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, 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	(I.R.S. Employer

Incorporation or Organization)	Identification No.)
17855 North Dallas Parkway, Suite 400, Dallas, Texas	75287
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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 July 31, 2013 was 46,904,370.

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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		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net revenues	$ 42,786	$ 40,429	$ 74,215	$ 68,284
Cost of revenues:				
Cost of revenues	12,647	14,397	24,050	25,563
Amortization expense	4,281	6,579	7,988	12,949
Total cost of revenues	16,928	20,976	32,038	38,512
Research and development expense	2,528	2,652	4,859	5,984
Sales and marketing expense	11,715	12,041	22,048	23,937
General and administrative expense	4,880	5,061	11,673	10,806
Shipping and handling costs	399	954	698	1,281
Depreciation and amortization expense	1,220	1,591	2,436	3,250
Goodwill impairment		14,700		14,700
Embezzlement and related expense (recoveries)	115	44	115	(41)
Impairment of long-lived assets		320		3,111
Total costs and expenses	37,785	58,339	73,867	101,540
Income (loss) before interest, other income (expense) and income taxes	5,001	(17,910)	348	(33,256)
Net interest expense	(4,679)	(4,627)	(9,255)	(9,404)
Other income, net	211	37	430	73
Income (loss) before income taxes	533	(22,500)	(8,477)	(42,587)
Income tax benefit (expense)	(102)	23	(170)	(154)
Net income (loss)	$ 431	$ (22,477)	$ (8,647)	$ (42,741)
Other comprehensive income (loss):				
Amortization of net pension loss	30	8	60	17
Comprehensive income (loss)	$ 461	$ (22,469)	$ (8,587)	$ (42,724)

Net income (loss) per common share:				
Basic net income (loss) per common share	$ 0.01	$ (0.45)	$ (0.18)	$ (0.86)
Diluted net income (loss) per common share	$ 0.01	$ (0.45)	$ (0.18)	$ (0.86)
Average number of common shares and equivalents outstanding:				
Basic	47,357	49,941	47,377	49,944
Diluted	47,637	49,941	47,377	49,944

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)

	As of	
	June 30, 2013	December 31, 2012
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 46,271	$ 51,904
Accounts receivable, net	20,900	17,813
Inventory	12,030	16,620
Tax receivables	92	12,234
Restricted assets, current	1,350	4,387
Assets held for sale	261	380
Other current assets	4,954	5,892
Total current assets	85,858	109,230
Property, equipment and software at cost	39,537	35,535
Accumulated depreciation and amortization	(18,510)	(14,514)
Property, equipment and software, net	21,027	21,021
Goodwill	47,404	47,404
Acquired curriculum and technology intangibles, net	7,446	9,320
Acquired publishing rights, net	6,154	7,602
Other intangible assets, net	6,933	7,836
Pre-publication costs, net	13,329	11,660
Restricted assets, less current portion	6,107	6,754
Other assets	9,341	9,632
Total assets	$ 203,599	$ 230,459

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)

	As of	
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	June 30, 2013 (unaudited)	December 31, 2012
Current liabilities:		
Capital lease obligations, current	$ 1,068	$ 1,290
Accounts payable	2,354	3,007
Contingent value rights, current		7,599
Accrued expenses	21,042	20,530
Deferred revenue, current	35,114	45,974
Total current liabilities	59,578	78,400
Long-term liabilities:		
Long-term debt	174,409	174,328
Capital lease obligations, less current portion	2,534	3,014
Deferred revenue, less current portion	6,962	5,631
Other liabilities	14,593	15,131
Total long-term liabilities	198,498	198,104
Commitments and contingencies (See Note 13)		
Stockholders equity (deficit):		
Preferred stock ($.001 par value, 15,000 shares authorized, zero shares issued and outstanding at June 30, 2013 and December 31, 2012)		
Common stock ($.001 par value, 150,000 shares authorized, 51,208 and 51,208 shares issued, and 46,904 and 47,098 shares outstanding at June 30, 2013 and December 31, 2012, respectively)	51	51
Capital surplus	282,849	282,450
Accumulated deficit	(327,089)	(318,442)
Treasury stock at cost (4,304 and 4,110 shares at June 30, 2013 and December 31, 2012, respectively)	(7,772)	(7,528)
Accumulated other comprehensive income (loss):		
Pension and postretirement plans	(2,516)	(2,576)
Accumulated other comprehensive income (loss)	(2,516)	(2,576)
Total stockholders equity (deficit)	(54,477)	(46,045)

