively estimated to be at least 40% of students. Students in need of intervention are often found in three distinct groups: English language learners, students with disabilities and impoverished students. The English language learner group is made up of those students whose first language is not English. Students with disabilities are determined to be eligible for special education based on a diagnosed disability, including specific learning disabilities (the largest group), communication challenges, emotional and behavioral disorders, physical disabilities and developmental disorders. Impoverished students are from families with low socioeconomic status and are at an academic disadvantage which is often attributed to their families' financial hardships.

We believe that educating at-risk students and students with disabilities requires a different approach than relying on traditional instructional materials, as deploying our intervention programs with fidelity and treatment integrity requires detailed implementation and training. Key federal and state programs, such as the Title I portion (Title I) of the reauthorized Elementary Secondary Education Act (ESEA), the School Improvement Grants program (SIG), the Individuals with Disabilities Education Act (IDEA) and the Race to the Top Program enacted under the American Recovery and Reinvestment Act of 2009 (ARRA) have been key drivers in encouraging school districts to address the needs of this student population by providing critically needed federal funding.

While school districts use a variety of government funding sources in order to procure our products and services, our industry receives proportionally more federally provided funds than education services and products as a whole, which tend to rely more heavily on state and local funding. Title I (and the Title III portion of the ESEA) and IDEA are the two primary federal funding sources for at-risk students and students with disabilities, respectively. Title I and IDEA have existed for decades and have experienced increases since their inception. Further augmenting these traditional funding sources was the ARRA, which allocated an additional \$10 billion for Title I and an additional \$11.3 billion for IDEA over the government's fiscal years ending September 30, 2010 and September 30, 2011. The majority of the ARRA expired in September 2011 and has not been replaced with similar funding.

While federal funding sources have been stable and additionally augmented by ARRA, we have been impacted by the overall adverse conditions in the education funding environment as a result of the continued depressed circumstance of certain state and local budgets. Our Voyager segment has experienced the most disruption by this depressed state and local funding crisis. Although the intervention market receives proportionally more federal funding than other education markets, school districts rely upon state and local budgets, which have made it difficult for some of our customers to secure alternative funding sources in order to continue using the Voyager products at the same level as in previous years. We expect governmental spending austerity will continue and have a depressive effect on general spending and, therefore, make order volume growth challenging in the current funding environment.

Over the long-term, we expect growth in the overall intervention market will be driven by the following key factors:

Large and Growing Addressable Market: Total Pre-K through 12th grade enrollment was 58 million in 2010, with enrollments rising. It is estimated that at least 40% of these students require intervention and represent a large addressable market for us. Demand for intervention is expected to continue to increase since intervention is typically more cost effective than special education programs. We believe that, with more attention in general, increased analysis of U.S. student outcomes versus other countries, focus and likely inclusion of the graduation rate in the ESEA, and movement to national standards through the adoption of the Common Core State Standards by 46 states and the District of Colombia, the number of children deemed to need intervention is likely to increase from 40% to over 50%, as indicated by proficiency rates of the National Assessment of Educational Progress.

Historically Stable Federal Funding Landscape: The funding environment for Pre-K through 12th grade education has historically been stable across economic cycles. While the recent downturn has pressured state and local budgets, the primary sources of federal funding for education (Title I and IDEA) have been maintained at historically high levels. Traditional federal funding sources for education were temporarily augmented by ARRA funding from 2009 to September 2011, including the Race to the Top program.

Increasing Emphasis on Accountability and Measurement: The No Child Left Behind Act (NCLB) has been a key driver for increased accountability and measurement of student performance designed to meet the mandated goal that 100% of students become proficient in reading and math by the end of the 2013-2014 school year. School districts are required to demonstrate adequate yearly progress (AYP) or risk a cut in funding. Intervention products help schools improve performance of the most challenged learners and allow schools to meet stringent AYP criteria. Furthermore, there is greater emphasis on evaluating educators based on the performance of their students, driven by reforms contained in the Race to the Top program. We believe that the combination of these factors will continue to drive the demand for intervention and professional development products.

Proven Return on Investment of Intervention Products: Numerous studies have demonstrated and quantified the benefits of intervention products for at-risk students and students with disabilities. We believe traditional educational materials are inadequate and not designed to meet the unique and differential learning needs of these subgroups. Also, teachers are becoming better trained at utilizing intervention materials, which we expect will contribute to greater demand for such products.

Product Overview

We operate as three reportable segments, with separate management teams and infrastructures that offer various products and services, as follows:

Voyager, our comprehensive intervention business;

Sopris Learning, our supplemental solutions education business; and

CLT, our technology-based education business.

During 2011, net revenues were \$95.8 million for Voyager, \$27.0 million for Sopris Learning and \$49.5 million for CLT. Unallocated shared services such as accounting, legal, human resources and corporate-related items are recorded in a Shared Services category. Depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and taxes are also included in this Shared Services category.

Voyager

Our Voyager unit offers reading, math, professional development programs, and online courseware and credit recovery targeted towards the at-risk and special education student populations. Voyager provides strategic and intensive comprehensive interventions that are adaptive to the needs of diverse populations. Voyager's research-based instructional materials, support services and educational technology help accelerate

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struggling students to grade-level proficiency, with the goal to increase graduation rates.

Voyager Reading Programs. The reading programs in the Voyager business unit include: Voyager Passport®; LANGUAGE!; Passport Reading Journeys®; Read Well; Ticket to Read®; and TimeWarp® Plus.

Voyager Passport is a comprehensive reading intervention system for grades K-5. Voyager Passport provides direct, systematic instruction in each of the five essential reading components (phonemic awareness, phonics, fluency, vocabulary, and comprehension) and is designed as an intervention program for grade K-5 students for whom a core reading program is not sufficient. The lessons are typically daily and run 30 to 40 minutes in duration. They are based on the latest scientific research regarding effective reading instruction and are carefully designed to effectively and efficiently address each of the strategies and skills necessary to improve the reading ability of struggling readers. Voyager Passport is also available in Spanish under the Voyager Pasaporte brand.

LANGUAGE!, our principal adolescent literacy offering, is a comprehensive literacy program that targets students in grades 3-12 achieving at or below the 20th percentile. The program consists of a 36-unit curriculum organized into six levels that cover phonemic awareness and phonics, word recognition and spelling, vocabulary and morphology, grammar and usage, listening and reading comprehension, and speaking and writing. LANGUAGE! is designed for special education students, as well as students learning to speak English. The curriculum is a mastery-based curriculum. Students exit as soon as they achieve grade-level proficiency, which will vary depending on the specific needs of the student and where the student enters the program.

Passport Reading Journeys is a targeted intervention program designed to accelerate reading for struggling readers in middle school and high school, grades 6-9. The lesson format integrates reading, comprehension, vocabulary, fluency and writing. Age-appropriate content, real-life journeys on DVDs, online interactive lessons, and captivating text are designed to hold student interest and motivate students to read for both information and enjoyment. The program targets the affective domain as much as the cognitive domain, as many struggling readers have lost confidence, are not engaged, and are close to dropping out. The program meets all of the instructional recommendations of the Reading Next Report, which is an industry research report outlining the key elements of effective literacy intervention for middle and high school students, and provides teachers with the tools necessary to help students become successful readers.

ReadWell is an alternative comprehensive core reading program (a core replacement) that targets at-risk students in grades K-2. The program is a research-based and data-driven reading curriculum that addresses all five components of effective reading instruction – phonemic awareness, phonics, vocabulary, comprehension and fluency – as outlined by the National Reading Panel in 2000.

Ticket to Read is an interactive web-based program offered stand alone or with Voyager's literacy programs. Ticket to Read is designed to improve reading by allowing students to practice various aspects of reading skills. Instruction is leveled, self-paced and teacher-monitored. Students are motivated by a leader-board, a virtual clubhouse that includes earning online tickets and other rewards, games, and engaging self-selected passages on a variety of topics as they build vocabulary, fluency, phonics and reading comprehension skills. Approximately one-quarter of the use takes place after school hours, including weekends, further enabling students to reinforce what they have learned in the classroom and enabling parents and/or guardians to become more involved in their children's education.

TimeWarp Plus is a four- to six-week summer reading intervention program which immerses grade K-9 students in reading adventures to build essential reading skills that can prevent summer learning loss and prepare students for the coming year. TimeWarp Plus is a balanced, research-based reading program offered as a two- to four-hour daily reading instruction focused around exciting, adventure-based themes and hands-on learning experiences. Student engagement and maximizing teacher time are key components of the program.

Voyager Math Programs. The math programs in the Voyager business unit consist of: Vmath®, Vmath Summer Adventure, TransMath, and Inside Algebra.

Vmath is a grades 2-8 targeted, systematic intervention system that is aligned with the tenets of the National Council of Teachers of Mathematics and is designed to complement and enhance all major math programs by building upon and reinforcing the concepts, skills, and strategies of a core math program. Through 30 to 40 minutes of daily instruction, Vmath helps struggling students build a foundation in math and learn the skills and concepts crucial to achieving grade-level success. VmathLive is a standalone or complementary online math capability, targeting additional student practice for grades 2-8. Vmath is also available in a summer school configuration under the Vmath Summer Adventure brand.

TransMath targets students in the 25th percentile and below in grades 5-9. TransMath provides students with in-depth, sequential skill building of foundational math concepts through reform-based and procedural instruction. Multisensory strategies are designed to promote problem-solving proficiency, vocabulary development and mathematical discourse. VmathLive is also offered with TransMath.

Inside Algebra targets students at risk of failure in algebra and teaches them a variety of core objectives through activities intended to make learning fun. Students may participate in Inside Algebra in small groups, as a supplement to basal curricula, or as a standalone algebra intervention program.

Voyager Education Services (Professional Development). Professional development services provide a continuum of customized, sustainable, product-independent solutions for teachers and leadership to help educators strengthen their existing investments in curricula, textbooks, and learning resources. These services are provided via three delivery systems: consulting services and personalized professional development, custom conferences and institutes, and distance learning. Comprehensive school turnaround/transformation and restart services are also provided for schools identified by their districts as needing intense, ongoing, job-embedded professional development across personnel, content areas and grade levels.

Voyager Online Instruction, Supplemental Courseware and Intervention Programs. Through Class.com's accredited online high school, LNA, a variety of online learning solutions, secondary school courses, and turnkey virtual school solutions are provided to partner high schools throughout the country. LNA provides instruction, supplemental education, and intervention programs that are designed to be easily accessible and self-paced. Students read and engage with the content and complete exercises, assignments, and quizzes on their own. LNA teachers serve as guides, monitoring student work and offering additional instruction, help, examples, and motivation.

Sopris Learning

Sopris Learning supplemental products focus on the full spectrum of academic support utilizing print and technology based supplemental solutions including assessments, literacy and mathematics interventions, positive behavior supports, and professional development. Whether implemented in a single classroom, school-wide, or district-wide, Sopris Learning supplements have been proven to strengthen core instruction and to quickly and positively impact the academic achievement of students in all key areas of instruction. When compared to products offered by our other business units, Sopris Learning products tend to be more tightly tailored to specific skills and target a smaller, more specific audience. Sopris Learning's primary products are Step Up to Writing; REWARDS; Dynamic Indicators of Basic Early Literacy Skills (DIBELS/IDEL); Language Essentials for Teachers of Reading and Spelling (LETRS); e-Solution: fluency, vocabulary, comprehension; and RAVE-O. Through these offerings, we commercialize research of some of the most highly regarded authors in the field, including Drs. Louisa Moats, Anita Archer, Roland Good, Maureen Auman, Ruth Kaminski and Maryanne Wolf.

Step Up to Writing is a strategies-based program that spans grades K-12 and addresses students who score at or below the basic skill level in writing. Authored by Dr. Maureen Auman, the program explicitly connects reading, writing, speaking, and listening with hands-on strategies and teaches students to write both narrative and expository pieces, actively engage with reading materials and develop study skills. Step Up to Writing is designed to fit alongside a school district's existing reading program and to be integrated into any standard curriculum or instructional system.

REWARDS is a research validated, reading and writing intervention program designed for general and special education, remedial reading, summer school and after-school programs. Authored by Dr. Anita Archer, the program focuses on de-coding, fluency, vocabulary, comprehension, test-taking abilities and content-area reading and writing.

DIBELS/IDEL is a literary screening and progress monitoring tool. Authored by Drs. Roland Good and Ruth Kaminski, students from grades K-6 take benchmark assessments three times a year in order to measure the critical areas of early reading: awareness, phonics, fluency, comprehension and vocabulary. For those with reading difficulties, progress monitoring assessments are given to determine the effectiveness of the interventions being used. IDEL offers DIBELS materials for Spanish-speaking students.

LETRS is a stand-alone professional development program for educators. Authored by Dr. Louisa Moats, the training program is delivered through a combination of print materials, online courses, software and face-to-face training. LETRS Institutes are grouped into a series of three-day sessions presented by certified national LETRS trainers and engage educators through group activities and hands-on practice.

e-Solution: Fluency, Vocabulary, and Comprehension targets grades 3-12 and helps students improve reading fluency, vocabulary, and comprehension through the use of both printable and online passages and questions. This peer-mentoring and feedback system is designed to complement any reading curriculum.

RAVE-O (Reading through Automaticity, Vocabulary, Engagement, and Orthography) is an intensive, multisensory, small group reading intervention for primary through intermediate grades. Authored by world renowned neuroscientist Dr. Maryanne Wolf, the program is based on more than a decade of gold standard brain imaging research.

Cambium Learning Technologies

Our CLT unit utilizes technology to deliver subscription-based websites, online libraries, software and equipment designed to help students reach their potential in grades K through 12 and beyond. CLT products are offered under four different industry leading brands: Learning A-Z, ExploreLearning, Kurzweil Educational Systems and IntelliTools.

Learning A-Z. Learning A-Z is an educational resource company specializing in online delivery of leveled readers and other supplementary curriculum resources. Learning A-Z offers teacher centric resources that are printable and projectable. It also offers online interactive versions of many of its books and quizzes. Founded in 2002 to help teachers differentiate instruction and meet the unique needs of all students, Learning A-Z's resources are currently used in nearly half of the districts in the U.S. and Canada and over 155 countries worldwide. Serving a wide range of student need, including English language learners and those students for which English is a second language, Response to Intervention, Special Education, and general classroom instruction, Learning A-Z offers six integrated websites for individual classrooms, schools, and districts. Reading A-Z™, Raz-Kids™, Reading-Tutors™, Vocabulary A-Z™ and Writing A-Z™, provide online supplemental reading, writing and vocabulary lessons, books, and other resources for students and teachers. Science A-Z™ is aimed at the supplemental science market.

We sell online supplemental reading, math and science products under the Learning A-Z brand. There is one free website, LearningPage™, which aids in directing interested parents, teachers, schools and districts to six subscription-based sites: Reading A-Z, Raz-Kids, Reading-Tutors, Vocabulary A-Z, Writing A-Z, and Science A-Z. Each of these websites offers products available for purchase through online subscriptions.

Reading A-Z offers thousands of research-based, printable teacher materials to teach guided reading, phonological awareness, phonics, comprehension, fluency, letter recognition and formation, high-frequency words, poetry and vocabulary. The teaching resources include professionally developed downloadable leveled books (27 levels), a systematic phonics program that includes decodable books, high-frequency word books, poetry books, nursery rhymes, vocabulary books, read-aloud books, lesson plans, worksheets, graphic organizers and reading assessments. All leveled books, worksheets, graphic organizers and quizzes are available as printable PDF files and as projectables for use on interactive and non-interactive whiteboards. The leveled books and a variety of other books are available in Spanish and French, as well as a version with UK spellings.

Raz-Kids is a student-centered online collection of leveled eBooks and eQuizzes designed to guide and motivate emergent and reluctant readers, as well as improve the skills of fluent readers. Students can listen to and read books as well as record their reading and then take an online quiz while receiving immediate feedback. Students earn stars for their reading activity. The stars can then be spent in each student's personal clubhouse-like environment for purchasing a catalog full of items that include aliens and other fun characters. The program currently consists of over 300 online books along with companion quizzes and worksheets spread over 27 levels of difficulty. A new assessment feature is an online tool that allows teachers to assess students for placement at the appropriate reading level by determining reading rate, accuracy, fluency and comprehension. The website also features a classroom management system for teachers to build rosters, assign books, monitor student progress, and evaluate instructional needs.

Science A-Z provides teachers with an online collection of resources to improve student skills associated with reading, thinking and learning science.

ExploreLearning. ExploreLearning publishes two supplemental programs in the math and science market. ExploreLearning Gizmos™ is a subscription-based online library of interactive simulations for math and science in grades 3-12. In 2011, the Company launched ExploreLearning Reflex, a game-based adaptive online program designed to help students in grades 2-8 achieve fluency with their basic math facts. ExploreLearning has won National Science Foundation funding, supports the tenets of the National Council of Teachers of Mathematics and its products have received positive mention in books published by the Association of Supervision and Curriculum Development and the National Science Teachers Association. ExploreLearning is also a perennial award winner recognized by industry peer groups, including the Association of Educational Publishers and the Software and Information Industry Association (SIIA), as well as publications such as District Administration Magazine and Tech and Learning Magazine. ExploreLearning materials are correlated to state standards and over 350 math and science textbooks.

Kurzweil Educational Systems. Kurzweil Educational Systems is the leader in assistive technology, text-to-speech software literacy solutions serving the needs of the nation's most challenged students, including individuals with special needs and learning difficulties, such as dyslexia, attention deficit disorder or those who are English Language Learners. Driven by the vision to serve the needs of the nation's most challenged learners and enabling students to reach their full potential, Kurzweil provides complete reading, study skill, and writing support for students grades 3-college and adults with academic challenges and/or who are blind or visually impaired. Kurzweil Educational Systems produces the following products for individuals with learning difficulties and for those who are visually impaired:

Kurzweil 3000. Kurzweil 3000 is a reading, writing and learning software package for students with dyslexia, attention deficit disorder or other learning difficulties, including physical impairments or language learning needs. It enables individuals with the cognitive ability, but not the literacy skills, to achieve academic success alongside their peers.

Firefly. Firefly provides anytime, anywhere access to digital, text-based content, supplemented by powerful literacy tools. *Firefly* is an entirely web-based solution with a functionality set similar to, but more limited than, that found in Kurzweil 3000.

Kurzweil 1000. Kurzweil 1000 provides visually impaired users access to printed and electronic materials. Documents and digital files are converted from text to speech and read aloud in a variety of voices that can be modified to suit individual preferences. In addition, this software provides users with document creation and editing, studying and study skills for note-taking, summarizing and outlining text.

IntelliTools. IntelliTools offers hardware products that target students with physical, visual and cognitive disabilities that make using a standard keyboard and mouse difficult. IntelliTools also offers software products that target elementary and middle school special education students struggling with reading and math. IntelliTools' products include:

IntelliKeys® USB is a programmable alternative keyboard with supporting software for students or adults who have difficulty using a standard keyboard.

IntelliTools Classroom Suite is a universally designed authoring and application tool that supports academic achievement, especially for students in Special Education or who have alternative learning needs. The software includes lessons, activities, assessments, and creativity tools that reinforce reading, writing and math skills with the capability to generate reports and provide detailed data tracking.

Curriculum Development

We seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. We have developed relationships with many industry-leading authors who are known for their expertise in improving the cognitive and behavioral performance of at-risk and special education students. Many authors are leaders in their respective fields, such as literacy, mathematics, cognitive reasoning, and behavioral sciences. These authors are engaged by us to develop content and then to refine that content once feedback is obtained from our customers. We also employ both in-house and contracted developers of curriculum and on-line content. We generally conduct an extensive refresh of a product every four to five years to incorporate the latest research, bring images current, and update factual content. The web-based products are enhanced continuously. Between the product refreshes, we often develop variations, expansions (i.e., more grade levels) and other basic enhancements of our products. As of December 31, 2011, we had 151 employees in curriculum development. Research and development expense, net of capitalization, was \$9.9 million, \$10.6 million, and \$5.6 million for the years ended December 31, 2011, 2010, and 2009, respectively. In addition, we capitalize certain expenditures related to product development.

Sales and Marketing

We generally organize our marketing and sales force around our Voyager, Sopris Learning and CLT business units. Within CLT, the sales forces are further divided to focus on our Learning A-Z, ExploreLearning, and Kurzweil Educational Systems and IntelliTools divisions. Our sales representatives are supported by product or subject matter and implementation experts as well as a marketing team. As of December 31, 2011, our sales force consisted of 108 field and 32 inside sales producers for a total of 140 direct sales producers, excluding sales management and marketing. Where we elect to use both field and inside sales producers in a business unit, we tend to segment the customers primarily based on size of a territory, whereby larger territories are covered by field representatives and smaller territories are covered more effectively by inside

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sales employees. We also use direct marketing through catalogs and are increasingly making use of e-commerce and the Internet to sell our products. Sales and marketing expense was \$45.7 million, \$46.0 million, and \$23.4 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Competition

The market for our products is highly competitive. We compete with a wide range of companies from large publishers covering a broad array of products to small providers who specialize in very limited areas. We compete with:

Traditional text book suppliers, which often offer intervention products as part of their core reading and math programs, including Houghton Mifflin/Harcourt, Pearson, The McGraw-Hill Companies, and Scholastic;

Supplemental suppliers, a market segment that is quite fragmented, including the supplementary products divisions of the international textbook publishers named above, and others including Curriculum Associates, Teacher Created Materials, School Specialty, Houghton Mifflin Harcourt and National Geographic (The Hampton-Brown Company);

Technology suppliers, including Scholastic (Read 180, MiniBooks), Adaptive Curriculum, Carnegie Learning, Renaissance Learning, Archipelago, Don Johnston and TextHelp;

Assessment suppliers, including Pearson (Aimsweb); and

Service providers, including Americas Choice (Pearson), and research laboratories such as WestEd.

In addition, with greater use of virtual tools, we compete with a number of entities like K12, Pearson, Plato Learning and Florida Virtual School. Open source content providers, such as Khan Academy, OER Commons, and HippoCampus also provide online educational videos.

Concentration Risk

We are not overly dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. We have a broad customer base; in the three years ended December 31, 2011 for the Company in the aggregate, no single customer accounted for more than 10% of our total net revenues in any one year. Additionally, our top ten customers accounted for approximately 14% of our net revenues in 2011.

Seasonality

Our quarterly operating results fluctuate due to a number of factors, including the academic school year, school procurement policies, funding cycles, the amount and timing of new products and spending patterns. In addition, customers experience cyclical funding issues that can impact revenue patterns. We generally expect our lowest revenues and earnings to be in the first and fourth fiscal quarters and our highest revenues and earnings to be in the second and third fiscal quarters.

Governmental Regulations

Our operations are governed by laws and regulations relating to equal employment opportunity, workplace safety, information privacy, and worker health, including the Occupational Safety and Health Act and regulations under that Act. Additionally, as a company that often bids on various state, local and federally funded programs, we are subject to various governmental procurement policies and regulations. We believe that we are in compliance in all material respects with applicable laws and regulations and that future compliance will not have a material adverse effect upon our consolidated operations or financial condition.

