CAMBIUM LEARNING GROUP, INC.
Form 10-K
March 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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 Incorporation or Organization)	(I.R.S. Employer 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

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

Common Stock, par value $0.001 per share	The NASDAQ Capital Market
(Title of class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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 aggregate market value of the registrant's common stock, par value $0.001 per share, held by non-affiliates of the registrant was $17,161,264 based on the closing sale price of the registrant's common stock on June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Capital Market. As of February 28, 2014, there were 44,874,440 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2013.

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PART I

Cautionary Note Regarding Forward-looking Statements.

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

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

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2013. The “Company”, “we”, “us”, or “our” when used in this report refers to Cambium Learning Group, Inc. and its predecessors and consolidated subsidiaries, as the context requires.

Overview

We are a leading educational solutions and services company that is committed to helping every student reach their full potential by providing evidence-based solutions and expert professional services to empower educators and raise the achievement levels of all students. Our brands include: Voyager Sopris Learning (www.voyagersopris.com), Learning A–Z (www.learninga-z.com), ExploreLearning® (www.explorelearning.com and www.reflexmath.com), and Kurzweil Educational Systems® (www.kurzweiledu.com) and IntelliTools® (www.intellitools.com). Together, these business units provide best-in-class intervention and supplemental instructional materials; gold-standard professional development and school-improvement services; breakthrough technology solutions for online learning and professional support; valid and reliable assessments; and proven materials to support a positive and safe school environment. We operate in four business segments: Voyager Sopris Learning, Learning A-Z, ExploreLearning and Kurzweil/IntelliTools.

Our products have continued to receive awards and accolades from industry publications including the Best Educational Software (BESSIE) awards from the ComputED Gazette, the CODiE awards from the Software and Information Industry Association and the Education Software Review Awards (EDDIES) by The ComputED Gazette.

The following products were winners of the 19th annual BESSIE awards:

- Kurzweil 3000 – firefly
- ExploreLearning – Reflex
- ExploreLearning – Gizmos
- Learning A-Z – ReadingA-Z.com

- Learning A-Z – ScienceA-Z.com

The following products were winners of the 2013 CODiE awards:

- Learning A-Z – ReadingA-Z.com
- Learning A-Z – Raz-Kids.com
- ExploreLearning – Gizmos

The following products were winners of the 18th annual EDDIES:

- Kurzweil 3000 – firefly
- ExploreLearning – Reflex
- ExploreLearning – Gizmos
- Learning A-Z – Raz-Kids.com
- Learning A-Z – ReadingA-Z.com
- Learning A-Z – ScienceA-Z.com

As of December 31, 2013, we had a total of 517 employees, including 498 full-time and 19 part-time employees.

We were incorporated under the laws of the State of Delaware in June 2009.

Voyager Sopris Learning:

Voyager Sopris Learning ("VSL") is a comprehensive provider of research-based education solutions and online learning tools—including curriculum products, personalized professional development, assessment, and school improvement/turnaround services. With the ultimate goal of advancing student achievement, VSL partners with preK–12 schools to build teaching and leadership capacity, keep students on track, and accelerate struggling students to grade-level proficiency. VSL's products include the work of world-renowned researchers and education leaders.

Learning A-Z:

Learning A-Z is a preK-6 educational resource company specializing in online delivery of leveled readers and other supplementary curriculum. Founded in 2002 to help teachers differentiate instruction and meet the unique needs of all students, Learning A-Z's resources are currently used in over two thirds of the elementary schools in the United States and in 177 countries worldwide. In addition to general classroom use, Learning A-Z serves a wide range of student need, including English Language Learners, Response to Intervention, Special Education, and more. Learning A-Z's value proposition focuses on three key things:

- Saving teachers time, giving them all the resources they need, all online, all accessible at the click of a mouse
- Saving teachers money, delivering thousands of resources for a fraction of the cost of print and other online providers
- Supporting student achievement through differentiated instruction, ensuring the right high-quality resources for every preK-6 student

Winner of more than 15 industry awards in 2013 alone, Learning A-Z's subscription-based websites provide online supplemental books, lessons, assessments, and other instructional resources for individual classrooms, schools, and districts. These solutions include: Reading A-Z, Raz-Kids, Science A-Z, Writing A-Z, Vocabulary A-Z, Headsprout Early Reading and Headsprout Comprehension.

ExploreLearning:

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning currently has two products: Gizmos, the world's largest library of interactive, online simulations for math and science in grades 3-12; and Reflex, a powerful solution available for math fact fluency development. Gizmos and Reflex bring research-proven instructional strategies to classrooms around the world.

Kurzweil/IntelliTools:

The Kurzweil/IntelliTools reporting segment includes the Kurzweil Educational Systems and IntelliTools product lines.

Kurzweil Educational Systems is recognized as the leading developer of literacy software for people with learning differences such as dyslexia, attention deficit disorder, and those who are English Language Learners as well as those who are blind or visually impaired. Kurzweil provides complete reading, study skills, writing, and test taking support for students. For over 30 years the company has been driven by the vision to serve the needs of struggling learners to enable them to reach their full potential. We offer products that bring the power and pleasure of reading and learning to the lives of users, striving to enhance learning and expand literacy. Kurzweil Educational Systems is committed to providing research-based solutions that help educators raise the achievement levels of preK–12 students as well as adult learning communities.

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

Segment Information

Our reporting segments operate with separate management teams and infrastructures that offer various products and services, many of which are described below. During 2013, net revenues were $90.3 million for VSL, $33.5 million for Learning A-Z, $16.3 million for ExploreLearning and $10.4 million for Kurzweil/IntelliTools. Further information is available in our Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K. Unallocated shared services such as accounting, legal, human resources and corporate-related items are recorded in a “Shared Services” category. Depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and taxes are also included in this Shared Services category.

Voyager Sopris Learning Products

Voyager Sopris Literacy Solutions

LANGUAGE!® The Comprehensive Literacy Curriculum, our principal adolescent literacy offering, targets students in grades 4–12 achieving at or below the 40th percentile. The program consists of a 36-unit curriculum organized into six levels that cover phonemic awareness and phonics, word recognition and spelling, vocabulary and morphology, grammar and usage, listening and reading comprehension, and speaking and writing. LANGUAGE! is a mastery-based curriculum designed for students with language-based learning disabilities, English language learners, and students who have not yet grasped foundational literacy skills. Students exit as soon as they achieve grade-level proficiency, which will vary depending on the specific needs of the student and where the student enters the program.

LANGUAGE! ® Live is a blended literacy intervention solution that motivates students in grades 4–12 through an adaptive learning environment. Supported by 20 years of effective LANGUAGE! implementation and built to address the Common Core State Standards, LANGUAGE! Live accelerates the literacy growth of nonreaders, struggling readers, and English language learners. This technology-enabled solution combines personalized online learning with teacher-led instruction to improve struggling learners’ decoding, spelling, grammar, comprehension, vocabulary, and writing skills. Level 1 of the program has received positive reviews since its release, and Level 2 is expected to be released in August 2014.

Voyager Passport® is a supplemental blended reading intervention system for students in grades K–5. Voyager Passport provides targeted instruction in word study, fluency, comprehension, vocabulary, writing, listening, and speaking. The lessons are based on scientific research regarding effective reading instruction and are carefully designed to effectively and efficiently address each of the strategies and skills necessary for reading proficiency. As of the third quarter of 2013, Passport's instructional content was loaded into the new Edplicity™ cloud-based platform for digital delivery. For Spanish-speaking students in grades K–3 who are transitioning to English, Voyager Pasaporte® offers the equivalent of Voyager Passport print instruction in their native language.

Passport Reading Journeys® is a targeted intervention program designed to improve reading, comprehension, vocabulary, fluency, and writing for struggling learners in grades 6–9. Age-appropriate content, real-life journeys on DVDs, online interactive lessons, and captivating text are designed to hold students' interest and motivate them to read for both information and enjoyment. The program targets the affective domain as much as the cognitive domain, as many struggling readers have lost confidence, are not engaged, and are close to dropping out. As of the third quarter of 2013, Passport Reading Journeys content was loaded into the new Edplicity cloud-based platform for digital delivery.

Step Up to Writing® provides a comprehensive resource of multisensory writing strategies to support students in grades K–12 in creating thoughtful, well-written compositions. The program explicitly connects reading, writing, speaking, and listening with hands-on strategies and directly teaches each phase of the writing process. Students learn to actively engage with reading materials, develop study skills, and produce proficient informative/explanatory, narrative, and opinion/argument writing in accordance with the Common Core State Standards. Implementation Guides at both the Intermediate and Secondary (new in 2013) levels provide a flexible, grade-level sequence of strategies for each type of writing specified in the Common Core State Standards, with genre-specific rubrics and clear, concise teacher support.

REWARDS® is an explicitly taught, research-validated reading and writing intervention program designed for general and special education, supplemental reading intervention, summer school, and after school implementation. Built to specifically address the Common Core State Standards, new editions of REWARDS Intermediate and Secondary (2013) build students' proficiency in foundational skills, language, and reading informational text. This short-term intervention increases oral and silent reading rates through a highly generalizable, effective strategy for decoding the multisyllabic words frequently found in content-area texts. REWARDS Plus engages students in applying the strategy to authentic content-area materials, and REWARDS Writing teaches essential sentence-writing skills that can be applied in all content areas.

Read Well® is an evidence-based K–3 reading and language arts solution that helps students build the critical skills needed to be successful readers and learners. A blended approach of whole-class, small-group, and online instruction with flexible pacing and multiple entry points gives teachers the flexibility they need to meet students at their skill and developmental levels and adapt instruction accordingly. Read Well uses an explicit, systematic, mastery-based instructional model that transitions students to proficient reading, writing, speaking, and listening. The curriculum aligns to the Common Core State Standards for English Language Arts, and the newly released Read Well 3 and Read Well 2 Composition was built to specifically address these standards.

