CAMBIUM LEARNING GROUP, INC.
Form 10-Q
August 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to .

Commission File Number: 001-34575

Cambium Learning Group, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (888) 399-1995

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of August 7, 2015 was 45,536,515.

TABLE OF CONTENTS

Item 1. Financial Statements.

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net revenues	$37,454	$36,243	$68,925	$67,323
Cost of revenues:				
Cost of revenues	8,277	9,930	15,163	18,941
Amortization expense	4,275	4,438	8,278	8,518
Total cost of revenues	12,552	14,368	23,441	27,459
Research and development expense	2,415	2,598	4,892	5,345
Sales and marketing expense	10,479	10,083	21,123	20,665
General and administrative expense	5,202	4,457	10,417	9,637
Shipping and handling costs	248	404	422	600
Depreciation and amortization expense	1,000	1,036	1,993	2,100
Total costs and expenses	31,896	32,946	62,288	65,806
Income before interest, other income (expense) and income taxes	5,558	3,297	6,637	1,517
Net interest expense	(3,626)	(4,420)	(7,300)	(9,158)
Loss on extinguishment of debt	—	(357)	—	(570)
Other income, net	260	215	475	430
Income (loss) before income taxes	2,192	(1,265)	(188)	(7,781)
Income tax expense	(186)	(23)	(304)	(94)
Net income (loss)	$2,006	$(1,288)	$(492)	$(7,875)
Other comprehensive loss:				
Amortization of net pension loss	56	21	112	43
Comprehensive income (loss)	$2,062	$(1,267)	$(380)	$(7,832)
Net income (loss) per common share:				
Basic	$0.04	$(0.03)	$(0.01)	$(0.17)
Diluted	$0.04	$(0.03)	$(0.01)	$(0.17)
Average number of common shares and equivalents outstanding:				
Basic	45,498	45,641	45,488	45,663
Diluted	46,698	45,641	45,488	45,663

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

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,864	$ 34,387
Accounts receivable, net	17,562	14,304
Inventory	5,229	5,337
Restricted assets, current	1,345	1,345
Other current assets	8,680	8,168
Total current assets	49,680	63,541
Property, equipment and software at cost	56,224	51,298
Accumulated depreciation and amortization	(34,308)	(30,442)
Property, equipment and software, net	21,916	20,856
Goodwill	47,842	47,842
Acquired curriculum and technology intangibles, net	3,941	5,209
Acquired publishing rights, net	2,110	2,762
Other intangible assets, net	3,865	4,499
Pre-publication costs, net	16,125	15,070
Restricted assets, less current portion	3,573	4,152
Other assets	7,549	7,635
Total assets	$ 156,601	$ 171,566

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

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	June 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Capital lease obligations, current	$ 1,106	$ 1,076
Accounts payable	2,308	1,612
Accrued expenses	17,966	17,432
Deferred revenue, current	44,511	61,788
Total current liabilities	65,891	81,908
Long-term liabilities:		
Long-term debt	139,787	139,723
Capital lease obligations, less current portion	382	943
Deferred revenue, less current portion	11,385	9,409
Other liabilities	14,215	14,638
Total long-term liabilities	165,769	164,713
Commitments and contingencies (See Note 12)		
Stockholders' equity (deficit):		
Preferred stock ($.001 par value, 15,000 shares authorized, zero shares issued and outstanding at June 30, 2015 and December 31, 2014)	—	—
Common stock ($.001 par value, 150,000 shares authorized, 52,066 and 52,006 shares issued, and 45,534 and 45,474 shares outstanding at June 30, 2015 and December 31, 2014, respectively)	52	52
Capital surplus	284,619	284,243
Accumulated deficit	(343,142)	(342,650)
Treasury stock at cost (6,532 shares at June 30, 2015 and December 31, 2014)	(12,784)	(12,784)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(3,804)	(3,916)
Accumulated other comprehensive loss	(3,804)	(3,916)
Total stockholders' equity (deficit)	(75,059)	(75,055)