Employees

Our future success is substantially dependent on the performance of our management team and our ability to attract and retain qualified technical and managerial personnel. As of December 31, 2011, we had a total of 628 employees. None of our employees are represented by collective bargaining agreements. We regard our relationship with our employees to be good.

Executive Officers

Ronald Klausner. Ronald Klausner, age 58, currently serves as a Class III director and our Chief Executive Officer. Mr. Klausner has served as one of our directors since December 8, 2009. Mr. Klausner served as President of Voyager Expanded Learning from October 2005 until December 8, 2009, when he became our Chief Executive Officer. Prior to that, Mr. Klausner served as President of ProQuest Information and Learning Company (a subsidiary of VLCY until it was sold in 2007) from April 2003 to October 2005. Mr. Klausner came to VLCY from D&B (formerly known as Dun & Bradstreet), a global business information and technology solutions provider, where he worked for 27 years. He most recently served as D&B's Senior Vice President, U.S. Sales, leading a segment with more than \$900 million in revenue. Previously, Mr. Klausner led global data and operations, and customer service, providing business-to-business, credit, marketing and purchasing information in over 200 countries.

Vernon Johnson, EdD. Dr. Vernon Johnson, age 63, currently serves as a Class I director and the President of the Voyager business unit. Dr. Johnson joined the Company and the Board of Directors on December 1, 2011. From February 2005 until joining the Company, Dr. Johnson served as a partner of Best Associates, a Dallas-based Merchant Banking firm, and Chairman of EPIC Learning, a national for-profit online company focused on grades 9-12. He was also Executive Vice President of Development and Strategy for the America College of Education, a proprietary online college. Under his sales and marketing leadership, America College of Education's online enrollment tripled, making it the sixth largest graduate school of education in the nation. Prior to joining Best Associates, Dr. Johnson was one of the founders of Voyager Expanded Learning and served as Executive Vice President, President and CEO of the company. In addition, Dr. Johnson served as a K-12 public educator for 25 years including Superintendent of schools in Rochester, Minnesota and Richardson, Texas.

Bradley C. Almond. Bradley C. Almond, age 45, currently serves as our Senior Vice President and Chief Financial Officer. Mr. Almond served as Chief Financial Officer of VLCY since January 2009. Mr. Almond joined VLCY in November 2006 as Chief Financial Officer of the Voyager Expanded Learning operating unit. Before joining VLCY, Mr. Almond was Chief Financial Officer, Treasurer and Vice President of Administration at Zix Corporation, a publicly traded email encryption and e-prescribing service provider located in Dallas, Texas, since 2003. From 1998 to 2003, Mr. Almond worked at Entrust Inc., where he held a variety of management positions, including president of Entrust Japan, general manager of Entrust Asia and Latin America, vice president of finance and vice president of sales and customer operations. Mr. Almond is a licensed Certified Public Accountant.

John Campbell. John Campbell, age 51, currently serves as Senior Vice President and the President of the CLT business unit. Mr. Campbell served in the positions of Senior Vice President of Strategy & Business Development, Senior Vice President of K-12 and Chief Operating Officer of Voyager Expanded Learning since joining VLCY in January 2004 until December 8, 2009. Before joining VLCY, Mr. Campbell served as Chief Operating Officer and business unit head of a research based reading company (Breakthrough to Literacy) within McGraw-Hill. Prior to joining Breakthrough/McGraw-Hill, he served as Director of Technology for Tribune Education. Additionally, Mr. Campbell has experience as General Manager of a software start-up (Insight) and as Director of Applications and Technical Support for a hardware manufacturer (Commodore International).

George A. Logue. George A. Logue, age 61, currently serves as Executive Vice President and the President of the Sopris Learning supplemental solutions business unit. Mr. Logue served as the Executive Vice President of Cambium from June 2003 until December 8, 2009 and has 36 years of education industry experience. Before co-founding Cambium, Mr. Logue spent 18 years in various leadership roles with Houghton Mifflin Company. At Houghton Mifflin, Mr. Logue served as Executive Vice President and President of the School Division from 1996 to 2003. Prior to serving as Executive Vice President of Houghton Mifflin, Mr. Logue was Vice President for Sales and Marketing from 1994 to 1996.

Carolyn M. Gettridge. Carolyn M. Gettridge, age 67, currently serves as our Senior Vice President of Human Resources and Urban Development. She joined VLCY in 1997 as a member of the team that launched the company after a distinguished 30-year career in public education. Immediately prior to joining Voyager, Ms. Gettridge was Superintendent of the Oakland Unified School District. Ms. Gettridge also served as Associate Superintendent of Curriculum and Instruction in Oakland and as Director of Education Programs for the Alameda (CA) County Office of Education.

Todd W. Buchardt. Todd W. Buchardt, age 52, currently serves as our Senior Vice President, General Counsel and Secretary. Mr. Buchardt served VLCY as Senior Vice President since November 2002, Vice President since March 2000, and General Counsel and Secretary since 1998. Before joining VLCY, Mr. Buchardt held various legal positions with First Data Corporation from 1986 to 1998.

Alan Nowakowski, EdD. Dr. Alan Nowakowski, age 63, currently serves as the Senior Vice President of Product Development and Strategy for Cambium Learning, Inc. In this role, Dr. Nowakowski leads the overall product development and strategy of the Company. Dr. Nowakowski joined the Company in 2001 as the Senior Vice President of VoyagerU Program Development and Implementation Services Support. In that role, he was responsible for the training and implementation for the Voyager Universal Literacy System, Voyager Passport and Voyager Pasaporte, the after school and summer school programs, as well as the development and operations of customer technology applications, including the Vital Indicators of Progress (VIP) data management system. He also oversaw program development and implementation of the VoyagerU professional development program. He also held the positions of Senior Vice President of Publishing and Senior Vice President of Strategy and Special Projects. In these positions, he provided leadership and high-level design guidance for Voyager online student learning applications, including Ticket to Read, VoyagerU Targeted Courses, Expanded Online Teacher Support and VocabJourney, the online vocabulary application for Passport Reading Journeys. Before joining Voyager Expanded Learning, Dr. Nowakowski was a partner in Accenture (formerly Andersen Consulting) where he was Accenture's chief education architect, responsible for creating Accenture's internal training programs.

Robert H. Pasternack, Ph.D. The Honorable Robert H. Pasternack, Ph.D., age 62, currently serves as our Senior Vice President of Special Education. Dr. Pasternack served VLCY in the same capacity from August 2006. Dr. Pasternack has over 40 years experience in public education. Before joining VLCY, Dr. Pasternack served as Assistant Secretary for the Office of Special Education and Rehabilitative Services (OSERS) at the U.S. Department of Education from 2001 to 2004. In addition, Dr. Pasternack served on the President's Commission on Excellence in Special Education and the President's Mental Health Commission and as the Chair of the Federal Interagency Coordinating Committee during his appointment as the Assistant Secretary. Prior to being appointed to this position, Dr. Pasternack was the State Director of Special Education for the State of New Mexico and also served as a Superintendent and first grade teacher. Dr. Pasternack is a nationally certified school psychologist, a certified educational diagnostician, a certified school administrator, and a certified teacher (K-12).

Andrew S. Morrison. Andrew S. Morrison, age 49, has served as Sr. Vice President of Strategy & Corporate Development of the Company since November 2011. Mr. Morrison brings to Cambium an extensive background in education, business, technology, finance and law. From 2005 to the time he joined the Company, Mr. Morrison was President of Altis Avante Corporation, an innovative technology company with solutions for struggling students in grades 4-12. Previously, Mr. Morrison provided executive and strategic consulting services to leading private equity and education companies, including Houghton Mifflin Company and Educate, Inc. (Sylvan Learning). Mr. Morrison also served as CEO of Smarterville Inc., an education company focused on the school and consumer markets, and was previously CEO of Cognitive Concepts, Inc., an education technology company providing state-of-the-art literacy programs to struggling and at-risk students. Mr. Morrison has also worked as an attorney and an investment banker in the areas of corporate M&A and restructuring.

Proprietary Rights

We regard a substantial portion of our technologies and content as proprietary and rely primarily on a combination of patent, copyright, trademark and trade secret laws, and employee or vendor non-disclosure agreements, to protect our rights.

We have developed relationships with authors who are known for their expertise in improving the cognitive and behavioral performance of at-risk and special education students. Many authors are leaders in their respective fields, such as literacy, mathematics, and positive school climate. These authors are engaged by us to develop content and then to refine that content once feedback is obtained from our customers. We act as exclusive agents for and, in most instances, own the intellectual property from these well-known authors, whereby we publish their works under a royalty arrangement. We also derive a substantial amount of our curriculum content through in-house development efforts. To a much lesser degree, we also license from third parties published works, certain technology content or services upon which we rely to deliver certain products and services. Curriculum developed in-house or developed through the use of independent contractors is our proprietary property. Certain curriculum might be augmented or complemented with third party products, which may include printed materials, videos or photographs. This additional third party content may be sourced from various providers who retain the appropriate trademarks and copyrights to the material and agree to our use under a nonexclusive, fee-based arrangement.

We use U.S.-registered trademarks to identify various products which we develop. The trademarks survive as long as they are in use and the registration of these trademarks is renewed.

Website Access to Company Reports

We make available free of charge through our website, www.cambiumlearning.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of our directors, officers and other affiliated persons, and all amendments to those reports as soon as reasonably practical after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also will provide any of the foregoing information without charge upon written request to Cambium Learning Group, Inc., 17855 North Dallas Parkway, Suite 400, Dallas, Texas 75287, Attention: Investor Relations.

We are providing the address to our website solely for the information of our investors. Our website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Code of Ethics

We have adopted a Senior Financial Officers Code of Ethics and a Code of Business Conduct to promote such standards as (1) honest and ethical conduct; (2) full, fair, accurate, timely and understandable disclosure in our periodic reports; and (3) compliance with applicable governmental rules and regulations. Amendments to, or waivers from, the code of ethics will be posted on our website. A copy of the code of ethics and the code of business conduct are posted on our website, www.cambiumlearning.com, within the Investor Relations section under the heading Corporate Governance . The code of ethics is also available in print to anyone who requests it by writing to the Company at the following address: Cambium Learning Group, Inc., 17855 North Dallas Parkway, Suite 400, Dallas, Texas 75287, Attention: Investor Relations.

We have also implemented a whistleblower hotline, as required under the Sarbanes-Oxley Act of 2002, by engaging a third party service that provides anonymous reporting for serious workplace ethical issues via telephone and/or the Internet.

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 this Annual Report on Form 10-K for the year ended December 31, 2011.

Risks Related to our Business

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. 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 (most state budget fiscal years end on June 30), could also cause those institutions to demand price reductions and could slow or reduce purchases of intervention products, which in turn could materially harm our business. Our business may be adversely affected by changes in educational funding at the federal, state or local level, resulting from changes in legislation, changes in state procurement processes, changes in government leadership, emergence of other funding or legislative priorities and changes in the condition of the local, state or U.S. economy.

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

In 2011, we derived significant revenues from the following three states in the following approximate percentages: California 10%; Florida 8%; and Texas 8%. To some extent, we expect the economic situation faced by these states to continue to have a depressive effect on public school spending. If that is the case, our sales to these states could be materially reduced which could harm our business and financial condition.

Changes in school procurement policies may adversely affect our business.

The school appropriations process is often slow, unpredictable and subject to many factors outside of our control. School districts choose to procure educational materials in various ways which can change quickly necessitating a change in our sales strategy or sales investments. Districts and states may switch procurement decisions from a centralized (district-wide) to a decentralized (school by school) decision, states may switch from state-wide standard adoptions to flexible district level procurement, and customers could increasingly utilize competitive requests for proposals (RFP) or procurement via the Internet. Any of these changes could cause us to modify our sales strategy or cause us to expend greater sales effort to win business and if we are slow to respond the result could be a material loss of market share.

Our business is anticipated to be seasonal and our operating results are anticipated to fluctuate seasonally.

Our business is likely to be subject to seasonal fluctuations. We generally expect revenue and income from operations to be higher during the second and third calendar quarters. In addition, the quarterly results of operations have fluctuated in the past, and our quarterly results of operations can be expected to continue to fluctuate in the future.

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.

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. 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 our company, and we were unable to find qualified and affordable replacements for these individuals, our business could be harmed materially.

Merger and acquisition activity 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, if completed, may materially and adversely affect our business, results of operations, financial condition or liquidity.

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 provide, could strain our systems in the future and will likely magnify the consequences of any computer and telecommunications problems that we may experience.

However, destruction or disruption of data center sites could 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.

Our systems 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, destroyed or experienced technological failure.

We store and distribute the majority of our printed materials through a single warehouse in Frederick, Colorado. On February 22, 2012, we announced that we would be transitioning our inventory and fulfillment operations to Ozburn Hessey Logistics (OHL) with a planned location in the St. Louis, Missouri area. In the event that these distribution facilities were damaged, destroyed or experienced technological failure, we would be delayed in responding to customer requests. Additionally, business disruptions within OHL that are out of our control could delay our ability to deliver printed materials to our customers in a timely manner. Customers often purchase materials very close to the school year and such delivery delays could cause our customers to turn to competitors for products they need immediately. While we maintain adequate property insurance, the loss of customers could have a long-term, detrimental impact on our reputation and business.

Risks Related to Debt and Ownership of our Common Stock

We do not foresee paying cash dividends in the foreseeable future and, as a result, our investors' sole source of gain, if any, will depend on capital appreciation, if any.

We do not plan to declare or pay any cash dividends on our shares of common stock in the foreseeable future and currently intend to retain future earnings, if any, for future operation, debt reduction and expansion. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, restrictions imposed by applicable law, business and investment strategy, contractual limitations and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future indebtedness we or our subsidiaries incur, including the 9.75% senior secured notes (described below). As a result, our stockholders may not receive any return on an investment in our common stock unless they sell our common stock for a price greater than that which they paid for it. Moreover, investors may not be able to resell their shares of the Company at or above the price they paid for them.

The existence of a majority stockholder may adversely affect the market price of our common stock and could delay, hinder or prevent a change in corporate control or result in the entrenchment of management and the board of directors, and our majority stockholder has a contractual right to maintain its percentage ownership in our company.

VSS-Cambium Holdings III, LLC, owns a majority of our outstanding common stock. Accordingly, VSS-Cambium Holdings III, LLC will likely have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all our assets. In addition, VSS-Cambium Holdings III, LLC will likely have the ability to control our management, affairs and operations. Accordingly, this concentration of ownership may harm the market price of our common stock by delaying, deferring or preventing a change in control or impeding a merger, consolidation, takeover or other business combination.

The ownership of a large block of stock by a single stockholder may reduce our market liquidity. Should VSS-Cambium Holdings III, LLC determine to sell any of its position in the future, sales of substantial amounts of our common stock on the market, or even the possibility of these sales, may adversely affect the market price of our common stock. These sales, or even the possibility of these sales, also may make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price we deem appropriate.

Moreover, VSS-Cambium Holdings III, LLC has a contractual right to maintain its percentage ownership in our company. Specifically, under the terms of a stockholders agreement entered into in connection with the mergers, if we were to engage in a new issuance of our securities, VSS-Cambium Holdings III, LLC and funds managed or controlled by VSS would have preemptive rights to purchase an amount of our securities that would enable them to maintain their same collective percentage of ownership in our company following the new issuance. VSS-Cambium Holdings III, LLC and funds managed or controlled by VSS would have these preemptive rights for so long as those entities collectively beneficially own, in the aggregate, at least 25% of the outstanding shares of our common stock. Thus, while other holders of our securities would risk suffering a reduction in percentage ownership in connection with a new issuance of securities by us, VSS-Cambium Holdings III, LLC and funds managed or controlled by VSS would, through this preemptive right, have the opportunity to avoid a reduction in percentage ownership.

We are a controlled company within the meaning of the NASDAQ rules and, as a result, qualify for, and rely on, exemptions from various corporate governance standards, which limits the presence of independent directors on our board of directors and board committees.

Due to the fact that VSS-Cambium Holdings III, LLC owns a majority of our outstanding common stock, we are deemed a controlled company for purposes of NASDAQ Rule 5615(c)(2). Under this rule, a company of which more than 50% of the voting power for the election of directors is held by an individual, a group or another company is a controlled company and is exempt from certain NASDAQ corporate governance requirements, including requirements that a majority of the board of directors consist of independent directors, that compensation of officers be determined or recommended to the board of directors by a majority of independent directors or by a compensation committee that is composed entirely of independent directors and that director nominees be selected or recommended for selection by a majority of the independent directors or by a nominating committee composed solely of independent directors. We intend to rely upon these exemptions. Accordingly, our stockholders may not have the same protections afforded to stockholders of other companies that are required to comply fully with the NASDAQ rules.

Since the controlled company exemption does not extend to the composition of audit committees, we are required to have an audit committee that consists of at least three directors, each of whom must be independent based on independence criteria set forth in Rule 10A-3 of the Securities Exchange Act of 1934 (the Exchange Act). Our board of directors has adopted an audit committee charter which will govern our audit committee. These three directors must also satisfy the requirements set forth in NASDAQ Rule 5605(a) and (c). The audit committee is currently composed entirely of independent directors.

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 also subject us to covenants which constrain our ability to grow or otherwise take steps that may be favored by our holders of common stock.

Under the terms of a stockholders agreement that we entered into on December 8, 2009 in compliance with the mergers, so long as our former sole stockholder and funds controlled by VSS beneficially own in the aggregate at least 25% of the outstanding shares of our common stock, they will have preemptive rights which generally give them the opportunity to purchase an amount of our securities in a new issuance of securities by us that would enable them to maintain their same collective percentage ownership in us following the new issuance. Thus, while other stockholders risk suffering a reduction in percentage ownership in connection with an issuance of securities by us, VSS-Cambium Holdings III, LLC and funds managed or controlled by VSS will have the opportunity to avoid a reduction in percentage ownership.

Provisions of our organizational documents and Delaware law may delay or deter a change of control.

Our organizational documents contain provisions that may have the effect of discouraging, delaying or preventing a change of control of, or unsolicited acquisition proposals for, our company. These include provisions that:

vest our board of directors with the sole power to set the number of directors of our company;

provide that our board of directors will be elected on a staggered term basis, so that generally only one-third of the board will be elected at each annual meeting of stockholders;

limit the persons that may call special meetings of stockholders;

establish advance notice requirements for stockholder proposals and director nominations; and

limit stockholder action by written consent.

Also, our board of directors has the authority to issue shares of preferred stock in one or more series and to fix the rights and preferences of these shares, all without stockholder approval. Any series of preferred stock is likely to be senior to our common stock with respect to dividends, liquidation rights and, possibly, voting rights. The ability of our board of directors to issue preferred stock also could have the effect of discouraging unsolicited acquisition proposals, thus adversely affecting the market price of our common stock.

In addition, Delaware corporate law makes it difficult for stockholders that recently have acquired a large interest in a corporation to cause the merger or acquisition of the corporation against the directors' wishes. Under Section 203 of the Delaware General Corporate Law (the "DGCL"), a Delaware corporation such as our company may not engage in any merger or other business combination with an interested stockholder or such stockholder's affiliates or associates for a period of three years following the date that such stockholder became an interested stockholder, except in limited circumstances, including by approval of the corporation's board of directors.

We have a significant amount of senior secured debt and will have the obligation to make interest payments and comply with restrictions contained in the credit agreements with our senior secured lenders.

In February 2011, we closed an offering of \$175 million aggregate principal amount of 9.75% senior secured notes due 2017, as well as a new revolving credit facility (sometimes referred to in this report as the ABL Facility). We are subject to risks associated with substantial indebtedness, including the risk that we will not be able to refinance existing indebtedness when it becomes due, the risk that we would not be able to secure alternative financing if we are unable to comply with the debt covenants or if we were to experience an event of default, and the risk that our cash flows from operations are insufficient to make scheduled interest payments. We are required to make interest payments semi-annually in arrears on each February 15 and August 15, commencing on August 15, 2011. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to refinance all or a portion of our debt. However, we may not be able to obtain any such new or additional financing on favorable terms or at all.

The indenture governing the notes and the credit agreement governing the revolving credit facility contain various covenants that limit our ability to, among other things, incur or guarantee additional indebtedness; pay dividends and make other restricted payments; incur restrictions on the payment of dividends or other distributions from our restricted subsidiaries; create or incur certain liens; make certain investments; transfer or sell assets; enter into operating leases; engage in transactions with affiliates; and merge or consolidate with other companies or transfer all or substantially all of our or our restricted subsidiaries' assets.

Further, upon the occurrence of specific types of change of control events, we will be required to offer to repurchase outstanding notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the notes will be our available cash or cash generated from our and our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. Our failure to repurchase the notes upon a change of control would cause a default under the indenture governing the notes and a cross default under our revolving credit facility.

Borrowing capacity under the ABL Facility may affect our ability to finance our operations.

In February 2011, we entered into the ABL Facility, consisting of a four-year \$40.0 million revolving credit facility, which includes a \$5.0 million subfacility for swing line loans and a \$5.0 million subfacility for letters of credit. Our ability to borrow funds under this facility is limited by a borrowing base determined relative to the value, calculated periodically, of eligible accounts receivable and eligible inventory. Our ability to borrow funds under this facility is also conditioned upon our compliance with a financial covenant that generally requires us to maintain, on a consolidated basis, either (i) excess availability of at least the greater of \$8 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0. Our business is seasonal and any inability to borrow funds under the revolving credit facility could affect our ability to finance our operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal corporate office is located in Dallas, Texas. We lease office and warehouse facilities in Dallas, Texas; Charlottesville, Virginia; Tucson, Arizona; Frederick, Colorado; Natick, Massachusetts; Ann Arbor, Michigan and Lincoln, Nebraska. The Frederick, Colorado warehouse is under a build-to-suit lease that is included in our land and building assets but is not considered owned for purposes of the table below.

The following table provides summary information in square feet with respect to these facilities as of December 31, 2011.

	September 30, Total (sq ft)
Owned	
Leased	343,771
Total	343,771

We believe the buildings and equipment used in our continuing operations generally to be in good condition and adequate for our current needs and that additional space will be available as needed. On February 22, 2012 we announced that we plan to cease distribution operations out of the Frederick, Colorado location and intend to outsource the operations to OHL. Once the transition is complete, the Company intends to attempt to sublease its Frederick, Colorado facility.

Item 3. Legal Proceedings.

We are not presently engaged in any pending legal proceeding material to our financial condition, results of operations or liquidity.

Item 4. (Removed and Reserved).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information: Our common stock is traded on the NASDAQ Global Market under the symbol ABCD. Below are the high and low sale prices for each quarter in the years ended December 31, 2011 and 2010.

Fiscal Quarter	September 30, 2011		September 30, 2010	
	High	Low	High	Low
First	\$ 3.98	\$ 3.10	\$ 4.20	\$ 3.41
Second	3.49	2.85	5.59	3.42
Third	3.44	2.48	3.76	2.77
Fourth	3.66	2.65	3.55	2.67

Record Holders: As of March 8, 2012, there were 134 holders of record of our common stock.