Ticket to Read® is an interactive, web-based program designed to improve the reading performance of students in grades K–6 by providing independent reading activities and extended skills practice. Dynamic content in critical phonics and word-attack skills, vocabulary, fluency, and reading comprehension is leveled, self-paced, and teacher-monitored. Students are motivated by a leaderboard, a virtual clubhouse that includes earning online tickets and other rewards, games, and engaging, self-selected passages on a variety of relevant topics.

TimeWarp® Plus is a summer school or extended day reading intervention program that immerses students in grades K–9 in reading adventures to build essential skills that can prevent summer learning loss and prepare them for grade-level instruction. TimeWarp Plus is a balanced, research-based reading program providing explicit instruction in writing and the five essential components of reading through high-interest, adventure-based learning experiences. Whole-class and small-group lessons include engaging, hands-on activities.

Voyager Sopris Math Solutions

TransMath® is an intensive, mastery-based intervention solution for struggling students in grades 5–10. In TransMath, concepts are developed with visual models that help students see big ideas being taught and build skills in algebraic thinking, computational fluency, fluency with rational numbers, and aspects of geometry and measurement. The program controls cognitive overload by presenting fewer topics in greater depth and providing two strands of instruction in each daily lesson: Number Sense and Problem Solving. TransMath teaches multistep problems gradually and in a meaningful context to prepare students for algebra and success in higher mathematics.

Vmath® is an explicit, systematic intervention that complements and enhances any core math program in grades 2–8 by filling critical learning gaps. This research-based program reinforces students' understanding of strategies and concepts most frequently tested, while providing instruction in critical skills that they may have missed in previous years of instruction. Vmath offers a simple way for teachers to build student confidence and provide the purposeful practice recommended for transferring the skills of the Common Core State Standards to daily application and use of mathematics. Vmath Summer Adventure is an intensive intervention for students in grades K–8 that uses the same pedagogy and research as Vmath.

VmathLive® is a web-based solution that provides purposeful math practice in a stimulating learning environment. Newly expanded to include kindergarten and first grade, VmathLive helps students in grades K–8 continuously improve their results through scaffolded instruction with problem-specific, step-by-step hints and on-screen tutoring focused on visual representations of math concepts with both English and Spanish audio. Students work sequentially through a year’s worth of math and are encouraged to stay on track with messaging, badges, trophies, points, live competition with peers, and other confidence-building strategies. The program’s new Play component includes 20 different games involving mental math, using patterns, multiple steps, and reasoning skills aligned to the Common Core State Standards.

Voyager Sopris Prekindergarten Solution

We Can Early Learning Curriculum, Second Edition, was released during the second quarter of 2013 and built specifically to prepare students for the kindergarten Common Core State Standards and to address the Head Start Child Development and Early Learning Framework. The fundamental goal of We Can is to prepare students for academic success in kindergarten and beyond. This robust, multidisciplinary curriculum provides a clear road map for early learning success—cross-curricular content addressing 10 early childhood domains, online learning tools, reinforced routines and procedures, a pre-writing kit, a classroom management component, and fully integrated assessments. Teachers can maximize multiple opportunities to observe children, identify their capabilities and needs, manage their behavior, and monitor their progress.

Voyager Sopris Targeted Intervention and Assessment Solutions

DIBELS® Next (grades K–6), and the Spanish-language counterpart IDEL® (grades K–3) provide quick, reliable universal screening and progress monitoring in basic early literacy skills. Students take benchmark assessments, either online or with paper/pencil, three times a year to measure the critical areas of phonemic awareness, phonics, fluency, and comprehension. Progress monitoring assessments are administered frequently, and teachers have the option of using DIBELS Next Survey for students who may require off-grade-level progress monitoring. DIBELS Deep provides the option of an in-depth diagnostic assessment. The data generated from this suite of assessments support educators as they identify students who need intervention, select and evaluate instructional interventions, group students, and prepare instruction to support students in reaching the Common Core State Standards.

Voyager Sopris Digital Teaching and Learning Platform

Edplicity™, released in the third quarter of 2013, is an all-in-one, cloud-based solution for content storage and collaboration in the classroom and beyond. This digital platform creates an interactive online learning community where teachers can load their own digital content, assign student work, track participation and performance, provide targeted feedback, search and tag content based on alignments with the Common Core and other state standards, collaborate with other teachers and administrators, and share best practices—all online and in real time. Edplicity configurations with preloaded content from Voyager Passport and Passport Reading Journeys give teachers the ability to deliver instruction in an online format using these evidence-based reading programs. Edplicity offers unlimited storage, single sign-on capabilities, user-friendly organization and navigation, and access from multiple devices.

Voyager Sopris Professional Services

Voyager Education Services supports preK–12 educators by providing targeted, job-embedded professional development with a focus on accelerating student gains and overall school performance. Working collaboratively with school leadership, the VES team personalizes, prioritizes, and scaffolds content to address each school's unique needs and disaggregate student achievement data. Services include audits and needs assessments, coaching, support, and progress monitoring in the areas of teacher effectiveness; leadership development; Response to Intervention (RtI)/Multitier System of Supports (MTSS); school improvement planning and support; school turnaround, transformation, and restart; technology optimization; building a positive school climate; and the implementation, planning, and execution of the Common Core State Standards.

Voyager Sopris Learning Support Services is a team committed to increasing student results by serving teachers and school leaders through planning, coaching, training, and ongoing support. The team specializes in partnering with schools and districts to build custom implementation support plans that ensure all stakeholders are prepared to implement and sustain instructional programs from Voyager Sopris Learning. Support is fully customized during every stage of implementation: pre-implementation planning, launch, ongoing, and data review. In-person training includes initial, refresher, training of trainers (TOT), advanced, transition, and ongoing support days. Training is also available online in the form of live webinars or web-based courses.

LETRS® is a stand-alone professional development program that responds to the need for high-quality teachers of reading and spelling in grades preK–12. Authored by literacy expert Louisa Moats, Ed.D., LETRS provides the deep foundational knowledge necessary to understand how students learn to read, write, and spell—and why some of them struggle. Based in real-world experience and the science of reading, the program provides strategies and activities that can be implemented immediately. Professional development is delivered through a combination of print materials, online courses, software, and face-to-face training. LETRS Institutes, presented by certified national LETRS trainers, engage educators through group activities and hands-on practice.

NUMBERS is a rigorous mathematics professional development offering for teachers of mathematics in grades K–8. Integrating findings from the most current research, NUMBERS delves deeply into each domain of the Common Core State Standards. The content of NUMBERS is based on the premise that increasing teacher expertise results in improved student outcomes. There are five modules: Number Sense (K–5); Fractions and Decimals (3–6); Ratios and Proportions (5–8); Algebraic Thinking (5–8); and Data, Measurement, and Geometry (K–8, with an emphasis on 3–8). The content can be applied to any curriculum, context, or student population.

Learning A-Z Products

Learning A-Z is an educational resource company specializing in online delivery of leveled readers and other supplementary curriculum resources for preK-6. There is one free website, LearningPage™, which provides basic materials and directs interested parents, teachers, schools and districts to Learning A-Z's subscription-based websites. These websites are stand-alone or integrated for a comprehensive solution used for individual classrooms, schools, and districts. Reading A-Z™, Raz-Kids™, Vocabulary A-Z™, Writing A-Z™, Science A-Z™, Headsprout® Early Reading and Headsprout® Comprehension provide online supplemental reading, writing, vocabulary lessons, books, science lessons and other resources for students and teachers.

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

Raz-Kids is a student-centered online collection of leveled eBooks and eQuizzes designed to guide and motivate emergent and reluctant readers, as well as improve the skills of fluent readers. Students can listen to and read books as well as record their reading and then take an online quiz while receiving immediate feedback. Students earn stars for their reading activity. The stars can then be spent in each student's personal clubhouse-like environment for purchasing a catalog full of items that include aliens and other fun characters. The program currently consists of over 400 online books along with companion quizzes and worksheets spread across 27 levels of difficulty. An online assessment tool allows teachers to assess students for placement at the appropriate reading level by determining reading rate, accuracy, fluency and comprehension. The website also features a classroom management system for teachers to build rosters, assign books, monitor student progress, and evaluate instructional needs.

Science A-Z provides teachers with an online collection of resources to improve student skills associated with reading, thinking and learning science. The website delivers printable and projectable science curriculum resources, organized by unit themes and grouped into grade spans, for elementary teachers to teach a concept at each student's appropriate reading level. Filled with materials, including books, worksheets, labs, correlations to state standards, and videos, this website seamlessly blends literacy and science.

In late 2013, we completed the purchase of certain assets of Headsprout from Mimio, LLC, adding student-facing phonics and comprehension resources to the Learning A-Z segment.

Headsprout Early Reading is a K-2 supplemental program that ensures reading success for every child. During the first half of the program, children learn through direct positive experience that letters and sounds go together to make words, words go together to make sentences, and sentences make stories. The basic component skills and strategies necessary for reading, such as phonemic awareness (the sounds within words), print awareness, phonics, sounding out, segmenting and blending, are explicitly mastered in a fun, self-directed manner. The second half of the program focuses more on reading vocabulary, fluency, and comprehension, while still teaching more sounds and sight words. This online program also includes individualized, detailed progress reports.

Headsprout Reading Comprehension provides elementary readers with engaging instruction in how to read for meaning and how to apply these skills across subject areas and on standardized tests. Passage complexity increases as the program progresses to include more complex sentences and longer passages, more answer choices and more variation in questions. This online program also includes automated progress reports that show what the child is learning.