Total liabilities and stockholders equity (deficit)	$	203,599	$	230,459

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, 2013	June 30, 2012
Operating activities:		
Net loss	$ (8,647)	$ (42,741)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	10,424	16,199
Goodwill impairment		14,700
Loss from recovery of property held for sale	119	380
Amortization of note discount and deferred financing costs	865	869
Change in fair value of contingent value rights obligation	74	107
Loss on disposal of assets	100	66
Stock-based compensation and expense	442	205
Impairment of long-lived assets		3,111
Michigan tax refund received	12,342	
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,087)	(11,814)
Inventory	4,590	801
Other current assets	862	71
Other assets	(493)	(163)
Restricted assets	3,684	688
Accounts payable	(653)	1,454
Accrued expenses	512	1,219
Deferred revenue	(9,529)	(6,776)
Other long-term liabilities	(645)	(444)
Net cash provided by (used in) operating activities	10,960	(22,068)
Investing activities:		
Cash paid for contingent value rights obligation related to acquisition	(7,673)	
Expenditures for property, equipment, software and pre-publication costs	(7,974)	(8,427)
Net cash used in investing activities	(15,647)	(8,427)
Financing activities:		
Principal payments under capital lease obligations	(702)	(584)
Share repurchases	(244)	(509)
Net cash used in financing activities	(946)	(1,093)
Decrease in cash and cash equivalents	(5,633)	(31,588)

Cash and cash equivalents, beginning of period	51,904	63,191
Cash and cash equivalents, end of period	$ 46,271	$ 31,603

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

Cambium Learning Group, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

Presentation. The Condensed Consolidated Financial Statements include the accounts of Cambium Learning Group, Inc. and subsidiaries (the Company) and are unaudited. The condensed balance sheet as of December 31, 2012 has been derived from audited financial statements. All intercompany transactions are eliminated.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) have been omitted. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Due to seasonality, the results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

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 by providing evidence-based solutions and expert professional services to empower educators and raise the achievement levels of all students. The Company s brands include: Voyager Learning and Sopris Learning, Learning A Z, ExploreLearning, and Kurzweil Educational Systems and IntelliTools. 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.

These 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. Prior to the first quarter of 2013, the Company operated in two reportable segments, Voyager Sopris Learning and Cambium Learning Technologies. See Note 15 to the Condensed Consolidated Financial Statements 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 $0.5 million at June 30, 2013 and $0.4 million at December 31, 2012. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of return as well as other factors that in the

Company s judgment could reasonably be expected to cause sales returns to differ from historical experience.

Note 3 Stock-Based Compensation and Expense

The stock-based compensation and expense recorded was allocated as follows:

(in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cost of revenues	$ 12	$ 13	$ 24	$ 25
Research and development expense	24	30	52	60
Sales and marketing expense	22	26	44	56
General and administrative expense	155	(89)	322	64
Total	$ 213	$ (20)	$ 442	$ 205

The reduction to stock-based compensation and expense in the second quarter of 2012 was primarily due to a decline in the fair value of outstanding warrants partially offset by expense recognized for other equity awards.

No stock-based compensation awards were granted during the three or six months ended June 30, 2013.

The following assumptions were used in the Black-Scholes option-pricing model to estimate the fair value of the awards granted during the first half of 2012:

	Six Months Ended June 30, 2012
Expected stock volatility	35.00%
Risk-free interest rate	1.02 - 1.17%
Expected years until exercise	6.25
Dividend yield	0.00%

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

During the three months ended June 30, 2013, 819,301 of the options granted on December 8, 2009, 26,340 of the options granted on January 27, 2010, 18,046 of the options granted on February 1, 2011, and 162,218 of the options granted on December 1, 2011 were forfeited. During the six months ended June 30, 2013, 1,000,000 of the options granted on December 8, 2009, 68,977 of the options granted on January 27, 2010, 12,401 of the options granted on May 25, 2010, 42,382 of the options granted on February 1, 2011, and 500,000 of the options granted on December 1, 2011 were forfeited.

During the three and six months ended June 30, 2013, the related restrictions lapsed on restricted common stock awards of 500 shares and 47,795 shares, respectively.

