CAMBIUM LEARNING GROUP, INC.
Form 10-K
March 17, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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	27-0587428
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

17855 Dallas Parkway, Suite 400, Dallas, Texas	75287
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant's common stock, par value $0.001 per share, held by non-affiliates of the registrant was $28,723,270 based on the closing sale price of the registrant's common stock on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Capital Market. As of March 3, 2015, there were 45,481,969 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2015 Annual Stockholders Meeting, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2014.

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PART I

Cautionary Note Regarding Forward-looking Statements

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

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

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2014. The “Company”, “we”, “us”, or “our” when used in this report refers to Cambium Learning Group, Inc. and its predecessors and consolidated subsidiaries, as the context requires.

Overview

Cambium Learning Group, Inc., a Delaware corporation, is a leading educational solutions and services company that is committed to helping all students reach their full potential. Our award winning product lines include: Learning A–Z™ (www.learninga-z.com), ExploreLearning® (www.explorelearning.com and www.reflexmath.com), Voyager Sopris Learning™ (www.voyagersopris.com) and Kurzweil Education™ (www.kurzweiledu.com). Together, these product lines 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.

During 2014, our products, more fully described in Segment and Product Information below, continued to receive awards and accolades from industry publications including:

The 20th Annual Best Educational Software Awards (“BESSIE”) presented by The ComputED Gazette

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

The BESSIE Awards target innovative and content-rich programs and websites that provide parents and teachers with technology to foster educational excellence and are awarded to titles submitted by publishers worldwide.

The 19th Annual Education Software Review Awards (“EDDIE”) presented by The ComputED Gazette

- Learning A-Z – Reading A-Z.com
- Learning A-Z – Raz-Kids.com
- ExploreLearning – Reflex
- ExploreLearning – Gizmos
- Kurzweil Education – Kurzweil 3000-firefly

The EDDIE Awards target innovative and content-rich programs and websites that augment classroom curriculum and improve teacher productivity, providing parents and teachers with technology to foster educational excellence. Selection criteria includes academic content, potential for broad classroom use, technical merit, subject approach, management approach and are awarded to titles submitted by publishers worldwide.

2014 CODiE Award for Best Learning Game presented by the Software and Information Industry Association

- ExploreLearning – Reflex

For nearly 30 years, the Software and Information Industry Association (SIIA) CODiE Awards have recognized software and information companies for achievement and vision. It is the only peer-reviewed program in the content, education and software industries.

2014 REVERE Awards presented by the PreK-12 Learning Group Association of American Publishers

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

The annual REVERE awards, established by the Association of Educational Publishers (AEP) and formerly known as the AEP Awards program, recognize exemplary learning resources for preK-12 students, educators and administrators, as well as adult learners.

The 32nd Annual Tech & Learning Awards of Excellence for Best Upgraded Product

- Learning A-Z – Reading A-Z.com
- Learning A-Z – Science A-Z.com
- ExploreLearning – Gizmos
- Kurzweil Education – Kurzweil 3000-firefly

The Tech & Learning Awards of Excellence recognize both new and upgraded education technology products. Judges evaluated more than 150 applicants using four criteria: quality and effectiveness, ease of use, creative use of technology and suitability for use in an educational environment.

2014 Reader’s Choice Top 100 Products presented by District Administration Magazine

- ExploreLearning – Reflex
- Voyager Sopris Learning – Read Well

The annual Reader’s Choice Top 100 Products list, notifies and educates superintendents and other senior school influencers about the top products being used around the country to help districts excel. The winning products were selected from more than 2,400 unique nominations submitted by the nation’s top K-12 leaders and demonstrate the powerful impact of technology and the Internet.

Segment and Product Information

Our product lines are operated in four business segments: Learning A-Z, Voyager Sopris Learning, ExploreLearning, and Kurzweil Education. Each segment operates with separate management teams and infrastructures that offer various products and services, many of which are described below. During 2014, net revenues were $44.4 million for Learning A-Z, $71.2 million for Voyager Sopris Learning, $18.1 million for ExploreLearning and $8.0 million for Kurzweil Education. Unallocated shared services such as accounting, legal, human resources and corporate-related items are reported in Other. Depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and taxes are also included in Other as we evaluate the performance of our business segments excluding these captions. Further information is available in our Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K.

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

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.

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

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

Headsprout teaches K-5 students to be successful readers using online instruction that automatically adapts to the specific needs of every student. The website teaches nonreaders and early readers critical reading fundamentals, including phonemic awareness, phonics, fluency and basic vocabulary and teaches grade 3-5 readers the four main components of comprehension: finding facts, making inferences, identifying themes and learning vocabulary context.

ReadyTest A-Z was launched in October 2014. The website delivers downloadable resources teachers need to provide effective high-stakes English Language Arts assessment practice and instruction, as well as a student-centric environment where kids log in to develop their test-taking skills online. Kids are able to access ReadyTest A-Z 24/7 to develop real high-stakes testing skills, while teachers can monitor student progress and then provide customized instruction to help students maximize their learning.

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

Voyager Sopris Learning Segment

Voyager Sopris Learning 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 Voyager Sopris Learning 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, Voyager Sopris Learning 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.

Voyager Sopris Literacy Solutions

LANGUAGE! ® Live is a comprehensive English language arts solution designed to meet the rigor of state and national standards and assessments for students in grades 5–12. LANGUAGE! Live combines personalized instruction in both foundational and advanced literacy skills to quickly move learners to grade-level achievement. The curriculum is comprised of two main components, Word and Text Training, and includes a robust, integrated assessment system. LANGUAGE! Live provides instruction across all key literacy strands—from phonemic awareness and word study to fluency, vocabulary, close reading/comprehension and writing. In August 2014, LANGUAGE! Live Level 2 was released, which significantly expanded the scope and reach of LANGUAGE! Live. Also included in the August 2014 release were the online library ReadingScape, an engaging independent reading component that includes literacy and informational texts with audio, animation and video, as well as PowerPass, an online test-readiness component. In early efficacy studies, LANGUAGE! Live students—including nonreaders, struggling readers and English language learners—are already demonstrating significant and accelerated gains in both comprehension (Lexile®) and fluency.