ExploreLearning Products

ExploreLearning publishes two supplemental programs in the math and science market. ExploreLearning Gizmos™ is a subscription-based online library of interactive simulations for math and science in grades 3-12. ExploreLearning Reflex is a game-based adaptive online program designed to help students in grades 2-8 achieve fluency with their basic math facts. ExploreLearning has won National Science Foundation funding, supports the tenets of the National Council of Teachers of Mathematics and its products have received positive mention in books published by the Association of Supervision and Curriculum Development and the National Science Teachers Association. ExploreLearning is also a perennial award winner recognized by industry peer groups, including the Association of Educational Publishers and the Software and Information Industry Association (SIIA), as well as publications such as District Administration Magazine and Tech and Learning Magazine. ExploreLearning materials are correlated to state standards and over 300 math and science textbooks.

Kurzweil /IntelliTools Products

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

- Kurzweil 3000. Kurzweil 3000 is a reading, writing and learning software package for students with dyslexia, attention deficit disorder or other learning difficulties, including physical impairments or language learning needs. It enables individuals with the cognitive ability, but not the literacy skills, to achieve academic success alongside their peers.
- Firefly. Firefly provides anytime, anywhere access to digital, text-based content, supplemented by powerful literacy tools. Firefly is an entirely web-based solution with a functionality set similar to, but more limited than, that found in Kurzweil 3000.
- Kurzweil 1000. Kurzweil 1000 provides visually impaired users access to printed and electronic materials. Documents and digital files are converted from text to speech and read aloud in a variety of voices that can be modified to suit individual preferences. In addition, this software provides users with document creation and editing, studying and study skills for note-taking, summarizing and outlining text.

IntelliTools

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

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

Industry Information

We sell primarily to public school districts in the United States. On a much smaller scale, we also sell to private and charter schools, home school and parent consumers, and other companies that bundle our products with their offerings.

School district funding continues to undergo significant change and uncertainty, and most of our public school district customers are largely dependent on federal, state and local funding to purchase our products. Additionally, the digitalization of education content and delivery is driving a substantial shift in the education market. The demand for technology-based products has developed rapidly over the past several years and has led to changes in the way that providers develop, produce, market and distribute products.

The education market is also changing in response to the adoption of the Common Core State Standards by a majority of the states. Common Core State Standards define the knowledge and skills students should have within their K-12 education careers so that they will graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. These standards are the product of a state-led effort to establish a single set of clear educational standards for grades K-12. Most of the states that have adopted the Common Core State Standards also belong to one of two multistate testing consortia that are developing common state assessments in English language arts and mathematics, aligned to the new standards. These assessments, which will be designed to replace existing statewide tests, are expected to be administered beginning in the 2014-15 school year. Schools in these states may need to augment or replace instructional materials to align to the Common Core State Standards and to prepare students for the new state assessments.

We offer products to help every student reach their full potential. Some of our product lines, especially at VSL and Kurzweil/IntelliTools, are specifically designed to accelerate struggling students to grade-level proficiency or to address learning differences. We estimate that at least 40% of students require intervention. The intervention market is focused on administering supplemental and alternative core education solutions to at-risk students and students with disabilities receiving special education. At-risk students and students with disabilities are those students that are underperforming when evaluated against their peers.

Funding Information

School districts use a variety of government funding sources in order to procure our products and services, drawing from both federal funding sources and state and local sources. We estimate that approximately half of our overall sales are paid by school districts using federal funding sources. VSL has a higher reliance on sales related to use of federal funds than our other segments.

The Title I portion ("Title I") of the reauthorized Elementary Secondary Education Act ("ESEA") (and the Title III portion) and the Individuals with Disabilities Education Act ("IDEA") are the two primary federal funding sources for at-risk students and students with disabilities, respectively. Title I distributes funding to those schools and school districts which are comprised of a relatively high percentage of students from low income families as defined by the IDEA. In addition, Title I appropriates money for the education system for the prevention of dropouts and the improvement of schools. IDEA governs how states and public agencies provide early intervention, special education and related services to children with disabilities.

We believe that demand for our products and professional services will be driven by an increased emphasis on accountability and measurement. The No Child Left Behind Act ("NCLB") was a key driver for increased accountability and measurement of student performance designed to meet the mandated goal that 100% of students become proficient in reading and math by the end of the 2013-2014 school year. School districts are required to demonstrate adequate yearly progress ("AYP") or risk a cut in funding. Intervention products help schools improve performance of the most challenged learners and allow schools to meet stringent AYP criteria. Furthermore, there is greater emphasis on evaluating educators based on the performance of their students, driven by reforms contained in the Race to the Top program. These regulatory frameworks have mandated stricter accountability, higher standards and increased transparency in education, and states have been required to measure annual progress towards these standards and make results publicly available for the first time. We believe that with more attention in general, increased analysis of U.S. student outcomes versus other countries, and movement to national standards through the adoption of the Common Core State Standards, the number of children deemed to need intervention is likely to increase.

Competition

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

- Traditional text book suppliers, which often offer intervention products as part of their core reading and math programs, including Houghton Mifflin/Harcourt, Pearson, The McGraw-Hill Companies, and Scholastic;
- Supplemental suppliers, a market segment that is quite fragmented, including the supplementary products divisions of the international textbook publishers named above, and others including School Specialty, Haights Cross Communications and National Geographic (The Hampton-Brown Company);
- Technology suppliers, including Scholastic (Read 180, System 44, FASTT Math), Pearson (iLit), Scientific Learning, edmentum, Achieve3000, Dream Box, Carnegie Learning, Renaissance Learning, Don Johnston and TextHelp;
- Assessment suppliers, including Pearson (Aimsweb) and NWEA;
- Service providers, including Americas Choice (Pearson), and research laboratories such as WestEd; and
- Open source content providers, such as Khan Academy and OER Commons also provide online educational videos.

Seasonality

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

Product Development, Sales and Marketing

We are strategically focused on having the best possible product offerings and the sales and marketing forces to effectively and efficiently deliver these products.

Product Development

We seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. We update our products as needed to incorporate the latest research or pedagogy, bring images current or update factual content. Our web-based products are enhanced continuously. Between the product refreshes, we often develop variations, expansions (e.g., more grade levels) and other basic enhancements of our products.

We expect sales of our purely print-based products to continue to decline. Therefore, to stabilize order volumes and enable growth in future years, we will focus our development efforts on technology solutions, especially those opportunities that offer student-directed learning. These investments will include enhancements for our Learning A-Z and ExploreLearning subscription products, the development of blended learning solutions in the VSL segment, and continued investment in the firefly web-based solution in the Kurzweil/IntelliTools segment.

Changing standards, such as the Common Core State Standards, also provide opportunities to meet new market needs. The implementation of these standards is likely to result in an increase in the number of students that are deemed to be below grade level proficiency. Products that are aligned with the Common Core State Standards will allow educators to focus on areas where students are not proficient as each lesson will be clearly tied to the required learning objectives.

Research and development expense, net of capitalization, was $9.8 million and $10.9 million for the years ended December 31, 2013 and 2012, respectively. In addition, we capitalize certain pre-publication, production and online curriculum development expenditures. Capitalized product development costs were as follows in 2013:

· Voyager Sopris Learning – $7.1 million
· Learning A-Z – $4.4 million
· ExploreLearning – $1.5 million
· Kurzweil/IntelliTools – $0.4 million

We may also from time to time enhance our product portfolio with acquisitions, such as the Headsprout purchase completed in late 2013 which added student-facing phonics and comprehension resources to the Learning A-Z segment.

Sales and Marketing

Each operating segment has independent sales forces with both field sales producers generally covering larger opportunity customers and an inside sales force generally covering smaller territories. These sales representatives are supported by product or subject matter and implementation experts as well as a marketing team. Voyager Sopris Learning also uses direct marketing through catalogs and all of our segments are increasingly making use of e-commerce and the Internet to sell our products. We have and will continue to participate in state adoptions when our products meet the needs of those adoptions. As of December 31, 2013, our total combined company sales force consisted of 69 field and 44 inside sales producers for a total of 113 direct sales producers, excluding sales management and marketing. Sales and marketing expense was $42.2 million and $46.4 million for the years ended December 31, 2013 and 2012, respectively. We expect to make significant investments in our ExploreLearning and Learning A-Z sales forces during 2014.

Concentration Risk

We are not overly dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. We have a broad customer base; in the two years ended December 31, 2013 for the Company in the aggregate, no single customer accounted for more than 10% of our total net revenues in any one year. Our top ten customers accounted for approximately 16% of our total net revenues in 2013.

Governmental Regulations

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

Executive Officers

John Campbell. John Campbell, age 53, currently serves as Chief Executive Officer of Cambium Learning Group. Mr. Campbell served as President of Cambium Learning Technologies from December 2009 until March 2013, and COO of Voyager from January 2007 through December 2009. He joined ProQuest in January of 2004, which sold off its library business and changed its name to Voyager in January of 2007. Before joining Cambium Learning Group, Mr. Campbell served as Chief Operating Officer and business unit head of a research-based reading company (Breakthrough to Literacy) within McGraw-Hill. Prior to joining Breakthrough/McGraw-Hill, he served as Director of Technology for Tribune Education. Additionally, Mr. Campbell has experience as General Manager of a software start-up (Insight Industries Inc.) and as Director of Applications and Technical Support for a hardware manufacturer (Commodore International). John has also served on the Education Board for the Software Information Industry Association (SIIA).

Bob Holl. Bob Holl, age 70, is the Co-founder and President of Learning A-Z. Mr. Holl has a wealth of educational knowledge and publishing experience having spent 10 years as a public school educator and 30 years in educational publishing. Before founding Learning A-Z, he served as Vice President of Development for the Wright Group and prior to that served as Editor-in-Chief of Addison-Wesley Publishing and Scott-Foresman Publishing Companies. He has been the architect and writer of many curriculum programs and educational resources during his publishing career.