Total liabilities and stockholders' equity (deficit)	$ 156,601	$ 171,566

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

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net loss	$(492)	$(7,875)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	10,271	10,618
Loss on extinguishment of debt	—	570
Gain on sale of IntelliTools product line	—	(289)
Amortization of note discount and deferred financing costs	611	798
Stock-based compensation and expense	294	248
Other	1	51
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,258)	(1,162)
Inventory	108	1,492
Other current assets	(512)	328
Other assets	(461)	(2,575)
Restricted assets	579	624
Accounts payable	696	891
Accrued expenses	934	(3,536)
Deferred revenue	(15,301)	(15,136)
Other long-term liabilities	(311)	(1,329)
Net cash used in operating activities	(6,841)	(16,282)
Investing activities:		
Cash paid for acquisitions	(400)	(3,600)
Expenditures for property, equipment, software and pre-publication costs	(9,832)	(8,360)
Proceeds from sale of IntelliTools product line	—	806
Net cash used in investing activities	(10,232)	(11,154)
Financing activities:		
Principal payments under capital lease obligations	(531)	(480)
Repayment of debt	—	(10,145)
Proceeds from exercise of stock options	81	43
Share repurchases	—	(301)

Net cash used in financing activities	(450)	(10,883)
Change in cash and cash equivalents	(17,523)	(38,319)
Cash and cash equivalents, beginning of period	34,387	67,993
Cash and cash equivalents, end of period	$16,864	$29,674

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

Cambium Learning Group, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1 — Basis of Presentation

Presentation

The Condensed Consolidated Financial Statements include the accounts of Cambium Learning Group, Inc. and its subsidiaries (the "Company") and are unaudited. The condensed consolidated balance sheets as of December 31, 2014 have been derived from audited financial statements. All intercompany transactions have been eliminated.

As permitted under the Securities and Exchange Commission ("SEC") requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been omitted. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Due to seasonality, the results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for any future interim period or for the year ending December 31, 2015.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Subsequent actual results may differ from those estimates.

Nature of Operations

The Company is a leading educational solutions and services company that is committed to helping every student reach their full potential. The Company's brands include: Learning A–Z, Voyager Sopris Learning, ExploreLearning, and Kurzweil Education. Together, these brands provide breakthrough technology solutions for online learning and professional support; best-in-class intervention and supplemental instructional materials; gold-standard professional development and school-improvement services; valid and reliable assessments; and proven materials to support a positive and safe school environment.

These brands comprise three reportable segments with separate management teams and infrastructures that offer various products and services. See Note 14 – Segment Reporting for further information on the Company's segment reporting structure.

Note 2 — Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled $0.6 million at June 30, 2015 and $0.4 million at December 31, 2014. The allowance for doubtful accounts is based on a review of outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of return as well as other factors that in the Company's judgment, could reasonably be expected to cause sales returns to differ from historical experience.

Note 3 — Stock-Based Compensation and Expense

Cambium Learning Group, Inc. 2009 Equity Incentive Plan

In 2009, the Company adopted the Cambium Learning Inc. 2009 Equity Incentive Plan ("Incentive Plan"). Under the Incentive Plan, 5,000,000 shares of common stock were reserved for issuance of awards which may be granted in the form of incentive stock options, non-statutory stock options, stock appreciate rights, restricted stock, restricted stock units, conversion stock options, conversion stock appreciation rights, and other stock or cash awards. The Incentive Plan is administered by the board of directors which has the authority to establish the terms and conditions of awards granted under the Incentive Plan.

Stock-Based Compensation and Expense

The following table presents our stock-based compensation expense resulting from stock options that are recorded in our condensed consolidated statements of operations and comprehensive income (loss) for the periods presented:

(in thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Cost of revenues	$10	$9	$18	$18
Research and development expense	33	27	$61	49
Sales and marketing expense	38	37	$71	61
General and administrative expense	78	63	$144	120
Total	$159	$136	$294	$248

2015 Grants

In the second quarter 2015, the Company granted 416,275 options under the Incentive Plan with a weighted-average grant date fair value of $2.97. The options vest in equal monthly installments on the last day of the month over a four year period, with an initial vesting date of May 31, 2015.

Note 4 — Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock awards using the treasury stock method. Weighted-average shares from common share equivalents in the amount of 250,776 and 2,764,016 for the three and six months ended June 30, 2015, and 2,781,002 and 2,630,705 for the three and six months ended June 30, 2014, respectively, were excluded from the respective dilutive shares outstanding because their effect was anti-dilutive.