LANGUAGE!® The Comprehensive Literacy Curriculum, targets students in grades 4–12 achieving at or below the 40th percentile. The program covers phonemic awareness and phonics, word recognition and spelling, vocabulary and morphology, grammar and usage, listening and reading comprehension, and speaking and writing. LANGUAGE! is a mastery-based curriculum designed for students with language-based learning disabilities, English language learners, and students who have not yet grasped foundational literacy skills. Students exit as soon as they achieve grade-level proficiency, which will vary depending on the specific needs of the student and where the student enters the curriculum. With the addition of the Online Teacher and Student Centers and eBooks in 2014, educators and students now have a single point of access to all technology components and the ability to use online materials, which provide an intuitive and interactive format.

Step Up to Writing® provides a comprehensive resource of multisensory writing strategies to support students in grades K–12 in creating thoughtful, well-written compositions across content areas. The program explicitly connects reading, writing, speaking, and listening with hands-on strategies and directly teaches each phase of the writing process. Students learn to actively engage with reading materials, develop study skills, and produce proficient informative/explanatory, narrative, and opinion/argument writing in accordance with the Common Core State Standards. Implementation Guides at both the Intermediate and Secondary levels provide a flexible, grade-level sequence of strategies for each type of writing specified in the Common Core State Standards, with genre-specific rubrics and clear, concise teacher support. Independent school district studies show that Step Up to Writing results in improved performance on state writing tests, increased understanding of content area text and proficiency across all student populations. In 2014, Step Up to Writing 4th Edition for grades 3–8 was released, which incorporates completely updated materials to support more rigorous standards and significant online support for teachers, including a robust set of online resources such as professional development videos, printable instructional tools and assessment and progress monitoring components.

Passport Reading Journeys® is a targeted intervention program designed to improve reading, comprehension, vocabulary, fluency, and writing for struggling learners in grades 6–12. Age-appropriate content, real-life journeys on DVDs, online interactive lessons, new eBooks and captivating text are designed to hold students' interest and motivate them to read for both information and enjoyment. The program targets the affective domain as much as the cognitive domain, as many struggling readers have lost confidence, are not engaged, and are close to dropping out. Passport Reading Journeys was updated in 2014 to reflect more rigorous reading standards; provide independent reading practice through the new online library, ReadingScape; and includes PowerPass, a test-readiness component.

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

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

Ticket to Read® is an interactive, web-based program designed to improve the reading performance of students in grades K–6 by providing independent reading activities and extended skills practice. Dynamic content in critical phonics and word-attack skills, vocabulary, fluency, and reading comprehension is leveled, self-paced, and teacher-monitored. Students are motivated by a leaderboard, a virtual clubhouse that includes earning online tickets and other rewards, games, and engaging, self-selected passages on a variety of relevant topics. With the 2014 release of the Ticket to Read iPad® app, students now have additional options for accessing the award-winning, interactive content.

Voyager Sopris Math Solutions

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

Vmath® is an explicit, systematic targeted math intervention that complements and enhances any core math program in grades 2–8 by filling critical learning gaps. This research-based program reinforces students' understanding of strategies and concepts most frequently tested, while providing instruction in critical skills that they may have missed in previous years of instruction. Vmath offers a simple way for teachers to build student confidence and provide the purposeful practice recommended for transferring the skills of the Common Core State Standards to daily application and use of mathematics. With the addition of the Online Teacher and Student Centers and eBooks in 2014, educators and students now have a single point of access to all technology components and the ability to use online materials, which provide an intuitive and interactive format. Vmath Summer Adventure is an intensive intervention for students in grades K–8 that uses the same pedagogy and research as Vmath.

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

Voyager Sopris Prekindergarten Solution

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

Voyager Sopris Assessment Solutions

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

Voyager Sopris Learning Professional Services

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

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

Voyager Sopris Learning Professional Services and Resources supports preK–12 educators by providing targeted, job embedded professional development with a focus on accelerating student gains and overall school performance. The team is committed to increasing student results by serving teachers and school leaders through planning, coaching, training, and ongoing support. The team specializes in partnering with schools and districts to build custom implementation support plans that ensure all stakeholders are prepared to implement and sustain instructional programs from Voyager Sopris Learning, as well as stand-alone professional development. Support is fully customized during every stage of implementation: pre-implementation planning, launch, ongoing, and data review. In-person training includes initial, refresher, training of trainers (TOT), advanced, transition, and ongoing support days. Training is also available online in the form of live webinars or web-based courses.

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.

Reflex Student, an app launched in August 2014, joined Gizmos on the iPad®. The new app features the Reflex student experience, which helps students gain quick and effortless recall of basic math facts in all four operations. With expanded access on the iPad®, even more students can build fluency anytime and anywhere.

Kurzweil Education Segment

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

Kurzweil 3000-firefly provides literacy support for students anytime, anywhere. It can be accessed from a PC, Macintosh®, iPad®, and the web, providing support for students in the classroom and at home, while studying, or completing homework. Built-in tools for reading, writing, study skills and test taking deliver a multisensory approach to learning, helping students who struggle, such as those with dyslexia and English language learners, become independent learners. A cloud-based centralized library allows for easy access and distribution of curricula, while reporting delivers helpful insights into student usage.

Kurzweil 3000 is award-winning educational software designed to provide literacy support for those who struggle with literacy in the classroom, at home, or in the workplace. Built-in features for reading, writing and study skills help students to become independent learners, active participants within inclusion classrooms or sheltered instruction programs; but most importantly, to keep up with peers and achieve their full academic potential. Students can use Kurzweil 3000 throughout their school career and beyond, utilizing the literacy support to become lifelong learners.