George A. Logue. George A. Logue, age 63, currently serves as President of Voyager Sopris Learning. Mr. Logue previously served as the Executive Vice President and President of Sopris Learning, the Supplemental Solutions business unit of Cambium Learning Group, Inc. Mr. Logue has served as the Executive Vice President of Cambium since June 2003 and has 30 years of education industry experience. Before joining Cambium, Mr. Logue spent 18 years in various leadership roles with Houghton Mifflin Company. At Houghton Mifflin, Mr. Logue served as Executive Vice President of the School Division from 1996 to 2003. Prior to serving as Executive Vice President of Houghton Mifflin, Mr. Logue was Vice President for Sales and Marketing from 1994 to 1996.

Alex Saltonstall. Alex Saltonstall, age 38, is the President of Kurzweil/IntelliTools. Mr. Saltonstall joined Cambium in 2004, and led the company’s acquisition activities as the Manager of Corporate Development. He became General Manager of Kurzweil/IntelliTools in 2006. Before joining Cambium, Mr. Saltonstall was President of SearchSoft Solutions, Inc. Mr. Saltonstall was previously an Associate at Schoolhouse Partners, and a Senior Associate at The Parthenon Group.

David Shuster. David Shuster, age 47, is the Founder and President of ExploreLearning. Mr. Shuster is a former classroom educator and is intimately involved in the design and development of the company's award-winning products. He holds a Ph.D. in Applied Mathematics from the University of Virginia and has led ExploreLearning since its inception in 1999.

Barbara Benson. Barbara Benson, age 43, has served as the Chief Financial Officer of Cambium Learning Group, Inc. since March 2013. Ms. Benson joined the Company in March 2007 and previously served as Controller of Cambium Learning Group, Inc. from December 2009 to March 2013, and as Controller of the Voyager Expanded Learning operating unit from March 2007 to December 2009. She has also served as the Principal Accounting Officer of the Company since March 2010. From 2004 until joining the Company in March 2007, Ms. Benson held positions at Pegasus Solutions, Inc., a hotel technology provider of reservation, distribution, financial, and representation services, including Controller and Director of Financial Accounting and Reporting. She began her career as an auditor with Coopers & Lybrand. Ms. Benson is a licensed Certified Public Accountant.

Todd Buchardt. Todd Buchardt, age 54, currently serves as our Senior Vice President of Human Resources and General Counsel and Secretary. Mr. Buchardt served Voyager Learning Company as Senior Vice President since

November 2002, Vice President since March 2000, and General Counsel and Secretary since 1998. Before joining Voyager Learning Company, Mr. Buchardt held various legal positions with First Data Corporation from 1986 to 1998.

Paul Fonte. Paul Fonte, age 45, currently serves as Chief Technology Officer of Cambium Learning Group. Mr. Fonte previously served as the Vice President of Technology for Cambium Learning Technologies since December 2009. Mr. Fonte joined Voyager in 2003 as Senior Project Lead and was promoted to a number of positions within Voyager, including the Director of Technology where he served until December 2009. Mr. Fonte has over 20 years of professional experience developing and delivering software at all levels.

Proprietary Rights

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

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

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

Website Access to Company Reports

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

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

Code of Ethics

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

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

Item 1A Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2013.

Risks Related to our Business

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

We derive a significant portion of our revenues from public schools, which are heavily dependent on federal, state and local government funding. Budget cuts, including the automatic form of spending cuts referred to as sequestration, curtailments, delays, changes in leadership, shifts in priorities or general reductions in funding could reduce or delay our revenues. Funding difficulties experienced by schools could also cause those institutions to demand price reductions and could slow or reduce purchases of intervention products, which in turn could materially harm our business. Our business may be adversely affected by changes in educational funding at the federal, state or local level, resulting from changes in legislation, changes in state procurement processes, changes in government leadership, emergence of other funding or legislative priorities and changes in the condition of the local, state or U.S. economy.

Changes in school procurement policies may adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

However, destruction or disruption of data center sites could cause a system-wide failure. Although we maintain property insurance on these premises, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures associated with third party hosting providers or by failures of third party technology used in our products, and we may have no control over remedying these failures.

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

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

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

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

Customer acceptance of our products could be impacted by changing educational standards.

Customer acceptance of our products may be impacted by changing standards, including the Common Core State Standards which have now been adopted by most states. Common Core State Standards define the knowledge and skills students should have within their K-12 education careers so that they will graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. These standards and the assessments supporting them are designed for students learning at grade-level proficiency. Many of our products are either intervention products designed to accelerate progress for students that are below grade-level proficiency, or products that are supplementary in nature. While there could be opportunity for us, if customer acceptance of our products is negatively impacted by adoption of Common Core State Standards, our sales could decline or we may be required to expend more on investments in product development than planned.

Risks Related to Debt and Ownership of our Common Stock

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

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

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

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

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

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

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

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

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

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

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

- vest our board of directors with the sole power to set the number of directors of our company;
- limit the persons that may call special meetings of stockholders;
- establish advance notice requirements for stockholder proposals and director nominations; and
- limit stockholder action by written consent.

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

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

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

We have $175 million aggregate principal amount of 9.75% senior secured notes due 2017.

We are subject to risks associated with substantial indebtedness, including the risk that we will not be able to refinance existing indebtedness when it becomes due, the risk that we would not be able to secure alternative financing if we are unable to comply with the debt covenants or if we were to experience an event of default, and the risk that our cash flows from operations are insufficient to make scheduled interest payments. We are required to make interest payments semi-annually in arrears on each February 15 and August 15. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to refinance all or a portion of our debt. However, we may not be able to obtain any such new or additional financing on favorable terms or at all.

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

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

If the price of our common stock trades below $1.00 per share for a sustained period or we do not meet other continued listing requirements, our common stock may be delisted from the NASDAQ Capital Market.

The NASDAQ Capital Market imposes, among other requirements, listing maintenance standards as well as minimum bid and public float requirements. In particular, NASDAQ rules require us to maintain a minimum bid price of $1.00 per share of our common stock and to have a specified level of stockholder equity. If the closing bid price of our common stock is below $1.00 per share for 30 consecutive trading days, or we do not meet other requirements, we would fail to be in compliance with NASDAQ's continued listing standards and, if we are unable to cure the non-compliance within 180 days, our common stock may be delisted from the NASDAQ Capital Market and we may not be able to maintain the continued listing of our common stock on the NASDAQ Capital Market. Delisting could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal corporate office is located in Dallas, Texas. We lease office and warehouse facilities in Dallas, Texas; Charlottesville, Virginia; Tucson, Arizona; Frederick, Colorado; Natick, Massachusetts; and Ann Arbor, Michigan. As of December 31, 2013, the total square footage of our leased properties was 303,698 square feet.

In conjunction with the outsourcing of our warehouse operations to a third party logistics provider, we have subleased one of our Frederick, Colorado facilities comprising approximately 200,420 square feet.

We believe the buildings and equipment used in our continuing operations generally to be in good condition and adequate for our current needs and that additional space will be available as needed.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

PART II

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

Market Information: Our common stock is traded on the NASDAQ Capital Market under the symbol "ABCD." Below are the high and low sale prices for each quarter in the years ended December 31, 2013 and 2012.

	2013		2012	
Fiscal Quarter	High	Low	High	Low
First	$1.40	$0.93	$3.43	$2.61
Second	1.50	0.93	2.75	0.94
Third	1.85	1.16	1.30	0.83
Fourth	1.82	1.25	1.50	0.58

Record Holders: As of March 4, 2014, there were 611 holders of record of our common stock.

Purchases of Equity Securities: Shares of common stock repurchased by the Company during the quarter ended December 31, 2013 were as follows:

Issuer Purchases of Equity Securities

Period:	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)
October 1—October 31	—	$ —	—	$ 5,000
November 1—November 30	1,861,969	2.35	1,861,969	624
December 1—December 31	—	—	—	624

(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. On March 19, 2013, the Company's Board of Directors extended the share repurchase authorization for an additional one year period (through July 5, 2014) and the remaining authorization was reset to $5 million.

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

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

Securities authorized for issuance under equity compensation plans at December 31, 2013 are as follows:

(in thousands, except per share amounts) Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity incentive plan (a)
Equity compensation plans approved by security holders	2,367	$ 1.43	2,530
Equity compensation plans not approved by security holders	—	—	—
Total	2,367	$ 1.43	2,530

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

Item 6. Selected Financial Data.
This item is not required for a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2013.

Organization of Information

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

- Overview
- Results of Operations
- Year Ended December 31, 2013 Compared to Year Ended December 31, 2012
- Liquidity and Capital Resources
- Non-GAAP Measures
- Capital Expenditures and Outlook
- Commitments and Contractual Obligations
- Off-Balance Sheet Arrangements
- Critical Accounting Policies and Estimates
- Recently Issued Financial Accounting Standards

Overview

Form of Organization

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

Under the terms of the merger agreement, each outstanding share of VLCY's common stock was converted in the Voyager Merger into the right to receive at the election of each stockholder, either (i) $6.50 in cash, without interest, or (ii) one share of our common stock, plus, regardless of the election made, additional consideration consisting of cash and a contingent value right, as described in the merger agreement. The amount of cash available to satisfy cash elections by the VLCY stockholders was limited to $67.5 million in the aggregate. The cash consideration payable to the former VLCY stockholders was insufficient to accommodate all of the cash elections that were made. Accordingly, the amount of cash paid to the former VLCY stockholders who elected to exchange shares of VLCY common stock for cash was reduced, pro rata, in accordance with agreed procedures set forth in the merger agreement. Pursuant to these procedures, we paid $67.5 million in cash to the former holders of VLCY's common stock and issued to those stockholders a total of 19.5 million shares of common stock. The cash consideration paid to the former VLCY stockholders consisted of $25 million contributed by VSS-Cambium Holdings III, LLC and $42.5 million contributed by VLCY. In exchange for its contribution of $25 million, VSS-Cambium Holdings III, LLC received 3.8 million shares of our common stock issued at the ascribed value of $6.50 per share. The shares of Cambium's common stock held by VSS-Cambium Holdings III, LLC, its sole stockholder, were converted in the Cambium Merger into the right to receive 20.5 million shares of our common stock. In addition, as part of the merger consideration, VSS-Cambium Holdings III, LLC received a warrant to purchase a number of shares of our common stock determined by a formula set forth in the merger agreement, which is currently equal to 755,077 shares. In connection with the consummation of this transaction, we entered into a stockholders agreement pursuant to which we granted VSS-Cambium Holdings III, LLC and funds managed and controlled by VSS the right to purchase up to 7.5 million shares of our common stock as provided for in the stockholders agreement as well as certain preemptive rights set forth therein. In August 2011, VSS-Cambium Holdings III, LLC, exercised its subscription rights in full to purchase 7,246,376 shares of our common stock, at a purchase price of $2.76 per share, or an aggregate purchase price of $20.0 million.