Exchange Offer

In June 2013, the Company filed a Tender Offer Statement on Schedule TO with the SEC related to an offer by the Company to certain current U.S. employees of the Company and its subsidiaries who have been selected by the Compensation Committee of the Board of Directors of the Company (the Compensation Committee and such employees who have been selected by the committee, Eligible Optionholders) to receive the opportunity to exchange all of their outstanding options to purchase shares of the Company s common stock, par value $0.001 per share, previously granted under the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (the Plan) for the grant of new options to purchase shares of the Company s common stock (the New Options). The New Options will be granted pursuant to the Plan. The number of shares of Company common stock subject to the New Options will be calculated pursuant to an exchange ratio determined by the Compensation Committee for each Eligible Optionholder. To remain eligible to tender eligible options for exchange and cancellation, and receive New Options, an Eligible Optionholder must continue to be an employee of the Company or any of its subsidiaries through the date the exchange offer expires. On July 30, 2013, options to purchase 1,757,500 shares of the Company s common stock were exchanged in the exchange offer and New Options to purchase 1,927,500 shares of the Company s common stock were issued.

The exercise price per share for each New Option was equal to the last reported sale price per share of the Company s common stock, as reported on the NASDAQ Capital Market, on the date of grant of the New Options. Each of the New Options will vest in equal monthly installments on the last day of each month of such four year period commencing as of January 1, 2013. Each New Option will continue to expire on the scheduled expiration date applicable to such option for which it was exchanged.

Under Accounting Standards Codification 718, Compensation Stock Compensation, the exchange of options in this exchange offer is treated as a modification of the existing stock options for accounting purposes. Accordingly, beginning in the third quarter of 2013, we will recognize the unamortized compensation cost of the surrendered options, as well as the incremental compensation cost, if any, of the New Options granted in this exchange offer, ratably over the vesting period of the New Option grants. The incremental compensation cost will be measured as the excess, if any, of the fair value of each New Option grant granted to employees in exchange for surrendered options, measured as of the date the New Options are granted, over the fair value of the surrendered options in exchange for the New Option grants, measured immediately prior to the cancellation. In the event that any of the New Options are forfeited prior to their vesting due to termination of service, the incremental compensation cost for the forfeited New Options will not be recognized.

Note 4 Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period, including the potential dilution that could occur if all of the Company s outstanding stock awards that are in-the-money were exercised, using the treasury stock method.

A reconciliation of the weighted-average number of common shares and equivalents outstanding used in the calculation of basic and diluted net income (loss) per common share is shown in the table below for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2013	2012	2013	2012
Basic	47,357	49,941	47,377	49,944
Dilutive effect of awards	280			
Diluted	47,637	49,941	47,377	49,944
Antidilutive securities:				
Options	2,134	4,136	2,134	4,136
Warrants		188	282	188
Restricted stock	2	49	2	49

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.

As of June 30, 2013, financial instruments include $46.3 million of cash and cash equivalents, restricted assets of $7.5 million, collateral investments of $2.0 million, $174.4 million of senior secured notes, $0.4 million of warrants, and assets held for sale of $0.3 million. As of December 31, 2012, financial instruments include $51.9 million of cash and cash equivalents, restricted assets of $11.1 million, collateral investments of $2.0 million, $174.3 million of senior secured notes, $0.3 million of warrants, assets held for sale of $0.4 million, and $7.6 million in contingent value rights (CVRs). The fair market values of cash equivalents and restricted assets are equal to their carrying value, as these investments are recorded based on quoted market prices and/or other market data for the same or comparable instruments and transactions as of the end of the reporting period. The fair value of the property held for sale was determined based on the final sales price of the remaining recovered property. This property was acquired by the Company as a result of its recovery efforts in connection with the employee embezzlement matter described in Note 16.

As of June 30, 2013, the fair value of the senior secured notes was $153.3 million based on quoted market prices in active markets for these debt instruments when traded as assets.

