CAMBIUM LEARNING GROUP, INC.
Form 10-Q
November 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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	**27-0587428**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
17855 North Dallas Parkway, Suite 400, Dallas, Texas	**75287**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	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 x

The number of shares of the registrant s common stock, $0.001 par value per share, outstanding as of October 31, 2012 was 48,293,054.

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Part I. Financial Information

Item 1. Financial Statements.

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net revenues	$ 45,958	$ 52,906	$ 114,242	$ 140,792
Cost of revenues:				
Cost of revenues	14,274	16,318	39,837	45,104
Amortization expense	7,035	6,962	19,984	20,424
Total cost of revenues	21,309	23,280	59,821	65,528
Research and development expense	2,622	2,199	8,606	7,093
Sales and marketing expense	11,331	11,817	35,268	35,594
General and administrative expense	4,837	4,795	15,643	16,136
Shipping and handling costs	1,204	844	2,485	1,995
Depreciation and amortization expense	1,592	1,858	4,842	5,342
Goodwill impairment			14,700	
Embezzlement and related expense (recoveries)	493	(56)	452	(2,452)
Impairment of long-lived assets	236		3,347	
Total costs and expenses	43,624	44,737	145,164	129,236
Income (loss) before interest, other income (expense) and income taxes	2,334	8,169	(30,922)	11,556
Net interest expense	(4,628)	(4,950)	(14,032)	(14,237)
Other income, net	163		236	365
Income (loss) before income taxes	(2,131)	3,219	(44,718)	(2,316)
Income tax expense	(104)	(155)	(258)	(570)
Net income (loss)	$ (2,235)	$ 3,064	$ (44,976)	$ (2,886)
Other comprehensive income (loss):				
Amortization of net pension loss	9		26	
Realized gain on available for sale securities	(1)		(1)	
Comprehensive income (loss)	$ (2,227)	$ 3,064	$ (44,951)	$ (2,886)
Net income (loss) per common share:				
Basic net income (loss) per common share	$ (0.05)	$ 0.07	$ (0.90)	$ (0.06)

Diluted net income (loss) per common share	$	(0.05)	$	0.07	$	(0.90)	$	(0.06)
Average number of common shares and equivalents outstanding:								
Basic		49,284		46,743		49,722		44,911
Diluted		49,284		47,130		49,722		44,911

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

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,139	$ 63,191
Accounts receivable, net	32,915	13,485
Inventory	18,937	21,561
Deferred tax assets	2,800	2,829
Restricted assets, current	4,389	1,393
Assets held for sale	1,847	2,727
Other current assets	5,553	4,735
Total current assets	101,580	109,921
Property, equipment and software at cost	34,667	42,878
Accumulated depreciation and amortization	(13,023)	(12,968)
Property, equipment and software, net	21,644	29,910
Goodwill	99,597	114,297
Acquired curriculum and technology intangibles, net	19,966	26,996
Acquired publishing rights, net	19,910	26,861
Other intangible assets, net	15,517	18,111
Pre-publication costs, net	12,009	10,034
Restricted assets, less current portion	7,063	11,082
Other assets	21,505	22,468
Total assets	$ 318,791	$ 369,680

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

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2012 (unaudited)	December 31, 2011
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Capital lease obligations, current	$ 1,278	$ 826
Accounts payable	4,402	3,024
Contingent value rights, current	1,717	
Accrued expenses	17,335	21,203
Deferred revenue, current	45,237	38,984
Total current liabilities	69,969	64,037
Long-term liabilities:		
Long-term debt	174,287	174,165
Capital lease obligations, less current portion	3,243	12,294
Deferred revenue, less current portion	4,441	4,304
Contingent value rights, less current portion	5,128	6,684
Other liabilities	16,994	18,126
Total long-term liabilities	204,093	215,573
Commitments and contingencies (See Note 14)		
Stockholders equity:		
Preferred stock ($.001 par value, 15,000 shares authorized, zero shares issued and outstanding at September 30, 2012 and December 31, 2011)		
Common stock ($.001 par value, 150,000 shares authorized, 51,208 and 51,162 shares issued, and 48,370 and 49,518 shares outstanding at September 30, 2012 and December 31, 2011, respectively)	51	51
Capital surplus	282,147	281,240
Accumulated deficit	(229,635)	(184,659)
Treasury stock at cost (2,838 and 1,644 shares at September 30, 2012 and December 31, 2011, respectively)	(6,228)	(4,931)
Other comprehensive income (loss):		
Pension and postretirement plans	(1,606)	(1,632)
Net unrealized gain on securities		1
Accumulated other comprehensive loss	(1,606)	(1,631)
Total stockholders equity	44,729	90,070
Total liabilities and stockholders equity	$ 318,791	$ 369,680

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

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(unaudited)	
Operating activities:		
Net loss	$ (44,976)	$ (2,886)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	24,826	25,766
Goodwill impairment	14,700	
Loss (Gain) from recovery of property held for sale	880	(2,727)
Amortization of note discount and deferred financing costs	1,308	1,078
Impairment of long-lived assets	3,347	
Change in fair value of contingent value rights obligation	161	520
Loss on disposal of assets	68	
Stock-based compensation and expense	518	953
Changes in operating assets and liabilities:		
Accounts receivable, net	(19,430)	655
Inventory	2,624	1,265
Other current assets	(818)	(560)
Other assets	(223)	316
Restricted assets	1,023	2,906
Accounts payable	1,378	(4,600)
Accrued expenses	(3,868)	(1,759)
Deferred revenue	6,390	5,923
Other long-term liabilities	(689)	(637)
Net cash (used in) provided by operating activities	(12,781)	26,213
Investing activities:		
Cash paid for acquisitions		(1,993)
Proceeds from sale of property, equipment, and software	264	
Expenditures for property, equipment, software and pre-publication costs	(13,317)	(10,559)
Net cash used in investing activities	(13,053)	(12,552)
Financing activities:		
Proceeds from debt		174,024
Repayment of debt		(152,130)
Deferred financing costs		(7,984)
Principal payments under capital lease obligations	(921)	(659)
Stock repurchases	(1,297)	(4,931)
Proceeds from issuance of common stock for subscription rights		20,000
Net cash (used in) provided by financing activities	(2,218)	28,320

Increase (decrease) in cash and cash equivalents	(28,052)	41,981
Cash and cash equivalents, beginning of period	63,191	11,831
Cash and cash equivalents, end of period	$ 35,139	$ 53,812
Non-cash acquisition through capital leases	$	$ 1,165

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

Cambium Learning Group, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

Presentation. The Condensed Consolidated Financial Statements include the accounts of Cambium Learning Group, Inc. and subsidiaries (the Company) and are unaudited. The Condensed Consolidated Balance Sheet as of December 31, 2011 has been derived from audited financial statements. All intercompany transactions are eliminated.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) have been omitted. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Due to seasonality, the results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

The preparation of financial statements in conformity with GAAP 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.

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

Note 2 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 at September 30, 2012 and December 31, 2011. 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 return as well as other factors that in the Company s judgment could reasonably be expected to cause sales returns to differ from historical experience.

Note 3 Stock-Based Compensation and Expense

The decline in stock-based compensation and expense in the nine months ended September 30, 2012 is primarily due to a decline in the fair value of outstanding warrants.

The total amount of pre-tax expense for stock-based compensation and expense was allocated as follows:

(in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cost of revenues	$ 13	$ 13	$ 38	$ 43
Research and development expense	31	23	91	88
Sales and marketing expense	31	32	87	110
General and administrative expense	238	281	302	712
Total	$ 313	$ 349	$ 518	$ 953

On February 8, 2012, the Company granted 195,000 options under the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (the Plan) with a total grant date fair value, net of forecasted forfeitures, of $0.1 million. On April 16, 2012, the Company granted an additional 15,000 options under the Plan with a total grant date fair value, net of forecasted forfeitures, of $6 thousand. On May 14, 2012, the Company granted 25,000 options under the Plan with a total grant date fair value, net of forecasted forfeitures, of $5 thousand. These options have a per-share exercise price equal to $4.50 and vest equally over a four year service period. The term of the options is ten years from the date of grant. The following assumptions were used in the Black-Scholes option-pricing model to estimate the fair value of these awards:

	2012	2011
Expected stock volatility	35.00%	35.00%
Risk-free interest rate	1.02 - 1.17%	1.41 - 2.50%
Expected years until exercise	6.25	6.25
Dividend yield	0.00%	0.00%

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Due to a lack of exercise history or other means to reasonably estimate future exercise behavior, the Company used the simplified method as described in applicable accounting guidance for stock-based compensation to estimate the expected years until exercise on new awards.