Kurzweil 1000 is a scan and read software that makes printed or electronic text accessible to people who are blind or visually impaired. Combing traditional reading machine technologies, such as scanning, image processing and text-to-speech, with communication and productivity tools, eases and enhances users' reading, writing and learning experiences. Documents and digital files are converted from text-to-speech and read aloud in a variety of natural-sounding voices that can modified to individual preferences. Additionally, this software enables users to write and edit documents, complete simple forms independently, assists with note taking, summarizing content and outlining text.

Industry Information

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

Most of our public school district customers are largely dependent on federal, state and local funding to purchase our products. The education market is changing in response to the adoption of the Common Core State Standards by a majority of the states. Common Core State Standards define the knowledge and skills students should have within their K-12 education careers so that they will graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. These standards are the product of a state-led effort to establish a single set of clear educational standards for grades K-12. Most states that have adopted the Common Core State Standards also belong to one of two multistate testing consortia that are developing common state assessments in English language arts and mathematics, aligned to the new standards. These assessments, which will be designed to replace existing statewide tests, are expected to be administered beginning in the 2014-2015 school year. Schools in these states may need to augment or replace instructional materials to align to the Common Core State Standards and to prepare students for the new state assessments. Additionally, the digitalization of education content and delivery is driving a substantial shift in the education market. The demand for these products has developed rapidly over the past several years and has led to changes in the way that providers develop, produce, market and distribute products. We believe our strategic plans aligned to these market trends.

Funding Information

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

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

We believe that demand for our products and professional services will be driven by an increased emphasis on accountability and measurement. There is greater emphasis on evaluating educators based on the performance of their students, driven by reforms contained in the Race to the Top program. These regulatory frameworks have mandated stricter accountability, higher standards and increased transparency in education, and states have been required to measure annual progress towards these standards and make results publicly available for the first time. We believe that with more attention in general, increased analysis of U.S. student outcomes versus other countries, and movement to national standards through the adoption of the Common Core State Standards, the number of children deemed to need intervention is likely to increase.

Competition

The market for our products is highly competitive and fragmented. Competition varies by segment and product line but typically comes from large publishers covering a broad array of products, smaller providers who specialize in very limited areas and free or open source teacher and student resources. Below are examples of competitors.

- Educational technology suppliers, including Scholastic (Read 180, System 44, FASTT Math), Pearson (iLit), Scientific Learning, Achieve3000, DreamBox, Carnegie Learning, Renaissance Learning, Adaptive Curriculum, myON, Don Johnston and TextHelp
- Traditional and supplemental curriculum suppliers, including Houghton Mifflin Harcourt, Pearson, McGraw-Hill Education, School Specialty, Haights Cross Communications and National Geographic (Cengage)

Seasonality

Our quarterly operating results fluctuate due to a number of factors, including the academic school year, school procurement policies, funding cycles, the amount and timing of new products and spending patterns. In addition, customers experience cyclical funding issues that can impact revenue patterns. Our first quarter historically represents less than 15% of Bookings, which tend to build through the second quarter and peak during the third quarter, representing by far the preponderance of orders, revenue and income each year.

Product Development, Sales and Marketing

We are strategically focused on having the best possible product offerings and the sales and marketing forces to effectively and efficiently deliver these products. Each segment has its own development, sales and marketing teams to better address the unique market position and target customer of its products.

Product Development

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

We expect sales of our purely print-based products to continue to decline. Therefore, to stabilize order volume and enable growth in future years, we are focusing our development efforts on technology-enabled solutions. These investments will include enhancements for our Learning A-Z and ExploreLearning subscription products, the development of blended learning solutions in the Voyager Sopris Learning segment, and continued investment in firefly, the web-based solution in the Kurzweil Education segment.

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

Research and development expense, net of capitalization, was $11.1 million and $9.8 million for the years ended December 31, 2014 and 2013, respectively. We capitalize product development costs associated with internal-use software, which includes software as a service offered to our customers with an online subscription, as well as certain pre-publication, production, and online curriculum development expenditures. Capitalized product development costs were as follows in 2014:

- Learning A-Z – $5.6 million
- Voyager Sopris Learning – $7.4 million
- ExploreLearning – $1.6 million
- Kurzweil Education – $0.5 million

Sales and Marketing

Our sales force is divided into field sales producers, who generally cover larger opportunity customers, and an inside sales force, which generally covers smaller territories. Our sales representatives are supported by product or subject matter and implementation experts as well as a marketing team. Voyager Sopris Learning also uses direct marketing through catalogs and all of our segments are increasingly making use of e-commerce and the Internet to sell our products. We have and will continue to participate in state adoptions when our products meet the needs of those adoptions. As of December 31, 2014, our total combined company sales force consisted of 67 field and 55 inside sales representatives for a total of 122 direct sales producers, excluding sales management and marketing. Sales and marketing expense was $41.4 million and $42.2 million for the years ended December 31, 2014 and 2013, respectively.

Concentration Risk

We are not overly dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. We have a broad customer base; in the two years ended December 31, 2014, on a consolidated basis, no single customer accounted for more than 10% of our total net revenues in any one year. Our top ten customers accounted for approximately 11% of our total net revenues in 2014.

Governmental Regulations

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

Executive Officers

John Campbell. John Campbell, age 54, currently serves as Chief Executive Officer of Cambium Learning Group. Mr. Campbell served as President of Cambium Learning Technologies from December 2009 until March 2013, and COO of Voyager Learning Company from January 2007 through December 2009. He joined ProQuest in January of 2004, which sold off its library business and changed its name to Voyager Learning Company in January of 2007. Before joining Cambium Learning Group, Mr. Campbell served as Chief Operating Officer and business unit head of a research-based reading company (Breakthrough to Literacy) within McGraw-Hill. Prior to joining Breakthrough/McGraw-Hill, he served as Director of Technology for Tribune Education. Additionally, Mr. Campbell has experience as General Manager of a software start-up (Insight Industries Inc.) and as Director of Applications and Technical Support for a hardware manufacturer (Commodore International). John has also served on the Education Board for the Software Information Industry Association (SIIA).