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

(in thousands)		Fair Value at Reporting Date Using		
Description	As of June 30, 2013	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	$ 7,457	$ 7,457	$	$
Collateral investments:				
Money market	903	903		
Certificate of deposit	1,067	1,067		
Warrant liability	352		352	
Assets held for sale:				
Recovered properties	261		261	

(in thousands)		Fair Value at Reporting Date Using		
Description	As of December 31, 2012	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	$ 11,141	$ 11,141	$	$
Collateral investments:				
Money market	902	902		
Certificate of deposit	1,067	1,067		
Warrant liability	310		310	
Assets held for sale:				
Recovered properties	380		380	
CVRs	7,599			7,599

(in thousands)	Total Gains (Losses) for the Six Months Ended June 30,	
Description	2013	2012
Restricted assets:		
Money market	$	$
Collateral investments:		
Money market		
Certificate of deposit		
Warrant liability	(42)	395
Assets held for sale:		
Recovered properties	(119)	(380)
CVRs	(74)	(107)

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

Contingent Value Rights

As part of the 2009 merger with Voyager Learning Company (VLCY), each former VLCY shareholder received a CVR to receive cash in an amount equal to the aggregate amount of specified tax refunds received after the closing of the mergers and various other amounts deposited in escrow on or after the closing date, reduced by any payments to be made under the escrow agreement entered into in connection with the mergers, with respect to agreed contingencies, a potential working capital adjustment and allowed expenses, divided by the total number of shares of VLCY common stock outstanding immediately prior to the effective time of the mergers.

The first and second CVR payment dates were in September 2010 and June 2011, with $1.1 million and $2.0 million, respectively, distributed to the escrow agent at those times for distribution to holders of the CVRs.

During the second quarter of 2013, the remaining contingencies related to the CVR liability were resolved and the final payment of $7.7 million was issued. This payment comprised $5.8 million related to a Michigan state tax matter and $1.9 million related to a potential tax indemnity obligation. Restricted cash in an escrow account for the benefit of the CVRs was $3.0 million for the potential tax indemnity obligation. As the potential tax indemnity obligation was not triggered, the remaining $1.1 million in the escrow account reverted back to the general cash of the Company in the second quarter of 2013.

See Note 13 for further information on the Michigan tax matter.

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

(in thousands)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs
Balance as of December 31, 2012	$	7,599
Accrued interest		74
Payments made		(7,673)
Balance as of June 30, 2013	$	

(in thousands)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs Fair Value as of June 30, 2013
Components of CVR Total:		
Tax refunds received before closing of the merger	$	1,583
Other specified tax refunds		4,797
Tax indemnity obligation		1,868
Legal receivable		2,400
Interest income from Michigan tax refund		607
Other specified tax related liabilities		(53)
Costs incurred to collect tax refunds and by stockholders representative		(430)

Total CVR liability		10,772
September 2010 payment		(1,106)
June 2011 payment		(1,993)
June 2013 payment		(7,673)
Remaining CVR liability	$	

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

(in thousands)		Fair Value at Reporting Date Using		
Description	As of June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	$ 47,404	$	$	$ 47,404
Property, equipment and software	21,027			21,027
Pre-publication costs, net	13,329			13,329
Acquired curriculum and technology intangibles, net	7,446			7,446
Acquired publishing rights, net	6,154			6,154
Other intangible assets, net	6,933			6,933

(in thousands)		Fair Value at Reporting Date Using		
Description	As of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	$ 47,404	$	$	$ 47,404
Property, equipment and software	21,021			21,021
Pre-publication costs, net	11,660			11,660
Acquired curriculum and technology intangibles, net	9,320			9,320
Acquired publishing rights, net	7,602			7,602
Other intangible assets, net	7,836			7,836

(in thousands)	Total Gains (Losses) for the Six Months Ended June 30,	
Description	2013	2012
Goodwill	$	$ (14,700)
Property, equipment and software		(3,111)
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 first half of 2013.

During the quarter ended March 31, 2012, an Impairment of Long-Lived Assets charge of $2.8 million was recorded primarily due to the Company s decision to outsource its warehouse operations to Ozburn Hessey Logistics and to cease use of its leased facility in Frederick, Colorado. During the quarter ended June 30, 2012, an Impairment of Long-Lived Assets charge of $0.3 million was recorded for the impairment of previously capitalized development costs that, as a result of certain actions in our restructuring and reengineering initiative, were determined to have no ongoing value.