The following table presents the calculation of basic and diluted net income (loss) per share:

(in thousands, except per share data)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Numerator:				
Net income (loss)	$2,006	$(1,288)	$(492)	$(7,875)
Denominator:				
Basic:				
Weighted-average common shares used in computing basic net income (loss) per share	45,498	45,641	45,488	45,663

Diluted:				
Add weighted-average effect of dilutive securities:				
Stock options and restricted stock awards	1,200	—	—	—
Weighted-average common shares used in computing diluted net loss per share	46,698	45,641	45,488	45,663
Net income (loss) per common share:				
Basic	$0.04	$(0.03)	$(0.01)	$(0.17)
Diluted	$0.04	$(0.03)	$(0.01)	$(0.17)

Common Stock Repurchases

During the six months ended June 30, 2014, the Company repurchased 167,961 shares of its outstanding common stock for $0.3 million. During the six months ended June 30, 2015, the Company did not repurchase any shares of its outstanding common stock.

Note 5 — Fair Value Measurements

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

· Level 1 — Quoted prices for identical instruments in active markets.

- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3 — Valuations derived from valuation techniques in which significant value drivers are unobservable.

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

At June 30, 2015, financial instruments include $16.9 million of cash and cash equivalents, restricted assets of $4.9 million, collateral investments of $3.6 million, and $139.8 million of senior secured notes. At December 31, 2014, financial instruments include $34.4 million of cash and cash equivalents, restricted assets of $5.5 million, collateral investments of $3.6 million, and $139.7 million of senior secured notes. The fair market values of cash equivalents, restricted assets, and collateral investments are equal to their carrying value, as these investments are recorded based on quoted market prices and/or other market data for the same or comparable instruments and transactions as of the end of the reporting period.

At June 30, 2015 and December 31, 2014, the senior secured notes, with aggregate outstanding principal amount of $140.0 million, had a fair value of $140.0 million and $137.4 million, respectively, based on quoted market prices in active markets for these debt instruments when traded as assets (Level 1).

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

(in thousands)		Fair Value at Reporting Date Using		
Description	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted Assets:				
Money Market	$4,918	$4,918	$ —	$ —
Collateral Investments:				
Money Market	904	904	—	—
Certificates of Deposit	2,722	2,722	—	—

(in thousands)	Fair Value at Reporting Date Using	
Description	Significant	Significant

	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Restricted Assets:				
Money Market	$ 5,497	$5,497	$ —	$ —
Collateral Investments:				
Money Market	904	904	—	—
Certificates of Deposit	2,720	2,720	—	—

(in thousands) Description	Total Gains (Losses) for the Six Months Ended June 30, 2015	2014
Restricted Assets:		
Money Market	$ —	$ —
Collateral Investments:		
Money Market	—	—
Certificates of Deposit	—	—

Assets and liabilities measured at fair value on a non-recurring basis are listed below at their carrying values as of each reporting date:

(in thousands) Description	June 30, 2015	Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	$47,842	$—	$ —	$ 47,842
Property, equipment and software, net	21,916	—	—	21,916
Pre-publication costs, net	16,125	—	—	16,125
Acquired curriculum and technology intangibles, net	3,941	—	—	3,941
Acquired publishing rights, net	2,110	—	—	2,110
Other intangible assets, net	3,865	—	—	3,865

(in thousands) Description	December 31, 2014	Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
Goodwill	$ 47,842	$—	$ —	$ 47,842
Property, equipment and software, net	20,856	—	—	20,856
Pre-publication costs, net	15,070	—	—	15,070
Acquired curriculum and technology intangibles, net	5,209	—	—	5,209
Acquired publishing rights, net	2,762	—	—	2,762
Other intangible assets, net	4,499	—	—	4,499

(in thousands) Description	Total Gains (Losses) for the Six Months Ended June 30, 2015	2014
Goodwill	$ —	$ —
Property, equipment and software, net	—	—
Pre-publication costs, net	—	—
Acquired curriculum and technology intangibles, net	—	—
Acquired publishing rights, net	—	—
Other intangible assets, net	—	—

There were no significant remeasurements of these assets during the six months ended June 30, 2015 or 2014.