Barbara Benson. Barbara Benson, age 44, has served as the Chief Financial Officer of Cambium Learning Group, Inc. since March 2013. Ms. Benson joined the Company in March 2007 and previously served as Controller of Cambium Learning Group, Inc. from December 2009 to March 2013, and as Controller of the Voyager Learning Company from March 2007 to December 2009. She has also served as the Principal Accounting Officer of the Company since March 2010. From 2004 until joining the Company in March 2007, Ms. Benson held positions at Pegasus Solutions, Inc., a hotel technology provider of reservation, distribution, financial, and representation services, including Controller and Director of Financial Accounting and Reporting. She began her career as an auditor with Coopers & Lybrand. Ms. Benson is a Certified Public Accountant licensed in the state of Texas.

Bob Holl. Bob Holl, age 71, is the Co-founder and President of Learning A-Z. Mr. Holl has a wealth of educational knowledge and publishing experience having spent 10 years as a public school educator and 30 years in educational publishing. Before founding Learning A-Z, he served as Vice President of Development for the Wright Group and prior to that served as Editor-in-Chief of Addison-Wesley Publishing and Scott-Foresman Publishing Companies. He has been the architect and writer of many curriculum programs and educational resources during his publishing career.

David Shuster. David Shuster, age 48, is the Founder and President of ExploreLearning. Mr. Shuster is a former classroom educator and is intimately involved in the design and development of the company's award-winning products. He holds a Ph.D. in Applied Mathematics from the University of Virginia and has led ExploreLearning since its inception in 1999.

George A. Logue. George A. Logue, age 64, currently serves as President of Voyager Sopris Learning. Mr. Logue previously served as the Executive Vice President and President of Sopris Learning, the Supplemental Solutions business unit of Cambium Learning Group, Inc. Mr. Logue has served as the Executive Vice President of Cambium since June 2003 and has 30 years of education industry experience. Before joining Cambium, Mr. Logue spent 18 years in various leadership roles with Houghton Mifflin Company. At Houghton Mifflin, Mr. Logue served as Executive Vice President of the School Division from 1996 to 2003. Prior to serving as Executive Vice President of Houghton Mifflin, Mr. Logue was Vice President for Sales and Marketing from 1994 to 1996.

Carolyn Getridge. Carolyn Getridge, age 70, currently serves as Senior Vice President, Strategic Partnerships. Ms. Getridge joined Voyager Learning Company in 1997 as a member of the team that launched the company after a distinguished 30-year career in public education. Immediately prior to joining Voyager Learning Company, Ms. Getridge was Superintendent of the Oakland Unified School District. Ms. Getridge also served as Associate Superintendent of Curriculum and Instruction in Oakland and as Director of Education Programs for the Alameda County Office of Education.

Paul Fonte. Paul Fonte, age 46, currently serves as Chief Technology Officer of Cambium Learning Group. Mr. Fonte previously served as the Vice President of Technology for Cambium Learning Technologies since December 2009. Mr. Fonte joined Voyager in 2003 as Senior Project Lead and was promoted to a number of positions within Voyager, including the Director of Technology where he served until December 2009. Mr. Fonte has over 20 years of professional experience developing and delivering software at all levels.

Employees

As of December 31, 2014, we had a total of 528 employees, including 518 full-time and 10 part-time employees. We consider our current relationship with our employees to be good. Our employees are not represented by labor unions and are not subject to collective bargaining agreements.

Proprietary Rights

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

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

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

Website Access to Company Reports

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

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

Code of Ethics

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

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

Item 1A Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2014.

Risks Related to our Business

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

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

Changes in school procurement policies may adversely affect our business.

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

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

Our business is subject to seasonal fluctuations. In addition, the quarterly results of operations have fluctuated in the past, and our quarterly results of operations can be expected to continue to fluctuate in the future. Our first quarter historically represents less than 15% of Bookings, which tend to build through the second quarter and peak during the third quarter, representing the preponderance of orders, revenue, and income each year.

Certain of our activities are subject to weather risks, which could disrupt our operations or otherwise adversely affect our financial performance.

Weather disruptions due to snowstorms, hurricanes, or tornadoes could result in school closures, resulting in reduced demand for the Company’s products in it school channels during the affected periods. Additionally, the Company conducts certain of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as snowstorms, hurricanes, tornadoes, or floods.

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

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

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

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

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

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

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in the delivery of electronic content to customers and we could experience security breaches to our systems. The occurrence of any such systems failures and security breaches ultimately may cause us to lose customers.

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

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

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

Federal and state regulation of education and student information is rapidly evolving. Our reputation is one of our most important assets, and any adverse events, such as data privacy breaches or violation of privacy laws or regulations, could cause significant reputational damage and could have an adverse effect on our operating results.

Federal and state regulations for privacy is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, display, processing, transmission and security of personal information by companies offering online services have recently come under increased public scrutiny.

Examples of regulations that could be applicable to our company include the Children's Online Privacy Protection Act (COPPA), relating to access to and the use of information received from children in respect to our on-line offerings, and the Family Educational Rights and Privacy Act (FERPA), which imposes parental or student consent requirements for specified disclosures of student information to third parties.

Adverse publicity stemming from a data or privacy breach, whether or not valid, could reduce demand for our products or adversely affect our relationship with customers. Further, a failure to adequately protect personal data, including that of customers or students, or other data security failures, such as cyber-attacks from third parties, could lead to penalties, significant remediation costs and reputational damage, including loss of future business.

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

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

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

Customer acceptance of our products may be impacted by changing educational standards, such as the adoption of Common Core or other rigorous state standards. While there could be opportunity for us, if customer acceptance of our products is negatively impacted by changing educational standards, our sales could decline or we may be required to expend more on investments in product development than planned.