Goodwill Impairment

In accordance with applicable accounting guidance, goodwill and other indefinite-lived intangible assets are not amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. The Company s annual impairment testing is performed as of October 1 of each year. During the quarter ended June 30, 2012, significant sustained sales declines in the Company s Kurzweil/IntelliTools segment caused the Company to re-evaluate the forecasts for this reporting unit. The Company determined that future sales for Kurzweil/IntelliTools were not expected to achieve previous forecasts. This adverse change in expected future cash flows triggered the need for an interim goodwill impairment analysis for this reporting unit. As a result of our interim impairment test, the goodwill balance for the Kurzweil/IntelliTools reporting unit was determined to be partially impaired, and an impairment charge of $14.7 million was recorded as of June 30, 2012. The goodwill impairment charge was primarily the result of lowered forecasts of future sales.

During the three and six months ended June 30, 2013, the Company did not identify any triggering events that would warrant an interim goodwill impairment test.

Note 6 Other Current Assets

Other current assets at June 30, 2013 and December 31, 2012 consisted of the following:

	As of	
(in thousands)	June 30, 2013	December 31, 2012
Deferred costs	$ 2,689	$ 4,132
Prepaid expenses	2,004	1,599
Deferred taxes	261	137
Other current assets		24
Total	$ 4,954	$ 5,892

Note 7 Other Assets

Other assets at June 30, 2013 and December 31, 2012 consisted of the following:

	As of	
(in thousands)	June 30, 2013	December 31, 2012
Deferred financing costs	$ 5,337	$ 6,121
Collateral investments	1,970	1,969
Other	2,034	1,542
Total	$ 9,341	$ 9,632

The deferred financing costs represent costs incurred in connection with the issuance of the $175 million aggregate principal amount of 9.75% senior secured notes as described in Note 14 to the Condensed Consolidated Financial Statements.

Note 8 Accrued Expenses

Accrued expenses at June 30, 2013 and December 31, 2012 consisted of the following:

	As of	
(in thousands)	June 30, 2013	December 31, 2012
Salaries, bonuses and benefits	$ 8,422	$ 7,593
Accrued interest	6,478	6,490
Accrued royalties	1,715	1,399
Pension and post-retirement medical benefits	1,220	1,218
Deferred compensation	22	57
Other	3,185	3,773
Total	$ 21,042	$ 20,530

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

Note 9 Other Liabilities

Other liabilities at June 30, 2013 and December 31, 2012 consisted of the following:

	As of	
(in thousands)	June 30, 2013	December 31, 2012
Pension and post-retirement medical benefits, long-term portion	$ 11,004	$ 11,392
Deferred rent	1,322	1,457
Long-term income tax payable	877	852
Long-term deferred compensation	486	503
Long-term deferred tax liability	398	273
Other	506	654
Total	$ 14,593	$ 15,131

Note 10 Pension Plan

The net pension costs of the Company s defined benefit pension plan were comprised solely of interest costs and totaled $0.1 million for the three month periods ended June 30, 2013 and 2012 and $0.2 million and $0.3 million for the six month periods ended June 30, 2013 and 2012, respectively. The net pension costs for the three and six months ended June 30, 2013 and 2012, also included immaterial accumulated net loss amortization.

Note 11 Restructuring

In late 2011, the Company launched a reengineering and restructuring initiative to align its organizational and cost structure to its strategic goals. Reengineering and restructuring activities were completed during 2012 and included:

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

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

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

· Assessing and implementing optimization projects to improve cost efficiencies and enhance the customer experience throughout the order to cash, professional service delivery, procurement processes, and sales channel structure;

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

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

The total expense for all reengineering and restructuring initiatives from the fourth quarter of 2011 through the end of 2012 was $9.6 million, including both cash and non-cash items, and capital expenditures were $0.7 million.

The following table summarizes the amounts incurred in connection with the reengineering and restructuring initiative:

(in thousands)	Incurred in Year Ended December 31, 2011	Incurred in Year Ended December 31, 2012	Total Amount Incurred Under the Plan
One-time termination benefits	$ 1,189	$ 2,507	$ 3,696
Impairment of long-lived assets		4,448	4,448
Warehouse transition costs		1,003	1,003
Facility rationalization costs		209	209
Process reengineering costs		203	203
	$ 1,189	$ 8,370	$ 9,559

Reengineering and restructuring charges were recorded to the following line items in the Condensed Consolidated Statements of Operations for the three and six months, respectively, ended June 30, 2012: $0.9 million and $1.4 million to Cost of Revenues; $0.2 million and $0.3 million to Research and Development Expense; $0.4 million and

$0.5 million to Sales and Marketing Expense; $0.1 million and $0.1 million to General and Administrative Expense; $0.3 million and $0.4 million to Shipping and Handling Costs; and $0.3 million and $3.1 million to Impairment of Long-Lived Assets. All of these charges were recorded in unallocated shared services.