During the quarter ended September 30, 2012, 25,473 of the options granted on January 27, 2010 and 3,024 of the options granted on February 1, 2011 were forfeited. During the nine months ended September 30, 2012, 166,399 of the options granted on January 27, 2010, 19,164 of the options granted on February 1, 2011 and 10,000 of the options granted on August 11, 2011 were forfeited.

Restricted common stock awards of 46,295 shares were issued during the nine months ended September 30, 2012, in connection with the Company s Board of Directors compensation program. The restrictions on the common stock awards will lapse on the one-year anniversary of the grant date or upon a change in control of the Company. These awards were valued based on the Company s closing stock price on the date of grant, February 8, 2012.

During the quarter and nine months ended September 30, 2012, the related restrictions lapsed on restricted common stock awards of zero shares and 46,234 shares, respectively.

Note 4 Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (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 income (loss) per common share is shown in the table below for the periods indicated:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Shares in thousands)	**2012**	**2011**	**2012**	**2011**
Basic	49,284	46,743	49,722	44,911
Dilutive effect of awards		387		
Diluted	49,284	47,130	49,722	44,911
Antidilutive securities:				
Options	4,107	3,808	4,107	3,808
Warrants	188		188	141
Restricted stock	49		49	
Subscription rights				6,657

Note 5 Goodwill

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. For the fiscal year ending December 31, 2012, the Company changed its method of applying the applicable guidance such that the annual goodwill impairment testing date will be changed from December 1 to October 1. This change did not result in any delay, acceleration or avoidance of impairment. The Company believes this change is preferable as it better aligns the impairment test with the Company s close processes and allows additional time to accurately complete its impairment testing process in order to incorporate the results in its annual financial statements and timely file those statements with the SEC.

This change will be applied prospectively beginning on October 1, 2012; retrospective application to prior periods is impracticable as the Company is unable to objectively determine, without the use of hindsight, the assumptions that would have been used in those earlier periods.

As the Company determined that no impairment indicators were present in the three months ended September 30, 2012, no impairment analysis was conducted during the period.

During the quarter ended June 30, 2012, significant sustained sales declines in the Company s Kurzweil and IntelliTools product lines within the CLT segment (KI) caused the Company to re-evaluate the forecasts for this reporting unit. The Company determined that future sales for KI are not expected to achieve previous forecasts. This adverse change in expected future cash flows triggered the need for an interim goodwill impairment analysis for this reporting unit.

The applicable accounting guidance requires that a two-step impairment test be performed on goodwill. In the first step, the fair value of the reporting unit is compared to its carrying value. If the fair value of the 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 the 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, the Company makes certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values of its reporting units.

In the first step of the impairment test performed on the KI reporting unit as of June 30, 2012, the fair market value of the 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 value of the 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 as of June 30, 2012 showed that the carrying value of the KI reporting unit exceeded its respective fair value and that the second step of testing was required.

The second step requires the allocation of the fair value of the 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 interim impairment test, the goodwill balance for the KI reporting unit was determined to be partially impaired, and an impairment charge of $14.7 million was recorded as of June 30, 2012. The goodwill impairment charge was primarily the result of lowered forecasts of future sales.

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 the reporting unit 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.

The Voyager and KI reporting units have both experienced decreased revenues in the nine months ended September 30, 2012 compared to the same period in 2011. A goodwill impairment charge of $19.2 million was recorded for the Voyager reporting unit in 2011. The KI reporting unit incurred goodwill impairment charges of $18.4 million in 2011 and $14.7 million in the second quarter of 2012. Because of the recent goodwill write-downs and the continued sales pressure on these reporting units, it is possible that a goodwill impairment charge related to the Voyager or KI reporting units may be recognized in the fourth quarter. It is not possible at this time to determine whether a future goodwill impairment charge will be incurred or, if it is, the dollar value or significance of such a charge. The Company will complete its goodwill impairment analysis for all reporting units during the fourth quarter and will take into consideration a number of assumptions and estimates, including sales trends and cash flow projections for future years.

Note 6 Fair Value Measurements

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 September 30, 2012, financial instruments include $35.1 million of cash and cash equivalents, restricted assets of $11.5 million, collateral investments of $2.0 million, $174.3 million of senior secured notes, $0.2 million of warrants, assets held for sale of $1.8 million, and $6.8 million in contingent value rights (CVRs). 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. 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 acquired by the Company as a result of its recovery efforts in connection with the employee embezzlement matter described in Note 17 were determined based on a sales contract as of September 30, 2012 and by an independent appraisal conducted by a licensed realtor based on the values of similar properties in the area as of December 31, 2011.

As of September 30, 2012, the fair value of the senior secured notes was $130.2 million based on quoted market prices in active markets for these debt instruments when traded as assets.

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

(in thousands)		Fair Value at Reporting Date Using			
Description	**As of September 30, 2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Year-to-Date Total Gains (Losses)**
Restricted Assets:					
Money Market	$ 11,452	$ 11,452	$	$	$
Collateral Investments:					
Money Market	902	902			
Certificate of Deposit	1,067	1,067			
Warrant	183		183		389
Assets held for sale:					
Recovered Properties	1,847		1,847		(880)
CVRs	6,845			6,845	(161)

(in thousands)		Fair Value at Reporting Date Using			
Description	**As of December 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Year-to-Date Total Gains (Losses)**
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:					
Recovered Properties	2,727		2,727		
CVRs	6,684			6,684	(1,308)

The warrant was valued using the Black-Scholes pricing model. Due to the low exercise price of the warrants, the model assumptions do not significantly impact the valuation.

Contingent Value Rights

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. As of September 30, 2012, a fair value of $6.8 million has been recorded as a liability for the remaining CVR payments.

During the nine months ended September 30, 2012, a loss of $0.2 million was recorded in general and administrative expense to reflect an increase in the estimated fair value of the CVR liability. 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 $7.6 million. Future changes in the estimate of the fair value of the CVRs will impact results of operations and could be material.

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, is expected to be paid in the second quarter of 2013, but no later than October 2013, and relates to a potential tax indemnity obligation. Additionally, as described in Note 14, 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.

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A detail of the elements included in the CVR is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs (In thousands)		
	Estimated Fair Value as of December 31, 2011	Accrued Interest	Estimated Fair Value as of September 30, 2012
Components of remaining CVR liability:			
Michigan state tax issue	$ 4,967	$ 161	$ 5,128
Tax indemnity obligation	1,717		1,717
Estimated remaining CVR liability	$ 6,684	$ 161	$ 6,845

As of September 30, 2012, the remaining CVR liability of $6.8 million was comprised of $5.1 million related to the Michigan state tax agreed upon contingency and $1.7 million related to a potential tax indemnity obligation. Restricted assets in an escrow account for the benefit of the CVRs were $3.0 million for the potential tax indemnity obligation noted above, 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.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on the Condensed Consolidated Balance Sheets. For these assets, the Company does not periodically adjust carrying value to fair value except in the event of impairment. If it is determined that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded within Income (loss) before interest, other income (expense) and income taxes in the Condensed Consolidated Statements of Operations.

With the exception of the goodwill impairment associated with the KI reporting unit and the impairment of long-lived assets associated with the restructuring plan, there were no significant remeasurements of such assets or liabilities to fair value for the three and nine months ended September 30, 2012.

(in thousands)		Fair Value at Reporting Date Using			
Description	**As of September 30, 2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Year-to-Date Gains (Losses)**
Property, equipment and software	$ 21,644	$	$	$ 21,644	$ (3,347)
Goodwill	99,597			99,597	(14,700)

In accordance with the provisions in the accounting guidance for intangibles goodwill and other, for the nine months ended September 30, 2012, goodwill with a carrying amount of $114.3 million was written down to $99.6 million, resulting in a goodwill impairment charge of $14.7 million, which was included in earnings for the period. See Note 5 above for further information on the Company s impairment analyses. In the nine months ended September 30, 2012, an impairment of long-lived assets charge of $3.3 million was recorded related to the restructuring and reengineering plans discussed in Note 12. The calculation of the impairment includes several assumptions based on management s best estimates about future events, including costs to be incurred and the timing and amount of sublease rentals.

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Note 7 Other Current Assets

Other current assets at September 30, 2012 and December 31, 2011 consisted of the following:

	As of	
(in thousands)	**September 30, 2012**	**December 31, 2011**
Deferred costs	$ 3,196	$ 2,714
Prepaid expenses	2,252	1,503
Other current assets	105	518
Total	$ 5,553	$ 4,735

Note 8 Other Assets

Other assets at September 30, 2012 and December 31, 2011 consisted of the following:

	As of	
(in thousands)	**September 30, 2012**	**December 31, 2011**
Tax receivables	$ 11,397	$ 11,039
Deferred financing costs	6,520	7,706
Collateral investments	1,969	1,967
Other	1,619	1,756
Total	$ 21,505	$ 22,468

Tax receivables include the $11.4 million receivable from the state of Michigan as discussed in Note 14 to the Condensed 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 15 to the Condensed Consolidated Financial Statements.