Purchases of Equity Securities: We made no repurchases of our equity securities in the fourth quarter of the fiscal year ended December 31, 2011.

Dividends: We have not declared or paid any cash dividends to our stockholders. Any future determination to pay dividends, if any, will be at the discretion of our board of directors. We do not presently expect to pay any dividends.

Securities Authorized for Issuance Under Equity Compensation Plans: We have securities authorized for issuance under the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (Incentive Plan). In connection with the then pending merger with VLCY, on July 31, 2009, the Company's board of directors and sole stockholder approved the Incentive Plan. The general purposes of the Incentive Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to employees, directors and consultants, and to promote the success of the Company.

Securities authorized for issuance under equity compensation plans at December 31, 2011 are as follows:

Plan Category	September 30, 2011	September 30, 2011	September 30, 2011
	Number of securities to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options and rights	Number of securities remaining available for future issuance under equity incentive plan (a)
Equity compensation plans approved by security holders	4,268	\$ 5.10	676
Equity compensation plans not approved by security holders			
Total	4,268	\$ 5.10	676

(a) Excludes securities reflected in the first column, Number of securities to be issued upon exercise of outstanding options and rights, and issued restricted stock.

Recent Sales of Unregistered Securities: During November 2011, the number of shares of common stock of the Company underlying the warrant issued to VSS-Cambium Holdings III, LLC, the sole stockholder of Cambium immediately prior to the Company's acquisition of

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Cambium, as part of the merger consideration payable to such stockholder in connection with the Cambium merger, was increased by 10,055 shares. The increase resulted from cash recoveries during the period in connection with an employee embezzlement matter, in accordance with the terms of the warrant. The warrant is exercisable for shares of common stock at an exercise price of \$0.01 per share, and expires on December 8, 2014. The number of shares of common stock issuable under the warrant may be further increased in the future upon the occurrence of certain events described in the warrant. The issuance of these securities to VSS-Cambium Holdings III, LLC was exempt from registration under Section 4(2) of the Securities Act of 1933 (the Securities Act).

Stock Performance Graph: The following graph compares the total cumulative shareholder return of the Company's common stock with the total cumulative return of the NASDAQ Composite Index and a customized Peer Group Index. Measurement points include December 9, 2009, the date that our stock began publicly trading, and the last trading day of each fiscal year through December 31, 2011. Total cumulative shareholder return assumes \$100 invested on December 9, 2009 in the Company's common stock, the NASDAQ Composite Index and the Peer Group Index, respectively, and reinvestment of any dividends. Our Peer Group Index is composed of the following companies: Archipelago, K12, Inc., The McGraw-Hill Companies, Pearson PLC, Renaissance Learning, Scholastic, and School Specialty. Historical stock price performance should not be relied upon as an indication of future stock performance.

Item 6. Selected Financial Data.

The tables below present summary selected historical consolidated financial data derived from our consolidated financial statements prepared in accordance with GAAP. You should read the information set forth below in conjunction with our consolidated financial statements and related notes, management's discussion and analysis of financial condition and results of operations and other financial information presented elsewhere herein.

The summary selected historical consolidated financial data for each of the periods presented have been derived from our audited consolidated financial statements.

On December 8, 2009, we completed the mergers of VLCY and Cambium into two of our wholly-owned subsidiaries, resulting in VLCY and Cambium becoming our wholly-owned subsidiaries. The transaction was accounted for as an acquisition of VLCY by Cambium, as that term is used under GAAP, for accounting and financial reporting purposes under the applicable accounting guidance for business combinations. As a result, the historical financial statements of Cambium have become the historical financial statements of the Company and the results of VLCY are included from the merger date.

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Successor Period from January 29, 2007 (Inception) through December 31, 2007(1)	Predecessor Period from January 1, 2007 through April 11, 2007
(in thousands, except per share data)						
Statement of Operations Data:						
Product revenues	\$ 151,846	\$ 160,778	\$ 90,385	\$ 89,207	\$ 71,266	\$ 15,238
Service revenues	20,412	20,482	10,663	10,524	9,581	3,176
Net revenues	172,258	181,260	101,048	99,731	80,847	18,414
Total operating expenses, excluding in-process research and development, impairment, and embezzlement	(169,583)	(181,528)	(115,108)	(104,648)	(81,305)	(32,179)
Acquired in-process research and development					(890)	
Goodwill impairment(3)	(37,618)		(9,105)	(75,966)		
Embezzlement and related recoveries (expense)(2)	3,096	353	(129)	(7,254)	(5,732)	(1,000)
Income (loss) before interest, other income (expense), and income taxes	(31,847)	85	(23,294)	(88,137)	(7,080)	(14,765)
Gain from settlement with previous stockholders(4)				30,202		
Net loss	(49,441)	(15,950)	(35,765)	(69,560)	(13,931)	(11,812)
Net loss per common share basic and diluted	\$ (1.07)	\$ (0.36)	\$ (1.63)	\$ (3.39)	\$ (0.68)	\$ (4.34)

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, As of: December 31, 2009	September 30, December 31, 2008	September 30, December 31, 2007
(in thousands)					
Balance Sheet Data:					
Cash and cash equivalents	\$ 63,191	\$ 11,831	\$ 13,345	\$ 2,418	\$ 1,206
Total current assets	109,921	76,177	74,316	31,617	26,601
Total assets	369,680	383,062	393,841	270,477	369,138
Total current liabilities	64,037	66,774	58,366	16,360	16,849
Total long term debt, less current portion	174,165	150,850	150,487	153,787	176,402
Total liabilities	279,610	259,050	254,069	202,273	239,058
Total members' interest and stockholders equity	90,070	124,012	139,772	68,204	130,080
Footnotes to the Selected Financial Data:					

- 1) On January 29, 2007, VSS-Cambium Holdings, LLC was formed for the purpose of acquiring all of the capital stock of Cambium Learning. That acquisition was completed on April 12, 2007. The consolidated financial statements present the Company as of December 31, 2007 (Successor basis reflecting activity of the Company from January 29, 2007 and including the results of Cambium Learning from April 12, 2007) and the period January 1, 2007 through April 11, 2007 (Predecessor basis for the period prior to Company's acquiring Cambium Learning).
- 2) We discovered in 2008 that a former employee had perpetrated a significant misappropriation of assets during a period beginning in 2004 and extending through April 2008.
- 3)

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Reflects the non-cash effect of the goodwill impairment charges during 2011, 2009 and 2008 resulting from a reduction in the fair value of assets.

- 4) For fiscal 2008, we received a settlement from our previous stockholders relating to the embezzlement we suffered.

Item 7. 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 the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2011.

Organization of Information

Management's Discussion and Analysis of Financial Condition and Results of Operations includes the following sections:

Overview

Results of Operations

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Liquidity and Capital Resources

Non-GAAP Measures

Capital Expenditures and Outlook

Commitments and Contractual Obligations

Off-Balance Sheet Arrangements

Critical Accounting Policies and Estimates

Recently Issued Financial Accounting Standards

Overview

On December 8, 2009, we completed the business combination of Cambium and VLCY as contemplated by the Agreement and Plan of Mergers, dated as of June 20, 2009, among us, VLCY, Vowel Acquisition Corp., our wholly-owned subsidiary, Cambium, a wholly-owned subsidiary of VSS-Cambium Holdings III, LLC, Consonant Acquisition Corp., our wholly owned subsidiary, and Vowel Representative, LLC, solely in its capacity as stockholders' representative. We refer to this agreement and plan of mergers in this report as the merger agreement. Pursuant to the merger agreement, we acquired all of the common stock of each of Cambium and VLCY through the merger of Consonant Acquisition Corp. with and into Cambium, with Cambium continuing as the surviving corporation (the "Cambium Merger"), and the concurrent merger of Vowel Acquisition Corp. with and into VLCY, with VLCY continuing as the surviving corporation (the "Voyager Merger"). As a result of the effectiveness of the mergers, Cambium and VLCY became our wholly owned subsidiaries.

Under the terms of the merger agreement, each outstanding share of VLCY's common stock was converted in the Voyager Merger into the right to receive at the election of each stockholder, either (i) \$6.50 in cash, without interest, or (ii) one share of our common stock, plus, regardless of the election made, additional consideration consisting of cash and a contingent value right, as described in the merger agreement. The amount of

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cash available to satisfy cash elections by the VLCY stockholders was limited to \$67.5 million in the aggregate. The cash consideration payable to the former VLCY stockholders was insufficient to accommodate all of the cash elections that were made. Accordingly, the amount of cash paid to the former VLCY stockholders who elected to exchange shares of VLCY common stock for cash was reduced, pro rata, in accordance with agreed procedures set forth in the merger agreement. Pursuant to these procedures, we paid \$67.5 million in cash to the former holders of VLCY's common stock and issued to those stockholders a total of 19.5 million shares of common stock. The cash consideration paid to the former VLCY stockholders consisted of \$25 million contributed by VSS-Cambium Holdings III, LLC and \$42.5 million contributed by VLCY. In exchange for its contribution of \$25 million, VSS-Cambium Holdings III, LLC received 3.8 million shares of our common stock issued at the ascribed value of \$6.50 per share. The shares of Cambium's common stock held by VSS-Cambium Holdings III, LLC, its sole stockholder, were converted in the Cambium Merger into the right to receive 20.5 million shares of our common stock. In addition, as part of the merger consideration, VSS-Cambium Holdings III, LLC received a warrant to purchase a number of shares of our common stock determined by a formula set forth in the merger agreement, which is currently equal to 0.6 million shares. In connection with the consummation of this transaction, we entered into a stockholders agreement pursuant to which we granted VSS-Cambium Holdings III, LLC and funds managed and controlled by VSS the right to purchase up to 7.5 million shares of our common stock as provided for in the stockholders agreement as well as certain preemptive rights set forth therein. In August 2011, VSS-Cambium Holdings III, LLC, exercised its subscription rights in full to purchase 7,246,376 shares of our common stock, at a purchase price of \$2.76 per share, or an aggregate purchase price of \$20.0 million.

The merger transaction was accounted for as an acquisition of VLCY by Cambium, as that term is used under GAAP, for accounting and financial reporting purposes under the applicable accounting guidance for business combinations. In making this determination, management considered that (a) the newly developed entity did not have any significant pre-combination activity and, therefore, did not qualify to be the accounting acquirer, and (b) the former sole stockholder of Cambium is the majority holder of the combined entity, while the prior owners of VLCY became minority holders in the combined entity. As a result, the historical financial statements of Cambium have become the historical financial statements of the Company. The results of VLCY are included in the Company's operations beginning with the December 8, 2009 merger date; therefore, the 2009 financials include VLCY for the last 23 days of that year and the results of the Company for the full year.

Prior to the merger transaction completed on December 8, 2009, we had two reportable segments: Published Products and Learning Technologies. Subsequent to the merger transaction, we operate as three reportable segments with separate management teams and infrastructures that offer various products and services, as follows:

Voyager, our comprehensive intervention business;

Sopris Learning, our supplemental solutions education business; and

Cambium Learning Technologies (CLT), our technology-based education product business.

Unallocated shared services, such as accounting, legal, human resources and corporate-related items, are recorded in a Shared Services category. Depreciation and amortization expense, interest income and expense, other income and expense, goodwill impairments, and taxes are included in this Shared Services category.

Our historical segment reporting results have been adjusted for comparative purposes to reflect the current organizational structure. These reclassifications required certain assumptions and estimates. See Note 21 to the Consolidated Financial Statements for further information on our reportable segments. Also, as a result of the merger transaction and change in segments, we made a number of changes to personnel and processes as part of an overall departmental restructuring. As certain functions were consolidated, some resources were shifted to other areas of the business. In particular, some general and administrative functions were merged and, where appropriate, certain resources were shifted to customer facing functions, which are classified as cost of revenues. These changes may affect comparability of pre-merger and post-merger periods.

Results of Operations

Highlights

Fiscal Year 2010

In fiscal year 2010, our Voyager and Sopris Learning segments experienced order volume declines compared to the 2009 results of Cambium and VLCY on a combined basis. These declines were partially offset by order volume growth in our CLT segment. Order volume is an internal metric of shipments of products and orders for online subscriptions or services and it serves as a leading indicator of net revenues.

The primary driver of 2010 order volume decline was the adverse conditions in the funding environment. These adverse conditions included the elimination of Reading First funding in 2009 and the depressed state of the state and local budgets that many school districts rely upon. Our customers and potential customers found it more challenging to secure adequate funding sources in the midst of these market conditions. The American Reinvestment and Recovery Act (ARRA), which was passed in February 2009 and provided new federal funding for various education initiatives, helped offset some of the funding pressure. In 2010, we experienced success in securing orders that we believe were directly funded by ARRA, including several large multi-year deals. However, these orders were not enough to offset the overall decline.

Our CLT segment performed well in 2010, as the market for online subscription-based products such as those offered by our Learning A-Z and ExploreLearning product lines remained strong, was less impacted by funding pressures and this segment benefited from strong selling and marketing execution.

We focused on our cost structure in 2010, particularly on completing the integration related to our late 2009 merger with VLCY, and were successful in achieving significant cost savings and synergies through several initiatives including a reduction in force. Key areas of investment in 2010 included improved student data management systems, a separate dedicated sales force for Sopris Learning, development of an

e-commerce platform and continued investment in product development, sales and marketing for CLT.

Fiscal Year 2011

In fiscal year 2011, we experienced overall order volume declines driven by our Voyager segment, partially offset by order volume growth in both the Sopris Learning and CLT segments. The adverse education funding environment impacted the Voyager business unit to a greater degree than the Company's other units. The Company believes that results were also adversely impacted by certain internal factors, such as decreased focus on the customer experience, an over-reliance on the field sales force versus utilizing multiple channels of sales and marketing, and delays in strategic decision making.

The Voyager segment experienced growth in the first half of 2011, which we believe was at least partially attributable to some positive impact, both directly and indirectly, from ARRA funding and also due to growth in our service offerings. However, the educational funding environment remained challenging and order volumes gained in the first half of the year were lost during the third quarter. Order volumes declined even further in the fourth quarter as most of the ARRA funding expired in September 2011 and several large multi-year transactions completed in the fourth quarter of 2010 could not be replicated in 2011. As part of our strategy to grow through acquisitions, in October 2011 we completed the acquisition of Class.com. Class.com provides high-quality, research proven, online instruction, supplemental education, and intervention programs online and through its fully accredited high school, LNA. While the acquisition was completed too late in the fiscal year to be accretive in 2011, we expect growth from the Class.com programs in 2012.

Our CLT segment had another year of order volume growth, as the market acceptance for technology-based solutions has been robust and appears less impacted by funding issues. CLT growth was also fueled by investments made in prior years for product development, sales and marketing. Within the CLT segment we continued to experience significant growth in our two online offerings, ExploreLearning and Learning A-Z. This growth was partially offset by declines in the Kurzweil and IntelliTools product lines.

Our Sopris Learning segment also experienced year over year order volume growth, benefitting primarily from investments made in 2010 to develop a separate dedicated sales force, new and refreshed products and an e-commerce platform.

Expenses in 2011 benefitted from our 2010 cost-savings initiatives. We continued to pursue cost-savings and productivity initiatives in 2011, although not to the same extent as in 2010, and we redeployed these savings into growth investments. Investments in 2011 were focused on our digital assets, including our student data management system, our online subscription products, new online adaptive solutions, and online intervention programs for math and literacy that will be released in 2012.

We recorded goodwill impairment charges in 2011 of \$19.2 million related to our Voyager segment and \$18.4 million related to a reporting unit in our CLT segment that includes our Kurzweil Educational Systems and IntelliTools product lines. The goodwill impairment charges were primarily the result of the 2011 declines in order volumes and the expected near term impact of continued funding pressures on these two reporting units.

Outlook for Fiscal Year 2012

While we believe the long term trends for education funding are positive, we anticipate an overall funding situation in 2012 similar to the conditions in 2011. Based on the most recently submitted federal budgets, federal funding for Title 1 and IDEA were proposed at substantially the same level as 2011. However, it is likely that the expiration of ARRA funding in September 2011 will have some downward pressure on the overall funding available for schools, at least in the first half of 2012 when compared to the same period in 2011. Race to the Top, President Obama's signature school reform program, has requested \$850 million under the budget proposal. A large portion of that sum would go to early learning and focus on helping states and local districts support reforms and innovations to close achievement gaps and increase student achievement. At the state and local funding level we expect challenges similar to 2011 as states continue to face fiscal challenges and constraints. However, trends emerging from state governors' reports indicate fewer and more modest anticipated declines in K-12 education funding versus cuts in 2010 and 2011.

While the funding environment continues to pose challenges, we are optimistic that the efficacy of our solutions, the need for our products in the education market, and our product diversification will strengthen our ability to sustain market share in a troubled market and, further, capture market share as the market recovers. Management expects to pursue the following activities in 2012 to encourage future revenue growth:

All segments will continue aggressive investments in technology enabled solutions. We expect the technology solutions to focus especially on student-directed learning as well as mastery-based or competency-based solutions.

We intend to increase investments in sales and marketing focused on our technology based solutions.

We plan to continue investments started in late 2011 in sales optimization via the application of a new Customer Relationship Management (CRM) system.

Sopris Learning will continue to partner with leading authors to develop new products and to digitize some of our current print based offerings.

Voyager will change the pricing structure of certain of its core intervention offerings, providing greater price point flexibility to school districts and in some cases lowering the per student cost of implementing these solutions. We are anticipating that the impact of such price reductions will be offset by higher student order volumes for the affected solutions.

Voyager will continue to provide high-quality services. Voyager's support services reinforce our commitment to partner with school districts to drive efficacy of our intervention solutions and the Voyager Education Services group is the go-to source for school-wide improvement services. We believe our focus on student outcomes through a blended model of print, technology and professional services, with an overall partnership approach with the customer to implement our solutions in the manner that the program was designed, results in higher student success rates. Such success, if achieved, will assist in customer retention and growth through reference sales.

Voyager's Class.com offering and its fully accredited high school LNA is expected to provide growth and serve as a key supplemental education partner with public schools.

Voyager selling activities will be diversified to encompass multiple channels to market with less overall dependence on the field sales force. Such diversification includes increased ecommerce and inside sales resources.

Additional investments in online and e-marketing will increase the productivity of our sales, marketing and advertising efforts across all business segments.

We will continue our strategy to achieve growth through acquisitions, and in particular we will target technology-centric, adaptive, student-directed offerings.

We will embark on a series of new cost reductions and efficiency improvement activities in order to improve our earnings and to provide funding for many of the investment initiatives listed above.

In late 2011, we launched a reengineering and restructuring initiative to align our organizational and cost structure to our strategic goals. The financial goal of these actions is to provide savings to both improve earnings and to fund re-investment in growth areas of the business. Severance costs of \$1.2 million were incurred in the fourth quarter of 2011 and the majority of the remaining costs are expected to be incurred in 2012. Reengineering and restructuring activities will be assessed and enacted throughout 2012 and are expected to include:

Obtaining new leadership and employee skill sets that support the transformation of our business to focus more heavily on technology solutions and services and other strategic objectives;

Outsourcing our warehouse operations to a third party logistics provider, which will allow us to take advantage of a lower and more variable cost structure for our print based products, as well as locate operations closer to the geographic center of our nationwide customer base;

Rationalizing our facilities space by consolidating facilities and subleasing or not renewing leases for entire or partial facilities where feasible;

Assessing and implementing projects to improve cost efficiencies and enhance the customer experience throughout the order to cash and service delivery processes; and

Other reductions as needed to improve our cost structure.

In February 2012, we announced a plan to outsource our warehouse operations to a third party logistics provider, OHL, and to cease use of a leased facility in Frederick, Colorado that includes our warehouse and other office space. Warehouse operations in Frederick are expected to be transferred to OHL and the facility be made available for sublease in the quarter ending June 30, 2012. We expect to incur approximately \$4.6 million to \$5.6 million in total expenses related to these exit activities. Of this amount, between \$3.9 million and \$4.7 million will be non-cash impairment charges for the facility and warehouse related assets. We also expect to incur between \$0.7 million and \$0.9 million in cash expenses associated with transferring inventory to OHL, preparing the facility for sublease, and one-time employee termination benefits. Additionally, we expect to incur approximately \$0.1 million in capitalizable expenses associated with integrating our systems with OHL's. These charges will predominantly be recorded in the quarters ending March 31, 2012 and June 30, 2012.

Aside from the outsourcing of warehouse operations and the \$1.2 million of severance incurred in 2011, other one-time costs for reengineering and restructuring activities are expected to range between \$1.5 and \$2.0 million. Approximately \$0.5 million to \$0.7 million of these charges are related to rationalizing facilities space, including both cash and non-cash items. In addition to the costs expected to be recorded in our statements of operations, we expect to spend approximately \$0.3 million to \$0.4 million on capital expenditures that support these other reengineering and restructuring efforts.

The total expense for all reengineering and restructuring initiatives from the fourth quarter of 2011 through the end of 2012 is expected to be between \$7.5 and \$8.5 million, including both cash and non-cash items, and capital expenditures are expected to be between \$0.4 and \$0.5 million. The targeted annual cash savings from all reengineering and restructuring activities is expected to range from \$6.0 to \$8.0 million annually by 2013.

The above estimates of future reengineering and restructuring charges and cash expenditures represent our expectations or beliefs concerning various future events. These expectations involve a number of risks and uncertainties that could cause actual results to differ materially from current estimates. The ultimate results of the reengineering and restructuring activities depend on a number of factors, including potential changes to the time and cost required for us to sublease facility space, the ultimate sublease rentals we receive for our facility space, the time and cost necessary to transfer inventory and begin logistics, transportation, and warehousing services through OHL, and whether, when and how successfully we enact other actions that could favorably impact our cost structure.

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The following tables set forth information on results and percentages for the years ended December 31, 2011, 2010 and 2009 regarding Cambium's net revenues, costs and expenses, and other components of our statements of operations. Due to purchase accounting adjustments, some amounts may not be comparable between each period presented.