Risks Related to Debt and Ownership of our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have $140.0 million aggregate principal amount outstanding of 9.75% senior secured notes due 2017.

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal corporate office is located in Dallas, Texas. We lease office and warehouse facilities in Dallas, Texas; Charlottesville, Virginia; Tucson, Arizona; Frederick, Colorado; Longmont, Colorado; Natick, Massachusetts; and Ann Arbor, Michigan. At December 31, 2014, our leased properties consisted of 309,651 square feet.

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

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

PART II

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

Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol “ABCD.” Below are the high and low sale prices for each quarter in the years ended December 31, 2014 and 2013.

	Year Ended December 31,			
	2014		2013	
Fiscal Quarter	High	Low	High	Low
First	$2.54	$1.59	$1.40	$0.93
Second	$2.40	$1.90	$1.50	$0.93
Third	$2.25	$1.29	$1.85	$1.16
Fourth	$2.10	$1.40	$1.82	$1.25

As of March 3, 2015, there were 603 holders of record of our common stock.

Purchases of Equity Securities

Shares of common stock repurchased by the Company during the quarter ended December 31, 2014 were as follows:

	Issuer Purchases of Equity Securities			
	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under the Program
October 1st — October 31st	—	$ —	—	$ —
November 1st — November 30th	193,416	$ 1.70	—	$ —
December 1st — December 31st	—	$ —	—	$ —

In November 2014, the Company's Board of Directors authorized the Company to repurchase 193,416 shares of its common stock at $1.70 per share in a private transaction.

Dividends

We have not declared or paid any cash dividends to our stockholders. Any future determination to pay dividends, if any, will be at the discretion of our board of directors and will be subject to our ability to pay dividends, which may be limited by covenants of any existing and future indebtedness we or our subsidiaries incur, including the 9.75% senior secured notes, described below. We do not presently expect to pay any dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Securities authorized for issuance under equity compensation plans at December 31, 2014 are as follows:

(in thousands, except per share amounts)

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity incentive plans (a)
Equity compensation plans approved by security holders	2,602	$ 1.49	2,252
Equity compensation plans not approved by security holders	—	$ —	—
Total	2,602	$ 1.49	2,252

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

Item 6. Selected Financial Data.

This item is not required for a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2014.

Organization of Information

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

- Overview
- Results of Operations
- Strategy and Outlook
- Year Ended December 31, 2014 Compared to Year Ended December 31, 2013
- Liquidity and Capital Resources
- Non-GAAP Measures
- Capital Expenditures Outlook
- Commitments and Contractual Obligations
- Off-Balance Sheet Arrangements

- Critical Accounting Policies and Estimates
- Recently Issued Financial Accounting Standards

Overview

Form of Organization

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

with and into VLCY, with VLCY continuing as the surviving corporation (the “Voyager Merger”). As a result of the effectiveness of the mergers, Cambium and VLCY became our wholly owned subsidiaries.

Segments

We have four reportable segments with separate management teams and infrastructures that offer various products and services: Learning A-Z, Voyager Sopris Learning, ExploreLearning, and Kurzweil Education. Segment results of operations also include Other, which consists of unallocated shared services, such as accounting, legal, human resources and corporate related items, as well as depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and income taxes. We do not allocate any of these costs to our segments, and our chief operating decision maker evaluates performance of operating segments excluding these items.

Results of Operations

Bookings, previously referred to as order volume, is an internal metric that measures the total dollar value of customer orders in a period, regardless of the timing of the related revenue recognition and is a leading indicator of revenues. During 2014, consolidated Bookings were down 5% compared to 2013, with percentage change by segment as follows:

- Learning A-Z increased 30%, continuing its trend of double-digit growth due to a compelling value proposition and strong execution of product development, sales and marketing
- Voyager Sopris Learning decreased 20%, with declines in legacy print-based products outpacing gains from newer technology-enabled solutions
- ExploreLearning increased 1%, which was lower growth than the segment experienced in prior years due to 2013 including several large multi-year deals, creating a tough comparable year
- Kurzweil Education decreased 24%, due to the segment transitioning to a subscription model from a perpetual model and competition from free and low-priced, but less comprehensive, special education text-to-speech solutions

We continue to execute our strategy to shift resources to subscription and technology-enabled products. For the year ended December 31, 2014, 60% of Bookings (order volume) were generated by technology-enabled products versus 46% for the same period of 2013. For purposes of this metric, technology-enabled products are defined as those products that are sold primarily as a technology-based solution or that could be used solely using a digital platform. For the Voyager Sopris Learning segment, several products classified as technology-enabled include supplemental print materials.

GAAP net revenues decreased in 2014 by 6% to $141.7 million, compared to $150.5 million in 2013. GAAP net revenues by segment in 2014 and the percentage change from 2013 were as follows:

- Learning A-Z: $44.4 million, increased 33%, consistent with its ongoing strong Bookings trend
- Voyager Sopris Learning: $71.2 million, decreased 21%, consistent with its Bookings
- ExploreLearning: $18.1 million, increased 11%, higher than its Bookings increase in 2014 due to the recognition of prior period Bookings, which are recognized pro-rata over the applicable subscription periods
- Kurzweil Education: $8.0 million, decreased 23%, consistent with its Bookings

The following strategic initiatives have also impacted results of operations and cash flows:

- To facilitate expected growth in our Learning A-Z and ExploreLearning segments, we made investments in 2013 and 2014 in our product development and sales and marketing, which increased costs as a percentage of net revenues within these segments for the full year 2014.
- Right-sizing cost structure efforts completed by Voyager Sopris Learning have helped offset top-line declines.

- The increasing contribution from higher margin technology-enabled products positively impacted our earnings.
- Capital expenditures have increased as we continue to invest in the development of technology-enabled products that prepare students to achieve and thrive in increasingly rigorous testing environments.