Note 9 Accrued Expenses

Accrued expenses at September 30, 2012 and December 31, 2011 consisted of the following:

	As of	
(in thousands)	**September 30, 2012**	**December 31, 2011**
Salaries, bonuses and benefits	$ 8,856	$ 7,688
Accrued interest	2,214	6,503
Pension and post-retirement medical benefits	1,224	1,221
Accrued royalties	1,069	1,689
Other	3,972	4,102
Total	$ 17,335	$ 21,203

Accrued interest 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.

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Note 10 Other Liabilities

Other liabilities at September 30, 2012 and December 31, 2011 consisted of the following:

(in thousands)	As of September 30, 2012	December 31, 2011
Pension and post-retirement medical benefits, long-term portion	$ 10,586	$ 11,110
Long-term deferred tax liability	3,092	3,121
Deferred rent	1,626	1,931
Long-term income tax payable	840	803
Long-term deferred compensation	499	544
Other	351	617
Total	$ 16,994	$ 18,126

Note 11 Pension Plan

The net pension costs of the Company s defined benefit pension plan were comprised solely of interest costs and totaled $0.1 million for the three month periods ended September 30, 2012 and 2011 and $0.4 million for the nine month periods ended September 30, 2012 and 2011. The net pension costs for the three and nine months ended September 30, 2012, also included accumulated net loss amortization of $9 thousand and $26 thousand, respectively.

Note 12 Restructuring

In late 2011, the Company launched a reengineering and restructuring initiative to align its organizational and cost structure to its 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. The majority of these costs are expected to be incurred by the end of 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 the Company to focus more heavily on technology solutions and services and other strategic objectives;

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

Rationalizing facilities space by consolidating facilities and subleasing entire or partial facilities where feasible;

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

Reduction of job positions that do not support the Company s key strategic goals; and

Other reductions and costs as needed to improve the Company s cost structure.

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Based on plans enacted to date, the total expense for all reengineering and restructuring initiatives from the fourth quarter of 2011 through the end of 2012 is expected to be approximately $8.0 million, including both cash and non-cash items, and capital expenditures are expected to be between $0.7 and $0.8 million. The following table summarizes the amounts incurred and expected to be incurred in connection with the reengineering and restructuring initiative:

(in thousands)	Incurred in Year Ended December 31, 2011	Incurred in Nine Months Ended September 30, 2012	Total Incurred as of September 30, 2012	Remaining Amount Expected to be Incurred Under the Plan	Total Amount Expected to be Incurred Under the Plan
One-time termination benefits	$ 1,189	$ 1,777	$ 2,966	$	$ 2,966
Impairment of long-lived assets		3,347	3,347		3,347
Warehouse transition costs		976	976		976
Facility rationalization costs		57	57	178	235
Process reengineering costs		83	83	392	475
	$ 1,189	$ 6,240	$ 7,429	$ 570	$ 7,999

The change in the reengineering and restructuring accrual for the nine months ended September 30, 2012 is as follows:

(in thousands)	One-time Termination Benefits	Warehouse Outsourcing Costs	Facility Rationalization Costs	Process Reengineering Costs
Balance as of December 31, 2011	$ 1,133	$	$	$
Accrual changes	1,777	976	57	83
Payments made	(2,442)	(962)	(53)	(83)
Balance as of September 30, 2012	$ 468	$ 14	$ 4	$

The reengineering and restructuring charges are recorded in unallocated shared services.

The estimates of future reengineering and restructuring charges and the calculated impairment of long lived assets represent expectations or beliefs concerning various future events. These expectations involve a number of risks and uncertainties including potential changes to the time and cost required to sublease facility space, the ultimate sublease rentals received for the facility space, and whether, when and how successfully the Company enacts other actions that could favorably impact its cost structure. In the event these assumptions change in the future the Company could be required to record additional impairment of long lived assets or incur additional costs to complete the initiative.

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Note 13 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 its financial statements. For each position, the difference between the benefit realized on the Company s tax return and the benefit reflected in its financial statements is recorded on the condensed consolidated balance sheet 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. The balance of UTBs was $7.1 million at both September 30, 2012 and December 31, 2011.

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 acquired entities in a 2009 merger have been audited by the Internal Revenue Service. VSS-Cambium Holdings II Corp. 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 14 Commitments and Contingencies

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

The Company had a potential contingent liability related to state income taxes and related interest that had been assessed against a former subsidiary. On August 27, 2010, the former subsidiary received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, the former subsidiary 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 liability to the state of Michigan on behalf of the former subsidiary 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 Condensed Consolidated Balance Sheets totaling $11.4 million and $11.0 million as of September 30, 2012 and December 31, 2011, respectively.

This liability was identified as an agreed contingency for purposes of the CVRs issued as part of a 2009 merger. 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 $11.4 million as of September 30, 2012, and 50% of any such refund would in turn be payable to the holders of the CVRs. As of September 30, 2012, the Company has recorded $5.1 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 the former subsidiary s position is not ultimately upheld, the Company could incur non-cash charges of up to $10.4 million of indemnification expense and a $1.0 million reduction in interest income in future periods on its Condensed Statements of Operations, partially offset by the related $5.1 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.

From time to time, the Company may enter into firm purchase commitments for printed materials included in inventory which the Company expects to use in the ordinary course of business. These commitments are typically for terms less than one year and require the Company to buy minimum quantities of materials with specific delivery dates at a fixed price over the term. As of September 30, 2012, these open purchase commitments totaled $0.4 million.

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The Company has letters of credit outstanding as of September 30, 2012 in the amount of $2.9 million to support workers compensation insurance coverage, certain credit card programs, the build-to-suit lease, and performance bonds for certain contracts. The Company maintains a $1.1 million certificate of deposit as collateral for the workers compensation insurance and credit card program letters of credit and for Automated Clearinghouse (ACH) programs. The Company also maintains a $0.9 million money market fund investment as collateral for a travel card program. The certificate of deposit and money market fund investment are recorded in other assets.

Note 15 Long-Term Debt

Long-term debt consists of the following at September 30, 2012 and December 31, 2011:

(in thousands)	**September 30, 2012**	**December 31, 2011**
$175.0 million of 9.75% senior secured notes due February 15, 2017, interest payable semiannually	$ 175,000	$ 175,000
Less: Unamortized discount	(713)	(835)
Total long-term debt	$ 174,287	$ 174,165

In February 2011, the Company closed an offering of $175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into an asset-based revolving credit facility with potential for up to $40 million in borrowing capacity. Deferred financing costs are capitalized in other assets in the condensed 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 September 30, 2012 and December 31, 2011 were $6.5 million and $7.7 million, respectively.

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, 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.

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.

ABL Facility . In February 2011, the Company s wholly owned subsidiary, Cambium Learning, Inc. (together with its wholly owned subsidiaries, the ABL Credit Parties), entered into a 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 September 30, 2012, the balances of accounts receivable and inventory collateralizing the ABL Facility were $32.9 million and $18.9 million, respectively. As of September 30, 2012, the Company had a borrowing base under the ABL Loan Agreement of up to $32.4 million.

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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 September 30, 2012, we were in compliance with this covenant.

Note 16 Segment Reporting

The Company has three reportable segments with separate management teams and infrastructures that offer various products and services, as follows:

Voyager Learning:

Voyager Learning offers systemic solutions in reading, math, and services including turnaround and online courseware targeted towards the at-risk and special education student populations. Voyager Learning provides strategic and intensive comprehensive interventions that are adaptive to the needs of diverse populations. Voyager Learning 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:

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:

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.

Other:

This consists of unallocated shared services, such as accounting, legal, human resources and corporate related items. Depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and income taxes are also included in other, as the Company and its chief operating decision maker evaluate the performance of operating segments excluding these captions.

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The following table represents the revenue, operating expenses and income (loss) from operations which are used by the Company s chief operating decision maker to measure the segment s operating performance. The Company does not track assets directly by segment and the chief operating decision maker does not use assets or capital expenditures to measure a segment s operating performance, and therefore this information is not presented.