(in thousands)	Year Ended December 31, 2011		Year Ended December 31, 2010		Year Ended December 31, 2009	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Net revenues:						
Product revenues						
Voyager	\$ 78,705	45.7%	\$ 100,412	55.4%	\$ 44,329	43.9%
Sopris Learning	24,148	14.0%	22,249	12.3%	23,431	23.2%
Cambium Learning Technologies	48,993	28.4%	38,117	21.0%	22,625	22.4%
Service revenues						
Voyager	17,078	9.9%	17,527	9.7%	8,594	8.5%
Sopris Learning	2,836	1.6%	2,487	1.4%	1,754	1.7%
Cambium Learning Technologies	498	0.3%	468	0.3%	315	0.3%
Total net revenues	172,258	100.0%	181,260	100.0%	101,048	100.0%
Cost of revenues:						
Cost of product revenues						
Voyager	23,502	13.6%	29,340	16.2%	10,678	10.6%
Sopris Learning	6,377	3.7%	6,514	3.6%	6,350	6.3%
Cambium Learning Technologies	4,121	2.4%	4,334	2.4%	2,537	2.5%
Shared Services	2	0.0%	1,395	0.8%	26	0.0%
Cost of service revenues						
Voyager	16,588	9.6%	16,455	9.1%	5,992	5.9%
Sopris Learning	1,784	1.0%	1,225	0.7%	1,093	1.1%
Cambium Learning Technologies	791	0.5%	628	0.3%	172	0.2%
Amortization expense	27,799	16.1%	28,511	15.7%	17,527	17.3%
Total cost of revenues	80,964	47.0%	88,402	48.8%	44,375	43.9%
Research and development expense	9,933	5.8%	10,558	5.8%	5,611	5.6%
Sales and marketing expense	45,747	26.6%	45,987	25.4%	23,368	23.1%
General and administrative expense	23,456	13.6%	23,857	13.2%	30,519	30.2%
Shipping costs	2,259	1.3%	3,570	2.0%	1,512	1.5%
Depreciation and amortization expense	7,224	4.2%	9,154	5.1%	9,723	9.6%
Goodwill impairment charge	37,618	21.8%		0.0%	9,105	9.0%
Embezzlement and related expense (recoveries)	(3,096)	(1.8)%	(353)	(0.2)%	129	0.1%
Income (loss) before interest, other income (expense) and income taxes	(31,847)	(18.5)%	85	0.0%	(23,294)	(23.1)%
Net interest expense	(18,431)	(10.7)%	(17,292)	(9.5)%	(19,477)	(19.3)%
Other income (expense), net	848	0.5%	674	0.4%	(698)	(0.7)%
Income tax benefit (expense)	(11)	(0.0)%	583	0.3%	7,704	7.6%
Net loss	\$ (49,441)	(28.7)%	\$ (15,950)	(8.8)%	\$ (35,765)	(35.4)%

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net revenues

Net revenues for the year ended December 31, 2011 decreased \$9.0 million, or 5%, to \$172.3 million from \$181.3 million in the same period for 2010. This decrease in net revenue was primarily driven by a decline in order volume in our Voyager business unit. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$1.0 million in 2011 and \$12.9 million in 2010.

Voyager. The Voyager segment's net revenues in 2011 decreased \$22.1 million, or 18.8%, to \$95.8 million from net revenues of \$117.9 million in 2010. This decrease in net revenue was primarily driven by a decline in product order volume. Product revenues decreased \$21.7 million, or 21.6%, to \$78.7 million from net revenues of \$100.4 million in 2010. Service revenues decreased \$0.4 million, or 2.6%, to \$17.1 million from net revenues of \$17.5 million in 2010. Although order volumes were higher in 2011 for services, revenues are recognized as the services are performed and the timing of the revenue recognition resulted in a year over year decrease. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$0.4 million in 2011 and \$4.7 million in 2010.

Sopris Learning. The Sopris Learning segment's net revenues in 2011 increased \$2.3 million, or 9.1%, to \$27.0 million from net revenues of \$24.7 million in 2010. This increase in net revenue was primarily attributable to order volume growth, as Sopris Learning benefitted from investments made in 2010 to develop a separate dedicated sales force and the development of an ecommerce engine. Product revenues increased \$1.9 million, or 8.5%, to \$24.1 million from net revenues of \$22.2 million in 2010. Service revenues increased \$0.3 million, or 14.0%, to \$2.8 million from net revenues of \$2.5 million in 2010.

Cambium Learning Technologies. The CLT segment's net revenues in 2011 increased \$10.9 million, or 28.3%, to \$49.5 million from net revenues of \$38.6 million in 2010. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$0.6 million in 2011 and \$8.2 million in 2010. CLT has consistently experienced year on year order volume growth that is translating to growth in net revenues, although the impact of 2011 order volume is not fully reflected in net revenues as a large portion of these sales are recognized over a subscription period.

Cost of revenues

Cost of product revenues include expenses to print, purchase, handle and warehouse product, as well as order processing and royalty costs. Cost of service revenues include costs to provide services and support to customers. Total cost of revenues, excluding amortization, for the year ended December 31, 2011 decreased \$6.7 million, or 11.2%, to \$53.2 million from \$59.9 million in 2010. This decline in cost of revenues was primarily due to a decline in order volume in our Voyager business unit. Additionally, 2010 cost of revenues for Shared Services includes \$1.4 million of costs directly associated with the integration of the Company and VLCY, which did not reoccur in 2011. Partially offsetting these year over year decreases, purchase accounting adjustments to reduce deferred cost balances to fair value at the time of the VLCY acquisition in late 2009 reduced the amount of deferred costs that would have otherwise been recognized in 2010 by approximately \$1.2 million.

Voyager. The Voyager segment's cost of revenues in 2011 decreased \$5.7 million, or 12.5%, to \$40.1 million from \$45.8 million in 2010. Cost of product revenues decreased \$5.8 million, or 19.9%, to \$23.5 million from \$29.3 million in 2010. Cost of service revenues for the year ended December 31, 2011 increased \$0.1 million, or 0.8%, to \$16.6 million from \$16.5 million in 2010.

Sopris Learning. The Sopris Learning segment's cost of revenues in 2011 increased \$0.5 million, or 5.5%, to \$8.2 million from \$7.7 million in 2010. Cost of product revenues decreased \$0.1 million, or 2.1%, to \$6.4 million from cost of product revenues of \$6.5 million in 2010. Cost of service revenues increased \$0.6 million, or 45.6%, to \$1.8 million from cost of service revenues of \$1.2 million in 2010.

Cambium Learning Technologies. The CLT segment's cost of revenues in 2011 decreased \$0.1 million, or 1.0%, to \$4.9 million from cost of revenues of \$5.0 million in 2010. Cost of product revenues decreased \$0.2 million, or 4.9%, to \$4.1 million from cost of product revenues of \$4.3 million in 2010. Cost of service revenues increased \$0.2 million, or 26.0%, to \$0.8 million from cost of service revenues of \$0.6 million in 2010.

Amortization expense

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and developed pre-publication and technology. Amortization for 2011 decreased \$0.7 million, or 2.5%, to \$27.8 million from \$28.5 million in 2010 due to our use of accelerated amortization methodologies for the majority of our intangible assets.

Research and development expenses

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expenses for year ended December 31, 2011 decreased \$0.7 million, or 5.9%, to \$9.9 million from \$10.6 million in the same period of 2010. During 2011 we increased our investments in our digital product lines and adaptive solutions, online individualized intervention curriculum, and student data management system. As a larger percentage of the costs associated with these products are capitalizable as product development costs, net research and development expense declined from 2010.

Sales and marketing expense

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commission paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expenses for the year ended December 31, 2011 decreased \$0.3 million, or 0.5%, to \$45.7 million from \$46.0 million in the same period of 2010. This decline was primarily due to cost reductions as a result of 2011 productivity initiatives. Additionally, 2010 sales and marketing expense included the impact of a purchase accounting adjustment to write down deferred costs to zero at the time of the VCLY acquisition. These adjustments reduced the amount of expense recognized in 2010 by approximately \$1.0 million. 2011 sales and marketing expense also included \$0.3 million of severance costs while 2010 expenses included \$0.3 million of non-recurring integration costs.

General and administrative expense

General and administrative expenses for the year ended December 31, 2011 decreased \$0.4 million, or 1.7%, to \$23.5 million from \$23.9 million in the same period of 2010. The decline includes the impact of cost reductions as a result of 2011 productivity initiatives. Additionally, 2011 general and administrative expense includes severance costs of \$0.9 million, legacy VCLY corporate costs of \$1.1 million, stock based compensation of \$1.0 million and a loss of \$1.3 million to reflect an increase in the estimated fair value of the contingent value rights (CVR) liability issued in connection with the merger. 2010 general and administrative expense includes non-recurring integration costs of \$3.8 million, legacy VCLY corporate costs of \$1.0 million, stock based compensation of \$0.8 million and a gain of \$1.1 million to reflect a decline in the estimated fair value of the CVR liability.

Shipping costs

Shipping costs for the year ended December 31, 2011 decreased \$1.3 million, or 36.7%, to \$2.3 million from \$3.6 million in 2010. The decline in shipping costs was primarily related to a reduction in order volume and ongoing cost containment efforts.

Depreciation and amortization expense

Depreciation and amortization expense for the year ended December 31, 2011 decreased \$2.0 million, or 21.1%, to \$7.2 million from \$9.2 million in the same period of 2010. This decrease is primarily due to our use of accelerated amortization methodologies for the majority of our assets.

Goodwill impairment

We review the carrying value of goodwill for impairment at least annually and whenever certain triggering events occur. As a result of our annual impairment review for the year ended December 31, 2011, the goodwill balances for both the Voyager segment reporting unit and a reporting unit comprising the Kurzweil and IntelliTools product lines from the CLT segment were determined to be partially impaired, and impairment charges of \$19.2 million and \$18.4 million were recorded, respectively. The goodwill impairment charges were primarily the result of declines in order volumes in 2011 and the expected near term impact of continued funding pressures on these two reporting units. Although we believe that key federal and state funding programs will continue to encourage school districts to address the needs of at-risk and special education students, we expect that governmental spending austerity and the challenging funding environment will continue in the short term.

See Critical Accounting Policies and Estimates below and the Notes to the Consolidated Financial Statements for further information on our annual goodwill impairment review.

Embezzlement and related expenses

In 2008, we discovered certain irregularities relating to the control and use of cash and certain other general ledger items which revealed a misappropriation of assets over more than a three-year period beginning in 2004 and continuing through April 2008. These irregularities were perpetrated by a former Cambium Learning employee, resulting in substantial embezzlement losses and related expenses. Embezzlement and related expenses (recoveries) for the year ended December 31, 2011 were \$(3.1) million compared to \$(0.4) million in the same period of 2010. The net recoveries in 2011 consisted of title to two properties with an appraised fair value at December 31, 2011 of \$2.7 million, cash recoveries and recoveries receivable that we obtained in the first quarter of 2012 of \$1.4 million, warrant expense of \$0.8 million, and ongoing recovery expenses of \$0.2 million.

Net interest expense

Net interest expense for the year ended December 31, 2011 increased \$1.1 million, or 6.6%, to \$18.4 million from \$17.3 million in the same period of 2010. On February 17, 2011, we closed an offering of \$175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into a new asset-based revolving credit facility with potential for up to \$40 million in borrowing capacity.

Income taxes

In 2011, we recorded income tax expense of \$11 thousand. Pre-tax losses at statutory tax rates provided a federal tax benefit of approximately \$17.3 million. The impairment charge to non-deductible goodwill did not result in a tax benefit which is \$13.2 million less than the amount expected based on the federal statutory tax rate. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated the deferred tax benefit generated.

In 2010, we recorded an income tax benefit of \$0.6 million. Pre-tax losses at statutory tax rates provided a federal tax benefit of approximately \$5.8 million. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated almost all of the deferred tax benefit generated.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net revenues

Net revenues for the year ended December 31, 2010 increased \$80.3 million, or 79.4%, to \$181.3 million from \$101.0 million in the same period for 2009 due to the VLCY acquisition. VLCY's historical 2009 pre-merger net revenues of \$98.7 million are not included in the Company's reported prior year revenues. Excluding the impact of the merger, our net revenues for 2010 were lower due to a decline in order volumes. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$12.9 million in 2010 and \$1.4 million in 2009.

Voyager. The Voyager segment's net revenues in 2010 increased \$65.0 million, or 122.9%, to \$117.9 million from net revenues of \$52.9 million in 2009 due to the VLCY acquisition, partially offset by lower order volumes. Product revenues increased \$56.1 million, or 126.5%, to \$100.4 million from net revenues of \$44.3 million in 2009. Service revenues increased \$8.9 million, or 103.9%, to \$17.5 million from net revenues of \$8.6 million in 2009. VLCY's historical 2009 pre-merger net revenues related to the Voyager segment of \$77.8 million are not included in the Company's reported prior year revenues. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$4.7 million in 2010 and \$0.5 million in 2009.

Sopris Learning. The Sopris Learning segment's net revenues in 2010 decreased \$0.5 million, or 1.8%, to \$24.7 million from net revenues of \$25.2 million in 2009. Product revenues decreased \$1.2 million, or 5.0%, to \$22.2 million from net revenues of \$23.4 million in 2009. Service revenues increased \$0.7 million, or 41.8%, to \$2.5 million from net revenues of \$1.8 million in 2009. The decline in supplementary program sales was mainly due to a contract for the use of our assessment product under a licensing agreement, under which we recognized net revenues of \$1.0 million in 2010 versus \$1.7 million in 2009.

Cambium Learning Technologies. The CLT segment's net revenues in 2010 increased \$15.7 million, or 68.2%, to \$38.6 million from net revenues of \$22.9 million in 2009 due to the VLCY acquisition. VLCY's historical 2009 pre-merger net revenues related to the CLT segment of \$21.0 million are not included in the Company's reported prior year revenues. Net revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred revenue balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred revenue recognized by approximately \$8.2 million in 2010 and \$0.9 million in 2009. CLT has consistently experienced year on year order volume growth that is translating to growth in net revenues, although the impact of 2010 order volume is not fully reflected in net revenues as a large portion of these sales are recognized over a subscription period.

Cost of revenues

Cost of product revenues include expenses to print, purchase, handle and warehouse product, as well as order processing and royalty costs. Cost of service revenues include costs to provide services and support to customers. Total cost of revenues, excluding amortization, for the year ended December 31, 2010 increased \$33.1 million, or 123.1%, to \$59.9 million from \$26.8 million in 2009 primarily due to the VLCY acquisition. VLCY's historical 2009 pre-merger cost of revenues of \$30.8 million are not included in the Company's prior year results. Cost of revenues in 2010 benefited from efficiency gains from cost-cutting measures. Additionally, cost of revenues subsequent to the acquisition of VLCY include the impact of a purchase accounting adjustment to reduce deferred cost balances to fair value at the time of the VLCY acquisition. These adjustments reduced the amount of deferred costs recognized by approximately \$1.2 million in 2010 and \$0.1 million in 2009.

Voyager. The Voyager segment's cost of revenues in 2010 increased \$29.1 million, or 174.7%, to \$45.8 million from \$16.7 million in 2009 due to the VLCY acquisition. Cost of product revenues increased \$18.6 million, or 174.8%, to \$29.3 million from \$10.7 million in 2009. Cost of service revenues for the year ended December 31, 2010 increased \$10.5 million, or 174.6%, to \$16.5 million from \$6.0 million in 2009.

Sopris Learning. The Sopris Learning segment's cost of revenues in 2010 increased \$0.3 million, or 4.0%, to \$7.7 million from \$7.4 million in 2009. Cost of product revenues increased \$0.1 million, or 2.6%, to \$6.5 million from cost of product revenues of \$6.4 million in 2009. Cost of service revenues increased \$0.1 million, or 12.1%, to \$1.2 million from cost of service revenues of \$1.1 million in 2009.

Cambium Learning Technologies. The CLT segment's cost of revenues in 2010 increased \$2.3 million, or 83.2%, to \$5.0 million from cost of revenues of \$2.7 million in 2009, primarily due to the VLCY acquisition.

Amortization expense

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and developed pre-publication and technology. Amortization for 2010 increased \$11.0 million, or 62.7%, to \$28.5 million from \$17.5 million in 2009 due to the VLCY acquisition.

Research and development expenses

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expenses for year ended December 31, 2010 increased \$5.0 million, or 88.2%, to \$10.6 million from \$5.6 million in the same period of 2009. The increased expenditures relate primarily to the VLCY acquisition. VLCY's historical 2009 pre-merger research and development expenses of \$4.3 million are not included in the Company's reported prior year results.

Sales and marketing expense

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commission paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expenses for the year ended December 31, 2010 increased \$22.6 million, or 96.8%, to \$46.0 million from \$23.4 million in the same period of 2009 due to the VLCY acquisition. VLCY's historical 2009 pre-merger sales and marketing expenses of \$28.8 million are not included in the Company's reported prior year expenses. Partially offsetting these charges, 2010 sales and marketing expense include the impact of a purchase accounting adjustment to write down deferred costs to zero at the time of the VLCY acquisition. These adjustments reduced the amount of expense recognized in 2010 by approximately \$1.0 million. Additionally, the Company realized synergy savings as a result of the integration of the Company and VLCY.

General and administrative expense

General and administrative expenses for the year ended December 31, 2010 decreased \$6.6 million, or 21.8%, to \$23.9 million from \$30.5 million in the same period of 2009. VLCY's historical 2009 pre-merger general and administrative expenses of \$24.7 million are not included in the Company's reported prior year expenses. General and administrative expenses for 2010 were lower than 2009 due to significant non-recurring merger transaction costs incurred in 2009, savings due to synergies resulting from the merger, and the reallocation of certain resources to cost of sales from general and administrative expenses as a result of the departmental restructuring. Additionally, we recorded a gain of \$1.1 million in 2010 to reflect a decrease in the estimated fair value of the contingent value rights liability (CVR) issued in connection with the merger. These decreases are partially offset by the impact of the VLCY acquisition and by non-recurring integration costs of \$3.8 million incurred in 2010.

Shipping costs

Shipping costs for the year ended December 31, 2010 increased \$2.1 million, or 136.1%, to \$3.6 million from \$1.5 million in 2009. The increase in these shipping costs was due mainly to the VLCY acquisition. VLCY's historical 2009 pre-merger shipping costs of \$1.9 million are not included in the Company's reported prior year expenses.

Depreciation and amortization expense

Depreciation and amortization expense for the year ended December 31, 2010 decreased \$0.5 million, or 5.9%, to \$9.2 million from \$9.7 million in the same period of 2009. This decrease is due to the fact that the Company's intangible assets are amortized on an accelerated basis.

Goodwill impairment

We review the carrying value of goodwill for impairment at least annually and whenever certain triggering events occur. As a result of our annual impairment review for the year ended December 31, 2010, no impairment was indicated.

Embezzlement and related expenses

In 2008, we discovered certain irregularities relating to the control and use of cash and certain other general ledger items which revealed a misappropriation of assets over more than a three-year period beginning in 2004 and continuing through April 2008. These irregularities were perpetrated by a former Cambium Learning employee, resulting in substantial embezzlement losses and related expenses. Embezzlement and related expenses (recoveries) for the year ended December 31, 2010 were \$(0.4) million compared to \$0.1 million in the same period of 2009. The decrease in the embezzlement and related expenses was mainly due to a recovery during 2010 of approximately \$0.5 million.

Net interest expense

Net interest expense for the year ended December 31, 2010 decreased \$2.2 million, or 11.2%, to \$17.3 million from \$19.5 million in the same period of 2009. This decrease was mainly due to lower interest expense on our senior secured debt as a result of a credit rating increase in the first quarter of 2010, which reduced the applicable interest rate to 8%. See Note 14 to the Consolidated Financial Statements.

Income taxes

In 2010, we recorded an income tax benefit of \$0.6 million. Pre-tax losses at statutory tax rates provided a federal tax benefit of approximately \$5.8 million. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated almost all of the deferred tax benefit generated.

In 2009, we recorded an income tax benefit of \$7.7 million. Pre-tax losses at statutory tax rates provided a federal tax benefit of approximately \$15.2 million. The impairment charge to non-deductible goodwill did not result in a tax benefit which is \$3.2 million less than the amount expected based on the federal statutory tax rate. Certain merger costs are non-deductible and did not result in a tax benefit which is \$4.7 million less than the amount expected based on the federal statutory tax rate. Furthermore, after the merger with VLCY, we established a valuation allowance on our net federal deferred tax assets.

Liquidity and Capital Resources

Because sales seasonality affects operating cash flow, we normally incur a net cash deficit from all of our activities through the early part of the third quarter of the year. We typically fund these seasonal deficits through the drawdown of cash, supplemented by borrowings on a revolving credit facility. The primary source of liquidity is cash flow from operations and the primary liquidity requirements relate to debt service, pre-publication costs, capital investments and working capital. We believe that based on current and anticipated levels of operating performances, cash flow from operations and availability under a revolving credit facility, we will be able to make required interest payments on our debt and fund our working capital and capital expenditure requirements for the next 12 months.

Long-term debt

On February 17, 2011, the Company closed the offering of the Notes and entered into a new asset-based revolving credit facility with potential for up to \$40 million in borrowing capacity. The Company used a portion of the net proceeds from the offering to repay in full outstanding indebtedness under the Company's senior facility and senior unsecured notes that existed as of yearend 2010 and to pay related fees and expenses. Total fees incurred in connection with the closing of the Notes and revolving credit facility totaled \$9.1 million, including \$1.75 million paid to an affiliate of Veronis Suhler Stevenson (VSS) pursuant to the consulting fee agreement between the Company and VSS. Deferred financing costs are capitalized in Other assets in the consolidated balance sheets, net of accumulated amortization, and are to be amortized over the term of the related debt using the effective interest method. Unamortized capitalized deferred financing costs at December 31, 2011 were \$7.7 million.

The offering was a private placement exempt from the registration requirements under the Securities Act. However, pursuant to a registration rights agreement entered into with the offering, in May 2011 the Company filed with the SEC a registration statement under the Securities Act (the Exchange Offer Registration Statement), relating to an offer to exchange the Notes (the Exchange Offer) for new notes (the Exchange Notes) on terms substantially identical to the Notes, except that the Exchange Notes would not be subject to the same restrictions on transfer. The Exchange Offer Registration Statement was declared effective in August 2011 and the Exchange Offer was completed in September 2011.

Interest on the Notes will accrue at a rate of 9.75% per annum from the date of original issuance and will be payable semi-annually in arrears on each February 15 and August 15, commencing on August 15, 2011, to the holders of record of the Notes on the immediately preceding February 1 and August 1. No principal repayments are due until the maturity date of the Notes. All of the outstanding Notes were exchanged for the Exchange Notes upon closing of the Exchange offer.

The Notes are secured by (i) a first priority lien on substantially all of the Company's assets (other than inventory and accounts receivable and related assets of the ABL Credit Parties in connection with the ABL Facility (each as defined and discussed below) and subject to certain exceptions), including capital stock of the guarantors (which are certain of the Company's subsidiaries), and (ii) a second-priority lien on substantially all of the inventory and accounts receivable and related assets of the ABL Credit Parties, in each case, subject to certain permitted liens. The Notes also contain customary covenants, including limitations on the Company's ability to incur debt, and events of default as defined by the agreement. The Company may, at its option, redeem the Notes prior to their maturity based on the terms included in the agreement.