Strategy and Outlook

Based on the success of our technology-enabled products, 2015 is planned to be a year of investment in which we build a platform for continued consolidated Company growth. As Learning A-Z, ExploreLearning, and newer products in our other segments like LANGUAGE! Live and firefly have already shown, we have a tremendous opportunity to transform our business model through continued strong execution of our development, marketing and sales plans. Therefore, we will continue to deploy cash generated by legacy products to invest in high-return technology-enabled opportunities and selectively expand our sales and marketing capabilities, maintaining careful oversight of the relationship of our cost base to Bookings and revenue performance, to create a higher-margin, growing business. Bookings generated by our faster growing technology-enabled solutions may grow to 70% or more of our 2015 total. Ultimately, we want our success as a provider of solutions that help all students reach their full potential to also drive strong returns for our stakeholders.

The essential tenets of our strategy continue to be:

- Deliver effective solutions that meet the needs of today's educators. Our products include robust, evidence-based solutions that empower educators and raise the achievement levels of all students. While we regularly receive industry awards for market leadership in innovative educational products and programs, it is our commitment to help all students reach their full potential that drives Cambium Learning Group. It is our objective to create adaptive, personalized instruction solutions for students throughout the United States and worldwide.
- Continue to invest in technology-enabled solutions. Technology-enabled solutions include purely online products like Learning A-Z and ExploreLearning, as well as products like the new intervention programs being developed by Voyager Sopris Learning or the online Kurzweil solution named firefly. Our products and programs are designed to help teachers around the world address the increasingly wide range of individual needs and potential of every student in their classroom. We are committed to leveraging technology to make a difference for students.
- Demonstrate the Company's belief in the importance of the teacher. We believe in the importance of the teacher's role as the key to learning and the single most important catalyst for learners in the foreseeable future. Products and professional services are designed to increase teacher effectiveness by providing information about their students, the resources to propel their students forward, and the professional development to have teachers increase both their own skills and those of their students.
- Forge strong partnerships with our customers. We are committed to stellar customer service and expert implementation and training services. As part of this commitment, we place high importance on cybersecurity, and provide vigilance and protection over privacy and data security for the kids who use our products.

Our strategy specific to each segment includes the following:

- Learning A-Z: We will pursue aggressive investment in Learning A-Z products to support continued strong double-digit growth of the segment. Learning A-Z's products' compelling value proposition is centered upon its quality content and award-winning technology, and the segment will continue to invest heavily in product development. Additionally, investments will be made in Learning A-Z's sales and marketing to increase domestic and international penetration. EBITDA and Cash Income margins are anticipated to continue to be strong, but are expected to decline slightly in 2015 versus 2014 as a result of these investments in growth. Capital expenditures for product development are expected to range from $7.0 million to $7.5 million in 2015.
- Voyager Sopris Learning: This segment will continue its transition to technology-enabled solutions, which we believe is necessary for the future growth of Voyager Sopris Learning and will result in more effective, affordable solutions for customers. Bookings for purely print-based solutions that make up legacy products are expected to continue to decline and the decline in these older products is expected to outpace Bookings generated by newer technology-enabled offerings during 2015. Also, as opposed to print orders, for which GAAP revenues are typically recognized up front at the time of shipment, GAAP revenues for technology orders are generally recognized pro rata over the subscription period. Therefore, the transition to more technology-enabled products will put pressure on

GAAP revenues for several years. Voyager Sopris Learning plans to continue investment in new product development, and capital expenditures for product development in 2015 are expected to range from $7.0 million to $7.5 million. Although 2015 margins are likely to be lower due to declining Bookings, the longer cycle for GAAP revenue recognition, and the consistent level of product development spending, the transition to technology-enabled solutions combined with cost right-sizing activities completed in 2014 should result in improved EBITDA and Cash Income margins for this segment over time. Assuming Voyager Sopris Learning continues to progress as expected, this segment could return to Bookings growth in 2016.

- ExploreLearning: This segment will focus on accelerating top-line growth in 2015 primarily by increasing geographic penetration in the United States and Canada. EBITDA and Cash Income margins will continue to be strong and are expected to remain constant or increase slightly as more scale is achieved. Capital expenditures for product development are expected to increase as ExploreLearning continues to invest in development of its Gizmos and Reflex product lines, and are expected to range from $2.1 million to $2.4 million in 2015.
- Kurzweil Education: This segment will continue to focus its resources on development and expansion of its firefly online subscription solution. Bookings are expected to contract in 2015, although at a lower percentage than Kurzweil Education experienced in 2014. Adjusted EBITDA and Cash Income are expected to decline commensurately. Capital expenditures for product development are expected to range from $0.4 million to $0.6 million in 2015.

Company-wide Bookings are expected to be up slightly in 2015 compared to 2014. We expect continued strong double-digit Bookings growth in Learning A-Z and higher Bookings growth in ExploreLearning than the 1% experienced in 2014, which was impacted by tough comparables in 2013. 2015 is expected to further transform the Voyager Sopris Learning and Kurzweil Education segments, where Bookings are expected to decline but at a lower percentage than the 20% and 24%, respectively, experienced in 2014. Assuming our strategies for Voyager Sopris Learning and Kurzweil Education continue to progress on plan, Bookings in each of these segments could return to growth in 2016. Our objective is to build a platform for growth in 2016.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