	Voyager Learning	Sopris Learning	Cambium Learning Technologies	Other	Consolidated
Quarter Ended September 30, 2012					
Net revenues	$ 25,321	$ 7,636	$ 13,001	$	$ 45,958
Cost of revenues	10,717	2,352	1,111	94	14,274
Amortization				7,035	7,035
Total cost of revenues	10,717	2,352	1,111	7,129	21,309
Other operating expenses	8,467	1,825	6,135	3,567	19,994
Embezzlement and related expense (recoveries)				493	493
Depreciation and amortization				1,592	1,592
Impairment of long-lived assets				236	236
Net interest expense				4,628	4,628
Other income, net				(163)	(163)
Income tax expense				104	104
Segment net income (loss)	$ 6,137	$ 3,459	$ 5,755	$ (17,586)	$ (2,235)
Quarter Ended September 30, 2011					
Net revenues	$ 31,080	$ 9,556	$ 12,270	$	$ 52,906
Cost of revenues	11,745	3,276	1,217	80	16,318
Amortization				6,962	6,962
Total cost of revenues	11,745	3,276	1,217	7,042	23,280
Other operating expenses	8,169	2,564	5,538	3,384	19,655
Embezzlement and related expense (recoveries)				(56)	(56)
Depreciation and amortization				1,858	1,858
Net interest expense				4,950	4,950
Income tax expense				155	155
Segment net income (loss)	$ 11,166	$ 3,716	$ 5,515	$ (17,333)	$ 3,064

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	Voyager Learning	Sopris Learning	Cambium Learning Technologies	Other	Consolidated
Nine Months Ended September 30, 2012					
Net revenues	$ 58,579	$ 17,495	$ 38,168	$	$ 114,242
Cost of revenues	28,693	6,012	3,608	1,524	39,837
Amortization				19,984	19,984
Total cost of revenues	28,693	6,012	3,608	21,508	59,821
Other operating expenses	24,573	5,888	19,050	12,491	62,002
Goodwill impairment				14,700	14,700
Embezzlement and related expense (recoveries)				452	452
Depreciation and amortization				4,842	4,842
Impairment of long-lived assets				3,347	3,347
Net interest expense				14,032	14,032
Other income, net				(236)	(236)
Income tax expense				258	258
Segment net income (loss)	$ 5,313	$ 5,595	$ 15,510	$ (71,394)	$ (44,976)
Nine Months Ended September 30, 2011					
Net revenues	$ 81,026	$ 22,111	$ 37,655	$	$ 140,792
Cost of revenues	33,685	7,514	3,672	233	45,104
Amortization				20,424	20,424
Total cost of revenues	33,685	7,514	3,672	20,657	65,528
Other operating expenses	24,989	7,474	16,510	11,845	60,818
Embezzlement and related expense (recoveries)				(2,452)	(2,452)
Depreciation and amortization				5,342	5,342
Net interest expense				14,237	14,237
Other income, net				(365)	(365)
Income tax expense				570	570
Segment net income (loss)	$ 22,352	$ 7,123	$ 17,473	$ (49,834)	$ (2,886)

Note 17 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. These irregularities were perpetrated by a former employee over more than a three-year period beginning in 2004 and continuing through April 2008 and the losses incurred by the Company totaled $14.0 million. Charges included in the condensed consolidated statement of operations after April 2008 represent expenses incurred by the Company to recover property purchased by the former employee using the embezzled funds, net of any recoveries.

During the nine months ended September 30, 2012, the net expenses represented a reduction in the fair value of the recovered properties partially offset by a decline in the estimated fair value of the warrants expected to be issued upon the sale of the recovered properties. The Company closed a sales transaction and received cash of $1.4 million, net of expenses, for one of the recovered properties during the November 2012. Warrants to purchase 36,733 shares of the Company s stock were issued to VSS-Cambium Holdings III, LLC as a result of the cash recoveries during the first nine months of the year. 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 cash realization of the related recoveries; therefore an estimated liability of $0.1 million has been recorded as Embezzlement and related expense (recoveries) in the condensed consolidated statements of operations and Accrued expenses in the condensed consolidated balance sheets.

During the nine months ended September 30, 2011, the Company received cash recoveries of $0.5 million and title to two properties purchased by the former employee with embezzled funds that had an appraised fair value of approximately $2.6 million, net of estimated selling costs. These recoveries were recorded as reductions to Embezzlement and related expense (recoveries) in the condensed consolidated statements of operations and the properties were recorded in the condensed consolidated balance sheets as Assets held for sale. During the second and third quarters of 2011, a majority of the costs to prepare the properties for listing were incurred which resulted in an increase in the value of the Assets held for sale in the condensed consolidated balance sheets as the remaining costs to sell are now comprised solely of real estate agent commissions.

Ongoing expenses incurred related to the Company s recovery efforts totaled $0.2 million during the first nine months of 2011.

Note 18 Stock Repurchases

As previously announced, the Company s board of directors authorized a $5 million share repurchase program (the Program) through July 5, 2013. On June 22, 2012, the Company entered into a stock purchase agreement with an investor pursuant the Program. The transaction was settled on June 27, 2012 with the Company purchasing 440,373 shares for a total cost of $0.5 million. On September 19, 2012, the Company entered into another stock purchase agreement with an investor. The transaction was settled on September 25, 2012 with the Company purchasing 381,270 shares for a total cost of $0.4 million. The purchase prices were set at the 10 day volume-weighted average price on the date of the stock purchase agreements. Upon repurchase these treasury shares are no longer registered under the Securities Act of 1933.

On June 28, 2012, the Company adopted a Rule 10b5-1 plan (the Share Repurchase Plan) with Robert W. Baird & Company, Inc. under which the Company may repurchase its shares at times when the Company might otherwise be precluded from doing so under insider trading laws. This Share Repurchase Plan has been established pursuant to, and as part of, the Program. The timing and extent of the repurchases under the Share Repurchase Plan are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the Share Repurchase Plan. The Company began repurchasing shares under the terms of the Share Repurchase Plan on July 5, 2012. Shares repurchased under the Share Repurchase Plan through September 30, 2012 totaled 372,870 shares.

Total stock repurchases under the Program were 1,194,513 shares as of September 30, 2012.

Note 19 Subsidiary Guarantor Financial Statements

The following tables present condensed consolidated financial information as of September 30, 2012 and December 31, 2011 and for the three and nine month periods ended September 30, 2012 and 2011 for: (a) the Company without its consolidated subsidiaries (the Parent Company); (b) on a combined basis, the guarantors of the Notes, which include Cambium Learning, Inc., Cambium Education, Inc., LAZEL, Inc., and Kurzweil/IntelliTools, Inc. (the Subsidiary Guarantors); and (c) Voyager Learning Company (the Non-Guarantor Subsidiary). Separate financial statements of the Subsidiary Guarantors are not presented because the guarantors are unconditionally, jointly, and severally liable under the guarantees, and the Company believes such separate statements or disclosures would not be useful to investors.

Condensed Consolidated Statement of Operations

Three Months Ended September 30, 2012

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net revenues	$	$ 45,958	$	$	$ 45,958
Total costs and expenses	722	42,742	160		43,624
Income (loss) before interest, other income and income taxes	(722)	3,216	(160)		2,334
Net interest income (expense)	(4,654)	27	(1)		(4,628)

Other income (expense), net		163			163
Income tax expense		(104)			(104)
Net (loss) income	$ (5,376)	$ 3,302	$ (161)	$	$ (2,235)

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Condensed Consolidated Statement of Operations

Three Months Ended September 30, 2011

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net revenues	$	$ 52,906	$	$	$ 52,906
Total costs and expenses	427	44,128	182		44,737
Income (loss) before interest, other income (expense) and income taxes	(427)	8,778	(182)		8,169
Net interest expense	(4,695)	(246)	(9)		(4,950)
Income tax expense		(155)			(155)
Net (loss) income	$ (5,122)	$ 8,377	$ (191)	$	$ 3,064

Condensed Consolidated Statement of Operations

Nine Months Ended September 30, 2012

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net revenues	$	$ 114,242	$	$	$ 114,242
Total costs and expenses	918	143,727	519		145,164
Loss before interest, other income and income taxes	(918)	(29,485)	(519)		(30,922)
Net interest expense	(13,954)	(70)	(8)		(14,032)
Other income (expense), net		236			236
Income tax expense		(258)			(258)
Net loss	$ (14,872)	$ (29,577)	$ (527)	$	$ (44,976)

Condensed Consolidated Statement of Operations

Nine Months Ended September 30, 2011

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net revenues	$	$ 140,792	$	$	$ 140,792
Total costs and expenses	2,225	126,152	859		129,236
Income (loss) before interest, other income (expense) and income taxes	(2,225)	14,640	(859)		11,556
Net interest (expense) income	(11,525)	(2,812)	100		(14,237)
Other income (expense), net		365			365
Income tax expense		(570)			(570)
Net loss	$ (13,750)	$ 11,623	$ (759)	$	$ (2,886)

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Condensed Consolidated Balance Sheet