New Credit Facility (ABL Facility). On February 17, 2011, the Company's wholly owned subsidiary, Cambium Learning, Inc. (together with its wholly owned subsidiaries, the ABL Credit Parties), entered into a new credit facility (the ABL Facility) pursuant to a Loan and Security Agreement (the ABL Loan Agreement), by and among the ABL Credit Parties, Harris N.A., individually and as Agent (the Agent) for any ABL Lender (as hereinafter defined) which is or becomes a party to said ABL Loan Agreement, certain other lenders party thereto (together with Harris N.A. in its capacity as a lender, the ABL Lenders), Barclays Bank PLC, individually and as Collateral Agent, and BMO Capital Markets and Barclays Capital, as Joint Lead Arrangers and Joint Book Runners. The ABL Facility consists of a four-year \$40.0 million revolving credit facility, which includes a \$5.0 million subfacility for swing line loans and a \$5.0 million subfacility for letters of credit. In addition, the ABL Facility provides that the ABL Credit Parties may increase the aggregate principal amount of the ABL Facility by up to an additional \$20.0 million, subject to the consent of the Agent (whose consent shall not be unreasonably withheld) and subject to the satisfaction of certain other conditions.

The interest rate for the ABL Facility will be, at the ABL Credit Parties' option, either an amount to be determined (ranging from 2.75% to 3.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the London Interbank Offered Rate (LIBOR) or at an amount to be determined (ranging from 1.75% to 2.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the base rate. On any day, the base rate will be the greatest of (i) the Agent's then-effective prime commercial rate, (ii) an average federal funds rate plus 0.50% and (iii) the LIBOR quoted rate plus 1.00%. The ABL Facility is, subject to certain exceptions, secured by a first-priority lien on the ABL Credit Parties' inventory and accounts receivable and related assets and a second-priority lien (junior to the lien securing the ABL Credit Parties' obligations with respect to the Notes) on substantially all of the ABL Credit Parties' other assets.

As of December 31, 2011, the balances of accounts receivable and inventory collateralizing the ABL Facility were \$13.5 million and \$21.6 million, respectively. As of December 31, 2011, the Company had a borrowing base under the ABL Loan Agreement of up to \$18.0 million.

Revolving loans under the ABL Facility may be used solely for (i) the satisfaction of existing indebtedness of the ABL Credit Parties under their prior senior secured credit facility and outstanding pursuant to their prior existing senior unsecured notes, (ii) general operating capital needs of the ABL Credit Parties in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iii) working capital and other general corporate purposes in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iv) the payment of certain fees and expenses incurred in connection with the ABL Facility and/or the Notes, and (v) other purposes permitted under the ABL Loan Agreement.

The ABL Facility contains a financial covenant that generally requires the ABL Credit Parties to maintain, on a consolidated basis, either (i) excess availability of at least the greater of \$8 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0. The ABL Credit Parties will be required to pay, quarterly in arrears, an unused line fee equal to the product of (x) either 0.375% or 0.50% (depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) and (y) the average daily unused amount of the revolver. As of December 31, 2011, we were in compliance with this covenant.

Cash flows

Cash from operations is seasonal with more cash generated in the second half of the year than in the first half of the year. Cash 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. Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

(in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Operating activities	\$ 43,640	\$ 21,259	\$ 1,934
Investing activities	(20,465)	(14,441)	(13,092)
Financing activities	28,185	(8,332)	22,085

Operating activities. Cash provided by operating activities was \$43.6 million, \$21.3 million and \$1.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in operating cash flows from 2010 is primarily related to the collection of significant prior year accounts receivable balances. Additionally, 2010 cash flows from operations were partially offset by a payment of \$5.2 million for a tax indemnification obligation to the state of Michigan and approximately \$4.2 million in non-recurring integration costs. In 2009, cash flows from normal operations were partially offset by \$11.6 million of transaction costs related to the merger transaction.

Investing activities. Cash used in investing activities was \$20.5 million, \$14.4 million and \$13.1 million for the years ended December 31, 2011, 2010, and 2009, respectively. Expenditures related to property, equipment, software and pre-publications costs were \$14.1 million, \$13.3 million and \$3.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in expenditures for 2011 is consistent with the Company's plan to increase investments in ongoing and new product development to generate future sales growth. The increase in expenditures for 2010 was attributable to the merger with VLCY in late 2009. Other investing cash flows include the 2011 acquisition of Class.com for \$4.4 million (net of cash acquired), the 2011 CVR payment of \$2.0 million, the 2010 CVR payment of \$1.1 million and the cash payments made in 2009 for the VLCY acquisition of \$9.7 million (net of cash acquired).

Financing activities. Cash provided by (used in) financing activities was \$28.2 million, \$(8.3) million and \$22.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. Net proceeds received in 2011 from the issuance of the 9.75% senior secured notes was \$174.0 million offset by repayment of \$152.1 million of existing notes and payments of \$8.0 million related to the debt financing costs. Additionally, we made share repurchases at a cost of \$4.9 million, received proceeds of \$20.0 million for the issuance of common stock for the exercise of subscription rights and made capital lease payments of \$0.8 million. Net principal payments for debt, revolving credit facilities and capital leases were \$7.2 million and \$5.9 million for the years ended December 31, 2010 and 2009, respectively. Other significant cash flows included the 2010 debt financing cost payments of \$1.1 million, the 2009 capital contributed by Cambium's stockholder related to the VLCY acquisition of \$25.0 million and the 2009 capital contribution of \$3.0 million by Cambium's stockholder to fund the cure of non-compliance with a senior secured credit agreement financial covenant.

Non-GAAP Measures

Our historical financial statements presented in accordance with GAAP include VLCY results only for the periods subsequent to the December 8, 2009 acquisition date. Further, the net losses for both the Company and VLCY as reported on a GAAP basis include material non-recurring and non-operational items. We believe that earnings (loss) from operations before interest and other income (expense), income taxes, and depreciation and amortization, or EBITDA, and Adjusted EBITDA, which further excludes non-recurring and non-operational items, provide useful information for investors to assess the results of the ongoing business of the combined company.

EBITDA and Adjusted EBITDA are not prepared in accordance with GAAP and may be different from similarly named, non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that Adjusted EBITDA provides useful information to investors because it reflects the underlying performance of the ongoing operations of the combined company and provides investors with a view of the combined company's operations from management's perspective. Adjusted EBITDA removes significant one-time or certain non-cash items from earnings. We use Adjusted EBITDA to monitor and evaluate the operating performance of the combined company and as the basis to set and measure progress towards performance targets, which directly affect compensation for employees and executives. We generally use these non-GAAP measures as measures of operating performance and not as measures of liquidity. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or nonrecurring items.

Below is a reconciliation between net loss and Adjusted EBITDA for the years ended December 31, 2011 and 2010.

Reconciliation Between Net Revenues to Adjusted Net Revenues and Between Net Loss and Adjusted EBITDA for the Years Ended December 31, 2011 and 2010

	September 30, 2011	September 30, 2010
Total net revenues	\$ 172,258	\$ 181,260
Non-recurring and non-operational costs included in net revenues but excluded from adjusted net revenues: Adjustments related to purchase accounting ^(f)	1,039	12,937
Adjusted net revenues	\$ 173,297	\$ 194,197
Net loss	\$ (49,441)	\$ (15,950)
Reconciling items between net loss and EBITDA:		
Depreciation and amortization	35,023	37,665
Net interest expense	18,431	17,292
Other income	(848)	(674)
Income tax	11	(583)
Income from operations before interest expense, other income, income taxes, and depreciation and amortization (EBITDA)	3,176	37,750
Non-recurring and non-operational costs included in EBITDA but excluded from Adjusted EBITDA:		
Re-engineering and restructuring costs ^(a)	1,189	
Integration and merger-related costs ^(b)		5,963
Legacy VLCY corporate ^(c)	1,088	968
Stock-based compensation expense ^(d)	1,288	1,085
Embezzlement and related expenses (recoveries) ^(e)	(3,096)	(353)
Adjustments related to purchase accounting ^(f)	872	10,748
Goodwill impairment ^(g)	37,618	
Adjustments to CVR liability ^(h)	1,308	(1,124)
Adjusted EBITDA	\$ 43,443	\$ 55,037

- a) In late 2011, we launched a reengineering and restructuring initiative to align our organizational and cost structure to our strategic goals. Severance costs of \$1.2 million were incurred in the fourth quarter of 2011 related to this effort.
- b) Costs directly associated with the integration of the Company and VLCY, including severance and other costs incurred to achieve synergies and the cost of retention and change in control agreements directly related to the merger. The cost for retention and change in control agreements included was \$1.7 million for the year ended December 31, 2010.
- c) Legacy VLCY corporate costs representing corporate costs related to legacy VLCY liabilities such as pension and severance costs for former VLCY employees.
- d) Stock-based compensation expense is related to our outstanding options, restricted stock awards, warrants, and stock appreciation rights (SARs).
- e) During 2008, we discovered certain irregularities relating to the control and use of cash and certain other general ledger items which resulted from a substantial misappropriation of assets over more than a three-year period beginning in 2004 and continuing through April 2008. These irregularities were perpetrated by a former employee, resulting in embezzlement losses, net of recoveries.
- f) Under applicable accounting guidance for business combinations, an acquiring entity is required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date fair value. Net revenues have been reduced by \$12.9 million and \$1.0 million, respectively, for the years ended December 31, 2010 and December 31, 2011 in the historical financial statements due to the write-down of deferred revenue to its estimated fair value as of the merger date and in the pro forma adjustments to reflect the impact of the write-down assuming the merger occurred on January 1, 2009. The write-down was determined by estimating the cost to fulfill the related future customer obligations plus a normal profit margin. Partially offsetting this impact, cost of revenues and sales and marketing expenses were reduced for other purchase accounting adjustments, primarily a write-down of deferred costs to zero at the acquisition date. During the years ended December 31, 2010 and December 31, 2011, the historical cost of revenues was reduced by \$1.2 million and \$0.2 million, respectively, and the historical sales and marketing expenses were reduced by \$1.0 million and zero, respectively, and the related pro forma adjustments reflect the impact of the write-down assuming the merger occurred on January 1, 2009. The adjustment of deferred revenue and deferred costs to fair value is required only at the purchase accounting date; therefore, its impact on net revenues, cost of revenues, and sales and marketing expense is non-recurring.
- g) For additional information on goodwill impairment charges, see Note 7 to our Consolidated Financial Statements included herein.
- h) Adjustments to the CVR liability as a result of amendments of the merger agreement and the related escrow agreement, the expiration of the statute of limitations on potential tax liabilities and changes in likelihood of collecting potential tax receivables included in the estimate of the fair value of the CVRs.

The deferred revenue balances as reported on a GAAP basis as of December 31, 2009, 2010 and 2011 include purchase accounting adjustments related to the VLCY acquisition. We believe that the combined deferred revenue balances and adjusted deferred revenue balances, which exclude the effect of the purchase accounting adjustment, provide useful information for investors to assess the results of the ongoing business of the combined company.

Adjusted deferred revenue is not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that adjusted deferred revenue provides useful information to investors for assessing the impact of deferred revenue changes on our reported GAAP and adjusted revenues.

Change in Adjusted Deferred Revenue for the Years Ended December 31, 2010 and 2011

	September 30, December 31, 2009	September 30, As of: December 31, 2010	September 30, December 31, 2011
Total deferred revenue	\$ 24,181	\$ 37,556	\$ 43,288
Purchase accounting fair value adjustment	14,374	1,437	398
Adjusted deferred revenue	38,555	38,993	43,686
Change in adjusted deferred revenue		\$ 438	\$ 4,693
Acquired deferred revenue			441
Change in adjusted deferred revenue, net of acquired deferred revenue		\$ 438	\$ 4,252

Capital Expenditures and Outlook

(Dollars in millions)	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2010	September 30, Year Ended December 31, 2009
Pre-publication costs	\$ 5.6	\$ 4.8	\$ 2.4
Property, equipment and software	8.5	8.5	1.0
Total expenditures for property, equipment, and pre-publication costs	\$ 14.1	\$ 13.3	\$ 3.4

We believe 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 for the foreseeable future.

Commitments and Contractual Obligations

We have various contractual obligations which are recorded as liabilities in our Consolidated Financial Statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our Consolidated Financial Statements but are required to be disclosed.

The following table summarizes our significant operational and contractual obligations and commercial commitments at December 31, 2011 showing the future periods in which such obligations are expected to be settled in cash:

(in millions)	September 30, Total	September 30, 2012	September 30, 2013 & 2014	September 30, 2015 & 2016	September 30, After 2016
Senior secured notes as of December 31, 2011	\$ 268.8	\$ 17.1	\$ 34.1	\$ 34.1	\$ 183.5
Build-to-suit lease obligations as of December 31, 2011	5.4	1.1	2.2	2.1	
Other capital lease obligations as of December 31, 2011	0.9	0.5	0.4		
Operating lease obligations as of December 31, 2011	8.2	2.3	3.0	1.5	1.4
Contingent value rights as of December 31, 2011	6.7		6.7		

We have letters of credit outstanding as of December 31, 2011 in the amount of \$2.9 million to support workers' compensation insurance coverage, certain of our credit card programs, the build-to-suit lease, and performance bonds for certain contracts. We maintain a \$1.1 million certificate of deposit as collateral for the workers' compensation insurance and credit card program letters of credit and for our Automated Clearinghouse (ACH) programs. We also maintain a \$0.9 million money market fund investment as collateral for our travel card program. The certificate of deposit and money market fund investment are recorded in other assets.

As of December 31, 2011, we have \$12.3 million in obligations with respect to our pension plan. For further information, see Note 15 to our Consolidated Financial Statements included herein.

As of December 31, 2011, we have approximately \$0.8 million of long-term income tax liabilities that have a high degree of uncertainty regarding the timing of the future cash outflows. We are unable to reasonably estimate the years when settlement will occur with the respective tax authorities.

On February 15, 2012, our Board of Directors approved a plan to outsource our warehouse operations to a third party logistics provider, OHL, and to cease use of the leased facility in Frederick, Colorado that includes our warehouse and other office space. Warehouse operations in Frederick are expected to be transferred to OHL and the facility be made available for sublease in the quarter ending June 30, 2012.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with GAAP, which require management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities.

On an ongoing basis, we evaluate our estimates, including those related to accounting for revenue recognition, impairment, capitalization and depreciation, allowances for doubtful accounts and sales returns, inventory reserves, income taxes, and other contingencies. We base our estimates on historical experience and other assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily available from other sources. Actual results may differ from these estimates, which could have a material impact on our financial statements.

Certain accounting policies require higher degrees of judgment than others in their application. We consider the following to be critical accounting policies due to the judgment involved in each. For a detailed discussion of our significant accounting policies, see Note 2 to our Consolidated Financial Statements included herein.

Revenue Recognition. In October 2009, new guidance was issued regarding multiple-deliverable revenue arrangements and certain arrangements that include software elements. This guidance requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. In addition to requiring that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method, the guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence (VSOE), if available, (2) third party evidence (TPE), if VSOE is not available, and (3) best estimate of selling price (BESP), if neither VSOE nor TPE is available. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. It also removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. Effective January 1, 2010, we adopted this guidance on a prospective basis for all new or materially modified arrangements entered into after the adoption date.

Revenues are derived from sales of reading, math and science, and professional service solutions to school districts primarily in the United States. Sales include printed materials, online educational content, courseware, training and implementation services, school improvement services and professional development. Revenue from the sale of printed materials is recognized when the product is shipped to or received by the customer, depending on the shipping terms of the arrangement. Revenue for online content, which may be sold separately or included with printed curriculum materials, courseware and school-wide improvement services are recognized ratably over the subscription or contractual period, typically a school year. Professional services such as training, implementation and professional development are recognized over the period services are delivered. ExploreLearning and Learning A-Z derive revenue exclusively from sales of online subscriptions to their reading, math and science teaching websites and related training and professional development. Typically, the subscriptions are for a twelve- to twenty-four-month period and the revenue is recognized ratably over the period the online access is available to the customer.

The division of revenue between printed materials, online materials, and ongoing support and services is determined in accordance with the accounting guidance for revenue arrangements with multiple deliverables. We are not able to establish VSOE for each of our deliverables. Whenever VSOE cannot be established, we review the offerings of our competitors to determine whether TPE can be established. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE. We also use BESP to determine the selling price of certain of deliverables. BESP was primarily used for printed materials in the Voyager segment, which have historically been priced on a bundled basis with the related online materials. Our determination of BESP considers the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, and our ongoing pricing strategy and policies.

We plan to analyze the selling prices used in the allocation of arrangement consideration at least annually. Selling prices will be analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Our software products often include maintenance, support or on-line services. Maintenance and support services include telephone support, bug fixes, and, for certain products, rights to upgrades and enhancements on a when-and-if available basis. On-line services include storage, assignment, scoring and reporting. These services are recognized on a straight-line basis over the period they are provided. Revenues under multiple-element software license arrangements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with accounting guidance for software revenue recognition. In certain instances, telephone support and software repairs are provided for free within the first year of licensing the software. The cost of providing this service is insignificant, and is accrued at the time of revenue recognition.

We enter into agreements to license certain publishing rights and content. We recognize the revenue from these agreements when the license amount is fixed and determinable, collection is reasonably assured, and the license period has commenced. For those license agreements that require us to deliver additional materials as part of the license agreement, the revenue is recognized when the product is received by the customer. Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

Impairment of Goodwill. We review the carrying value of goodwill for impairment at least annually. The annual analysis is performed as of December 1 or when certain triggering events occur. The applicable accounting guidance requires that a two-step impairment test be performed on goodwill. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of that unit, goodwill is not impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value of that unit, then a second step must be performed to determine the implied fair value of the reporting entity's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded.

Determining the fair value of a reporting unit is judgmental in nature, and involves the use of significant estimates and assumptions. These estimates and assumptions may include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values of our reporting units.

We performed the 2011 yearend impairment analysis using four reporting units: Voyager; Sopris Learning; the Learning A-Z and ExploreLearning product lines from the CLT segment (LAZEL); and the Kurzweil and IntelliTools product lines from the CLT segment (KI). The following table details the goodwill balance by reporting unit at December 31, 2011:

	September 30, Goodwill balance as of December 31, 2011
Voyager	\$ 56,911
Sopris Learning	17,300
LAZEL	19,724
KI	20,362
Total	\$ 114,297

In the first step of the impairment test for fiscal year 2011, the fair market value of each reporting unit was determined using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including 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 were 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 was a weighted-average cost of capital and took 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. The fair values of each reporting unit also took into consideration a market approach, based on historical and projected multiples of certain guideline companies. The first step of impairment testing for fiscal 2011 showed that the carrying value of the Voyager and KI reporting units exceeded their respective fair values and that the second step of testing was required. The calculated fair values of each of the other reporting units exceeded their carrying values by at least 10%; therefore, no second step of testing was required.

The second step requires the allocation of the 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. As a result of the second step of our fiscal 2011 impairment test, the goodwill balances for the Voyager and KI reporting units were determined to be partially impaired, and impairment charges of \$19.2 million and \$18.4 million, respectively, were recorded as of December 1, 2011. The goodwill impairment charges were primarily the result of declines in order volumes in 2011 and the expected near term impact of continued funding pressures on these two reporting units. Although we believe that key federal and state funding programs will continue to encourage school districts to address the needs of at-risk and special education students, we expect that governmental spending austerity and the challenging educational funding environment will continue in the short term.

Although management has included its best estimates of the impact of these and other factors in our cash flow projections, the projection of future cash flows is inherently uncertain and requires a significant amount of judgment. Actual results that are significantly different than these cash flow projections or a change in the discount rate could significantly affect the fair value estimates used to value our reporting units in step one of the goodwill analysis or the fair values of our other asset and liability balances used in step two of the goodwill analysis, and could result in future goodwill impairments.

Impairment of Long Lived Assets. We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows. If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. For fiscal year 2011, no impairment was indicated.

The determination whether our definite-lived intangible assets are impaired involves significant assumptions and estimates, including projections of future cash flows, the percentage of future revenues and cash flows attributable to the intangible assets, asset lives used to generate future cash flows, and royalty charges attributable to trademarks. The impairment calculations are most sensitive to the future cash flow assumptions. 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, and capital and other expenditures. The adverse conditions in the education funding environment have affected our operations during 2011 and may continue to have an impact, and potentially increase the impact, on our future revenues, profits, cash flows and carrying value of assets.

Pre-Publication Costs. We capitalize certain pre-publication costs of our curriculum, including art, prepress, editorial, and other costs incurred in the creation of the master copy of our curriculum products. Pre-publication costs are amortized over the expected life of the education program, generally on an accelerated basis over a period of five years. The amortization methods and periods chosen reflect the expected revenues generated by the education programs. We periodically review the recoverability of the capitalized costs based on expected net realizable value.

Accounts Receivable. Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of returns as well as other factors that in our judgment could reasonably be expected to cause sales returns to differ from historical experience. Actual bad debt write-offs and returns could differ from our estimates.

Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market, and consists of finished goods. We reduce slow-moving or obsolete inventory to net realizable value. Inventory values are maintained at an amount that management considers appropriate based on factors such as the inventory aging, historical usage of the product, future sales forecasts, and product development plans. These factors involve management's judgment and changes in estimates could result in increases or decreases to the inventory values. The impact of a one percentage point change in the amount of inventory considered to be excess or obsolete would have resulted in an increase or decrease in cost of revenues of approximately \$0.3 million for the year ended December 31, 2011. Inventory values are reviewed on a periodic basis.

Income Taxes. Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in every jurisdiction in which we do business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing whether deferred tax assets will be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that a portion of the deferred tax assets will not be realized, a valuation allowance is established. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate these amounts, since this requires management to determine the probability of various possible outcomes. We reevaluate our uncertain tax positions on a periodic basis, based on factors such as changes in facts and circumstances, changes in tax law, effectively settled issues under audit and new audit activity.

Contingent Value Rights (CVRs). CVRs were issued to VLCY stockholders as part of the merger. Each CVR represents the right to receive a cash amount equal to the sum of the following amounts (minus specified agreed-upon liabilities, including agreed contingencies, potential working capital adjustments and expenses of the stockholders' representative) under the merger agreement:

specified VLCY tax refunds received after the effective time of the merger, plus

the lesser of \$4.0 million or the amount of specified post-signing tax refunds of VLCY received after the date of the merger agreement and on or prior to the date of the closing, which was \$1.6 million, plus

a portion of funds held for a potential tax indemnity obligation, if such obligation is not paid to its beneficiary, plus

other amounts specified in the escrow agreement,
divided by the total number of shares of VLCY common stock outstanding as of the effective time of the merger.

The fair value of the liability for the CVRs is determined using a probability weighted cash flow analysis which takes into consideration the likelihood, amount and timing of cash flows of each element of the pool of assets and liabilities included in the CVR. The determination of fair value of the CVRs involves significant assumptions and estimates, which are reviewed at each quarterly reporting date. During 2011, a loss of \$1.3 million was recorded in general and administrative expense to reflect an increase in the estimated fair value of the CVR liability. As of December 31, 2011, a fair value of \$6.7 million has been recorded as a liability for the remaining CVR payments. The ultimate value of the remaining CVR payments is not known at this time; however, it could range from zero to a maximum possible value of approximately \$7.4 million. Future changes in the estimate of the fair value of the CVRs will impact results of operations and could be material. As of December 31, 2011, restricted assets in an escrow account for the benefit of the CVRs were \$3.0 million. See Note 13 to our Consolidated Financial Statements for further information on the fair value of the CVRs and related escrow trust.