Note 6 — Other Current Assets

Other current assets at June 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	June 30, 2015	December 31, 2014
Deferred costs	$4,639	$ 5,908
Prepaid expenses	3,136	1,714
Deferred taxes	546	546
Other	359	—
Other current assets	$8,680	$ 8,168

Note 7 — Other Assets

Other assets at June 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	June 30, 2015	December 31, 2014
Deferred financing costs	$1,802	$ 2,349
Collateral investments	3,626	3,624
Deferred costs, less current portion	1,318	828
Other	803	834
Other assets	$7,549	$ 7,635

Deferred Financing Costs

Deferred financing costs relate to costs incurred with the issuance of the 9.75% senior secured notes due 2017. See Note 13 – Long-Term Debt.

Collateral Investments

The Company maintains certificates of deposit to collateralize its outstanding letters of credit associated with the build-to-suit lease, credit collections, and workers' compensation activity. At June 30, 2015 and December 31, 2014, the Company had $2.7 million in certificates of deposit serving as collateral for its outstanding letters of credit.

In March 2014, the company purchased certificates of deposit of $2.1 million to serve as collateral for outstanding letters of credit previously collateralized by the ABL Facility that was terminated on March 26, 2014 as described in Note 13 – Long-Term Debt. See Note 12 – Commitments and Contingencies for additional information regarding the Company's outstanding letters of credit.

Additionally, the Company maintains a money market fund investment to serve as collateral for a travel card program. The balance of the money market fund investment was $0.9 million at June 30, 2015 and December 31, 2014.

Note 8 — Accrued Expenses

Accrued expenses at June 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	June 30, 2015	December 31, 2014
Salaries, bonuses and benefits	$7,181	$ 6,439
Accrued interest	5,124	5,119
Pension and post-retirement benefit plans	1,173	1,173

Accrued royalties	1,217	1,369
Headsprout acquisition accrual	—	400
Other	3,271	2,932
Accrued expenses	$17,966	$ 17,432

Accrued Interest

Accrued interest at June 30, 2015 and December 31, 2014 primarily relates to the Company's 9.75% senior secured notes. The senior secured notes require semi-annual interest payments in arrears on each February 15th and August 15th over the life of the notes.

Pension and Post-Retirement Benefit Plans

See Note 10 – Pension Plan for additional information regarding the Company's pension and post-retirement benefit plans.

Headsprout Acquisition Accrual

In December 2013, LAZEL, Inc., a wholly owned subsidiary of the Company, completed the acquisition of certain assets of Headsprout for $4.0 million. Of the total purchase price, $3.6 million was paid in January 2014 and the remaining $0.4 million was paid in June 2015.

Note 9 — Other Liabilities

Other liabilities at June 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	June 30, 2015	December 31, 2014
Pension and post-retirement benefit plans, long-term portion	$ 11,093	$ 11,440
Long-term income tax payable	1,263	1,237
Deferred rent	958	1,043
Long-term deferred tax liability	559	559
Long-term deferred compensation	342	359
Other liabilities	$ 14,215	$ 14,638

Pension and Post-Retirement Benefit Plans

See Note 10 – Pension Plan for additional information regarding the Company's pension and post-retirement benefit plans.

Note 10 — Pension Plan

The net pension costs of the Company's defined benefit pension plan were comprised primarily of interest costs and totaled $0.1 million and $0.2 million, respectively, for the three months ended June 30, 2015 and 2014 and totaled $0.3 million and $0.3 million, respectively, for the six months ended June 30, 2015 and 2014. The net pension costs for the three and six months ended June 30, 2015 included the amortization of accumulated net loss of $0.1 million while the net pension costs for the three and six months ended June 30, 2014 included an immaterial amount of amortization of accumulated net loss.

Note 11 — Uncertain Tax Positions

The Company recognizes the financial statement impacts of a tax return position when it is more likely than not, based on technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, the Company applies judgment, taking into account applicable tax laws, experience managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in its financial statements. For each position, the difference between the benefit realized on the Company's tax return and the benefit reflected in its financial statements is recorded to Other Liabilities in the Condensed Consolidated Balance Sheets as an unrecognized tax benefit ("UTB"). The Company updates its UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with tax authorities. The balance of UTBs was $6.5 million at June 30, 2015 and December 31, 2014.