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

Management Changes

In March 2013, the Company's Board of Directors announced that they had accepted the resignations of Ron Klausner, Chief Executive Officer; Vernon Johnson, President of Voyager Sopris Learning; and Brad Almond, Chief Financial Officer. These resignations were not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

The Company made the following promotions in response to these resignations:

- John Campbell was promoted from President of Cambium Learning Technologies to President and Chief Executive Officer of Cambium Learning Group.
- George Logue was promoted from President of Sopris to President of Voyager Sopris Learning.
- Barbara Benson was promoted from Controller of Cambium Learning Group to Chief Financial Officer of Cambium Learning Group.
- Paul Fonte was promoted from Vice President of Technology for Cambium Learning Technologies to Chief Technology Officer for Cambium Learning Group.

Acquisition

On December 23, 2013, LAZEL, Inc., a wholly owned subsidiary of Cambium Learning Group, Inc. (the "Company"), signed a definitive agreement (the “Agreement") to purchase certain assets of Headsprout from Mimio, LLC. The purchase price was $4.0 million, of which $3.6 million was paid in January 2014. The remaining $0.4 million cash purchase price will be paid 18 months after the closing date subject to the holdback provisions of the Agreement. The purchased assets are included in our Learning A-Z reporting segment.

Founded in 1999 and based in Seattle, WA, Mimio acquired Headsprout in 2011. Headsprout has patented and award-winning adaptive software titles. The software has earned industry-wide respect for its effort in improving reading skills for students. Currently used in thousands of classrooms, learning labs, and homes, Headsprout is now part of Learning A-Z's larger reading offering and is being marketed and sold as Headsprout Early Reading and Headsprout Reading Comprehension.

We believe the acquisition will be beneficial as it will increase our digital subscription product offerings and the purchased assets add proven, student-facing phonics and comprehension resources to our Learning A-Z segment. Due to the timing of the transaction and future integration activities, the acquisition did not have a material impact on 2013 and is not expected to be accretive to our net income in 2014.

Segments

Our brands comprise four reportable segments with separate management teams and infrastructures that offer various products and services: Voyager Sopris Learning, Learning A-Z, ExploreLearning and Kurzweil/IntelliTools.

Segment change from prior year: Prior to the first quarter of 2013, the Cambium Learning Technologies segment included: Learning A-Z; ExploreLearning; Kurzweil/IntelliTools; and certain management charges related to the entire Cambium Learning Technologies segment. In the current presentation, Learning A-Z, ExploreLearning, and Kurzweil/IntelliTools are presented in separate segments. The management charges that were related to the overall Cambium Learning Technologies segment, which did not directly relate to any of the three new segments, are included in Other consistent with the 2013 presentation.

Results of Operations

Order volume is an internal metric that is a leading indicator of revenues. During 2013, company-wide order volumes were down slightly compared to 2012, with order volume changes by segment as follows:

- Voyager Sopris Learning decreased 12%
- Learning A-Z increased 28%
- ExploreLearning increased 27%
- Kurzweil/IntelliTools decreased 13%

Learning A-Z and ExploreLearning continued their trend of double-digit growth rates. Offsetting this growth, Voyager Sopris Learning and Kurzweil/IntelliTools continued to show order volume declination as reductions in legacy products are currently outpacing gains from newer online and technology-enabled solutions.

Overall, GAAP net revenues increased in 2013 by 1% to $150.5 million, compared to $148.6 million in 2012. GAAP net revenues by segment in 2013 and the percentage change from 2012, were as follows:

- Voyager Sopris Learning: $90.3 million, decreased 7%
- Learning A-Z: $33.5 million, increased 28%
- ExploreLearning: $16.3 million, increased 14%
- Kurzweil/IntelliTools: $10.4 million, decreased 7%

Costs in 2013 benefited from the reengineering and restructuring activities which were completed in 2012. While we have reinvested some of the savings in growth areas such as our online subscription businesses, cost reductions made in slower growing areas such as VSL’s print-based solutions are providing year over year earnings growth. We will continue to review and assess our cost structure to ensure that resources are allocated to areas of the business providing the highest earnings opportunity.

Results of operations for 2013 were also impacted by the following:

- Impairment charges of $1.2 million related to the Class.com product line which will be discontinued in 2014.
- Impairment charges of $1.0 million for in-process product development projects that will not be completed.

Results of operations for 2012 were also impacted by the following:

- Costs of $8.4 million related to the Company’s reengineering and restructuring activities, including impairment charges of $4.4 million
- Impairment charges of $66.9 million to goodwill and $27.8 million to acquired intangible assets.
- Impairment charges of $1.5 million related to in-process product development projects that were deemed to have no ongoing value.

Voyager Sopris Learning

Order volumes in the VSL segment declined 12% for the year ended December 31, 2013 compared to 2012. School district funding continues to undergo significant change and uncertainty, and the current environment had made growth challenging for VSL. We believe that VSL order volume declines are also attributable to slow execution of the unit's product development strategies as well as some confusion in the marketplace due to the debates around the movement to Common Core State Standards.

GAAP net revenues for VSL were down $6.5 million, or 6.7%, for the year ended December 31, 2013 from the same period in 2012 as a result of the order volume declines. Through the second quarter 2013, net revenues had been higher versus prior year due to the recognition of prior period technology and services sales that were delivered in 2013. Generally, deferred revenues for Voyager Sopris Learning follow a September through July school year cycle, increasing during the highest selling period at the start of a school year and declining as those revenues are recognized over the school year and summer school periods. Sales of print materials are generally recognized when the product is shipped to or received by the customer. Beginning with the start of the new school year in the third fiscal quarter, GAAP net revenues began to follow more closely with the current year order volume trends.

VSL costs benefited from the reengineering and restructuring activities which were completed in 2012 and from ongoing efforts to right-size the business to ensure that resources are allocated to areas providing the highest earnings opportunity.

We expect sales of purely print-based products to continue to decline. Therefore, to stabilize order volumes and enable growth in future years, the company will focus its development efforts on technology solutions, especially those opportunities that help school districts implement the new Common Core State Standards or other State-based curriculum or assessment standards. We believe that the efficacy of our products and the transition of our existing content to technology-based learning solutions will eventually offset the weakness in our legacy print-based offerings and return the segment to growth. However, these products take a significant amount of time to develop and gain customer acceptance. Accordingly, we expect that overall VSL order volumes will continue to decline in 2014, although at a lower percentage than the 12% decline experienced in 2013. Due to the ongoing efforts to right-size the business and the planned transition to more profitable technology-based products, margins are expected to improve such that year-over-year earnings may not be negatively impacted by the order volume declines.

Learning A-Z

For the year ended December 31, 2013, Learning A-Z order volume exceeded the same period in 2012 by 28%. GAAP net revenues for Learning A-Z were higher by $7.3 million, or 27.9%, for the year ended December 31, 2013 from the same period in 2012, which was consistent with its order volume trends. Learning A-Z revenues are recognized pro rata over their subscription periods, which are generally for one year but can be for longer periods. Costs as a percentage of net revenues are higher in 2013 due to investments being made to fuel growth, primarily in sales and marketing.

Learning A-Z has realized double-digit order volume growth for several years and we believe this unit will continue to deliver strong growth. We believe that the value proposition offered by the Learning A-Z products will continue to be compelling due to quality content and award-winning technology. To facilitate this expected growth, we will make significant investments in our sales force and product development efforts. Learning A-Z products are aligned with the Common Core State Standards and this will continue to be a focus in future development. Costs as a percentage of net revenues are expected to be higher in 2014 than experienced in 2013 as a result of these investments.

ExploreLearning

For the year ended December 31, 2013, ExploreLearning has continued its trend of significant growth with order volumes exceeding prior year levels by 27%. GAAP net revenues for ExploreLearning were higher by $2.0 million, or 14.0%, for the year ended December 31, 2013 from the same period in 2012. ExploreLearning revenues are recognized pro rata over their subscription periods, which are generally for one year but can be for longer periods. Due to an increase in 2013 in the amount of multi-year agreements at ExploreLearning, the growth in GAAP net revenues lagged order volume growth. Costs as a percentage of net revenues are higher in 2013 due to investments we made to fuel growth, primarily in sales and marketing.

We believe that the value proposition offered by the ExploreLearning products will continue to be compelling due to quality content and award-winning technology and we expect strong growth in the coming years. As noted above, ExploreLearning's 2013 order volumes included several large multi-year deals. Therefore, we believe that order volume growth from 2013 to 2014, while still strong, will be a lower percentage growth than that experienced from 2012 to 2013. To ensure that ExploreLearning is well positioned for expected future growth, we plan to make significant investments in 2014 in this segment for the enhancement of existing products, the development of new products, and the expansion of the sales force. Costs as a percentage of net revenues are expected to be higher in 2014 than experienced in 2013 as a result of these investments.

