

CAMBIUM LEARNING GROUP, INC.  
Form 10-Q  
August 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

75287  
(Zip Code)

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

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

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

Indicate by check mark 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of July 31, 2014 was 44,909,873.

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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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenues	\$36,243	\$42,786	\$67,323	\$74,215
Cost of revenues:				
Cost of revenues	9,930	12,647	18,941	24,050
Amortization expense	4,438	4,281	8,518	7,988
Total cost of revenues	14,368	16,928	27,459	32,038
Research and development expense	2,598	2,528	5,345	4,859
Sales and marketing expense	10,083	11,715	20,665	22,048
General and administrative expense	4,457	4,880	9,637	11,673
Shipping and handling costs	404	399	600	698
Depreciation and amortization expense	1,036	1,220	2,100	2,436
Embezzlement-related expense	—	115	—	115
Total costs and expenses	32,946	37,785	65,806	73,867
Income before interest, other income (expense) and income taxes	3,297	5,001	1,517	348
Net interest expense	(4,420 )	(4,679 )	(9,158 )	(9,255 )
Loss on extinguishment of debt	(357 )	—	(570 )	—
Other income, net	215	211	430	430
Income (loss) before income taxes	(1,265 )	533	(7,781 )	(8,477 )
Income tax expense	(23 )	(102 )	(94 )	(170 )
Net income (loss)	\$(1,288 )	\$431	\$(7,875 )	\$(8,647 )
Other comprehensive income (loss):				
Amortization of net pension loss	21	30	43	60
Comprehensive income (loss)	\$(1,267 )	\$461	\$(7,832 )	\$(8,587 )
Net income (loss) per common share:				
Basic	\$(0.03 )	\$0.01	\$(0.17 )	\$(0.18 )
Diluted	\$(0.03 )	\$0.01	\$(0.17 )	\$(0.18 )

Average number of common shares and equivalents

outstanding:				
Basic	45,641	47,357	45,663	47,377
Diluted	45,641	47,637	45,663	47,377

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,	December 31,
	2014	2013
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$29,674	\$67,993
Accounts receivable, net	16,929	15,767
Inventory	7,468	9,221
Restricted assets, current	1,462	1,343
Other current assets	6,545	6,873
Total current assets	62,078	101,197
Property, equipment and software at cost	47,307	43,224
Accumulated depreciation and amortization	(26,936 )	(22,909 )
Property, equipment and software, net	20,371	20,315
Goodwill	47,842	47,842
Acquired curriculum and technology intangibles, net	6,924	8,719
Acquired publishing rights, net	3,734	4,705
Other intangible assets, net	5,242	6,251
Pre-publication costs, net	14,514	13,401
Restricted assets, less current portion	4,749	5,492
Other assets	9,746	8,288
Total assets	\$175,200	\$216,210

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, 2014 (Unaudited)	December 31, 2013
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Capital lease obligations, current	\$1,046	\$995
Accounts payable	2,192	1,301
Accrued expenses	17,743	25,279
Deferred revenue, current	37,791	53,532
Total current liabilities	58,772	81,107
Long-term liabilities:		
Long-term debt	164,596	174,491
Capital lease obligations, less current portion	1,488	2,019
Deferred revenue, less current portion	8,393	7,829
Other liabilities	12,982	13,954
Total long-term liabilities	187,459	198,293
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, 2014 and December 31, 2013)	—	—
Common stock (\$.001 par value, 150,000 shares authorized, 51,244 and 51,208 shares issued, and 44,910 and 45,042 shares outstanding at June 30, 2014 and December 31, 2013, respectively)	51	51
Capital surplus	283,965	283,673
Accumulated deficit	(340,570)	(332,695)
Treasury stock at cost (6,334 and 6,166 shares at June 30, 2014 and December 31, 2013, respectively)	(12,448 )	(12,147 )

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Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,029 )	(2,072 )
Accumulated other comprehensive loss	(2,029 )	(2,072 )
Total stockholders' equity (deficit)	(71,031 )	(63,190 )
Total liabilities and stockholders' equity (deficit)	\$ 175,200	\$ 216,210