(in thousands)	Year Ended December 31, 2014 Amount	% of Revenues	Year Ended December 31, 2013 Amount	% of Revenues	Year Over Year Change Favorable/(Unfavorable) $	%
Net revenues:						
Product revenues						
Learning A-Z	$44,385	31.3 %	$33,483	22.2 %	$ 10,902	32.6 %
Voyager Sopris Learning	61,394	43.3 %	78,115	51.9 %	(16,721)	(21.4)%
ExploreLearning	18,138	12.8 %	16,279	10.8 %	1,859	11.4 %
Kurzweil Education	7,995	5.6 %	10,418	6.9 %	(2,423)	(23.3)%
Service revenues						
Voyager Sopris Learning	9,835	6.9 %	12,225	8.1 %	(2,390)	(19.6)%
Total net revenues	141,747	100.0 %	150,520	100.0 %	(8,773)	(5.8)%
Cost of revenues:						
Cost of product revenues						
Learning A-Z	1,586	1.1 %	908	0.6 %	(678)	(74.7)%
Voyager Sopris Learning	25,831	18.2 %	32,803	21.8 %	6,972	21.3 %
ExploreLearning	2,867	2.0 %	2,249	1.5 %	(618)	(27.5)%
Kurzweil Education	1,800	1.3 %	2,290	1.5 %	490	21.4 %
Cost of service revenues						
Voyager Sopris Learning	5,790	4.1 %	8,438	5.6 %	2,648	31.4 %
Amortization expense	18,270	12.9 %	17,519	11.6 %	(751)	(4.3)%
Total cost of revenues	56,144	39.6 %	64,207	42.7 %	8,063	12.6 %
Research and development expense	11,091	7.8 %	9,810	6.5 %	(1,281)	(13.1)%
Sales and marketing expense	41,431	29.2 %	42,233	28.1 %	802	1.9 %
General and administrative expense	19,357	13.7 %	21,341	14.2 %	1,984	9.3 %
Shipping and handling costs	1,469	1.0 %	1,722	1.1 %	253	14.7 %
Depreciation and amortization expense	4,209	3.0 %	4,895	3.3 %	686	14.0 %
Impairment of long-lived assets	—	0.0 %	2,227	1.5 %	2,227	100.0 %
Embezzlement-related expense	—	0.0 %	118	0.1 %	118	100.0 %
Income (loss) before interest, other income (expense) and income taxes	8,046	5.7 %	3,967	2.6 %	4,079	102.8 %
Net interest expense	(17,659)	(12.5)%	(18,819)	(12.5)%	1,160	6.2 %
Loss on extinguishment of debt	(922)	(0.7)%	—	0.0 %	(922)	—
Other income, net	1,180	0.8 %	764	0.5 %	416	54.5 %
Income tax expense	(600)	(0.4)%	(165)	(0.1)%	(435)	(263.6)%
Net loss	$(9,955)	(7.0)%	$(14,253)	(9.5)%	$ 4,298	30.2 %

Net revenues

Net revenues for the year ended December 31, 2014 decreased $8.8 million, or 5.8%, to $141.7 million from $150.5 million in the same period of 2013. Bookings (order volume) declined 4.7% compared to 2013. Our percentage decline in Bookings was less than the percentage decline in our net revenues because our order mix continues to shift towards technology-enabled products, which typically result in pro-rata revenue recognition over the life of the applicable contract. As a result of this shift in mix, a larger portion of our 2014 Bookings were deferred for revenue recognition purposes relative to prior year. Net revenues by segment were as follows:

- Learning A-Z's net revenues increased $10.9 million, or 32.6%, to $44.4 million in the year ended December 31, 2014 compared to the same period of 2013. Revenue growth was fueled by continued strong double-digit growth in Bookings due to a compelling value proposition and strong execution of product development, sales and marketing.
- Voyager Sopris Learning's net revenues decreased $19.1 million, or 21.2%, to $71.2 million in the year ended December 31, 2014 compared to the same period of 2013. The year-over-year change was the result of lower Bookings, with declines in legacy print-based products outpacing gains from newer technology-enabled solutions.
- ExploreLearning's net revenues increased $1.9 million, or 11.4%, to $18.1 million in the year ended December 31, 2014 compared to the same period of 2013. Revenue growth outpaced Bookings growth during the year as a result of the recognition of prior period Bookings, which are recognized pro-rata over the applicable subscription period.

- Kurzweil Education's net revenues decreased $2.4 million, or 23.3%, to $8.0 million in the year ended December 31, 2014 compared to the same period of 2013. The decline in revenue was the result of lower Bookings, driven by the segment's transition to a subscription model from a perpetual model combined with competition from free and low-priced, but less comprehensive, special education text-to-speech solutions.

Cost of revenues

Cost of product revenues include expenses to print, purchase, handle and warehouse product, as well as order processing and royalty costs while cost of service revenues include costs to provide services and support to our customers. Total cost of revenues, excluding amortization, decreased $8.8 million, or 18.9%, to $37.9 in the year ended December 31, 2014 compared to the same period of 2013. The year-over-year decline in cost of revenues was primarily due to lower Bookings within the Voyager Sopris Learning segment. Cost of revenues by segment were as follows:

- Learning A-Z's cost of revenues increased $0.7 million, or 74.7%, to $1.6 million in the year ended December 31, 2014 compared to same the period of 2013. The increase in cost of revenues was due to increased costs related to supporting the expanding subscriber base as well as new customer implementations as a result of the continued trend of strong Bookings growth.
- Voyager Sopris Learning's cost of revenues decreased $9.6 million, or 23.3%, to $31.6 million in the year ended December 31, 2014 compared to the same period of 2013. This year-over-year decline was driven by lower Bookings.
- ExploreLearning's cost of revenues increased $0.6 million, or 27.5%, to $2.9 million in the year ended December 31, 2014 compared to the same period of 2013. The increase in cost of revenues is primarily due to increased costs related to implementation and training due to the segment's increased level of customer support.
- Kurzweil Education's cost of revenues decreased $0.5 million, or 21.4%, to $1.8 million in the year ended December 31, 2014 compared to the same period of 2013. This year-over-year decline was driven by lower Bookings.

Amortization expense

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and ongoing pre-publication and technology product development. Amortization for the year ended December 31, 2014 increased $0.8 million, or 4.3%, to $18.3 million compared to the same period of 2013.