The Company recognizes interest accrued related to its UTBs and penalties as income tax expense. Related to the UTBs noted above, the Company recognized no penalties and immaterial interest during the three and six months ended June 30, 2015. At June 30, 2015, the Company has liabilities of $0.3 million for penalties (gross) and $0.2 million for interest (gross).

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

Note 12 — Commitments and Contingencies

Legal Proceedings

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

Purchase Commitments

From time to time, the Company may enter into firm purchase commitments for printed materials included in inventory which the Company expects to use in the ordinary course of business. These commitments are typically for terms less than one year and require the Company to buy minimum quantities of materials with specific delivery dates at a fixed price over the term. These open purchase commitments totaled $0.6 million as of June 30, 2015.

Letters of Credit

The Company has letters of credit outstanding at June 30, 2015 in the amount of $1.8 million to support the build-to-suit lease, credit collections, and workers' compensation activity. The Company maintains certificates of deposit as collateral for the letters of credit. The Company also maintains a $0.9 million money market fund investment as collateral for a travel card program. The certificates of deposit and money market fund investment are included in Collateral Investments in Note 7 — Other Assets.

Note 13 — Long-Term Debt

Long-term debt at June 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	June 30, 2015	December 31, 2014
9.75% senior secured notes due February 15, 2017, interest payable semiannually	$140,000	$140,000
Less: Unamortized discount	(213)	(277)
Long-term debt	$139,787	$139,723

Senior Secured Notes Due 2017

In February 2011, the Company closed an offering of $175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the "Notes"). Deferred financing costs, net of accumulated amortization, are capitalized in Other Assets in the Condensed Consolidated Balance Sheets, and are amortized over the term of the related debt using the effective interest method. Unamortized capitalized deferred financing costs at June 30, 2015 and December 31, 2014 were $1.8 million and $2.3 million, respectively, related to the Notes.

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 15th and August 15th to the holders of record of the Notes on the immediately preceding February 1st and August 1st. 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 including capital stock of the guarantors (which are certain of the Company's subsidiaries), and (ii) a second-priority lien, prior to the termination of the ABL Facility (as defined and described below), 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.

During the six months ended June 30, 2014, the Company repurchased an aggregate of $10.0 million aggregate principal amount of Notes for an aggregate purchase price of approximately $10.1 million, plus accrued and unpaid interest. During the six months ended June 30, 2014, a Loss on Extinguishment of Debt of $0.4 million was recorded in connection with these repurchases, which was primarily due to the write-off of unamortized deferred financing costs. During the six months ended June 30, 2015, the Company did not repurchase any Notes.

Terminated 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 consisted of a four-year $40.0 million revolving credit facility, which included a $5.0 million subfacility for swing line loans and a $5.0 million subfacility for letters of credit.

The ABL Facility was, 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.

The ABL Credit Parties were 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 contained a financial covenant that generally required the ABL Credit Parties to maintain, on a consolidated basis, either (i) excess availability of at least the greater of $8.0 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0.

During the quarter ended March 31, 2014, the Company's excess availability and fixed charge coverage ratios fell below the required thresholds, which put the Company in a Trigger Period as defined under the ABL Facility agreement. On March 26, 2014, the Company had no borrowings outstanding under the agreement and terminated the ABL Facility. A Loss on Extinguishment of

Debt of approximately $0.2 million was recognized in connection with the termination related to the write-off of unamortized deferred financing costs.

Note 14 — Segment Reporting

The Company operates in three reportable segments with separate management teams and infrastructures that offer various products and services.

Reclassifications

Certain prior period reclassifications have been made to conform to the current period presentation.

Segment Aggregation

Prior to the first quarter of 2015, the Voyager Sopris Learning and Kurzweil Education operating segments were separately reported in the financial statements. As permitted by GAAP, the Company elected to aggregate these two operating segments into a single reportable segment titled Voyager Sopris Learning. The separate Voyager Sopris Learning and Kurzweil Education operating segments have similar economic characteristics as well as similar products and services, production processes, class of customers, and product and service distribution methods. In addition, the Company believes the aggregated presentation is more useful to investors and other financial statement users because both units are in the midst of transitioning to higher concentrations of technology-enabled solutions and because of the relatively small financial contribution of Kurzweil Education to the consolidated results.