Kurzweil/IntelliTools

Order volumes in the Kurzweil/IntelliTools segment declined 13% for the year ended December 31, 2013 from the same period in 2012. The decline is due in part to a change in mix toward a subscription solution rather than a perpetual model (which would provide more first year revenues). Additionally, management believes that customers are increasingly meeting their special education and text-to-speech needs with free and low-priced, but less comprehensive, solutions.

GAAP net revenues for Kurzweil/IntelliTools declined by $0.8 million, or 7.2%, for the year ended December 31, 2013 from the same period in 2012, primarily due to the decline in order volume. The decline in net revenues was not as significant as the decline in order volume due to the recognition of prior year sales that are being recorded over the related subscription period. Costs have benefited from ongoing efforts to right-size the business to ensure that resources are allocated to areas of the business providing the highest earnings opportunity.

Going forward, the Company plans to continue to invest in improving the firefly offering which brings many of the capabilities of the Kurzweil 3000 product to the web. This subscription solution has shown strong year over year growth and high renewal rates and will continue to be the focus of the business unit. We believe that the strength of the firefly solution and potentially the development of other subscription-based products will eventually return the segment to growth, but we expect Kurzweil/IntelliTools order volumes to continue to decline in 2014. The decline in order volumes is expected to be at a lower percentage than the 13% decline experienced in 2013; however, the transition to subscription-based products where revenues are recognized pro rata over the subscription life will likely result in a decline in GAAP net revenues greater than the decline in order volumes. We expect any decline in order volumes or GAAP net revenues to reduce segment earnings.

Shared Services and Other

Shared services and other include accounting, legal, human resources and corporate related items, as well as depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and income taxes. The Company does not allocate any of these costs to its segments, and our chief operating decision maker evaluates the performance of operating segments excluding these items.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

(in thousands)	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Amount	% of Revenues		Amount	% of Revenues	
Net revenues:						
Product revenues						
Voyager Sopris Learning	$67,619	44.9	%	$78,463	52.8	%
Learning A-Z	33,483	22.2	%	26,189	17.6	%
ExploreLearning	16,279	10.8	%	14,283	9.6	%
Kurzweil/IntelliTools	10,418	6.9	%	11,225	7.6	%
Service revenues						
Voyager Sopris Learning	22,721	15.1	%	18,399	12.4	%
Total net revenues	150,520	100.0	%	148,559	100.0	%
Cost of revenues:						
Cost of product revenues						
Voyager Sopris Learning	23,720	15.8	%	26,406	17.8	%
Learning A-Z	908	0.6	%	659	0.4	%
ExploreLearning	2,249	1.5	%	1,929	1.3	%
Kurzweil/IntelliTools	2,290	1.5	%	2,712	1.8	%
Shared Services	-	0.0	%	1,578	1.1	%
Cost of service revenues						
Voyager Sopris Learning	17,521	11.6	%	17,679	11.9	%
Amortization expense	17,519	11.6	%	24,716	16.6	%
Total cost of revenues	64,207	42.7	%	75,679	50.9	%
Research and development expense	9,810	6.5	%	10,907	7.3	%
Sales and marketing expense	42,233	28.1	%	46,367	31.2	%
General and administrative expense	21,341	14.2	%	21,427	14.4	%
Shipping and handling costs	1,722	1.1	%	2,834	1.9	%
Depreciation and amortization expense	4,895	3.3	%	6,182	4.2	%
Goodwill impairment	-	0.0	%	66,893	45.0	%
Embezzlement-related expense	118	0.1	%	516	0.3	%
Impairment of long-lived assets	2,227	1.5	%	33,707	22.7	%
Income (loss) before interest, other income (expense) and income taxes	3,967	2.6	%	(115,953)	(78.1	)%
Net interest expense	(18,819)	(12.5	)%	(18,683)	(12.6	)%
Other income, net	764	0.5	%	1,125	0.8	%
Income tax expense	(165)	(0.1	)%	(272)	(0.2	)%
Net loss	$(14,253)	(9.5	)%	$(133,783)	(90.1	)%

Net revenues

Net revenues for the year ended December 31, 2013 increased $2.0 million, or 1.3%, to $150.5 million from $148.6 million in the same period for 2012 primarily due to continued growth in the Learning A-Z and ExploreLearning segments. This growth was partially offset by order volume declines in the VSL and Kurzweil/IntelliTools segments.

- The VSL segment's product revenues for the year ended December 31, 2013 declined $10.8 million, or 13.8%, to $67.6 million from $78.5 million in the same period for 2012 due to a decline in order volume. The VSL segment's service revenues for the year ended December 31, 2013 increased $4.3 million, or 23.5%, to $22.7 million from $18.4 million in the same period for 2012. This increase was primarily due to the performance of prior period service sales during 2013.
- The Learning A-Z segment's net revenues for the year ended December 31, 2013 increased $7.3 million, or 27.9%, to $33.5 million from $26.2 million in the same period for 2012 due to continued order volume growth.
- The ExploreLearning segment's net revenues for the year ended December 31, 2013 increased $2.0 million, or 14.0%, to $16.3 million from $14.3 million in the same period for 2012 due to continued order volume growth. The total impact of the increase in order volume in the ExploreLearning segment is not reflected in net revenues as a number of the deals are being recognized over multi-year subscription periods.

- The Kurzweil/IntelliTools segment's net revenues for the year ended December 31, 2013 declined $0.8 million, or 7.2%, to $10.4 million from $11.2 million in the same period for 2012 due to a decline in order volume. The decline in net revenues was not as significant as the decline in order volume due to the recognition of prior year sales that are being recorded over the related subscription period.

Cost of revenues

Cost of product revenues include expenses to print, purchase, handle and warehouse product, as well as order processing and royalty costs. Cost of service revenues include costs to provide services and support to customers. Total cost of revenues, excluding amortization, for the year ended December 31, 2013 decreased $4.3 million, or 8.4%, to $46.7 million from $51.0 million in 2012. This decline in cost of revenues was primarily due to a decline in order volume in the VSL and Kurzweil/IntelliTools segments. 2012 cost of revenues include $1.6 million in charges related to our reengineering and restructuring initiative.

- The VSL segment's cost of product revenues for the year ended December 31, 2013 declined $2.7 million, or 10.2%, to $23.7 million from $26.4 million in the same period for 2012 due to a decline in order volume. The VSL segment's cost of service revenues for the year ended December 31, 2013 decreased $0.2 million, or 0.9%, to $17.5 million from $17.7 million in the same period for 2012.
- The Learning A-Z segment's cost of revenues for the year ended December 31, 2013 increased $0.2 million, or 37.8%, to $0.9 million from $0.7 million in the same period for 2012.
- The ExploreLearning segment's cost of revenues for the year ended December 31, 2013 increased $0.3 million, or 16.6%, to $2.2 million from $1.9 million in the same period for 2012.
- The Kurzweil/IntelliTools segment's cost of revenues for the year ended December 31, 2013 declined $0.4 million, or 15.6%, to $2.3 million from $2.7 million in the same period for 2012 due to a decline in order volume.
- Cost of revenues for Shared Services for the year ended December 31, 2012 of $1.6 million was related to our re-engineering and restructuring efforts, primarily the outsourcing of our warehouse operations to a third party logistics firm.

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 2013 decreased $7.2 million, or 29.1%, to $17.5 million from $24.7 million in 2012 primarily due to the impairment losses that were recorded in the fourth quarter of 2012 which reduced the value of the assets being amortized. Additionally, 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 expenses for year ended December 31, 2013 decreased $1.1 million, or 10.1%, to $9.8 million from $10.9 million in the same period of 2012. This decline was primarily due to cost savings from prior actions taken in the Voyager Sopris Learning segment and, to a lesser extent, 2013 cost management initiatives in the Kurzweil/IntelliTools segment. These savings were partially offset by increased investments in the Learning A-Z and ExploreLearning segments as we continue to reallocate resources to areas of the business providing the highest earnings opportunity.

Sales and marketing expense

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commission paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expenses for the year ended December 31, 2013 decreased $4.1 million, or 8.9%, to $42.2 million from $46.4 million in the same period of 2012. This decline was primarily due to cost savings from prior right-sizing and restructuring actions taken in the VSL segment and, to a lesser extent, 2013 cost management initiatives in the Kurzweil/IntelliTools segment. These savings were partially offset by increased investments in the Learning A-Z and ExploreLearning segments as we continue to reallocate resources to areas of the business providing the highest earnings opportunity.

General and administrative expense

General and administrative expenses for the year ended December 31, 2013 decreased $0.1 million, or 0.4%, to $21.3 million from $21.4 million in the same period of 2012. This decline was primarily due to cost savings from prior actions taken in the Voyager

Sopris Learning segment and Shared Services. These savings were partially offset by increased investments in the Learning A-Z and ExploreLearning segments. 2013 general and administrative expense includes severance costs of $1.5 million, costs related to mergers and acquisitions of $0.7 million, stock based compensation and expense of $0.8 million and a loss of $0.1 million to reflect an increase in the estimated fair value of the contingent value rights ("CVR") liability issued in connection with the merger. 2012 general and administrative expense includes severance costs of $0.6 million, costs related to mergers and acquisitions of $0.8 million, stock based compensation and expense of $0.6 million and a loss of $0.9 million to reflect an increase in the estimated fair value of the CVR liability issued in connection with the merger.