As of September 30, 2012

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Investment in subsidiaries	$ 252,333	$	$	$ (252,333)	$
Other assets	212,146	321,135	19,869	(234,359)	318,791
Total assets	$ 464,479	$ 321,135	$ 19,869	$ (486,692)	$ 318,791
Total liabilities	$ 223,392	$ 264,301	$ 20,728	$ (234,359)	$ 274,062
Total stockholders equity	241,087	56,834	(859)	(252,333)	44,729
Total liabilities and stockholders equity	$ 464,479	$ 321,135	$ 19,869	$ (486,692)	$ 318,791

Condensed Consolidated Balance Sheet

As of December 31, 2011

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Investment in subsidiaries	$ 252,333	$	$	$ (252,333)	$
Other assets	214,311	355,628	20,535	(220,794)	369,680
Total assets	$ 466,644	$ 355,628	$ 20,535	$ (473,127)	$ 369,680
Total liabilities	$ 210,295	$ 269,217	$ 20,892	$ (220,794)	$ 279,610
Total stockholders equity	256,349	86,411	(357)	(252,333)	90,070
Total liabilities and stockholders equity	$ 466,644	$ 355,628	$ 20,535	$ (473,127)	$ 369,680

Condensed Statement of Cash Flows

Nine Months Ended September 30, 2012

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 1,297	$ (14,078)	$	$	$ (12,781)
Net cash used in investing activities		(13,053)			(13,053)

Net cash used in financing activities	(1,297)	(921)			(2,218)
Decrease in cash and cash equivalents		(28,052)			(28,052)
Cash and cash equivalents, beginning of period	5,288	57,903			63,191
Cash and cash equivalents, end of period	$ 5,288	$ 29,851	$	$	$ 35,139

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Condensed Statement of Cash Flows

Nine Months Ended September 30, 2011

(In thousands)

(unaudited)

	Parent Company	Subsidiary Guarantors	Non-Guarantor Subsidiary	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ (179,686)	$ 205,899	$	$	$ 26,213
Net cash used in investing activities	(1,993)	(10,559)			(12,552)
Net cash (used in) provided by financing activities	181,748	(153,428)			28,320
Increase in cash and cash equivalents	69	41,912			41,981
Cash and cash equivalents, beginning of period	5,219	6,612			11,831
Cash and cash equivalents, end of period	$ 5,288	$ 48,524	$	$	$ 53,812

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This section should be read in conjunction with the audited Consolidated Financial Statements of Cambium Learning Group, Inc. and its subsidiaries (the Company, we, us, or our) and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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 fact included in this report, including 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 the 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 these 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. These risks and uncertainties include, but are not limited to, those described in Risk Factors in Part II, Item 1A and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2011, and those described from time to time in our future reports filed with the SEC. 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.

Our Company

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 reportable business segments: Voyager Learning, a comprehensive intervention business; Sopris Learning, a supplemental solutions education business; and Cambium Learning Technologies (CLT), a technology-based education 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, goodwill impairment, interest income and expense, other income and expense, and taxes are included in this category.

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Overview

Our customers fund their operations with state and local funding which is primarily determined by sales and property taxes. However, programs and funding sources used to procure our products draw both from federal funding sources and state and local sources. Regardless of the source of the funds used by our customers, funding levels in general have a direct impact on our customer s ability to purchase our products. The primary federal funding programs used by customers for our products are Title 1 and IDEA. Both of these funding programs have consistently risen over the long term since their inception. In 2010 and 2011, these two key funding sources received a substantial boost from the ARRA stimulus program. These ARRA funds expired in September 2011.

We expected and have experienced declines in overall available funding for 2012 compared to 2011 due to continued strain on state budgets and the expiration of ARRA without a corresponding increase in any other major funding source. Based on the most recently submitted federal budgets, federal funding for Title 1 and IDEA, without the ARRA funds, was proposed at substantially the same level as 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 expected and have experienced 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.

In light of the funding environment, as expected, the first nine months of 2012 proved challenging in replicating the order volume achieved in the first nine months of 2011 when ARRA funding was still in place. We saw order volume declination in each of our three operating segments; however, we did see improvement in our Learning A-Z product line within the CLT segment and our service offerings within the Voyager Learning segment led by our school turnaround product line. These pockets of growth are promising, but have been insufficient in offsetting the declines in overall product sales.

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 will continue to invest in the following activities to encourage revenue growth in the fourth quarter of 2012:

- We will continue to focus on sales force effectiveness to increase our success rate in closing significant opportunities.
- All segments will continue investments in the development and sales and marketing of online and technology enabled solutions.
- Voyager Learning will continue to expand its service offerings with particular focus on school turnaround solutions.
- We have launched and will continue to invest in initiatives to gain traction in the e-commerce marketplace.

To build a platform for long-term revenue growth we will focus on the following:

- We will invest in product development, particularly on technology enabled and online solutions. We expect the technology solutions to focus especially on student-directed learning as well as mastery-based or competency-based solutions.
- We will optimize our sales force using our Customer Relationship Management (CRM) system and other tools to enhance and sustain productivity and increase overall channels to market.

We will continue our strategy to achieve growth through selective acquisitions, and in particular we will target technology-centric, adaptive, student-directed offerings. Execution of this strategy is likely to occur in fiscal year 2013 and beyond.

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

In order to align our organization to our strategic goals and to provide savings as a means to fund the initiatives listed above, we have embarked on a series of reengineering and restructuring initiatives. The majority of the costs for these initiatives are expected to be incurred by the end of 2012 and the cost savings benefits will begin in 2012 and will provide their full benefit in 2013. Reengineering and restructuring activities are expected to include:

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

Outsourcing 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 facilities space by consolidating facilities and subleasing entire or partial facilities where feasible;

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

Reduction of job positions that do not support the Company s key strategic goals; and

Other reductions and costs as needed to improve our cost structure.

Based on plans enacted to date, the total expense for all reengineering and restructuring initiatives from the fourth quarter of 2011 through the end of 2012 is expected to be approximately $8.0 million, including both cash and non-cash items, and capital expenditures are expected to be between $0.7 and $0.8 million. The annual cost savings expected to be realized from all reengineering and restructuring activities is now $6.0 million in 2012 and the actions taken so far are estimated to yield 2013 savings of $11.0 million. The Company further expects to continue on this path to ultimately secure annualized savings of $15.0 million, a part of which is intended to be reinvested in critical growth areas.

Third Quarter of Fiscal 2012 Compared to the Third Quarter of Fiscal 2011

(in thousands)	Quarter Ended September 30, 2012		September 30, 2011		Year Over Year Change Favorable/(Unfavorable)	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Net revenues:						
Voyager Learning	$ 25,321	55.1%	$ 31,080	58.7%	$ (5,759)	(18.5)%
Sopris Learning	7,636	16.6%	9,556	18.1%	(1,920)	(20.1)%
Cambium Learning Technologies	13,001	28.3%	12,270	23.2%	731	6.0%
Total net revenues	45,958	100.0%	52,906	100.0%	(6,948)	(13.1)%
Cost of revenues:						
Voyager Learning	10,717	23.3%	11,745	22.2%	1,028	8.8%
Sopris Learning	2,352	5.1%	3,276	6.2%	924	28.2%
Cambium Learning Technologies	1,111	2.4%	1,217	2.3%	106	8.7%
Shared Services	94	0.2%	80	0.2%	(14)	(17.5)%
Amortization expense	7,035	15.3%	6,962	13.2%	(73)	(1.0)%
Total cost of revenues	21,309	46.4%	23,280	44.0%	1,971	8.5%
Research and development expense	2,622	5.7%	2,199	4.2%	(423)	(19.2)%
Sales and marketing expense	11,331	24.7%	11,817	22.3%	486	4.1%
General and administrative expense	4,837	10.5%	4,795	9.1%	(42)	(0.9)%
Shipping costs	1,204	2.6%	844	1.6%	(360)	(42.7)%
Depreciation and amortization expense	1,592	3.5%	1,858	3.5%	266	14.3%
Embezzlement and related expense (recoveries)	493	1.1%	(56)	(0.1)%	(549)	(980.4)%
Impairment of long-lived assets	236	0.5%		0.0%	(236)	(100.0)%
Income before interest, other income (expense) and income taxes	2,334	5.1%	8,169	15.4%	(5,835)	(71.4)%
Net interest expense	(4,628)	(10.1)%	(4,950)	(9.4)%	322	6.5%
Other income, net	163	0.4%		0.0%	163	100.0%
Income tax expense	(104)	(0.2)%	(155)	(0.3)%	51	32.9%
Net (loss) income	$ (2,235)	(4.9)%	$ 3,064	5.8%	$ (5,299)	(172.9)%

Net Revenues.