(in thousands)	One-Time Termination Benefits
Balance as of December 31, 2012	$ 828
Accrual changes	(18)
Payments made	(659)
Balance as of June 30, 2013	$ 151

Note 12 Uncertain Tax Positions

The Company recognizes the financial statement impacts of a tax return position when it is more likely than not, based on technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, the Company applies judgment, taking into account applicable tax laws, experience managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in its financial statements. For each position, the difference between the benefit realized on the Company s tax return and the benefit reflected in its financial statements is recorded on the Condensed Consolidated Balance Sheet as an unrecognized tax benefit (UTB). The Company updates its UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with tax authorities. The balance of UTBs was $7.1 million at June 30, 2013 and December 31, 2012.

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

Note 13 Commitments and Contingencies

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

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. Severance charges of $1.5 million were recorded in the first quarter of 2013 in connection with these resignations.

The Company had a potential contingent liability related to state income taxes and related interest that had been assessed against a former subsidiary. On August 27, 2010, the former subsidiary received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, the former subsidiary was liable to the State of Michigan for unpaid taxes and interest in the amount of approximately $10.4 million. In order to expedite resolution of this matter and access the Michigan Court of Claims, the Company paid this liability to the state of Michigan on behalf of the former subsidiary on September 7, 2010 and filed an action in the Michigan Court of Claims to pursue a refund of the assessment. On November 16, 2011, the Michigan Court of Claims ruled in the Company s favor. The Michigan state taxing authority then appealed the decision of the Court of Claims to the Michigan Court of Appeals. On January 16, 2013, the Michigan Court of Appeals affirmed the verdict of the Court of Claims. As the Michigan state taxing authority declined to appeal the case to the Michigan Supreme Court, the matter was closed and the Company received $11.7 million related to this claim in the second quarter of 2013.

This liability was identified as an agreed contingency for purposes of the CVRs issued as part of a 2009 merger. In accordance with the terms of the merger agreement, dated June 20, 2009, fifty percent (50%) of any amount that is paid or due and payable with respect to each agreed contingency would offset payments due under the CVRs from an amount held for such payments by Wells Fargo Bank, N.A., as escrow agent, in an escrow account. Upon payment of the approximately $10.4 million, the Company requested a disbursement to the Company from the escrow account in an amount equal to fifty percent (50%) of the payment, or approximately $5.2 million. This cash disbursement was received by the Company during the third quarter of 2010. On September 20, 2010, the Company amended the merger agreement and the escrow agreement to extend the term of the escrow agreement until the later of the full distribution of the escrow funds or the final resolution of the agreed contingency. The final resolution of the tax litigation resulted in a total refund from the taxing authority to the Company of $11.7 million of which $5.8 million was paid to the holders of the CVRs. The total payment to the holders of the CVRs during the second quarter of 2013 also included $1.9 million related to a potential tax indemnity obligation.

The Michigan Court of Appeals also ruled in the Company s favor on two other tax matters that resulted in a refund of $0.6 million. These tax refunds were retained by the Company and were not subject to payment to the holders of the CVRs.

From time to time, the Company may enter into firm purchase commitments for printed materials included in inventory which the Company expects to use in the ordinary course of business. These commitments are typically for terms less than one year and require the Company to buy minimum quantities of materials with specific delivery dates at a fixed price over the term. These open purchase commitments totaled $1.1 million as of June 30, 2013.

The Company has letters of credit outstanding as of June 30, 2013 in the amount of $2.9 million to support workers compensation insurance coverage, certain credit card programs, the build-to-suit lease, and performance bonds for certain contracts. The Company maintains a $1.1 million certificate of deposit as collateral for the workers compensation insurance and credit card program letters of credit and for Automated Clearinghouse (ACH) programs. The Company also maintains a $0.9 million money market fund investment as collateral for a travel card program. The certificate of deposit and money market fund investment are recorded in Other Assets.