Shipping and handling costs

Shipping costs for the year ended December 31, 2013 decreased $1.1 million, or 39.2%, to $1.7 million from $2.8 million in 2012. This decline was primarily attributable to the decline in order volume of our legacy print-based products. Shipping costs in 2012 also included $0.4 million of charges incurred to move existing inventory from our Colorado warehouse to our third party logistics provider.

Depreciation and amortization expense

Depreciation and amortization expense for the year ended December 31, 2013 decreased $1.3 million, or 20.8%, to $4.9 million from $6.2 million in the same period of 2012. This decrease is primarily due to our use of accelerated amortization methodologies for the majority of our assets. Additionally, depreciation and amortization expense declined from 2012 due to the impact of the impairments recognized on certain of our intangible assets during the fourth quarter of 2012 which reduced the value of the assets being depreciated.

Goodwill impairment

We review the carrying value of goodwill for impairment at least annually and whenever certain triggering events occur. For the year ended December 31, 2013, no impairments were indicated.

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 former 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.

As a result of our annual impairment review for the year ended December 31, 2012, the goodwill balance for the VSL segment was determined to be partially impaired, and an impairment charge of $52.2 million was recorded. Order volumes for the VSL segment declined in 2011 and 2012, and our estimates of future cash flows were impacted by expected continued funding pressure.

Impairment of long-lived assets

During 2013, we recorded impairments totaling $2.2 million for product lines and previously capitalized projects that were to be abandoned or deemed to have no ongoing value. See Note 13 to the Consolidated Financial Statements for further information regarding these charges.

The 2012 decline in order volume and impact of expected continued funding pressure on our estimates of future cash flows within the VSL segment that resulted in a goodwill impairment were also considered triggering events to review the recoverability of certain definite-lived intangible assets associated with that segment. As a result of these analyses, total impairment charges related to our definite-lived intangible assets were $27.8 million for fiscal 2012. In 2012, we also recorded impairment charges of $4.4 million in connection with our reengineering and restructuring initiative. These impairments were due to an expected decline in the pattern of usage of certain assets related to our warehouse outsourcing and process reengineering activities. Additionally, we recorded impairment charges of $1.5 million related to pre-publication costs that were deemed to have no ongoing value.

Net interest expense

Net interest expense for the year ended December 31, 2013 increased $0.1 million, or 0.7%, to $18.8 million from $18.7 million in the same period of 2012. The increase in net interest expense was primarily due to a reduction in interest income on state tax receivables.

Income tax expense

In 2013, we recorded income tax expense of $0.2 million. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated the deferred tax benefit generated.

In 2012, we recorded income tax expense of $0.3 million. Tax expense is impacted by significant non-deductible charges, including the $66.9 million goodwill impairment charge. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated the deferred tax benefit generated.

See Note 5 to the Consolidated Financial Statements for further information on the income tax expense recorded in each period.

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. The cash balance as of December 31, 2013 was $68.0 million. 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 and cash flow from operations, we will be able to make required interest payments on our debt and fund our working capital and capital expenditure requirements for the next 12 months.

Long-term debt

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 December 31, 2013 and 2012 were $4.5 million and $6.1 million, respectively.

Interest on the Notes accrues at a rate of 9.75% per annum from the date of original issuance and is 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 December 31, 2013, the balances of accounts receivable and inventory collateralizing the ABL Facility were $15.8 million and $9.2 million, respectively. As of December 31, 2013, the Company had a borrowing base under the ABL Loan Agreement of up to $8.7 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 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. 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. As of December 31, 2013, we were in compliance with this covenant. Subsequent to year end, our excess availability and fixed charge coverage ratios fell below the required thresholds, which put us in a Trigger Period as defined under the ABL Facility agreement. On March 5, 2014, we notified our ABL lenders of our intent to terminate the ABL Facility and expect the termination to be effective within five days of this notification. As we do not currently have any funds outstanding under the facility and do not anticipate any borrowing needs in the near term, we do not expect this to have any impact on our liquidity.

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:

(in thousands)	2013	2012
Operating activities	$45,786	$10,329
Investing activities	(23,788)	(17,881)
Financing activities	(5,909)	(3,735)

Operating activities. Cash provided by operating activities was $45.8 million and $10.3 million for the years ended December 31, 2013 and 2012, respectively. Overall, cash flow from operations improved by 35.5 million. A significant portion of the 2013 cash flow is related to the tax refunds received from the state of Michigan and the release of funds from escrow for a potential tax indemnity obligation which totaled $12.3 million and $3.0 million, respectively. A portion of these receipts were issued as the final payment to the holders of the CVRs as noted below in investing activities. Cash flow from operations was also positively impacted by earnings improvement, including the benefit of prior year cost reduction activities, and the absence in 2013 of the reengineering and restructuring activities which resulted in cash outflows of $4.1 million in 2012. Improved inventory management practices and the timing of accounts receivable collections also increased operating cash flows in 2013 relative to the same period in 2012.

Investing activities. Cash used in investing activities was $23.8 million and $17.9 million for the years ended December 31, 2013 and 2012, respectively. The increase in investing cash outflows is primarily due to the final CVR payment of $7.7 million in 2013 offset partially by a reduction in capital expenditures of $2.0 million.

Financing activities. Cash used in financing activities was $5.9 million and $3.7 million for the years ended December 31, 2013 and 2012, respectively. The cash flows in each period represent principal payments under capital lease obligations and share repurchases.

Non-GAAP Measures

The net loss as reported on a GAAP basis includes material non-operational and non-cash 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-operational and non-cash items, provide useful information for investors to assess the results of the ongoing business of the 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.

Below is a reconciliation between net loss and Adjusted EBITDA for the years ended December 31, 2013 and 2012.

($ in thousands)	2013	2012
Total net revenues	$150,520	$148,559
Non-operational or non-cash costs included in net revenues but excluded from adjusted net revenues:		
Adjustments related to purchase accounting [(a)]	75	324
Adjusted net revenues	$150,595	$148,883
Net loss	$(14,253)	$(133,783)
Reconciling items between net loss and EBITDA:		
Depreciation and amortization	22,414	30,898
Net interest expense	18,819	18,683
Income tax expense	165	272
Income (loss)from operations before interest, income taxes, and depreciation and amortization (EBITDA)	27,145	(83,930)
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(764)	(1,125)
Re-engineering and restructuring costs [(b)]	-	8,370
Merger and acquisition activities [(c)]	732	829
Stock-based compensation and expense [(d)]	1,080	874
Embezzlement-related expense [(e)]	118	516
Adjustments related to purchase accounting [(a)]	95	257
Goodwill impairment [(f)]	-	66,893
Impairment of long-lived assets [(g)]	1,189	27,763
Adjustments to CVR liability [(h)]	74	915
Management transition [(i)]	1,501	-
Adjusted EBITDA	$31,170	$21,362

($ in thousands)	2013	2012
Voyager Sopris Learning	$17,235	$13,178
Learning A-Z	19,101	14,735
ExploreLearning	5,009	4,751
Kurzweil/IntelliTools	3,653	2,870
Shared Services	(13,828)	(14,172)
Adjusted EBITDA	$31,170	$21,362

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 and $0.3 million, respectively, for the years ended December 31, 2013 and 2012 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

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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. 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.

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 was to provide savings to both improve earnings and to fund re-investment in growth areas of the business. During the year ended December 31, 2012, we recorded reengineering and restructuring charges of $8.4 million, including impairment charges of $4.4 million 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) Costs are related to merger and acquisition activities including due diligence and other non-operational charges such as pension and severance costs for former employees.

d) Stock-based compensation and expense is related to our outstanding options, restricted stock awards and warrants. This total also includes legal fees incurred in connection with the Company's exchange offer which were recorded as consulting expenses and therefore were not included in stock-based compensation and expense as detailed in Note 17 to the Consolidated Financial Statements.

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) For additional information on goodwill impairment charges, see Note 7 to our Consolidated Financial Statements included herein.

g) For additional information on Impairment of long-lived assets charges, see Note 7 and Note 13 to our Consolidated Financial Statements included herein.

h) Adjustments to the CVR liability as a result of amendments of the merger agreement and the related escrow agreement, the expiration of the statute of limitations on potential tax liabilities and changes in likelihood of collecting potential tax receivables included in the estimate of the fair value of the CVRs.

i) Severance charges recorded in connection with the management transition completed in the first quarter of 2013.

Capital Expenditures and Cash Flow Outlook

Capital spending in 2014 is expected to increase relative to 2013 as we continue to invest in new product development and product enhancements in each segment. The capital expenditures disclosed for each segment represent development expenses, primarily developed curriculum and capitalized software. The general capital expenditures are recorded in Other and represent expenditures that benefit the entire Company such as back-office systems, computer equipment or office furniture.

(in thousands)	Capital Expenditures	
Segment	2013	Estimated 2014
Development capital expenditures		
Voyager Sopris Learning	$7,110	$8,000 – 8,800
Learning A-Z	4,401	5,200 – 5,700
ExploreLearning	1,462	2,000 – 2,300
Kurzweil/IntelliTools	418	400 – 600
General capital expenditures	2,724	2,400 – 2,600
Total	$16,115	$18,000 – 20,000

On March 19, 2013, our board of directors extended the existing share repurchase program for an additional one year period (through July 5, 2014) and reset the remaining authorization to $5 million. Throughout the remainder of 2013 we made share repurchases totaling $4.4 million. To date in the first quarter of 2014, we have repurchased another $0.3 million under the repurchase program. $0.3 million remains under the repurchase program.

On December 23, 2013, we acquired certain assets of Headsprout from Mimio, LLC for $4.0 million. Of the total purchase price, $3.6 million was paid in January 2014 and the remaining $0.4 million will be paid 18 months after the closing date subject to the holdback provisions of the purchase agreement.

We believe that current cash and cash equivalents and cash generated from operations will be adequate to fund the working capital and capital expenditures necessary to support our currently expected sales for the foreseeable future.