Our total net revenues decreased $6.9 million, or 13.1%, to $46.0 million in the third quarter of 2012 compared to the same period in 2011. This decrease in net revenue was driven by order volume declines in our Voyager Learning and Sopris Learning segments primarily as a result of a reduction in funding available to our customers.

Voyager Learning. The Voyager Learning segment s net revenues decreased $5.8 million, or 18.5%, to $25.3 million in the third quarter of 2012 compared to the same period in 2011 due to a decline in order volume. Additionally, as the Voyager Learning segment continues to develop online and technology-based products, a larger portion of the sales are deferred and recognized over a subscription period.

Sopris Learning. The Sopris Learning segment s net revenues decreased $1.9 million, or 20.1%, to $7.6 million in the third quarter of 2012 compared to the same period in 2011, which is attributable to reduced order volumes.

Cambium Learning Technologies. The CLT segment s net revenues increased $0.7 million, or 6.0%, to $13.0 million in the third quarter of 2012 compared to the same period in 2011 due to increased order volume in our online products partially offset by a decline in our perpetual license software and hardware product lines.

Cost of Revenues.

Cost of revenues includes expenses to print, purchase, handle and warehouse our products, as well as order processing and royalty costs, and to provide services and support to customers. Cost of revenues, excluding amortization, decreased $2.0 million, or 12.5%, to $14.3 million in the third quarter of 2012 compared to the same period in 2011 primarily due to a reduction in order volume.

Voyager Learning. Cost of revenues for the Voyager Learning segment decreased $1.0 million, or 8.8%, to $10.7 million in the third quarter of 2012 compared to the same period in 2011 primarily due to a reduction in order volume. Although cost of revenues declined compared to the third quarter of 2011, the reduction was not as significant as the decline in net revenues due to several factors: a significant portion of our cost of revenues are fixed costs versus variable costs and our sales mix shifted toward higher cost service offerings.

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Sopris Learning. Cost of revenues for the Sopris Learning segment decreased by \$0.9 million, or 28.2%, to \$2.4 million in the third quarter of 2012 compared to the same period in 2011 primarily due to a reduction in order volume.

Cambium Learning Technologies. Cost of revenues for the CLT segment decreased by \$0.1 million, or 8.7%, to \$1.1 million in the third quarter of 2012 compared to the same period in 2011 primarily due to a decline in order volume in our perpetual license software and hardware product lines.

Shared Services. Cost of revenues for Shared Services for the third quarter of 2012 of \$0.1 million relate to our reengineering and restructuring initiative. The charges incurred in the third quarter of 2011 of \$0.1 million primarily related to the costs incurred to maintain our customer-facing software applications.

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 the third quarter of 2012 increased \$0.1 million compared to the third quarter of 2011, or 1.0%, primarily due to the fact that amortization on newly developed pre-publication and technology more than offset the decline in intangible asset amortization as a result of using accelerated methodologies.

Research and Development Expense.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense recognized in the third quarter of 2012 increased \$0.4 million, or 19.2%, from the third quarter of 2011 to \$2.6 million. Although revenues declined from the third quarter of 2011, we have increased our research and development spending to increase the flow of new and enhanced products.

Sales and Marketing Expense.

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commissions paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expense for the third quarter of 2012 decreased \$0.5 million, or 4.1%, from the third quarter of 2011 to \$11.3 million. This decrease is primarily due to reduced employee and contractor related costs and product samples. We have significantly increased the selling and marketing in the Learning A-Z and ExploreLearning product lines while decreasing expenditures in other areas to offset the increase.

General and Administrative Expense.

General and administrative expenses were \$4.8 million in the third quarter of 2012 and 2011. The 2012 charges include reengineering and restructuring initiative expenses of \$0.2 million and CVR expense of \$0.1 million. The decline in general and administrative expenses is primarily due to cost containment initiatives implemented by the Company through the reengineering and restructuring plan.

Shipping and Handling Costs.

Shipping and handling costs recognized in the third quarter of 2012 increased \$0.4 million, or 42.7%, from the third quarter of 2011 to \$1.2 million. Costs can be impacted by geographical mix, carrier selection and timing. We will continue to work with our newly activated third party provider to ensure costs are as economical as possible and it is our expectation that we will gain efficiency in this area.

Impairment of Long-Lived Assets.

The impairment expense recorded in the third quarter of \$0.2 million relates to charges from the impairment of warehouse equipment in connection with our reengineering and restructuring initiative.

Net Interest Expense.

Net interest expense decreased by \$0.3 million, or 6.5%, to \$4.6 million in the third quarter of 2012 compared to the same period in 2011 primarily due to an increase in interest income on state tax receivables and a decline in interest expense associated with capital leases.

Income Tax Provision.

We recorded income tax expense of $0.1 million during the third quarter of 2012 and $0.2 million during the third quarter of 2011 for state income tax expense in states where the Company cannot file on a unitary basis. We did not record a Federal or state income tax benefit for consolidated losses incurred during either period because realization of the tax benefits from the losses is not assured beyond a reasonable doubt given the Company s recent history of cumulative losses. Therefore the increases in net deferred tax assets in the periods were offset by increases in the valuation allowance.

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First Nine Months of Fiscal 2012 Compared to the First Nine Months of Fiscal 2011

(in thousands)	Nine Months Ended September 30, 2012 Amount	September 30, 2012 % of Revenues	September 30, 2011 Amount	September 30, 2011 % of Revenues	Year Over Year Change Favorable/(Unfavorable) $	Year Over Year Change Favorable/(Unfavorable) %
Net revenues:						
Voyager Learning	$ 58,579	51.3%	$ 81,026	57.6%	$ (22,447)	(27.7)%
Sopris Learning	17,495	15.3%	22,111	15.7%	(4,616)	(20.9)%
Cambium Learning Technologies	38,168	33.4%	37,655	26.7%	513	1.4%
Total net revenues	114,242	100.0%	140,792	100.0%	(26,550)	(18.9)%
Cost of revenues:						
Voyager Learning	28,693	25.1%	33,685	23.9%	4,992	14.8%
Sopris Learning	6,012	5.3%	7,514	5.3%	1,502	20.0%
Cambium Learning Technologies	3,608	3.2%	3,672	2.6%	64	1.7%
Shared Services	1,524	1.3%	233	0.2%	(1,291)	(554.1)%
Amortization expense	19,984	17.5%	20,424	14.5%	440	2.2%
Total cost of revenues	59,821	52.4%	65,528	46.5%	5,707	8.7%
Research and development expense	8,606	7.5%	7,093	5.0%	(1,513)	(21.3)%
Sales and marketing expense	35,268	30.9%	35,594	25.3%	326	0.9%
General and administrative expense	15,643	13.7%	16,136	11.5%	493	3.1%
Shipping costs	2,485	2.2%	1,995	1.4%	(490)	(24.6)%
Depreciation and amortization expense	4,842	4.2%	5,342	3.8%	500	9.4%
Goodwill impairment	14,700	12.9%		0.0%	(14,700)	(100.0)%
Embezzlement and related expense (recoveries)	452	0.4%	(2,452)	(1.7)%	(2,904)	(118.4)%
Impairment of long-lived assets	3,347	2.9%		0.0%	(3,347)	(100.0)%
Income (loss) before interest, other income (expense) and income taxes	(30,922)	(27.1)%	11,556	8.2%	(42,478)	(367.6)%
Net interest expense	(14,032)	(12.3)%	(14,237)	(10.1)%	205	1.4%
Other income, net	236	0.2%	365	0.3%	(129)	(35.3)%
Income tax expense	(258)	(0.2)%	(570)	(0.4)%	312	54.7%
Net loss	$ (44,976)	(39.4)%	$ (2,886)	(2.0)%	$ (42,090)	(1458.4)%

Net Revenues.

Our total net revenues decreased $26.6 million, or 18.9%, to $114.2 million in the first nine months of 2012 compared to the same period in 2011 due to a decline in order volume in each of our business units primarily as a result of a reduction in funding available to our customers.

Voyager Learning. The Voyager Learning segment s net revenues decreased $22.4 million, or 27.7%, to $58.6 million in the first nine months of 2012 compared to the same period in 2011 due to a decline in order volume. Additionally, as the Voyager Learning segment continues to develop online and technology-based products, a larger portion of the sales are deferred and recognized over a subscription period.

Sopris Learning. The Sopris Learning segment s net revenues decreased $4.6 million, or 20.9%, to $17.5 million in the first nine months of 2012 compared to the same period in 2011, which is attributable to decreased order volume.

Cambium Learning Technologies. The CLT segment s net revenues increased $0.5 million, or 1.4%, to $38.2 million in the first nine months of 2012 compared to the same period in 2011 due to higher order volumes for our online products. Although the CLT segment s overall order volume declined from the first nine months of 2011, revenue recognized from prior deferrals was greater than current period deferrals resulting in increased revenues.