The first and second CVR payment dates were in September 2010 and June 2011, with \$1.1 million and \$2.0 million, respectively, distributed to the escrow agent at those times for distribution to holders of the CVRs. The next scheduled distribution, if any, will be made no later than October 2013 and relates to a potential tax indemnity obligation. Additionally, as described in Note 19 to our Consolidated Financial Statements, any amounts due to CVR holders as a result of refunds received related to the Michigan tax payment will be distributed upon the final resolution of this agreed contingency.

Other Contingencies. Other contingencies are recorded when it is probable that a liability exists and the value can be reasonably estimated.

The Company had a potential indemnification liability related to state income taxes and related interest that had been assessed against PQIL. On August 27, 2010, PQIL received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, PQIL was liable to the State of Michigan for unpaid taxes and interest in the amount of approximately \$10.4 million. In order to expedite resolution of this matter and access the Michigan Court of Claims, the Company paid this indemnification liability to the state of Michigan on behalf of PQIL on September 7, 2010 and filed an action in the Michigan Court of Claims to pursue a refund of the assessment. On November 16, 2011, the Court of Claims in Michigan ruled in favor of the Company's motion for summary judgment. The Michigan state taxing authority has since appealed the decision of the Court of Claims to the Michigan Court of Appeals.

As management believes it is more likely than not that the Company's position will ultimately be upheld, a tax receivable for the expected refund plus statutory interest is recorded in other assets on the Consolidated Balance Sheets totaling \$11.0 million and \$10.4 million as of December 31, 2011 and 2010, respectively.

This indemnification liability was identified as an agreed contingency for purposes of the CVRs issued as part of the VLCY merger consideration. In accordance with the terms of the merger agreement, dated June 20, 2009, fifty percent (50%) of any amount that is paid or due and payable with respect to each agreed contingency would offset payments due under the CVRs from an amount held for such payments by Wells Fargo Bank, N.A., as escrow agent, in an escrow account. Upon payment of the approximately \$10.4 million, the Company requested a disbursement to the Company from the escrow account in an amount equal to fifty percent (50%) of the payment, or approximately \$5.2 million. This cash disbursement was received by the Company during the third quarter of 2010. On September 20, 2010, the Company amended the merger agreement and the escrow agreement to extend the term of the escrow agreement until the later of the full distribution of the escrow funds or the final resolution of the agreed contingency. The final resolution of the tax litigation or potential settlement could result in a total refund from the taxing authority to the Company ranging from zero to approximately \$11.0 million as of December 31, 2011, and 50% of any such refund would in turn be payable to the holders of the CVRs. As of December 31, 2011, the Company has recorded \$5.0 million as a component of the CVR liability related to this agreed upon contingency, which is an estimate of the fair value based on a probability-weighted cash flow analysis using management assumptions related to the likelihood of the ultimate cash outflows. If PQIL's position is not ultimately upheld, the Company could incur non-cash charges of up to \$10.4 million of indemnification expense and a \$0.6 million reduction in interest income in future periods on its Statements of Operations, partially offset by the related \$5.0 million reduction to the CVRs liability.

The Court of Claims in Michigan also ruled in the Company's favor on two other tax matters that could result in a refund of up to \$0.8 million, plus statutory interest. These potential tax refunds would be retained by the Company and are not subject to payment to the holders of the CVRs.

Recently Issued Financial Accounting Standards

Information regarding recently issued accounting standards is included in Note 2 to the Consolidated Financial Statements, which is included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As described in Note 14 to our Consolidated Financial Statements, in February 2011, we closed an offering of \$175 million aggregate principal amount of Notes (fixed rate) due 2017 and entered into a new \$40 million asset-backed revolving credit facility. We used a portion of the net proceeds from the offering to repay in full outstanding indebtedness under the secured credit facility and senior unsecured notes that existed as of December 31, 2010. We have no amounts outstanding under the revolving credit facility, which is our only variable interest debt. Therefore, as of December 31, 2011 we have no material interest rate risk.

Foreign Currency Risk

We do not have material exposure to changes in foreign currency rates. As of December 31, 2011, we do not have any outstanding foreign currency forwards or option contracts.

Item 8. Financial Statements and Supplementary Data.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Cambium Learning Group, Inc.

We have audited the accompanying consolidated balance sheets of Cambium Learning Group, Inc. and subsidiaries (the Company), as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' and members' equity and comprehensive income (loss), and cash flows for each of the three years in period ended December 31, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2012, expressed an unqualified opinion.

/s/ Whitley Penn LLP

Dallas, Texas

March 15, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Cambium Learning Group, Inc.

We have audited Cambium Learning Group, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' and members' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 15, 2012, expressed an unqualified opinion on those consolidated financial statements.

/s/ Whitley Penn LLP

Dallas, Texas

March 15, 2012

Cambium Learning Group, Inc. and Subsidiaries
Consolidated Statements of Operations

(In thousands, except per share data)	September 30, For the Years Ended December 31,		
	2011	2010	2009
Net revenues:			
Product revenues	\$ 151,846	\$ 160,778	\$ 90,385
Service revenues	20,412	20,482	10,663
Total net revenues	172,258	181,260	101,048
Cost of revenues:			
Cost of product revenues	34,002	41,583	19,591
Cost of service revenues	19,163	18,308	7,257
Amortization expense	27,799	28,511	17,527
Total cost of revenues	80,964	88,402	44,375
Research and development expense	9,933	10,558	5,611
Sales and marketing expense	45,747	45,987	23,368
General and administrative expense	23,456	23,857	30,519
Shipping and handling costs	2,259	3,570	1,512
Depreciation and amortization expense	7,224	9,154	9,723
Goodwill impairment	37,618		9,105
Embezzlement and related expense (recoveries)	(3,096)	(353)	129
Total costs and expenses	204,105	181,175	124,342
Income (loss) before interest, other income (expense) and income taxes	(31,847)	85	(23,294)
Net interest income (expense):			
Interest income	738	19	10
Interest expense	(19,169)	(17,311)	(19,487)
Net interest income (expense)	(18,431)	(17,292)	(19,477)
Other income (expense), net	848	674	(698)
Loss before income taxes	(49,430)	(16,533)	(43,469)
Income tax benefit (expense)	(11)	583	7,704
Net loss	\$ (49,441)	\$ (15,950)	\$ (35,765)
Net loss per common share:			
Basic net loss per common share	\$ (1.07)	\$ (0.36)	\$ (1.63)
Diluted net loss per common share	\$ (1.07)	\$ (0.36)	\$ (1.63)

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Average number of common shares and equivalents outstanding:

Basic	46,142	44,322	21,994
Diluted	46,142	44,322	21,994

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

Cambium Learning Group, Inc. and Subsidiaries**Consolidated Balance Sheets**

(In thousands, except per share data)	September 30, As of December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,191	\$ 11,831
Accounts receivable, net	13,485	31,627
Inventory	21,561	22,015
Deferred tax assets	2,829	3,703
Restricted assets, current	1,393	3,064
Assets held for sale	2,727	
Other current assets	4,735	3,937
Total current assets	109,921	76,177
Property, equipment and software at cost	42,878	32,944
Accumulated depreciation and amortization	(12,968)	(7,838)
Property, equipment and software, net	29,910	25,106
Goodwill	114,297	151,915
Acquired curriculum and technology intangibles, net	26,996	33,063
Acquired publishing rights, net	26,861	38,707
Other intangible assets, net	18,111	22,132
Pre-publication costs, net	10,034	7,834
Restricted assets, less current portion	11,082	12,641
Other assets	22,468	15,487
Total assets	\$ 369,680	\$ 383,062

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

Cambium Learning Group, Inc. and Subsidiaries**Consolidated Balance Sheets**

Consolidated Balance Sheets

		September 30, As of December 31, 2011	September 30, As of December 31, 2010
(In thousands, except per share data)			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	\$	\$	1,280
Current portion of capital lease obligations		826	378
Accounts payable		3,024	6,465
Contingent value rights, current			1,623
Accrued expenses		21,203	22,888
Deferred revenue, current		38,984	34,140
Total current liabilities		64,037	66,774
Long-term liabilities:			
Long-term debt, less current portion		174,165	150,850
Capital lease obligations, less current portion		12,294	12,317
Deferred revenue, less current portion		4,304	3,416
Contingent value rights, less current portion		6,684	5,746
Other liabilities		18,126	19,947
Total long-term liabilities		215,573	192,276
Commitments and contingencies (See Note 19)			
Stockholders' equity:			
Preferred stock (\$.001 par value, 15,000 shares authorized, zero shares issued and outstanding at December 31, 2011 and 2010)			
Common stock (\$.001 par value, 150,000 shares authorized, 51,162 and 43,869 shares issued, and 49,518 and 43,869 shares outstanding at December 31, 2011 and 2010, respectively)		51	44
Capital surplus		281,240	259,887
Accumulated deficit		(184,659)	(135,218)
Treasury stock at cost (1,644 and zero shares at December 31, 2011 and December 31, 2010, respectively)		(4,931)	
Other comprehensive income (loss):			
Pension and postretirement plans		(1,632)	(702)
Net unrealized gain on securities		1	1
Accumulated other comprehensive income (loss)		(1,631)	(701)
Total stockholders' equity		90,070	124,012

Total liabilities and stockholders' equity	\$	369,680	\$	383,062
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The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Cambium Learning Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	September 30, For the Years Ended December 31, 2011	September 30, For the Years Ended December 31, 2010	September 30, For the Years Ended December 31, 2009
Operating activities:			
Net loss	\$ (49,441)	\$ (15,950)	\$ (35,765)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization expense	35,023	37,665	27,250
Goodwill impairment	37,618		9,105
Gain from recovery of property held for sale	(2,727)		
Non-cash paid-in-kind interest		2,124	2,309
Amortization of note discount and deferred financing costs	1,518		
Loss (gain) on derivative instruments		(992)	(1,390)
Change in fair value of contingent value rights obligation	1,308	(1,124)	
Loss on disposal of assets		89	2
Stock-based compensation and expense	1,288	1,085	37
Issuance of subscription rights			2,222
Deferred income taxes	(534)	(1,063)	(7,975)
Changes in operating assets and liabilities:			
Accounts receivable, net	18,142	(12,500)	2,306
Inventory	454	(2,203)	4,725
Other current assets	(717)	2,073	3,022
Other assets	(374)	(12,970)	1,579
Restricted assets	3,230	8,980	(7,948)
Accounts payable	(3,441)	4,157	(1,812)
Accrued expenses	(1,727)	(40)	4,980
Deferred revenue	5,291	13,375	497
Other long-term liabilities	(1,271)	(1,447)	(1,115)
Other, net			(95)
Net cash provided by operating activities	43,640	21,259	1,934
Investing activities:			
Cash paid for acquisitions, net of cash acquired	(6,412)	(1,106)	(9,697)
Expenditures for property, equipment, software and pre-publication costs	(14,053)	(13,335)	(3,395)
Net cash used in investing activities	(20,465)	(14,441)	(13,092)
Financing activities:			
Proceeds from debt	174,024		
Repayment of debt	(152,130)	(1,761)	(5,585)
Deferred financing costs	(7,984)	(1,098)	
Principal payments under capital lease obligations	(794)	(443)	(289)
Borrowings under revolving credit agreement		19,000	10,000
Payment of revolving credit facility		(24,000)	(10,000)
Proceeds from capital contributions		(30)	2,959
Share repurchases	(4,931)		
Proceeds from issuance of common stock in connection with the merger			25,000
Proceeds from issuance of common stock for subscription rights	20,000		
Net cash provided by (used in) financing activities	28,185	(8,332)	22,085
Increase (decrease) in cash and cash equivalents	51,360	(1,514)	10,927
Cash and cash equivalents, beginning of year	11,831	13,345	2,418

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Cash and cash equivalents, end of year	\$	63,191	\$	11,831	\$	13,345
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Supplemental disclosure of cash flow information:

Income taxes paid (refunded)	\$	60	\$	15	\$	(3,080)
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Interest paid		12,453		15,228		16,936
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Supplemental disclosure of noncash investing and financing activities:

Non-cash acquisition costs paid						86,546
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Assets recovered property held for sale		2,727				
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Acquisition of software through capital leases		1,219				
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The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Cambium Learning Group, Inc. and Subsidiaries
Consolidated Statements of Stockholders and Members Equity and Comprehensive Income (Loss)

(Dollars and shares in thousands)	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid in Capital	Treasury Stock	Members Interest	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2008		\$	\$	\$	\$ 151,707	\$	\$ (83,503)	\$ 68,204
Capital contribution by members					2,959			2,959
Conversion of members' interests to common shares in connection with the merger (a)	20,493	20	154,646		(154,666)			
Issuance of common stock to members in exchange for a \$25 million capital contribution in connection with the merger	3,846	4	24,996					25,000
Issuance of common stock to Voyager stockholders in connection with the merger	19,520	20	76,888					76,908
Issuance of subscription rights in connection with the merger			2,222					2,222
Stock-based compensation and expense			37					37
Comprehensive income (loss):								
Net loss							(35,765)	(35,765)
Pension plan						206		206
Unrealized gain on securities						1		1
Total comprehensive income (loss)								(35,558)
Balance at December 31, 2009	43,859	44	258,789			207	(119,268)	139,772
Issuance of restricted stock	10		25					25
Stock-based compensation and expense			1,103					1,103
Distribution of former members' interest			(30)					(30)
Comprehensive income (loss):								
Net loss							(15,950)	(15,950)
Pension plan						(908)		(908)
Total comprehensive income (loss)								(16,858)
Balance at December 31, 2010	43,869	44	259,887			(701)	(135,218)	124,012
Issuance of restricted stock	47		134					134
Stock-based compensation and expense			1,226					1,226
Stock repurchases	(1,644)			(4,931)				(4,931)
Exercise of subscription rights	7,246	7	19,993					20,000
Comprehensive income (loss):								
Net loss							(49,441)	(49,441)
Pension plan						(930)		(930)
Total comprehensive income (loss)								(50,371)
Balance at December 31, 2011	49,518	\$ 51	\$ 281,240	\$ (4,931)	\$	\$ (1,631)	\$ (184,659)	\$ 90,070

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- (a) As the previous members are also majority stockholders in Cambium Learning Group, Inc., the common shares issued on December 8, 2009 in connection with the merger will be considered outstanding for all periods presented for purposes of calculating earnings per share. **The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.**

Cambium Learning Group, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

Note 1 Basis of Presentation

Cambium Learning Group, Inc. Cambium Learning Group, Inc. (the Company) was incorporated under the laws of the State of Delaware in June 2009. On December 8, 2009, the Company completed the mergers of Voyager Learning Company (VLCY) and VSS-Cambium Holdings II Corp. (Cambium) into two of its wholly-owned subsidiaries, resulting in VLCY and Cambium becoming wholly-owned subsidiaries. Following the completion of the mergers, all of the outstanding capital stock of VLCY's operating subsidiaries, Voyager Expanded Learning, Inc. and LAZEL, Inc., was transferred to Cambium Learning, Inc., Cambium's operating subsidiary (Cambium Learning).

The results of VLCY are included in the Company's operations beginning with the December 8, 2009 merger date; therefore the 2009 financials include VLCY for the last 23 days of 2009 and the results of the Company for that full year. The transaction was accounted for as an acquisition of VLCY by Cambium, as that term is used under U.S. Generally Accepted Accounting Principles (GAAP), for accounting and financial reporting purposes under the applicable accounting guidance for business combinations. In making this determination, management considered that (a) the newly developed entity did not have any significant pre-combination activity and, therefore, did not qualify to be the accounting acquirer and (b) the former sole stockholder of Cambium is the majority holder of the combined entity, while the prior owners of VLCY became minority holders in the combined entity. As a result, the historical financial statements of Cambium have become the historical financial statements of the Company.

Fiscal Year. The consolidated financial statements present the Company as of a calendar year ending on December 31.

Nature of Operations and Segments. The Company operates as three reportable business segments with separate management teams and infrastructures: Voyager, a comprehensive intervention business; Sopris Learning, a supplemental solutions education business; and Cambium Learning Technologies, a technology-based education business.

Voyager offers reading, math, professional development programs, and online courseware and credit recovery targeted towards the at-risk and special education student populations. Voyager provides strategic and intensive comprehensive interventions that are adaptive to the needs of diverse populations. Voyager's research-based instructional materials, support services, and educational technology help accelerate struggling students to grade-level proficiency, with the goal to increase graduation rates.

Sopris Learning supplemental products focus on the full spectrum of academic support utilizing print and technology based supplemental solutions including assessments, literacy and mathematics interventions, positive behavior supports, and professional development. Whether implemented in a single classroom, school-wide, or district-wide, Sopris Learning supplements have been proven to strengthen core instruction and to quickly and positively impact the academic achievement of students in all key areas of instruction. When compared to products offered by the Company's other business units, Sopris Learning products tend to be more tightly tailored to specific skills and target a smaller, more specific audience.

Cambium Learning Technologies utilizes technology to deliver subscription-based websites, online libraries, software and equipment designed to help students reach their potential in grades K through 12 and beyond. Cambium Learning Technologies products are offered under four different industry leading brands: Learning A-Z, ExploreLearning, Kurzweil Educational Systems and IntelliTools.

Prior to the merger transaction completed on December 8, 2009, the Company had two reportable segments: Published Products and Learning Technologies. See Note 21 for further information on the Company's reportable segments.

Reclassifications. Certain reclassifications to the Consolidated Statements of Cash Flows for the year ended December 31, 2010 have been made to conform to the 2011 presentation. These adjustments include the reclassification of \$1.1 million of cash payments made for deferred financing costs from operating cash flows to financing cash flows.

Note 2 Significant Accounting Policies

Use of Estimates. 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.

Principles of Consolidation. The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries: Voyager Learning Company, Cambium Education, Inc., LAZEL, Inc., Cambium Learning, Inc., and Kurzweil/IntelliTools, Inc. All inter-company accounts and transactions are eliminated in consolidation.

Revenue Recognition. In October 2009, new guidance was issued regarding multiple-deliverable revenue arrangements and certain arrangements that include software elements. This guidance requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. In addition to requiring that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method, the guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which includes (1) vendor-specific objective evidence (VSOE), if available, (2) third party evidence (TPE), if VSOE is not available, and (3) best estimate of selling price (BESP), if neither VSOE nor TPE is available. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. It also removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. Effective January 1, 2010, the Company adopted this guidance on a prospective basis for all new or materially modified arrangements entered into after the adoption date.

Revenues are derived from sales of reading, math and science, and professional service solutions to school districts primarily in the United States. Sales include printed materials, online educational content, courseware, training and implementation services, school improvement services and professional development. Revenue from the sale of printed materials is recognized when the product is shipped to or received by the customer, depending on the shipping terms of the arrangement. Revenue for online content, which may be sold separately or included with printed curriculum materials, courseware and school-wide improvement services are recognized ratably over the subscription or contractual period, typically a school year. Professional services such as training, implementation and professional development are recognized over the period services are delivered. ExploreLearning and Learning A-Z derive revenue exclusively from sales of online subscriptions to their reading, math and science teaching websites and related training and professional development. Typically, the subscriptions are for a twelve- to twenty-four-month period and the revenue is recognized ratably over the period the online access is available to the customer. The division of revenue between printed materials, online materials, and ongoing support and services is determined in accordance with the accounting guidance for revenue arrangements with multiple deliverables. The Company is not able to establish VSOE for each deliverable. Whenever VSOE cannot be established, the Company reviews the offerings of competitors to determine whether TPE can be established. TPE is determined based on the prices charged by the Company's competitors for a similar deliverable when sold separately. It may be difficult to obtain sufficient information on competitor pricing to substantiate TPE and therefore the Company may not always be able to use TPE. The Company also uses BESP to determine the selling price of certain deliverables. BESP was primarily used for printed materials in the Voyager segment, which have historically been priced on a bundled basis with the related online materials. The determination of BESP considers the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, and the Company's ongoing pricing strategy and policies.

The Company plans to analyze the selling prices used in the allocation of arrangement consideration at least annually. Selling prices will be analyzed on a more frequent basis if a significant change in the business necessitates a more timely analysis or if the Company experiences significant variances in selling prices.

The Company's software products often include maintenance, support or on-line services. Maintenance and support services include telephone support, bug fixes, and, for certain products, rights to upgrades and enhancements on a when-and-if available basis. On-line services include storage, assignment, scoring and reporting. These services are recognized on a straight-line basis over the period they are provided. Revenues under multiple-element software license arrangements, which may include several different software products and services sold together, are allocated to each element based on the residual method in accordance with accounting guidance for software revenue recognition. In certain instances, telephone support and software repairs are provided for free within the first year of licensing the software. The cost of providing this service is insignificant, and is accrued at the time of revenue recognition.

The Company enters into agreements to license certain publishing rights and content. The Company recognizes the revenue from these agreements when the license amount is fixed and determinable, collection is reasonably assured, and the license period has commenced. For those license agreements that require delivery of additional materials as part of the license agreement, the revenue is recognized when the product is received by the customer. Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

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 \$0.9 million, \$0.6 million, and \$0.3 million at yearend 2011, 2010, and 2009, respectively. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of returns as well as other factors that in the Company's judgment could reasonably be expected to cause sales returns to differ from historical experience. A reconciliation of the accounts receivable reserve is shown in the table below for the periods indicated:

(in thousands)	September 30, 2009	September 30, 2010	September 30, 2011
Beginning accounts receivable reserve	\$ 706	\$ 316	\$ 557
Charged to costs and expenses	5	62	6
Charged to other accounts ⁽¹⁾	12	218	411
Recoveries	11	2	
Write-offs	(418)	(41)	(49)
Other			
Ending accounts receivable reserve	\$ 316	\$ 557	\$ 925

⁽¹⁾ Charges to other accounts include sales returns

Net 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:

(in thousands)	September 30, 2011	September 30, For the Years Ended December 31, 2010	September 30, 2009
Basic	46,142	44,322	21,994
Dilutive effect of awards			
Diluted	46,142	44,322	21,994
Antidilutive securities:			
Options	4,068	3,757	2,256
Warrants	151	105	72

Restricted stock	49		
Subscription rights		6,509	4,711

As the previous members of VSS-Cambium Holdings, LLC are also majority stockholders in Cambium Learning Group, Inc., 20.5 million of common shares issued on December 8, 2009 in connection with the merger were considered outstanding for the periods from January 1, 2009 to the merger date. The 20.5 million shares reflect the number of shares issued to the sole stockholder of Cambium at the merger date in consideration of its pre-merger equity interest. The weighted-average shares outstanding for the year ended December 31, 2009 includes an additional 3.8 million shares issued to the sole stockholder in exchange for a \$25 million contribution made at the time of the merger and 19.5 million shares issued to VLCY stockholders, as well as 0.4 million shares related to a warrant issued to the sole stockholder for which all contingencies have been resolved and that requires little consideration to exercise. The weighted-average shares outstanding for the year ended December 31, 2011 include the exercise of the subscription right by VSS-Cambium Holdings III, LLC for 7.2 million shares and a stock repurchase of 1.6 million shares. See Note 16 and Note 17 for further information on these transactions.