Research and development expense

Research and development expense includes costs to research, evaluate and develop educational products, net of capitalization. Research and development expense increased $1.3 million, or 13.1%, to $11.1 million for the year ended December 31, 2014 compared to the same period of 2013 as we continue to invest in our product offerings.

Sales and marketing expense

Sales and marketing expense includes all costs to maintain our various sales channels, including the salaries and commissions paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expense decreased $0.8 million or 1.9%, to $41.4 million for the year ended December 31, 2014 compared to same period of 2013. This decline was primarily the result of lower expense in Voyager Sopris Learning due to lower Bookings during the year combined with management's continued focus on the cost structure of slower-growing or declining areas of the Company. The lower level of expense in Voyager Sopris Learning was partially offset by planned investments in both Learning A-Z and ExploreLearning.

General and administrative expense

General and administrative expense decreased $2.0 million, or 9.3%, to $19.4 million for the year ended December 31, 2014 compared to the same period of 2013. This decline was primarily due to severance charges recorded in connection with the management transition completed in the first quarter of 2013 totaling $1.5 million combined with lower incentive compensation expense in 2014.

Shipping and handling costs

Shipping costs decreased $0.3 million, or 14.7%, to $1.5 million for the year ended December 31, 2014 compared to the same period of 2013. This decline was primarily attributable to the reduction in Bookings within Voyager Sopris Learning as discussed above. Shipping and handling costs totaled 1.0% of net revenues for the year ended December 31, 2014, in-line with 2013.

Depreciation and amortization expense

Depreciation and amortization expense decreased $0.7 million, or 14.0%, to $4.2 million for the year ended December 31, 2014 compared to the same period of 2013.

Impairment of long-lived assets

During the year ended December 31, 2013, we recorded impairments totaling $2.2 million for product lines and previously capitalized projects that were to be abandoned or deemed to have no ongoing value. See Note 13 — Fair Value of Financial Instruments to the Consolidated Financial Statements for further information regarding these charges.

Net interest expense

Net interest expense decreased $1.2 million, or 6.2%, to $17.7 million for the year ended December 31, 2014 compared to the same period of 2013. The decrease in net interest expense is primarily due to lower average debt balances during 2014 as a result of the repurchase of $35.0 million aggregate principal amount of debt during the year, combined with the termination of the ABL Facility on March 26, 2014. See Note 14 — Long-Term Debt to the Consolidated Financial Statements for further information.

Loss on extinguishment of debt

During the year ended December 31, 2014, we repurchased $35.0 million aggregate principal amount of our senior secured notes due 2017 for approximately $35.0 million, plus accrued and unpaid interest. We recognized a Loss on Extinguishment of Debt of approximately $0.7 million in connection with the repurchases, which was primarily due to the write-off of unamortized deferred financing costs. Additionally, during the year ended December 31, 2014, a Loss on Extinguishment of Debt of $0.2 million was recognized in connection with the termination of the ABL Facility related to the write-off of unamortized deferred financing costs. See Note 14 — Long-Term Debt to the Consolidated Financial Statements for further information.

Other income, net

Other income, net increased $0.4 million to $1.2 million in the year ended December 31, 2014 compared to the same period of 2013 primarily due to a settlement associated with a domain name during the third quarter of 2014.

Income tax expense

We recorded income tax expense of $0.6 million in 2014 and $0.2 million in 2013. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated any deferred tax benefit generated. The year over year increase is due to state income taxes, where we are reporting higher taxable income for certain legal entities in states that have separate or consolidated nexus reporting requirements.

Liquidity and Capital Resources

Sales seasonality affects operating cash flow, and as a result, we normally incur a net cash deficit from all of our activities through the early part of the third quarter of the year. We typically fund these seasonal deficits through the drawdown of cash. The cash balance as of December 31, 2014 was $34.4 million. The primary sources of liquidity are our current cash balances and our annual cash flow from operations and the primary liquidity requirements relate to interest on our long-term debt, product development costs and working capital. We believe that based on current and anticipated levels of operating performance and cash flow from operations, we will be able to make required interest payments on our debt and fund our working capital and capital expenditure requirements for the next 12 months. In the event we need access to short-term financing during the seasonal low point in cash, we believe that we could secure such financing on terms acceptable to us.

Long-term debt

Senior Secured Notes Due 2017

In February 2011, the Company closed an offering of $175.0 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 Consolidated Balance Sheets and are amortized over the term of the related debt using the effective interest method. Unamortized deferred financing costs at December 31, 2014 and 2013 were $2.3 million and $4.5 million, respectively, related to the Notes and the ABL Facility (as defined and described below), which was terminated in the quarter ended March 31, 2014.

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, 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 year ended December 31, 2014, the Company repurchased $35.0 million aggregate principal amount of its senior secured notes due 2017 for approximately $35.0 million, plus accrued and unpaid interest. The Company recognized a Loss on Extinguishment of Debt of approximately $0.7 million in connection with the repurchases, which was primarily due to the write-off of unamortized deferred financing costs.

The Notes mature on February 15, 2017. We believe that we will be able to refinance any principal amount outstanding under the Notes at or before this date on terms acceptable to us.

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 lien 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 Loan 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.

Cash flows

Cash from operations is seasonal, with more cash generated in the second half of the year than in the first half of the year. Cash is historically generated during the second half of the year because the buying cycle of school districts generally starts at the beginning of each new school year in the fall. Cash provided by (used in) our operating, investing and financing activities is summarized below:

	Year Ended December 31,	
(in thousands)	2014	2013
Operating activities	$23,643	$45,786
Investing activities	(20,669)	(23,788)
Financing activities	(36,580)	(5,909)

Operating activities. Cash provided by operating activities was $23.6 million and $45.8 million for the years ended December 31, 2014 and 2013, respectively. In addition to lower Bookings, cash flow from operations were impacted by the movement of $1.7 million of cash to certificates of deposit to collateralize certain letters of credit, which were previously collateralized by the ABL Facility prior to its t