Cost of Revenues.

Cost of revenues includes expenses to print, purchase, handle and warehouse our products, as well as order processing and royalty costs, and to provide services and support to customers. Cost of revenues, excluding amortization, decreased $5.3 million, or 11.7%, to $39.8 million in the first nine months of 2012 compared to the same period in 2011 primarily due to a reduction in order volume. Although cost of revenues declined compared to the first nine months of 2011, the reduction was not as significant as the decline in net revenues due to several factors: a significant portion of our cost of revenues are fixed costs versus variable costs; our sales mix shifted toward higher cost service offerings; excess inventory write-downs increased compared to the first nine months of 2011; and we incurred $1.5 million of charges in connection with our reengineering and restructuring initiative.

Voyager Learning. Cost of revenues for the Voyager Learning segment decreased $5.0 million, or 14.8%, to $28.7 million in the first nine months of 2012 compared to the same period in 2011 primarily due to a reduction in order volume. Although cost of revenues declined compared to the first nine months of 2011, the reduction was not as significant as the decline in net revenues due to several factors: a significant portion of our cost of revenues are fixed costs versus variable costs; our sales mix shifted toward higher cost service offerings; and excess inventory write-downs increased compared to the first nine months of 2011.

Sopris Learning. Cost of revenues for the Sopris Learning segment decreased by $1.5 million, or 20.0%, to $6.0 million in the first nine months of 2012 compared to the same period in 2011 primarily due to a reduction in order volume.

Cambium Learning Technologies. Cost of revenues for the CLT segment decreased by $0.1 million, or 1.7%, to $3.6 million in the first nine months of 2012 compared to the same period in 2011.

Shared Services. Cost of revenues for Shared Services for the first nine months of 2012 of $1.5 million relate to our reengineering and restructuring initiative. The charges incurred in the first nine months of 2011 of $0.2 million primarily relate to the costs incurred to maintain our customer-facing software applications.

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 the first nine months of 2012 decreased $0.4 million compared to the first nine months of 2011, or 2.2%, primarily due to the fact that a majority of our intangible assets are amortized using accelerated methodologies.

Research and Development Expense.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the first nine months of 2012 increased $1.5 million, or 21.3%, to $8.6 million compared to the first nine months of 2011 primarily due to an increase in employee and contractor costs related to our continued investment in technology development. Additionally, the first nine months of 2012 includes charges of $0.3 million incurred in connection with our restructuring and reengineering initiative. Although revenues declined from the first nine months of 2011, we have increased our research and development spending to increase the flow of new and enhanced products.

Sales and Marketing Expense.

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commissions paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expense for the first nine months of 2012 decreased $0.3 million, or 0.9%, from the first nine months of 2011 to $35.3 million. This decline was primarily due to a reduction in employee and contractor costs and product samples partially offset by $0.5 million of costs incurred in connection with our reengineering and restructuring initiative. We have significantly increased the selling and marketing in the Learning A-Z and ExploreLearning product lines while decreasing expenditures in other areas to offset the increase.

General and Administrative Expense.

General and administrative expenses for the first nine months of 2012 decreased $0.5 million, or 3.1%, to $15.6 million compared to the first nine months of 2011. This decline is primarily due to reductions in CVR expense, stock based compensation expense and costs related to mergers and acquisitions. These were slightly offset by charges incurred in connection with the reengineering and restructuring initiative and increased rent and bad debt expense.

Shipping and Handling Costs.

Shipping and handling costs recognized in the first nine months of 2012 increased $0.5 million, or 24.6%, from the first nine months of 2011 to $2.5 million. $0.4 million of this increase is attributable to costs incurred to move inventory to the new warehouse as part of our reengineering and restructuring initiative partially offset by reduced shipping and handling costs from lower sales volumes. Additionally, costs can be impacted by geographical mix, carrier selection and timing. We will continue to work with our third party provider to ensure costs are as economical as possible and it is expected that we will gain efficiency in this area.

Goodwill Impairment.

We determined during the second quarter of 2012 that the goodwill balance for the reporting unit comprising the Kurzweil and IntelliTools product lines from the CLT segment was partially impaired. As such an impairment charge of $14.7 million was recorded. The goodwill impairment charge was primarily the result of lowered forecasts of future sales for that reporting unit.

See Note 5 in the Notes to the Condensed Consolidated Financial Statements for further information on our goodwill impairment review.

Impairment of Long-Lived Assets.

In connection with our reengineering and restructuring initiative mentioned above, during the nine months ended September 30, 2012 we recorded an impairment charge of $3.3 million primarily related to our leased facility in Frederick, Colorado and warehouse related assets. We completed the outsourcing of our warehouse operations to a third party logistics provider during the quarter ended June 30, 2012. The impairment expense recorded in the first nine months of 2012 also included $0.3 million of charges from the impairment of previously capitalized development costs that, as a result of certain actions in our restructuring and reengineering initiative, were determined to have no ongoing value.

Net Interest Expense.

Net interest expense for the first nine months of 2012 decreased $0.2 million, or 1.4%, to $14.0 million compared to the first nine months of 2011 due to an increase in interest income on state tax receivables.

Income Tax Provision.

We recorded income tax expense of $0.3 million during the first nine months of 2012 and $0.6 million during the first nine months of 2011 for state income tax expense in states where the Company cannot file on a unitary basis. We did not record a Federal or state income tax benefit for consolidated losses incurred during either period because realization of the tax benefits from the losses is not assured beyond a reasonable doubt given the Company s recent history of cumulative losses. Therefore the increases in net deferred tax assets in the periods were offset by increases in the valuation allowance.

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, if needed. The cash balance as of September 30, 2012 was $35.1 million and the Company expects to increase this cash amount in the fourth quarter. The primary sources of liquidity are our current cash balances and our annual cash flow from operations and the primary liquidity requirements relate to interest on our long-term debt, pre-publication costs, capital investments and working capital. We believe that based on current and anticipated levels of operating performance, 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. Although we have excess cash balances, we will be more targeted in making planned internal investments and executing on selected acquisition targets due to the downturn in our business environment. Should the Company be unsuccessful over time in reversing the downward sales volume trend experienced in the first nine months of 2012, the Company s historic trend of providing surplus cash each year would be at risk absent additional cost reductions in non-critical areas.

Long-term debt

In February 2011, the Company closed an offering of $175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into an asset-based revolving credit facility with potential for up to $40 million in borrowing capacity. 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 September 30, 2012 and December 31, 2011 were $6.5 million and $7.7 million, respectively.

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, 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.

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.

ABL Facility . In February 2011, the Company s wholly owned subsidiary, Cambium Learning, Inc. (together with its wholly owned subsidiaries, the ABL Credit Parties), entered into a 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 September 30, 2012, the balances of accounts receivable and inventory collateralizing the ABL Facility were $32.9 million and $18.9 million, respectively. As of September 30, 2012, the Company had a borrowing base under the ABL Loan Agreement of up to $32.4 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 September 30, 2012, 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 below:

	For the nine months ended September 30,	
(in thousands)	2012	2011
Operating activities	$ (12,781)	$ 26,213
Investing activities	(13,053)	(12,552)
Financing activities	(2,218)	28,320

Operating activities. Cash provided by (used in) operations was ($12.8) million and $26.2 million for the nine month periods ended September 30, 2012 and 2011, respectively. Overall, cash flow from operations declined by approximately $39.0 million primarily due to the reduction in revenues compared to the first nine months of 2011. Additionally, the first nine months of 2012 included interest payments of $17.0 million and cash outflows of $3.5 million related to our reengineering and restructuring initiative while the first nine months of 2011 included the collection of significant accounts receivable balances outstanding at year end 2010 and interest payments of $8.5 million.

Investing activities. Cash used in investing activities was $13.1 million in the first nine months of 2012 compared to $12.6 million in the first nine months of 2011. 2011 cash outflows included a CVR payment of $2.0 million, but 2012 capital expenditures are $2.8 million higher than the prior year.

Financing activities. Cash provided by (used in) financing activities was ($2.2) million in the first nine months of 2012 and $28.3 million in the first nine months of 2011. During the first nine months of 2012, cash used in financing activities consisted of capital lease payments of $0.9 million and share repurchases of $1.3 million. 2011 net proceeds received from the issuance of the 9.75% senior secured notes was $174 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 a stock repurchase in the second quarter of 2011 at a cost of $4.9 million and received proceeds of $20.0 million in the third quarter of 2011 for the issuance of common stock for the exercise of subscription rights.