Cash and Cash Equivalents. The Company considers all highly liquid investments with maturities of three months or less (when purchased) to be cash equivalents. The carrying amount reported in the Consolidated Balance Sheets approximates fair value.

Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market, and consists of finished goods. The Company reduces slow-moving or obsolete inventory to net realizable value. Inventory values are maintained at an amount that management considers appropriate based on factors such as the inventory aging, historical usage of the product, future sales forecasts, and product development plans. Inventory values are reviewed on a periodic basis.

Restricted Assets. Restricted assets consist of funds placed in a rabbi trust pursuant to the merger agreement for the purpose of funding certain obligations acquired in the VLCY merger, mostly deferred compensation, pension, and severance obligations, and an escrow of funds subject to the Contingent Value Rights (CVRs) described in Note 4.

Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the assets' estimated useful lives using the straight-line method. Estimated lives are as follows.

	September 30, Estimated Useful Life
Building	35 years
Land improvements	19 years
Machinery and equipment	5 - 15 years
Furniture and fixtures	8 years
Computer equipment and software	3 - 5 years
Leasehold improvements	Lesser of useful life or lease term
Expenditures for maintenance and repairs, as well as minor renewals, are charged to operations as incurred, while improvements and major renewals are capitalized.	

Purchased and Developed Software. Purchased and developed software includes the costs to purchase third party software and to develop internal-use software. The Company follows applicable guidance for the costs of computer software developed or obtained for internal use for capitalizing software projects. Software costs are amortized over the expected economic life of the product, generally three to five years. At December 31, 2011 and 2010, unamortized capitalized software was \$12.1 million and \$7.3 million, respectively, which included amounts of software under development of \$3.2 million and \$1.2 million, respectively.

Acquired Curriculum and Technology. Acquired curriculum and technology represents curriculum and developed technology acquired in the acquisitions of Class.com in 2011, VLCY in 2009, certain assets of Tobii Assistive Technology, Inc. in 2008 and Cambium Learning in 2007 and is the initial purchase accounting value placed on the past development and refinement of the core methodologies, processes, measurement techniques, and technologies by which the Company structures curriculum. Acquired curriculum and technology is being amortized using an accelerated method over six to seven years, as it has an economic benefit declining over the estimated useful life. The Company periodically reviews the recoverability of the acquired curriculum and technology based on expected net realizable value, and generally retires the assets once fully depreciated. Acquired curriculum and technology is presented net of accumulated amortization of \$26.1 million and \$16.0 million as of yearend 2011 and 2010, respectively.

Acquired Publishing Rights. A publishing right allows the Company to publish and republish existing and future works, as well as transform, adapt, or create new works based on previously published materials. The Company determines the fair market value of the publishing rights arising from business combinations by discounting the after-tax cash flows projected to be derived from the publishing rights and titles to their net present value using a rate of return that accounts for the time value of money and the appropriate degree of risk. The useful life of the publishing rights is based on the lives of the various titles involved, which is generally ten years. The Company calculates amortization using either the straight-line method or the percentage of the projected discounted cash flows derived from the titles in the current year as a percentage of the total estimated discounted cash flows over the remaining useful life. The Company periodically reviews the recoverability of the publishing rights based on expected net realizable value, and generally retires the assets once fully depreciated. Acquired publishing rights are presented net of accumulated amortization of \$63.4 million and \$51.6 million as of yearend 2011 and 2010, respectively.

Pre-Publication Costs. The Company capitalizes certain pre-publication costs of its curriculum including art, prepress, editorial, and other costs incurred in the creation of the master copy of its curriculum products. Pre-publication costs are amortized over the expected life of the education program, generally on an accelerated basis over a period of five years. The amortization methods and periods chosen reflect the expected sales generated by the education programs. The Company periodically reviews the recoverability of the capitalized costs based on expected net realizable value, and generally retires the assets once fully depreciated. Pre-publication costs are presented net of accumulated amortization of \$8.8 million and \$5.3 million as of yearend 2011 and 2010, respectively.

Goodwill and Other Intangible Assets. Goodwill and other intangible assets are related to the acquisitions of Class.com in 2011, VLCY in 2009, certain assets of Tobii Assistive Technology, Inc. in 2008 and Cambium Learning in 2007. Other intangible assets include tradenames/trademarks, reseller networks, customer relationships/lists, and conference attendee relationships, which are being amortized on a straight-line basis over estimated lives ranging from six to sixteen years. Other intangible assets are presented net of accumulated amortization of \$31.8 million and \$27.5 million as of yearend 2011 and 2010, respectively.

See Note 7 herein for further discussion of the Company's review of goodwill and the related impairment charges recognized in the years ended December 31, 2011 and 2009.

Depreciation and Amortization. Depreciation and amortization for the years ended December 31, 2011, 2010, and 2009 was broken out as follows:

(in thousands)	September 30, 2011	September 30, For the Years Ended December 31, 2010	September 30, 2009
Acquired publishing rights	\$ 11,846	\$ 13,605	\$ 13,949
Acquired curriculum and technology	10,179	11,632	1,852
Pre-publication costs	3,449	2,450	1,707
Internally developed software related to product	2,325	824	19
Total amortization included in cost of revenues	27,799	28,511	17,527
Tradenames and trademarks	1,431	1,467	1,349
Other intangible assets	2,869	4,534	6,555
Property, equipment and software	2,924	3,153	1,819
Total depreciation and amortization included in operating expenses	7,224	9,154	9,723
Total depreciation and amortization	\$ 35,023	\$ 37,665	\$ 27,250

Impairment of Long Lived Assets. The Company reviews the carrying value of definite-lived long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows. If the review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by either quoted market prices or discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. The determination whether the Company's definite-lived intangible assets are impaired involves significant assumptions and estimates, including projections of future cash flows, the percentage of future revenues and cash flows attributable to the intangible assets, asset lives used to generate future cash flows, and royalty relief savings attributable to trademarks. For the years ended December 31, 2011, 2010, and 2009, no impairment was indicated.

Deferred Costs. Certain up-front costs associated with completing the sale of the Company's products are deferred and recognized as the related revenue is recognized.

Advertising Costs. The Company, from time to time, ships products to prospective customers as samples. Samples costs are expensed to sales and marketing expense upon shipment and totaled \$2.3 million, \$3.2 million, and \$1.5 million for the years ended December 31, 2011, 2010, and 2009, respectively. Other costs of advertising, which include advertising, print, and photography expenses, are expensed as incurred and totaled \$1.5 million, \$1.3 million, and \$2.9 million for the years ended December 31, 2011, 2010, and 2009, respectively. The Company recognizes catalog expense when the catalog is mailed to potential customers.

Income Taxes. Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in every jurisdiction in which the Company does business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing whether deferred tax assets will be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that a portion of the deferred tax assets will not be realized, a valuation allowance is established. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company reevaluates its uncertain tax positions on a periodic basis, based on factors such as changes in facts and circumstances, changes in tax law, effectively settled issues under audit and new audit activity. The Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

Royalty Advances. Royalty advances to authors are capitalized and represent amounts paid in advance of the sale of an author's product. These costs are then expensed as the related publication is sold. The Company evaluates advances periodically to determine if they are expected to be utilized and reserves any portion of a royalty advance that is not expected to be recovered.

Sales Taxes. The Company reports sales taxes collected from customers and remitted to governmental authorities on a net basis. Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accrued expenses in the accompanying Consolidated Balance Sheets.

Stock-Based Compensation. The Company accounts for its stock-based compensation in accordance with applicable accounting guidance for share-based payments. This guidance requires all share-based payments to be recognized in the Consolidated Statement of Operations based on their fair values. Compensation costs for awards with graded vesting are recognized on a straight-line basis over the anticipated vesting period.

Recently Issued Financial Accounting Standards.

In January 2010, new guidance was issued regarding improving disclosures about fair value measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net, basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. The detailed disclosures of changes in Level 3 items were effective for the Company as of January 1, 2011 and the remaining new disclosure requirements were effective for the Company as of January 1, 2010. The Company has included these new disclosures, as applicable, in Note 13 to the Consolidated Financial Statements.

In December 2010, new guidance was issued regarding the disclosure of supplementary pro forma information for business combinations. This guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 with early adoption permitted. The Company will make the required disclosures for any significant business combination that closes on or after January 1, 2011.

In June 2011, new guidance was issued regarding the disclosure of the components of comprehensive income. This guidance gives the entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for interim and annual periods beginning after December 15, 2011 and is required to be adopted retrospectively. The Company will adopt this guidance beginning with its Form 10-Q for the quarter ending March 31, 2012.

In September 2011, new guidance was issued regarding testing goodwill for impairment. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities with the option of performing a qualitative assessment to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt the revised standard in 2012. The Company does not believe that the disclosure requirements of this standard will have a material effect on the Company's results of operations or financial position.

Note 3 Embezzlement

On April 26, 2008, the Company began an internal investigation that revealed irregularities over the control and use of cash and certain other general ledger accounts of the Company, revealing a misappropriation of assets (the "Embezzlement Matter"). These irregularities were perpetrated by a former employee over more than a three-year period beginning in 2004 and continuing through April 2008 with total embezzlement losses of approximately \$14.0 million. The Company has since incurred fees and expenses as a result of the embezzlement, net of recoveries, as follows: net fees and expenses of \$0.1 million in the year ended December 31, 2009; net recoveries of \$0.4 million in the year ended December 31, 2010; and net recoveries of \$3.1 million in the year ended December 31, 2011.

The 2011 net recoveries primarily consisted of cash recoveries and recoveries receivable that the Company obtained in the first quarter of 2012 of \$1.4 million and title to two properties purchased by the former employee with embezzled funds that had an appraised fair value at December 31, 2011 of approximately \$2.7 million, net of estimated selling expenses. These recoveries were recorded as reductions to Embezzlement and related expense (recoveries) in the consolidated statements of operations and the properties were recorded in the consolidated balance sheets as Assets held for sale. The 2011 recoveries were slightly offset by ongoing fees and expenses of \$0.2 million and warrant expense of \$0.8 million. The 2010 net recoveries primarily consisted of cash recoveries of \$0.6 million slightly offset by warrant expense of \$0.1 million and ongoing recovery fees and expenses of \$0.1 million. The charges incurred in 2009 primarily relate to ongoing recovery fees and expenses.

As a result of the cash recoveries noted above, warrants to purchase 151,493 shares of the Company's common stock were issued to VSS-Cambium Holdings III, LLC. Upon the sale of the recovered properties the Company will be required to issue additional warrants based on the amount of cash received, net of related expenses. The number of warrants to be issued will equal 0.45 multiplied by the quotient of the net cash recovery divided by \$6.50. The Company will be obligated to issue these warrants upon the sale of the properties; therefore, an estimated liability of \$0.7 million as of December 31, 2011 was recorded in Accrued expenses in the consolidated balance sheets.

See Note 17 to the consolidated financial statements for further information on the warrants.

Note 4 Acquisitions

Acquisition of Class.com

On October 6, 2011, the Company completed the acquisition of certain assets of Class.com, which provides high-quality, research proven, online instruction, supplemental education, and intervention programs through its fully accredited high school, Lincoln National Academy (LNA). LNA programs serve at-risk and general education students. LNA/Class.com partner with public schools throughout the country to provide programs that schools need to serve the wide range of student needs. LNA/Class.com is positioned as a leading provider of mastery-based student-directed learning as well as a master teacher through a blended model in a virtual world. The Company believes the acquisition will be beneficial as it will increase our product offerings in the high school market and our portfolio of student- and teacher-directed mastery-based products.

The transaction was accounted for as a purchase transaction with the Company acquiring certain of Class.com's assets for \$4.5 million in cash. The consolidated financial statements of the Company include the results of Class.com from October 6, 2011, the date of acquisition. The following represents the allocation of the purchase price:

	September 30,
(in thousands)	
Cash and cash equivalents	\$ 100
Other current assets	81
Property, equipment and software	334
Intangible assets	4,391
Curriculum in development	96
Accrued expenses	(42)
Deferred revenue	(441)
 Total net assets acquired	 \$ 4,519

Other identified intangibles acquired consist of the following:

(in thousands)	September 30, Asset Value	September 30, Useful Life
Curriculum and technology	4,112	7 years
Tradenames and trademarks	279	15 years

Supplemental Pro Forma Information

After the October 6, 2011 acquisition date, the Class.com acquisition contributed \$0.2 million of net revenues and a pretax loss of \$0.3 million to the 2011 results of the Company's Voyager segment. The following unaudited supplemental pro forma information presents the results of operations as if the Class.com acquisition occurred at the beginning of the reporting period:

	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2010
	(In thousands)	(In thousands)
	(unaudited)	(unaudited)
Net revenues	\$ 175,978	\$ 183,552
Loss before income taxes	(49,492)	(18,298)
Net loss	(49,503)	(17,653)
Net loss per share - basic and diluted	\$ (1.07)	\$ (0.40)

The supplemental pro forma information has been adjusted to include:

the pro forma impact of the amortization of intangible assets and the reduction in deferred revenue based on the purchase price allocation and

the pro forma tax effect of the merger, which was adjusted to remain consistent with the tax rate of the Company.

The pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, or any integration costs. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the respective reporting periods, nor is the pro forma data intended to be a projection of future results.

Acquisition of VLCY

On December 8, 2009, the Company acquired VLCY and its subsidiaries. The Company determined that the merger could capitalize upon potential strategic, operational and financial synergies to generate significant cash flow and strengthen the leadership position of Cambium and VLCY in education solutions for the pre-K-12 market. In reaching its decision to acquire VLCY, which resulted in the recognition of \$44.6 million of goodwill, there were a number of reasons why the Company believed the acquisition would be beneficial. These potential benefits included:

Capitalizing on the complementary nature of the companies' products to enhance certain products with minimal development costs, achieve critical mass in certain markets, facilitate the cross-selling of each other's products to established customers, and expand sales and marketing reach.

Leveraging the companies' combined implementation services and robust technological capabilities.

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Combining two experienced management teams to spread best practices , attract leading authors and programs, and acquire additional product lines and business as opportunities arise.

Increasing sales into existing and new markets of certain products through complementary sales channels.

The acquisition was accounted for as a purchase transaction. The consolidated financial statements of the Company include the results of VLCY from December 8, 2009, the date of acquisition. The purchase price was allocated among tangible and intangible assets acquired and liabilities assumed based on fair values at the transaction date. The excess of the purchase price over the acquired tangible and intangible assets and liabilities was recorded as goodwill. The Company acquired the stock of VLCY and, therefore, the additional goodwill resulting from this transaction is not expected to be tax deductible. Acquisition costs of \$13.6 million are included in general and administrative expenses in the Consolidated Statements of Operations for the year ended December 31, 2009.

Consideration to the VLCY shareholders consisted of:

at the election of the stockholder, either,

one share of Company common stock, or

\$6.50 in cash, limited to a maximum of \$67.5 million in the aggregate and prorated in accordance with the merger agreement;

plus, regardless of the election made,

an amount in cash equal to the amount of certain tax refunds specified in the merger agreement and received by VLCY prior to the closing of the mergers (reduced by the amount of the VLCY tax refunds contractually required to be placed in escrow at closing), divided by the total number of shares of VLCY common stock outstanding immediately prior to the effective time of the mergers; plus

a Contingent Value Right (CVR) to receive cash in an amount equal to the aggregate amount of specified tax refunds received after the closing of the mergers and various other amounts deposited in escrow on or after the closing date, reduced by any payments to be made under the escrow agreement entered into in connection with the mergers, with respect to agreed contingencies, a potential working capital adjustment and allowed expenses, divided by the total number of shares of VLCY common stock outstanding immediately prior to the effective time of the mergers.

Additionally, pursuant to the merger, a share-based award held by the Chief Executive Officer of VLCY was required to be converted into rights or options for shares of the Company with the same terms and conditions that were applicable to the rights or options for VLCY shares. Therefore, in accordance with applicable accounting guidance for business combinations, the fair value, prior to conversion, of replacement equity awards issued for pre-combination services at the date of acquisition is included in the calculation of the purchase price.

The following represents the components of the purchase price:

	September 30,
(in thousands)	
Cash paid to shareholders making the cash election	\$ 67,499
Cash paid to shareholders for specified tax refunds	15,523
Fair value of shares of Company issued to shareholders	76,907
Fair value of equity awards converted at acquisition	22
Fair value of the Contingent Value Rights	9,617
Total consideration	\$ 169,568

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The fair value of Company shares issued to VLCY shareholders of \$76.9 million was determined using a per share value of \$3.94 multiplied by the 19.5 million shares issued. The \$3.94 fair value per share was determined using a volume-weighted average of the five days before and after the end of a settling in period that the Company determined began as of the date trading began on December 9, 2009 and continued through December 31, 2009.

The fair value of the liability for the CVRs is determined using a probability weighted cash flow analysis which takes into consideration the likelihood, amount and timing of cash flows of each element of the pool of assets and liabilities included in the CVR. The determination of fair value of the CVRs involves significant assumptions and estimates, which are reviewed at each quarterly reporting date. During 2011, a loss of \$1.3 million was recorded in general and administrative expense to reflect an increase in the estimated fair value of the CVR liability. As of December 31, 2011, a fair value of \$6.7 million has been recorded as a liability for the remaining CVR payments. The ultimate value of the remaining CVR payments is not known at this time; however, it could range from zero to a maximum possible value of approximately \$7.4 million. Future changes in the estimate of the fair value of the CVRs will impact results of operations and could be material. As of December 31, 2011, restricted assets in an escrow account for the benefit of the CVRs were \$3.0 million. See Note 13 for further information on the fair value of the CVRs and related escrow trust.

The first and second CVR payment dates were in September 2010 and June 2011, with \$1.1 million and \$2.0 million, respectively, distributed to the escrow agent at those times for distribution to holders of the CVRs. The next scheduled distribution, if any, will be made no later than October 2013 and relates to a potential tax indemnity obligation. Additionally, as described in Note 19, any amounts due to CVR holders as a result of refunds received related to the Michigan tax payment will be distributed upon the final resolution of this agreed contingency.

The following represents the allocation of the purchase price:

	September 30,
(in thousands)	
Cash and cash equivalents	\$ 73,325
Accounts receivable	10,883
Income tax receivable	4,713
Inventory	11,687
Other current assets	11,919
Property, equipment and software	3,216
Intangible assets	50,249
Curriculum in development	909
Other assets	11,891
Accounts payable and accrued expenses	(14,835)
Deferred revenue	(21,774)
Capital lease obligations	(187)
Other liabilities	(17,075)
Goodwill	44,647
Total net assets acquired	\$ 169,568

Other identified intangibles acquired consist of the following:

	September 30, Voyager (in thousands)	September 30, Cambium Learning Technologies	September 30, Useful Life
Curriculum and technology	\$ 23,700	\$ 19,000	7 years
Customer relationships	3,880	1,500	7 years
Tradenames and trademarks	1,610	559	15 years

Goodwill purchased in the acquisition was allocated to the Company's Voyager and Cambium Learning Technologies reporting units as \$24.9 million and \$19.7 million, respectively. Valuations were established giving consideration to the three basic approaches to value with the method or methods applied for each asset depending on the nature of the asset and the type and reliability of information available for the analysis and were based upon the Company's projected revenue growth assumptions through each asset's estimated useful life. Discounted cash flows were based upon the Company's weighted-average cost of capital of 25% and an estimated effective tax rate of 38% at the time of the mergers. Curriculum and technology and customer relationships were valued using a form of the income approach known as the excess earnings method. Tradenames and trademarks were valued using a form of the income approach known as the relief-from-royalty method.

Supplemental Pro Forma Information

After the December 8, 2009 acquisition date, the VLCY acquisition contributed \$4.5 million of net revenues and a pretax loss of \$1.5 million to the Company's consolidated 2009 results. The following unaudited supplemental pro forma information presents the results of operations as if the VLCY acquisition had occurred at the beginning of the reporting period:

(in thousands) (unaudited)	September 30, Year Ended December 31, 2009
Net revenues	\$ 188,211
Loss before income taxes	(61,270)
Net loss	(61,270)
Net loss per share - basic and diluted	\$ (1.38)

The supplemental pro forma information has been adjusted to include:

the pro forma impact of the amortization of intangible assets and the reduction in deferred revenue and related deferred costs based on the purchase price allocation;

the pro forma impact of reduced interest income lost as a result of the \$58.0 million of cash used in the purchase price consideration (net of \$25.0 million contributed by the sole stockholder of the Company at the time of the merger);

the pro forma impact of certain employment agreements and stock option grants entered into on the effective date of the merger, as well as the impact of certain contractual obligations, severance, retention, and other payments that became payable as a result of the merger;

the elimination of merger transaction costs incurred by the Company and VLCY; and

the pro forma tax effect of the merger, which was estimated using a combined company effective tax rate of 0%.

Basic and diluted loss per share is calculated using share equivalents outstanding at the merger date of 44.3 million.

The pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, or any integration costs. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred at the beginning of the respective reporting periods, nor is the pro forma data intended to be a projection of future results.

Note 5 Income Taxes

Losses before income taxes for the years ended December 31, 2011, 2010 and 2009 were all attributable to the United States.

Income tax expense (benefit) attributable to income included the following:

(in thousands)	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
Current income tax expense (benefit):			
United States federal	\$ 52	\$ 1	\$
State and local	537	888	272
Current income tax expense	589	889	272
Deferred income tax expense (benefit):			
United States federal	49		(5,571)
State and local	(627)	(1,472)	(2,405)
Deferred income tax benefit	(578)	(1,472)	(7,976)
Income tax expense (benefit)	\$ 11	\$ (583)	\$ (7,704)

Reconciliation of income tax expense (benefit) and the domestic federal statutory income tax benefit is as follows:

(in thousands)	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
Statutory federal income tax benefit	\$ (17,300)	\$ (5,787)	\$ (15,214)
Increase (reduction) from:			
State taxes (net of federal benefit)	(90)	(584)	(1,378)
Goodwill impairment	13,166		3,187
Merger transaction expenses			4,745
Change in valuation allowance	4,534	6,436	625
Other	(299)	(648)	331
Income tax expense (benefit)	\$ 11	\$ (583)	\$ (7,704)

Deferred income taxes are primarily provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The tax effects of each type of temporary difference and carryforward that give rise to a significant portion of deferred tax assets (liabilities) at the end of fiscal 2011 and 2010 were as follows:

(in thousands)	September 30, 2011	September 30, 2010
Deferred tax assets are attributable to:		
Net operating loss carryforwards	\$ 16,923	\$ 18,682
Tax credit carryforwards	7,674	7,673
Reserves	4,928	4,940
Inventory	5,715	5,697
Deferred financing costs	482	1,569
Embezzlement loss	730	1,404
Fixed assets	994	1,472
Deferred revenue	409	
Other	1,297	728
Total gross deferred tax assets	39,152	42,165
Valuation allowance	(22,807)	(18,645)
Net deferred tax assets	16,345	23,520
Deferred tax liabilities are attributable to:		
Intangibles	(16,637)	(24,308)
Deferred revenue		(38)
Total gross deferred tax liabilities	(16,637)	(24,346)
Net deferred tax liability	\$ (292)	\$ (826)

The deferred tax asset (liability) is classified as follows:

(in thousands)	September 30, 2011	September 30, 2010
Short-term deferred tax asset	\$ 2,829	\$ 3,703
Long-term deferred tax liability	(3,121)	(4,529)
Net deferred tax asset (liability)	\$ (292)	\$ (826)

The net increase in the valuation allowance in 2011 and 2010 was \$4.2 million and \$4.3 million, respectively. The valuation allowance increased primarily because it offset the increase in the deferred tax asset derived from pre-tax losses. As of December 31, 2011, there is no amount of the valuation allowance for which subsequently recognized benefits will be allocated to reduce goodwill.