Note 14 Long-Term Debt

Long-term debt consists of the following at June 30, 2013 and December 31, 2012:

(in thousands)	June 30, 2013	December 31, 2012
$175.0 million of 9.75% senior secured notes due February 15, 2017, interest payable semiannually	$ 175,000	$ 175,000
Less: Unamortized discount	(591)	(672)
Total long-term debt	$ 174,409	$ 174,328

In February 2011, the Company closed an offering of $175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into an asset-based revolving credit facility with potential for up to $40 million in borrowing capacity. Deferred financing costs are capitalized in Other Assets in the Condensed Consolidated Balance Sheets, net of accumulated amortization, and are to be amortized over the term of the related debt using the effective interest method. Unamortized capitalized deferred financing costs at June 30, 2013 and December 31, 2012 were $5.3 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 June 30, 2013, the balances of accounts receivable and inventory collateralizing the ABL Facility were $20.9 million and $12.0 million, respectively. As of June 30, 2013, the Company had a borrowing base under the ABL Loan Agreement of up to $17.0 million.

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

The ABL Facility contains a financial covenant that generally requires the ABL Credit Parties to maintain, on a consolidated basis, either (i) excess availability of at least the greater of $8 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0. The ABL Credit Parties will be required to pay, quarterly in arrears, an unused line fee equal to the product of (x) either 0.375% or 0.50% (depending upon the ABL Credit Parties   fixed charge coverage ratio at the time) and (y) the average daily unused amount of the revolver. As of June 30, 2013, the Company was in compliance with this covenant.

Note 15   Segment Reporting

During the first quarter of 2013, the Company s Board of Directors announced that they had accepted the resignation of Ron Klausner, the Company s Chief Executive Officer. In response to Mr. Klausner s resignation, John Campbell was promoted from President of the Company s Cambium Learning Technologies segment to Chief Executive Officer of the Company. Based on the Company s organizational structure and management reporting and resource allocation practices subsequent to the management change, the Company has identified four reportable segments with separate management teams and infrastructures that offer various products and services:

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 an educational resource company specializing in online delivery of leveled readers and other supplementary curriculum resources for K-6. Learning A-Z s resources are currently used in nearly half of the districts in the U.S. and Canada and over 155 countries worldwide. Learning A-Z serves a wide range of student needs, including English language learners and those students for which English is a second language, Response to Intervention, Special Education, and general classroom instruction. 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 ™ and Science A-Z ™, provide online supplemental reading, writing, vocabulary lessons, books, science lessons and other resources for students and teachers.

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 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.

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.

Other:

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

Prior Period Reclassifications:

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

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.

In late 2012, the management teams and infrastructures for the former Voyager Learning and Sopris Learning segments were merged into a combined VSL business unit. Prior to the fourth quarter of 2012, the Company reported segment results separately for Voyager Learning and Sopris Learning. The Company s historical segment reporting results have been restated for comparative purposes to reflect the current organizational structure.

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

(in thousands)	Voyager Sopris Learning	Learning A-Z	ExploreLearning	Kurzweil/ IntelliTools	Other	Consolidated
Quarter ended June 30, 2013						
Net revenues	$ 28,357	$ 8,065	$ 4,046	$ 2,318	$	$ 42,786
Cost of revenues	11,446	226	536	451	(12)	12,647
Amortization					4,281	4,281
Total cost of revenues	11,446	226	536	451	4,269	16,928
Other operating expenses	8,607	3,622	2,203	1,180	3,910	19,522
Embezzlement and related expense					115	115
Depreciation and amortization					1,220	1,220
Net interest expense					4,679	4,679
					(211)	(211)

Other income, net						
Income tax expense					102	102
Segment net income (loss)	$ 8,304	$ 4,217	$ 1,307	$ 687	$ (14,084)	$ 431
Quarter ended June 30, 2012						
Net revenues	$ 27,869	$ 6,344	$ 3,611	$ 2,605	$	$ 40,429
Cost of revenues	12,369	68	413	684	863	14,397
Amortization					6,579	6,579
Total cost of revenues	12,369	68	413	684	7,442	20,976
Other operating expenses	10,093	2,399	2,116	1,490	4,610	20,708
Goodwill impairment					14,700	14,700
Embezzlement and related expense					44	44
Depreciation and amortization					1,591	1,591
Impairment of long-lived assets					320	320
Net interest expense						