Contingency

The Company had a potential contingent liability related to state income taxes and related interest that had been assessed against a former subsidiary. On August 27, 2010, the former subsidiary received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, the former subsidiary 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 liability to the state of Michigan on behalf of the former subsidiary 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.

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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 Condensed Consolidated Balance Sheets totaling $11.4 million and $11.0 million as of September 30, 2012 and December 31, 2011, respectively.

This liability was identified as an agreed contingency for purposes of the CVRs issued as part of a 2009 merger. 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 $11.4 million as of September 30, 2012, and 50% of any such refund would in turn be payable to the holders of the CVRs. As of September 30, 2012, the Company has recorded $5.1 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 the former subsidiary s position is not ultimately upheld, the Company could incur non-cash charges of up to $10.4 million of indemnification expense and a $1.0 million reduction in interest income in future periods on its Statements of Operations, partially offset by the related $5.1 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.

Non-GAAP Measures

The net income (loss) as reported on a GAAP basis includes material non-recurring and non-operational items. We believe that earnings (loss) from operations before interest, 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, Adjusted EBITDA and Adjusted Net Revenues 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 these non-GAAP measures provide useful information to investors because they reflect the underlying performance of the ongoing operations of the Company and provide investors with a view of the Company s operations from management s perspective. Adjusted EBITDA and Adjusted Net Revenues remove significant purchase accounting, non-operational or certain non-cash items from earnings. We use Adjusted EBITDA and Adjusted Net Revenues to monitor and evaluate the operating performance of the 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, Adjusted EBITDA and Adjusted Net Revenues should not be construed as an indication that our future results will be unaffected by unusual, non-operational or non-cash items.

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Below are reconciliations between net (loss) income and Adjusted EBITDA for the three and nine month periods ended September 30, 2012 and 2011:

Reconciliation Between Net Revenues and Adjusted Net Revenues and Between Net (Loss) Income and Adjusted EBITDA for the Three Months Ended September 30, 2012 and 2011

	Three Months Ended September 30, 2012	2011
	(In thousands) *(Unaudited)*	
Total net revenues	$ 45,958	$ 52,906
Non-operational or non-cash costs included in net revenues but excluded from adjusted net revenues:		
Adjustments related to purchase accounting [(a)]	58	234
Adjusted net revenues	$ 46,016	$ 53,140
Net income (loss)	(2,235)	3,064
Reconciling items between net income (loss) and EBITDA:		
Depreciation and amortization	8,627	8,820
Net interest expense	4,628	4,950
Income tax expense	104	155
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	11,124	16,989
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(163)	
Re-engineering and restructuring costs [(b)]	491	
Merger and acquisition activities [(c)]	160	182
Stock-based compensation expense [(d)]	313	349
Embezzlement and related expenses (recoveries) [(e)]	493	(56)
Adjustments related to purchase accounting [(a)]	49	185
Adjustments to CVR liability [(f)]	54	
Adjusted EBITDA	$ 12,521	$ 17,649

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Reconciliation Between Net Revenues and Adjusted Net Revenues and Between Net Loss and Adjusted EBITDA for the Nine Months Ended September 30, 2012 and 2011

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands) *(Unaudited)*	
Total net revenues	$ 114,242	$ 140,792
Non-operational or non-cash costs included in net revenues but excluded from adjusted net revenues:		
Adjustments related to purchase accounting [(a)]	313	889
Adjusted net revenues	$ 114,555	$ 141,681
Net loss	$ (44,976)	$ (2,886)
Reconciling items between net loss and EBITDA:		
Depreciation and amortization	24,826	25,766
Net interest expense	14,032	14,237
Income tax expense	258	570
Income (loss) from operations before interest, income taxes, and depreciation and amortization (EBITDA)	(5,860)	37,687
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(236)	(365)
Re-engineering and restructuring costs [(b)]	6,240	
Merger and acquisition activities [(c)]	684	859
Stock-based compensation expense [(d)]	518	953
Embezzlement and related expenses (recoveries) [(e)]	452	(2,452)
Adjustments related to purchase accounting [(a)]	247	756
Adjustments to CVR liability [(f)]	161	520
Goodwill impairment [(g)]	14,700	
Adjusted EBITDA	$ 16,906	$ 37,958

(a) 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 $0.1 million, $0.2 million, $0.3 million, and $0.9 million, respectively, for the quarters ended September 30, 2012 and 2011 and the nine month periods ended September 30, 2012 and 2011 in the historical financial statements due to the write-down of deferred revenue to its estimated fair value as of the merger date. 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 were reduced for other purchase accounting adjustments, primarily a write-down of deferred costs to zero at the acquisition date. During the quarters ended September 30, 2012 and 2011 and the nine month periods ended September 30, 2012 and 2011, the historical cost of revenues was reduced by zero, $0.1 million, $0.1 million, and $0.1 million, respectively. 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 and cost of revenues is non-recurring.

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(b) 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. The majority of these costs are expected to be incurred by the end of 2012. Reengineering and restructuring activities will be assessed and enacted throughout 2012 and are expected to include: (1) Obtaining new leadership and employee skill sets that support our transformation to focus more heavily on technology solutions and services and other strategic objectives; (2) Outsourcing 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; (3) Rationalizing facilities space by consolidating facilities and subleasing entire or partial facilities where feasible; (4) Assessing and implementing projects to improve cost efficiencies and enhance the customer experience throughout the order to cash, service delivery, and procurement processes; (5) Reduction of job positions that do not support the Company s key strategic goals; and (6) Other reductions as needed to improve our cost structure. During the three and nine months ended September 30, 2012 we recorded reengineering and restructuring charges of $0.5 million and $6.2 million, respectively, including impairment charges of $0.2 million and $3.3 million, respectively, related to our leased facility in Frederick, Colorado and warehouse related assets and previously capitalized amounts that were determined to have no ongoing value.

(c) Certain costs related to merger and acquisition activities including due diligence and other non-operational charges including liabilities such as pension and severance costs for former employees.

(d) Stock-based compensation and 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) Adjustments to the CVR liability as a result of the 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.

(g) For additional information on goodwill impairment charges, see Note 5 to our Condensed Consolidated Financial Statements included herein.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as of September 30, 2012 that have or are reasonably likely to have a current or future material effect on the Company s financial condition, changes in financial conditions, sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

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

There have been no other material changes in the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recently Issued Financial Accounting Standards

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 adopted 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As described in Note 15 to our condensed 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 $40 million asset-based revolving credit facility. We have no amounts outstanding under the revolving credit facility, which is our only variable interest rate debt. Therefore, as of September 30, 2012 we have no material interest rate risk.

Foreign Currency Risk

The Company does not have material exposure to changes in foreign currency rates. As of September 30, 2012, the Company does not have any outstanding foreign currency forwards or option contracts.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2012.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2011, the Company is involved in a tax litigation matter related to a Michigan state tax issue. 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 $11.4 million as of September 30, 2012, and 50% of any such refund would in turn be payable to the holders of the CVRs. As of September 30, 2012, the Company has recorded $5.1 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 the former subsidiary s position is not ultimately upheld, the Company could incur non-cash charges of up to $10.4 million of indemnification expense and a $1.0 million reduction in interest income in future periods on its Statements of Operations, partially offset by the related $5.1 million reduction to the CVRs liability. 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 Condensed Consolidated Balance Sheets totaling $11.4 million and $11.0 million as of September 30, 2012 and December 31, 2011, respectively.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as such factors could materially affect the Company s business, financial condition, or future results. In the three and nine months ended September 30, 2012, there were no material changes to the risk factors disclosed in the Company s 2011 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company s business, financial condition, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Stock Repurchases

Shares of common stock repurchased by the Company during the quarter ended September 30, 2012, were as follows:

	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(a) Maximum Dollar Value of Shares that May Yet be Purchased Under the Program ($ in thousands)**
Period:				
July 1 July 31	126,426	1.11	126,426	4,350
August 1 August 31	149,841	1.02	149,841	4,197
September 1 September 30	477,873	1.03	477,873	3,702

(a) On May 22, 2012, The Company s Board of Directors authorized the Company to repurchase shares of its common stock up to a maximum of $5 million through July 5, 2013.

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Item 6. Exhibits.

The following exhibits are filed as part of this report.

Exhibit Number	Description
18	Preferability Letter Regarding Change in Accounting Policy relating to Goodwill.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Senior Vice President and Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.ins	XBRL Instance Document.*
101.def	XBRL Taxonomy Extension Definition Linkbase Document.*
101.sch	XBRL Taxonomy Extension Schema Document.*
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.lab	XBRL Taxonomy Extension Label Linkbase Document.*
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

Date: November 9, 2012

CAMBIUM LEARNING GROUP, INC.

/s/ Bradley C. Almond
Bradley C. Almond,
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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