Operating Expenses and General Capital Expenditures

Certain operating expenses, such as rent, personnel and consulting fees, previously pooled and reported in Other in the segment information have been reclassified to the applicable reportable segment to which the expense directly supported. Additionally, General Capital Expenditures, also previously reported in Other in the segment information, have been reclassified to the applicable reportable segment to which the expenditure related. These reclassifications were made in order to provide a more complete depiction of the reportable segments as stand-alone operations. Segment disclosures for the three and six months ended June 30, 2014 were conformed to the 2015 presentation.

The following table reports the effect of these reclassifications on prior period disclosures:

	Three Months Ended June 30, 2014				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Operating expense	$36	$ 170	$ —	$(206)	$ —
Expenditures for property, equipment, software and pre-publication costs	406	89	66	(561)	—

	Six Months Ended June 30, 2014			
(in thousands)	Learning	ExploreLearning	Other	Consolidated

	A-Z	Voyager Sopris Learning			
Operating expense	$69	$ 343	$ —	$(412)	$ —
Expenditures for property, equipment, software and pre-publication costs	627	208	258	(1,093)	—

Learning A-Z Segment

Learning A-Z is a preK-6 educational resource company specializing in online delivery of leveled readers and 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 more than half the districts across the United States and Canada and in approximately 190 countries worldwide. Serving a wide range of student needs, including English language learners, intervention, special education, and daily instruction, Learning A-Z's value proposition focuses on three key elements:

- 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

14

Learning A-Z operates seven subscription-based websites: Reading A-Z, Raz-Kids, Vocabulary A-Z, Headsprout®, ReadyTest A-Z, Writing A-Z and Science A-Z. These websites are stand-alone or integrated, for a comprehensive solution that provides online supplemental books, lessons, assessments and other instructional resources for individual classrooms, schools, and districts.

Voyager Sopris Learning Segment

The Voyager Sopris Learning segment is comprised of the Company's Voyager Sopris Learning and Kurzweil Education brands.

Voyager Sopris Learning Brand

The Voyager Sopris Learning brand is committed to partnering with school districts to overcome obstacles that students, teachers, and school leaders face every day. The suite of instructional and service solutions the Voyager Sopris Learning brand provides is not only research based, but also evidence based—proven to increase student achievement and educator effectiveness. Voyager Sopris Learning's solutions have been fully tested in the classroom, ensuring that they are easy to implement and teacher friendly. They are innovative, both in overall instructional approach and in the strategic use of technology in blended and 100% online solutions and are supported by an unparalleled commitment to build local capacity for sustained success. With a comprehensive suite of instructional resources, the Voyager Sopris Learning brand provides assessments, professional development and school improvement services, literacy and math instructional tools—comprehensive, intervention and supplemental—and resources to build a positive school climate.

Kurzweil Education Brand

The Kurzweil Education brand delivers award-winning educational technology that solves real problems. The brand's literacy and learning solutions offer learners a way up and a path forward. Using the principals of Universal Design for Learning, the Kurzweil Education brand provides technology-based solutions that enable all learners to read, understand and demonstrate their learning using technology-based tools and resources.

ExploreLearning Segment

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning currently offers two supplemental programs: Gizmos, the world's largest library of online simulations for math and science in grades 3-12 that help students gain a deep understanding of challenging concepts through active inquiry and exploration; and Reflex, a powerful adaptive online program that helps students in grades 2-8 develop math fact fluency through game-based instruction and practice.

Gizmos and Reflex bring research-proven, standards-aligned instructional strategies to classrooms around the world. They support the tenets of the National Council of Teachers of Mathematics, the National Science Teachers Association and new rigorous state and national standards. Additionally, new studies show students using Reflex are scoring higher and growing faster than their peers on standardized tests.

Other

Other consists of unallocated shared services, such as accounting, legal, human resources and corporate related items, as well as depreciation and amortization expense, other income and expense, and income taxes. The Company does not allocate any of these costs to its segments, and the chief operating decision maker evaluates performance of operating segments excluding these items.