Commitments and Contractual Obligations

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

We have letters of credit outstanding as of December 31, 2013 in the amount of $2.9 million to support the build-to-suit lease, credit collections, and performance bonds for certain contracts. We maintain a $1.1 million certificate of deposit as collateral for the letters of credit relating to the workers' compensation activity and Automated Clearinghouse (ACH) programs. We also maintain a $0.9 million money market fund investment as collateral for our travel card program. The certificate of deposit and money market fund investment are recorded in Other Assets.

As of December 31, 2013, we have $11.4 million in obligations with respect to our pension plan. For further information, see Note 15 to our Consolidated Financial Statements included herein.

As of December 31, 2013, we have approximately $0.9 million of long-term income tax liabilities that have a high degree of uncertainty regarding the timing of the future cash outflows. We are unable to reasonably estimate the years when settlement will occur with the respective tax authorities.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

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

Revenue Recognition.

Voyager Sopris Learning

Revenues for our VSL segment are derived from sales of literacy and math educational solutions and services to school districts. Sales include printed materials, interactive web-based programs and online educational content, courseware, training and implementation services, school improvement services, and professional development.

Revenue from the sale of printed materials is recognized when the product is shipped to or received by the customer, depending on the shipping terms of the arrangement. Revenue for interactive web-based programs and online educational content, which may be sold separately or included with printed curriculum materials, courseware and school improvement services are recognized ratably over the subscription or contractual period, typically a school year. Professional services such as training, implementation and professional development are recognized over the period services are delivered.

The division of revenue between printed materials, materials and programs accessed online, and ongoing support and services is determined in accordance with the accounting guidance for revenue arrangements with multiple deliverables. Under this guidance, we are required to allocate revenue among the deliverables in an arrangement using the relative selling price method. The guidance requires use of a selling price hierarchy for determining the selling price of each deliverable, which includes (1) vendor-specific objective evidence (“VSOE”), if available, (2) third party evidence (“TPE”), if VSOE is not available, and (3) best estimate of selling price (“BESP”), if neither VSOE nor TPE is available. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis.

We are not able to establish VSOE for each deliverable. Whenever VSOE cannot be established, we review the offerings of competitors to determine whether TPE can be established. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE. We also use BESP to determine the selling price of certain deliverables, primarily for certain printed materials which have historically been priced on a bundled basis with related online materials. The determination of BESP considers the anticipated margin on that deliverable, the selling price and profit margin for similar parts or services, and our ongoing pricing strategy and policies. We analyze the selling prices used in the allocation of arrangement consideration at least annually. Selling prices are analyzed on a more frequent basis if a significant change in the business necessitates a more timely analysis or if we experience significant variances in selling prices.

In some cases, such as our blended learning solution Language! Live, printed materials and related services do not qualify as separate units of accounting. When this occurs, all deliverables associated with the sale are recognized over the life of the on-line subscription which is typically a school year.

We enter into agreements to license or sell certain publishing rights and content. We recognize the revenue from these agreements when the license amount is fixed and determinable, collection is reasonably assured, and when either the license period, if applicable, has commenced or transfer of content, if applicable, has occurred. Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

Learning A-Z and ExploreLearning

The Learning A-Z and ExploreLearning segments derive revenue exclusively from sales of online subscriptions to their reading, math and science teaching websites and related training and professional development. Typically, the subscriptions are for a twelve month period (although they can be for longer periods) and the revenue is recognized ratably over the period the online access is available to the customer. Any training or professional development related to an online subscription is recognized over the same period of online access.

Kurzweil/IntelliTools

The Kurzweil/Intellitools segment derives revenue from either an online subscription or from the delivery of software or hardware. Subscription revenues are recognized ratably over the period the online access is available to the customer. Software and hardware sales are recognized when shipped or provided to customers. Maintenance and support services for the Company’s software can include telephone support, bug fixes, and, for certain products, rights to upgrades and enhancements on a when-and-if available basis. On-line services include access to digital content including literacy tools, cloud storage and the ability to individualize assignments. These services are recognized on a straight-line basis over the period they are provided. In certain instances, telephone support and software repairs are provided for free within the first three months of licensing the software. The cost of providing this service is insignificant, and is accrued at the time of revenue recognition.

Impairment of Goodwill. We review the carrying value of goodwill for impairment at least annually and if a triggering event is determined to have occurred in an interim period. Our annual analysis is performed as of October 1.

Relevant accounting guidance provides entities with the option of performing a “qualitative” assessment to determine if it is more-likely-than-not that goodwill might be impaired or a quantitative two-step goodwill impairment test. For the two-step quantitative impairment test, the fair value of each reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of that unit, goodwill is not impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value of that unit, then a second step must be performed to determine the implied fair value of the reporting entity's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded.

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

We performed our goodwill impairment review in 2013 using four reporting units: Voyager Sopris Learning; Learning A-Z; ExploreLearning; and Kurzweil/IntelliTools. The following table details the goodwill balances at December 31, 2013 by reporting unit:

	Goodwill balance as of December 31, 2013
Voyager Sopris Learning	$ 22,018
Learning A-Z	13,215
ExploreLearning	6,947
Kurzweil/IntelliTools	5,662
Total	$ 47,842

When performing the two-step quantitative impairment test for all periods presented, we first determined the fair market value of each reporting unit to be tested using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including future cash flow projections with a terminal value multiple and the discount rate used to determine the expected present value of the estimated future cash flows. Future cash flow projections were based on management's best estimates of economic and market conditions over the projected period, including industry fundamentals such as the state of educational funding, revenue growth rates, future costs and operating margins, working capital needs, capital and other expenditures, and tax rates. The discount rate applied to the future cash flows was a weighted-average cost of capital and took into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and other relevant factors. The fair values of each reporting unit also took into consideration a market approach, based on historical and projected multiples of certain guideline companies. If the carrying value of the reporting unit exceeds the fair value of that unit for the first step of the impairment test, then a second step was performed to determine the implied fair value of the reporting entity's goodwill. The second step of the impairment test requires the allocation of the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded. No impairment was indicated as a result of our 2013 annual impairment analysis.

Impairment of Long Lived Assets. We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows. If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. For fiscal year 2013, we recorded total impairment of long-lived asset charges of $2.2 million. For further information on these charges see Note 13 to the Consolidated Financial Statements.

Pre-Publication Costs. We capitalize certain pre-publication costs of our curriculum, including art, prepress, editorial, and other costs incurred in the creation of the master copy of our curriculum products. Pre-publication costs are amortized over the expected life of the education program, generally on an accelerated basis over a period of five years. The amortization methods and periods chosen reflect the expected revenues generated by the education programs. We periodically review the recoverability of the capitalized costs based on expected net realizable value. For fiscal year 2013, we recorded impairment charges of $0.6 million related to expenditures capitalized as pre-publication costs for projects that were subsequently abandoned.

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

Inventory. Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market, and consists of finished goods. We reduce slow-moving or obsolete inventory to net realizable value. Inventory values are maintained at an amount that management considers appropriate based on factors such as the inventory aging, historical usage of the product, future sales forecasts, and product development plans. These factors involve management's judgment and changes in estimates could result in increases or decreases to the inventory values. The impact of a one percentage point change in the amount of inventory considered to be excess or obsolete would have resulted in an increase or decrease in cost of revenues of approximately $0.2 million for the year ended December 31, 2013. Inventory values are reviewed on a periodic basis.

Income Taxes. Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in every jurisdiction in which we do business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and valuation allowance recorded against the net deferred tax assets.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing whether deferred tax assets will be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that a portion of the deferred tax assets will not be realized, a valuation allowance is established. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced.

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

Recently Issued Financial Accounting Standards

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

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

This item is not required for a smaller reporting company.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Cambium Learning Group, Inc.

We have audited the accompanying consolidated balance sheets of Cambium Learning Group, Inc. and subsidiaries (the “Company”), as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, stockholders’ equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2013. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP

Dallas, Texas

March 6, 2014

Cambium Learning Group, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share data)	For the Years Ended December 31, 2013	2012
Net revenues:		
Product revenues	$127,799	$130,160
Service revenues	22,721	18,399
Total net revenues	150,520	148,559
Cost of revenues:		
Cost of product revenues	29,167	33,284
Cost of service revenues	17,521	17,679
Amortization expense	17,519	24,716
Total cost of revenues	64,207	75,679
Research and development expense	9,810	10,907
Sales and marketing expense	42,233	46,367
General and administrative expense	21,341	21,427
Shipping and handling costs	1,722	2,834
Depreciation and amortization expense	4,895	6,182
Goodwill impairment	-	66,893
Embezzlement-related expense	118	516
Impairment of long-lived assets	2,227	33,707
Total costs and expenses	146,553	264,512
Income (loss) before interest, other income (expense) and income taxes	3,967	(115,953)
Net interest income (expense):		
Interest income	191	433
Interest expense	(19,010)	(19,116)
Net interest income (expense)	(18,819)	(18,683)
Other income (expense), net	764	1,125
Loss before income taxes	(14,088)	(133,511)
Income tax expense	(165)	(272)
Net loss	$(14,253)	$(133,783)
Other comprehensive income (loss):		
Net pension gain (loss)	384	(979)
Amortization of net pension loss	120	35
Realized loss on available for sale securities	-	(1)
Comprehensive loss	$(13,749)	$(134,728)

Net loss per common share:		
Basic net loss per common share	$(0.30)	$(2.71)
Diluted net loss per common share	$(0.30)	$(2.71)
Average number of common shares and equivalents outstanding:		
Basic	47,040	49,395
Diluted	47,040	49,395

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

Cambium Learning Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share data)	As of December 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$67,993	$51,904
Accounts receivable, net	15,767	17,813
Inventory	9,221	16,620
Tax receivables	-	12,234