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,	
	2014	2013
<b>Operating activities:</b>		
Net loss	\$(7,875 )	\$(8,647 )
Adjustments to reconcile net loss		
to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	10,618	10,424
Loss on extinguishment of debt	570	—
Loss from recovery of property held for sale	—	119
Gain on sale of IntelliTools product line	(289 )	—
Amortization of note discount and deferred financing		
costs	798	865
Stock-based compensation and expense	248	442
Michigan tax refund received	—	12,342
Other	51	174
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,162 )	(3,087 )
Inventory	1,492	4,590
Other current assets	328	862
Other assets	(2,575 )	(493 )
Restricted assets	624	3,684
Accounts payable	891	(653 )
Accrued expenses	(3,536 )	512
Deferred revenue	(15,136)	(9,529 )
Other long-term liabilities	(1,329 )	(645 )
Net cash provided by (used in) operating activities	(16,282)	10,960
<b>Investing activities:</b>		
Cash paid for acquisitions	(3,600 )	—
Cash paid for contingent value rights obligation related to		
acquisition	—	(7,673 )
Expenditures for property, equipment, software and		
pre-publication costs	(8,360 )	(7,974 )

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Proceeds from sale of IntelliTools product line	806	—
Net cash used in investing activities	(11,154)	(15,647)
Financing activities:		
Principal payments under capital lease obligations	(480 )	(702 )
Repayment of debt	(10,145)	—
Proceeds from exercise of stock options	43	—
Share repurchases	(301 )	(244 )
Net cash used in financing activities	(10,883)	(946 )
Decrease in cash and cash equivalents	(38,319)	(5,633 )
Cash and cash equivalents, beginning of period	67,993	51,904
Cash and cash equivalents, end of period	\$29,674	\$46,271

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, 2013 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, 2013. Due to seasonality, the results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for any future interim period or for the year ending December 31, 2014.

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 all students 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 Sopris Learning, Learning A–Z, ExploreLearning and Kurzweil Education. 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 Education. Prior to the sale of the IntelliTools product line in the second quarter of 2014, the Company referred to its Kurzweil Education segment as Kurzweil/IntelliTools. See Note 14 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, 2014 and \$0.7 million at December 31, 2013. 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,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenues	\$9	\$12	\$18	\$24
Research and development expense	27	24	49	52
Sales and marketing expense	37	22	61	44
General and administrative expense	63	155	120	322
Total	\$136	\$213	\$248	\$442

## 2014 Grants

On March 14, 2014, the Company granted 559,000 options under the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (“Plan”) with a total grant date fair value, net of forecasted forfeitures, of \$0.7 million. Each of these options have a per-share exercise price of \$2.14 and vest in equal monthly installments on the last day of each month of the four year period beginning on the first day of the month of grant. The term of each of the options is ten years from the date of grant.

On March 26, 2014, the Company granted 35,000 options under the Plan with a total grant date fair value, net of forecasted forfeitures, of \$0.1 million. Each of these options have a per-share exercise price of \$2.06 and vest in equal monthly installments on the last day of each month of the four year period beginning on the first day of the month of grant. The term of each of the options is ten years from the date of grant.

## Valuation assumptions

The following assumptions were used in the Black-Scholes option-pricing model to estimate the fair value of the awards granted during the six month period ended June 30, 2014:

	Six Months Ended June 30, 2014
Expected stock volatility	64.00 %
	1.91% -
Risk-free interest rate	2.05%
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.

## Award activity

The following tables detail changes in the Company’s outstanding stock options during the three and six month periods ended June 30, 2014.

Grant Date	Three Months Ended June 30, 2014				
	Beginning Outstanding	Granted	Exercised	Cancelled/Forfeited	Ending Outstanding
January 27, 2010	5,000	—	—	—	5,000
November 21, 2011	—	—	—	—	—
May 14, 2012	—	—	—	—	—
July 30, 2013	2,165,000	—	33,333	134,584	1,997,083

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September 19, 2013	30,000	—	—	—	30,000
October 28, 2013	40,000	—	—	—	40,000
November 18, 2013	15,000	—	—	—	15,000
March 14, 2014	559,000	—	—	14,270	544,730
March 26, 2014	35,000	—	—	—	35,000
Total	2,849,000	-	33,333	148,854	2,666,813

Grant Date	Six Months Ended June 30, 2014				
	Beginning Outstanding	Granted	Exercised	Cancelled/Forfeited	Ending Outstanding
January 27, 2010	5,000	—	—	—	5,000
November 21, 2011	79,158	—	—	79,158	—
May 14, 2012	10,198	—	—	10,198	—
July 30, 2013	2,187,344	—	33,333	156,928	1,997,083
September 19, 2013	30,000	—	—	—	30,000
October 28, 2013	40,000	—	—	—	40,000
November 18, 2013	15,000	—	—	—	15,000
March 14, 2014	—	559,000	—	14,270	544,730
March 26, 2014	—	35,000	—	—	35,000
Total	2,366,700	594,000			