At December 31, 2011, the amounts and expiration dates of loss and tax credit carryforwards were as follows:

(in thousands)	September 30, Amount as of December 31, 2011	September 30, Expire or start expiring at the end of:
U.S. net operating loss ⁽¹⁾	\$ 45,160	2028
State net operating loss carryforward (net):		
State tax net operating losses	1,116	2012 - 2028
Tax credits:		
Minimum tax credit	7,427	Carry forward indefinitely
Other tax credits	247	2014 - 2021
Total tax credits	\$ 7,674	

(1) \$28.6 million of the U.S net operating loss (NOL) above is related to the VLCY acquisition. The utilization of this NOL is subject to an annual limitation of \$7.1 million.

Income taxes paid, net of tax refunds, were \$60 thousand and \$15 thousand for fiscal years 2011 and 2010, respectively. Income taxes refunded, net of tax payments, were \$3.1 million for fiscal year 2009. \$1.1 million, \$0.1 million and \$3.4 million of the income taxes received during 2011, 2010 and 2009, respectively, were deposited into escrow pursuant to the CVR obligation in connection with the merger agreement and were subsequently distributed to the holders of the CVRs.

Uncertain Tax Positions

The Company recognizes the financial statement impacts of a tax return position when it is more likely than not, based on technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, the Company applies judgment, taking into account applicable tax laws, experience managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in the financial statements. For each position, the difference between the benefit realized on the Company's tax return and the benefit reflected in the financial statements is recorded on the Consolidated Balance Sheets as an unrecognized tax benefit (UTB). The Company updates its UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with tax authorities. A reconciliation of the change in the UTB balance from January 1, 2011 to December 31, 2011, and January 1, 2010 to December 31, 2010, is as follows:

(in thousands)	September 30, 2011	September 30, 2010
Balance at the beginning of the year	\$ 7,198	\$ 15,437
Decreases for expiration of the statute of limitations	(35)	(5,058)
Decreases relating to settlements	(22)	(3,181)
Balance at the end of the year	\$ 7,141	\$ 7,198

Included in the balance of unrecognized tax benefits at December 31, 2011 are approximately \$0.8 million of tax benefits that, if recognized, would affect the effective tax rate. The recognition of the remaining uncertain tax positions would not affect the effective tax rate, but would instead increase or would have increased available tax attributes. However, the recognition of the tax attribute would be offset by an increase in the deferred tax asset valuation allowance resulting in no net impact in the effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company recognized no penalties and immaterial amounts for interest (gross) during 2011 and, as of December 31, 2011, has a liability for interest (gross) of approximately \$0.1 million.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. All U.S. tax years prior to 2008 related to the VLCY acquired entities have been audited by the Internal Revenue Service. Cambium and its subsidiaries have been examined by the Internal Revenue Service through the end of 2006. Various state tax authorities are in the process of examining income tax returns for various tax years through 2007.

Note 6 Property, Equipment and Software

Balances of major classes of assets and accumulated depreciation and amortization consist of the following:

	September 30, Year Ended December 31, 2011	September 30, 2010
Land and building	\$ 13,360	\$ 13,360
Furniture and fixtures	1,256	1,187
Machinery, computers and equipment	8,242	6,947
Software	18,356	10,431
Leasehold improvements	1,664	1,019
Total	42,878	32,944
Less accumulated depreciation and amortization	12,968	7,838
Property, equipment and software, net	\$ 29,910	\$ 25,106

Note 7 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and December 31, 2010 are as follows:

	September 30, Voyager	September 30, Sopris Learning	September 30, Cambium Learning Technologies	September 30, Total
(in thousands)				
Balance as of December 31, 2009				
Goodwill	\$ 161,156	\$ 17,300	\$ 58,530	\$ 236,986
Accumulated impairment losses	(85,071)			(85,071)
	76,085	17,300	58,530	151,915
Goodwill impairment				
Goodwill from acquisitions				
Balance as of December 31, 2010				
Goodwill	161,156	17,300	58,530	236,986
Accumulated impairment losses	(85,071)			(85,071)
	76,085	17,300	58,530	151,915
Goodwill impairment	(19,174)		(18,444)	(37,618)
Goodwill from acquisitions				
Balance as of December 31, 2011				
Goodwill	161,156	17,300	58,530	236,986
Accumulated impairment losses	(104,245)		(18,444)	(122,689)
	\$ 56,911	\$ 17,300	\$ 40,086	\$ 114,297

In accordance with applicable accounting guidance, goodwill and other indefinite-lived intangible assets are not amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. The Company's annual impairment testing is performed as of December 1 of each year.

The Company performed the 2010 and 2011 yearend impairment analyses using four reporting units: Voyager; Sopris Learning; the Learning A-Z and ExploreLearning product lines from the Cambium Learning Technologies segment; and the Kurzweil and IntelliTools product lines from the Cambium Learning Technologies segment ("KI"). As noted in the table above, the goodwill balances reported by the Voyager and Sopris Learning reporting units at December 31, 2010 and prior to the 2011 annual impairment review were \$76.1 million and \$17.3 million, respectively. Of the goodwill balance recorded in the Cambium Learning Technologies segment, \$38.8 million is attributable to the Kurzweil and IntelliTools reporting unit and \$19.7 million is attributable to the Learning A-Z and Explore Learning reporting unit.

In the first step of the impairment test for fiscal year 2011, the fair market value of each reporting unit was determined using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including 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 were 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 was a weighted-average cost of capital and took into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and

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other relevant factors. The fair values of each reporting unit also took into consideration a market approach, based on historical and projected multiples of certain guideline companies. The first step of impairment testing for fiscal 2011 showed that the carrying value of the Voyager and KI reporting units exceeded their respective fair values and that the second step of testing was required. The calculated fair values of each of the other reporting units exceeded their carrying values by at least 10%; therefore, no second step of testing was required.

The second step requires the allocation of the 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. As a result of the second step of our fiscal 2011 impairment test, the goodwill balances for the Voyager and KI reporting units were determined to be partially impaired, and impairment charges of \$19.2 million and \$18.4 million, respectively, were recorded as of December 1, 2011. The goodwill impairment charges were primarily the result of declines in order volumes in 2011 and the expected near term impact of continued funding pressures on these two reporting units. Although we believe that key federal and state funding programs will continue to encourage school districts to address the needs of at-risk and special education students, we expect that governmental spending austerity and the challenging educational funding environment will continue in the short term.

Although management has included its best estimates of the impact of these and other factors in our cash flow projections, the projection of future cash flows is inherently uncertain and requires a significant amount of judgment. Actual results that are significantly different than these cash flow projections or a change in the discount rate could significantly affect the fair value estimates used to value our reporting units in step one of the goodwill analysis or the fair values of our other asset and liability balances used in step two of the goodwill analysis, and could result in future goodwill impairments.

In the first step of the impairment test for fiscal year 2010, the fair market value of each reporting unit was determined using an income approach and was dependent on multiple assumptions and estimates, including 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 were 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 was a weighted-average cost of capital and took 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. The first step of impairment testing for fiscal 2010 showed that the fair value of each reporting unit exceeded its carrying value by at least 10%; therefore, no second step of testing was required.

In June 2009, the Company determined that the signing of the merger agreement was a triggering event requiring it to review goodwill for impairment. At the time of this review, the Company had two reporting units: Published Products and Learning Technologies. The first step of impairment testing as of June 30, 2009 showed that the carrying value of the Published Products unit exceeded its fair value and that the second step of testing was required for this unit. 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. The fair value was determined using an income approach based on forecasted operating results. As a result of the second step of the Company's second quarter 2009 impairment test, the goodwill balance for the reporting unit as of the measurement date was determined to be partially impaired, and an impairment charge of \$9.1 million was recorded as of June 30, 2009. As of the second quarter 2009, the estimated fair market value of the reporting unit was estimated to have fallen below the book value as a result of worsening and prolonged adverse developments in the overall education funding environment, including the reductions in Reading First funding effective 2008 and the reductions in available state and local funds.

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The Company's definite lived intangible assets and related accumulated amortization at the end of fiscal 2011 and 2010 consist of the following:

(in thousands)	Balance at December 31, 2009	Additions	Disposals	Balance at December 31, 2010	Additions	Disposals	Balance at December 31, 2011
Other intangible assets - gross book value:							
Publishing rights	\$ 90,300	\$	\$	\$ 90,300	\$	\$	\$ 90,300
Trademark	17,749			17,749	279		18,028
Customer relationships	19,119		(39)	19,080			19,080
Contracts	2,100		(2,100)				
Acquired curriculum and technology	49,021			49,021	4,112	(21)	53,112
Reseller network	12,300			12,300			12,300
Conference attendees	500			500			500
Non-compete	2,600		(2,600)				
Total other intangibles - gross book value	193,689		(4,739)	188,950	4,391	(21)	193,320
Other intangible assets - accumulated amortization:							
Publishing rights	(37,988)	(13,605)		(51,593)	(11,846)		(63,439)
Trademark	(3,809)	(1,467)		(5,276)	(1,431)		(6,707)
Customer relationships	(10,090)	(2,585)	39	(12,636)	(1,701)		(14,337)
Contracts	(2,042)	(58)	2,100				
Acquired curriculum and technology	(4,326)	(11,632)		(15,958)	(10,179)	21	(26,116)
Reseller network	(7,558)	(1,595)		(9,153)	(1,136)		(10,289)
Conference attendees	(379)	(53)		(432)	(32)		(464)
Non-compete	(2,357)	(243)	2,600				
Total other intangibles - accumulated amortization	(68,549)	(31,238)	4,739	(95,048)	(26,325)	21	(121,352)
Other intangible assets, net	\$ 125,140	\$ (31,238)	\$	\$ 93,902	\$ (21,934)	\$	\$ 71,968

Estimated aggregate amortization expense expected for each of the next five years related to intangibles subject to amortization is as follows:

(in thousands)	September 30, Amortization - Cost of Revenues	September 30, Amortization - Operating Expense	September 30, Total Amortization
2012	\$ 18,513	\$ 3,460	\$ 21,973
2013	13,557	2,798	16,355
2014	9,678	2,455	12,133
2015	6,525	2,193	8,718
2016	3,859	1,953	5,812
Thereafter	1,725	5,252	6,977
	\$ 53,857	\$ 18,111	\$ 71,968

Note 8 Other Current Assets

Other current assets at the end of fiscal 2011 and 2010 consist of the following:

(in thousands)	September 30, 2011	September 30, 2010
Deferred costs	\$ 2,714	\$ 2,163
Prepaid expenses	1,503	1,463
Income taxes receivable		249
Other current assets	518	62
Total	\$ 4,735	\$ 3,937

Note 9 Other Assets

Other assets at the end of fiscal 2011 and 2010 consist of the following:

(in thousands)	September 30, 2011	September 30, 2010
Tax receivables	\$ 11,039	\$ 11,168
Deferred financing costs	7,706	1,542
Collateral investments	1,967	1,964
Other	1,756	813
Total	\$ 22,468	\$ 15,487

Tax receivables include the \$11.0 million receivable from the state of Michigan as discussed in Note 19 to the Consolidated Financial Statements. The deferred financing costs represent costs incurred in connection with the issuance of the \$175 million aggregate principal amount of 9.75% senior secured notes as described in Note 14 to the Consolidated Financial Statements.

Note 10 Accrued Expenses

Accrued expenses at the end of fiscal 2011 and 2010 consist of the following:

(in thousands)	September 30, 2011	September 30, 2010
Salaries, bonuses and benefits	\$ 7,688	\$ 10,183
Accrued interest	6,503	
Accrued royalties	1,689	3,220
Pension and post-retirement medical benefits	1,221	1,209
Deferred compensation	98	525
Other	4,004	7,751
Total	\$ 21,203	\$ 22,888

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Accrued interest at December 31, 2011 primarily relates to our 9.75% senior secured notes. The notes require semi-annual interest payments in arrears on each February 15 and August 15 over the life of the notes.

Note 11 Other Liabilities

Other liabilities at the end of fiscal 2011 and 2010 consist of the following:

(in thousands)	September 30, 2011	September 30, 2010
Pension and post-retirement medical benefits, long-term portion	\$ 11,110	\$ 10,847
Long-term deferred tax liability	3,121	4,529
Long-term income tax payable	803	847
Long-term deferred compensation	544	613
Other	2,548	3,111
 Total	 \$ 18,126	 \$ 19,947

See Note 15 for further description of the Company's pension benefits.

Note 12 Leases*Capital Lease Obligations*

The Company leases a warehouse, office space and certain administrative equipment under capital lease agreements with original lease terms up to 10 years. Capital leases that exist as of yearend 2011 expire no later than 2016.

The Company has a build-to-suit lease for warehouse and office space in Frederick, Colorado. The lease requires minimum monthly rents that expire on October 31, 2016. The lease is renewable at the Company's option for two additional periods of five years each. The Company has an outstanding letter of credit in the amount of \$1.0 million to secure the lease. The Company evaluated the provisions of the accounting guidance relating to the effect of a lessee's involvement in an asset construction and concluded that due to the Company's collateral to the landlord, in the form of the \$1.0 million letter of credit, that it is deemed the owner of the land and building for accounting purposes. As a result, the related capitalized costs for this facility in Frederick, Colorado are classified as land and building and are included in property, plant and equipment, net, in the accompanying Consolidated Balance Sheets. A corresponding liability is included in the current portion of capital lease obligations and capital lease obligations, less current portion. The cost of the building is being depreciated over a 35-year useful life. The amount of the depreciation expense was \$0.4 million for each year presented. Additionally, the obligation will be reduced over the life of the lease at an interest rate of 5.54%. At the end of the original lease term, the land and building, net of accumulated depreciation, and the remaining liability will equal \$9.8 million. The gross value of assets leased under the build-to-suit lease was \$13.4 million at December 31, 2011 and December 31, 2010, which is included in the Land and Building category in Property, Equipment and Software. The accumulated amortization of these leased capital assets was \$1.7 million and \$1.4 million at December 31, 2011 and December 31, 2010, respectively.

The gross value of other leased capital assets used for administrative purposes was \$1.5 million and \$0.1 million at December 31, 2011 and December 31, 2010, respectively. \$0.1 million of the 2011 leased capital assets and all of the 2010 leased capital assets are included in the Machinery, Computers and Equipment category in Property, Equipment and Software. The remaining \$1.4 million of the 2011 leased capital assets are included in the Software category in Property, Equipment and Software. The accumulated amortization of leased capital assets was \$0.3 million and \$0.1 million at December 31, 2011 and December 31, 2010, respectively. Amortization of capital lease assets is recognized over the term of the lease on a straight line basis and included in depreciation and amortization expense.

On February 15, 2012, the Company's Board of Directors approved a plan to outsource warehouse operations to a third party logistics provider, Ozburn-Hessey Logistics, LLC (OHL), and to cease use of the leased facility in Frederick, Colorado that includes the Company's warehouse and other office space. Warehouse operations in Frederick are expected to be transferred to OHL and the facility be made available for sublease in the quarter ending June 30, 2012. See Note 24 for further information on this action.

Operating Leases

The Company leases certain facilities and equipment for production, selling and administrative purposes under agreements with original lease periods up to 10 years. Leases generally include provisions requiring payment of taxes, insurance, and maintenance on the leased property. Some leases include renewal options and rent escalation clauses, and certain leases include options to purchase the leased property during or at the end of the lease term.

Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the commencement date defined in the relevant lease agreement. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the initial lease term. Operating rent expense was \$2.2 million, \$2.4 million, and \$1.1 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

Future minimum build-to-suit and capital lease payments under long-term non-cancelable leases, and the related present value of capital lease payments at December 31, 2011 are as follows:

	September 30,
(in thousands)	
2012	\$ 1,556
2013	1,538
2014	1,138
2015	1,160
2016	967
Thereafter	
Total minimum lease payments	6,359
Less: Amount representing interest	(3,086)
Present value of net minimum lease payments	3,273
Less: Current portion	(826)
Add: Remaining liability at end of build-to-suit lease	9,847
Capital lease obligations, less current portion	\$ 12,294

Future minimum payments under all remaining non-cancelable operating leases are payable as follows:

	September 30,
(in thousands)	
2012	\$ 2,331
2013	1,810
2014	1,154
2015	848
2016	694
Thereafter	1,368
Total minimum lease payments	\$ 8,205

Note 13 Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability (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. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.

Level 3 Valuations derived from valuation techniques in which significant value drivers are unobservable.

Applicable guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As of December 31, 2011, financial instruments include \$63.2 million of cash and cash equivalents, restricted assets of \$12.5 million, collateral investments of \$2.0 million, \$174.2 million of senior secured notes, \$0.5 million of warrants, assets held for sale of \$2.7 million, and \$6.7 million in CVRs. As of December 31, 2010, financial instruments include \$11.8 million of cash and cash equivalents, restricted assets of \$15.7 million, collateral investments of \$2.0 million, the \$95.4 million senior secured credit facility, the \$56.7 million senior unsecured notes, \$0.4 million of warrants, and \$7.4 million in CVRs. The fair market values of cash equivalents and restricted assets are equal to their carrying value, as these investments are recorded based on quoted market prices and/or other market data for the same or comparable instruments and transactions as of the end of the reporting period. The fair values of the properties held for sale were determined by an independent appraisal conducted by a licensed realtor based on the values of similar properties in the area. These properties were acquired by the Company as a result of its recovery efforts in connection with the employee embezzlement matter described in Note 3.

As of December 31, 2011, the fair value of the senior secured notes was \$169.8 million based on quoted market prices in active markets for these debt instruments when traded as assets.

Assets and liabilities measured at fair value on a recurring basis are as follows:

(in thousands)	September 30, As of December 31, 2011	September 30, Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value at Reporting Date Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value at Reporting Date Using Significant Unobservable Inputs (Level 3)	September 30, Year-to-Date Total Gains (Losses)
Description					
Restricted Assets:					
Money Market	\$ 12,475	\$ 12,475	\$	\$	\$
Collateral Investments:					
Money Market	902	902			
Certificate of Deposit	1,065	1,065			
Warrant	456		456		70
Assets held for sale	2,727		2,727		
CVRs	6,684			6,684	(1,308)

(in thousands)	September 30, As of December 31, 2010	September 30, Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value at Reporting Date Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value at Reporting Date Using Significant Unobservable Inputs (Level 3)	September 30, Year-to-Date Total Gains (Losses)
Description					
Restricted Assets:					
Money Market	\$ 15,705	\$ 15,705	\$	\$	\$
Collateral Investments:					
Money Market	901	901			
Certificate of Deposit	1,063	1,063			
Warrant	360		360		23
Interest rate swap					992
CVRs	7,369			7,369	1,124

The warrant was valued as described in Note 17 below.

In accordance with the provisions in the accounting guidance for intangibles goodwill and other, for the year ended December 31, 2009, goodwill with a carrying amount of \$161.0 million was written down to \$151.9 million, resulting in an impairment charge of \$9.1 million, which was included in earnings for the period. In the year ended December 31, 2011, an additional impairment charge of \$37.6 million was recorded in earnings to reduce goodwill to \$114.3 million. See Note 7 above for further information on the Company's annual impairment analyses.

The fair value of the liability for the CVRs is determined using a probability weighted cash flow analysis which takes into consideration the likelihood, amount and timing of cash flows of each element of the pool of assets and liabilities included in the CVR. The determination of fair value of the CVRs involves significant assumptions and estimates, which are reviewed at each quarterly reporting date. During 2011, a loss of \$1.3 million was recorded in general and administrative expense to reflect an increase in the estimated fair value of the CVR liability. As of December 31, 2011, a fair value of \$6.7 million has been recorded as a liability for the remaining CVR payments. The ultimate value of the remaining CVR payments is not known at this time; however, it could range from zero to a maximum possible value of approximately \$7.4 million. Future changes in the estimate of the fair value of the CVRs will impact results of operations and could be material. A detail of the elements included in the CVR is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs (In thousands) Loss (Gain) for Changes				Estimated Fair Value
	Estimated Fair Value as of Merger Date	2009	2010	2011	as of December 31, 2011
Components of CVR Liability:					
Tax refunds received before closing of the merger	\$ 1,583	\$	\$	\$	\$ 1,583
Other specified tax refunds	5,932		(1,431)	296	4,797
Tax indemnity obligation	1,717				1,717
Legal receivable	2,400				2,400
Michigan state tax liability	(900)		(140)	788	(252)
Other specified tax related liabilities	(579)		447	79	(53)
Costs incurred to collect tax refunds and by stockholders representative	(536)	(18)		145	(409)
Estimated fair value of CVR liability	9,617	(18)	(1,124)	1,308	9,783
Payments to holders of CVRs					3,099
Remaining estimated CVR liability					\$ 6,684

As of December 31, 2011, restricted assets in an escrow account for the benefit of the CVRs were \$3.0 million, with activity as follows. The escrow account includes \$3.0 million for a potential tax indemnity obligation, which, if such obligation is not triggered, will benefit the CVRs by \$1.9 million with the remainder reverting back to general cash of the Company.

	September 30, CVR Escrow Trust (In thousands)
Balance as of December 31, 2009	\$ 7,946
Tax refunds received	370
Funds received for legal receivable	2,400
Payments of specified liabilities	(5,280)
Payments to holders of CVRs	(1,106)
Costs incurred to collect tax refunds and by stockholders representative	(152)
Interest income	1
Balance as of December 31, 2010	4,179
Tax refunds received	1,053
Payments to holders of CVRs	(1,993)
Costs incurred to collect tax refunds and by stockholders representative	(238)
Balance as of December 31, 2011	\$ 3,001

Note 14 Debt

Long-term debt consists of the following at December 31, 2011 and 2010:

(in thousands)	September 30, December 31, 2011	September 30, December 31, 2010
\$175.0 million of 9.75% senior secured notes due February 15, 2017, interest payable semiannually	\$ 175,000	\$
Less: Unamortized discount	(835)	