15

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

	Three Months Ended June 30, 2015				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net revenues	$13,262	$19,265	$ 4,927	$—	$ 37,454
Cost of revenues	404	7,209	664	—	8,277
Amortization expense	—	—	—	4,275	4,275
Total cost of revenues	404	7,209	664	4,275	12,552
Other operating expenses	5,664	6,616	2,366	3,698	18,344
Depreciation and amortization expense	—	—	—	1,000	1,000
Total costs and expenses	6,068	13,825	3,030	8,973	31,896
Income (loss) before interest, other income (expense) and income taxes	7,194	5,440	1,897	(8,973)	5,558
Net interest expense	—	—	—	(3,626)	(3,626)
Other income, net	—	—	—	260	260
Income tax expense	—	—	—	(186)	(186)
Segment net income (loss)	$7,194	$5,440	$ 1,897	$(12,525)	$ 2,006
Expenditures for property, equipment, software and pre-publication costs	$1,885	$2,389	$ 634	$141	$ 5,049

	Three Months Ended June 30, 2014				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net revenues	$10,549	$21,147	$ 4,547	$—	$ 36,243
Cost of revenues	472	8,745	713	—	9,930
Amortization expense	—	—	—	4,438	4,438
Total cost of revenues	472	8,745	713	4,438	14,368
Other operating expenses	4,327	7,424	2,512	3,279	17,542
Depreciation and amortization expense	—	—	—	1,036	1,036
Total costs and expenses	4,799	16,169	3,225	8,753	32,946

Income (loss) before interest, other income (expense) and income taxes	5,750	4,978	1,322	(8,753)	3,297
Net interest expense	—	—	—	(4,420)	(4,420)
Loss on extinguishment of debt	—	—	—	(357)	(357)
Other income, net	—	—	—	215	215
Income tax expense	—	—	—	(23)	(23)
Segment net income (loss)	$5,750	$4,978	$ 1,322	$(13,338)	$ (1,288)
Expenditures for property, equipment, software and pre-publication costs	$1,698	$1,998	$ 457	$221	$ 4,374

16

	Six Months Ended June 30, 2015				
		Voyager			
	Learning	Sopris			
(in thousands)	A-Z	Learning	ExploreLearning	Other	Consolidated
Net revenues	$26,197	$33,011	$ 9,717	$—	$ 68,925
Cost of revenues	870	12,951	1,342	—	15,163
Amortization expense	—	—	—	8,278	8,278
Total cost of revenues	870	12,951	1,342	8,278	23,441
Other operating expenses	11,260	13,264	4,963	7,367	36,854
Depreciation and amortization expense	—	—	—	1,993	1,993
Total costs and expenses	12,130	26,215	6,305	17,638	62,288
Income (loss) before interest, other income (expense) and income taxes	14,067	6,796	3,412	(17,638)	6,637
Net interest expense	—	—	—	(7,300)	(7,300)
Other income, net	—	—	—	475	475
Income tax expense	—	—	—	(304)	(304)
Segment net income (loss)	$14,067	$6,796	$ 3,412	$(24,767)	$ (492)
Expenditures for property, equipment, software and pre-publication costs	$3,697	$4,674	$ 1,248	$213	$ 9,832

	Six Months Ended June 30, 2014				
		Voyager			
	Learning	Sopris			
(in thousands)	A-Z	Learning	ExploreLearning	Other	Consolidated
Net revenues	$20,730	$37,572	$ 9,021	$—	$ 67,323
Cost of revenues	894	16,594	1,453	—	18,941
Amortization expense	—	—	—	8,518	8,518
Total cost of revenues	894	16,594	1,453	8,518	27,459
Other operating expenses	8,764	15,396	5,216	6,871	36,247
Depreciation and amortization expense	—	—	—	2,100	2,100
Total costs and expenses	9,658	31,990	6,669	17,489	65,806
Income (loss) before interest, other income (expense) and income taxes	11,072	5,582	2,352	(17,489)	1,517
Net interest expense	—	—	—	(9,158)	(9,158)
Loss on extinguishment of debt	—	—	—	(570)	(570)
Other income, net	—	—	—	430	430
Income tax expense	—	—	—	(94)	(94)

Segment net income (loss)