CAMBIUM LEARNING GROUP, INC.
Form 10-K
March 07, 2018

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, 2017
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 $70,182,560 based on the closing sale price of the registrant's common stock on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the Nasdaq Capital Market.

As of February 28, 2018, there were 46,859,127 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 2018 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, 2017.

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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 expressed or implied by such forward-looking statements may prove to be materially different from our actual results, 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, 2017. 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 formed in 2009, is an award-winning educational technology solutions leader dedicated to helping all students reach their potential through individualized and differentiated instruction. Using a research-based, personalized approach, Cambium Learning Group delivers software as a service (SaaS) resources and instructional products that engage students and support teachers in fun, positive, safe and scalable environments. These solutions are provided through Learning A-Z® (online differentiated instruction for elementary school reading, writing and science), ExploreLearning® (online interactive math and science simulations and a math fact fluency solution), and Voyager Sopris Learning® (blended solutions that accelerate struggling learners to achieve in literacy and math and professional development for teachers). The following core beliefs form the foundation of our value proposition:

- Every student has untapped potential. Our solutions recognize that each student has a unique set of skills, aptitudes, and experiences that he or she brings to the classroom, which is why our programs provide individualized learning paths and personalized learning environments that honor and build from where a student’s academic journey begins.
- Teachers are the foundation—their importance must be valued. We believe that the biggest contributing factor to a student’s success in school is the presence of a knowledgeable and caring teacher, so our curriculum support and professional development services promote a true partnership that is flexible to unique needs.
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Data, instruction, and practice drive improvement. The unique capabilities afforded through technology give teachers and students more agility—easily enabling them to not only adapt, engage, mobilize, and move learning beyond the classroom walls, but also to quantify progress, respond to data trends, and individualize instruction like never before.

Our company builds products upon these foundational beliefs, which are aligned with market needs. Proof of this market alignment is demonstrated, in part, by the awards and accolades that we continued to receive throughout 2017 from a variety of industry publications.

2017 REVERE Award presented by the PreK-12 Learning Group of the Association of American Publishers

In March 2017, ExploreLearning received a 2017 REVERE Award for the Gizmos® product in the “best supplemental resource for science” category. Gizmos is a library of interactive online simulations for math and science education in grades 3-12. The REVERE Awards are presented by the PreK-12 Learning Group of the Association of American Publishers to identify and honor excellence in educational materials.

The 23rd Annual Best Educational Software Awards (“BESSIE”) presented by The ComputED Gazette

In April 2017, Learning A-Z, ExploreLearning, and Kurzweil Education each received BESSIE Awards. 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. We won BESSIE Awards in the following categories:

Early Learning, Reading Website: Headsprout® by Learning A-Z
Early Elementary, Writing Website: Writing A-Z™ by Learning A-Z
Early Elementary, Science Website: Science A-Z® by Learning A-Z
Early Elementary, Critical Thinking Skills Website: Raz-Plus™ by Learning A-Z
Upper Elementary, Science Website: Science A-Z by Learning A-Z
Upper Elementary, Test Skills Website: ReadyTest A-Z™ by Learning A-Z
Upper Elementary, Critical Thinking Skills Website: Raz-Plus by Learning A-Z
Upper Elementary, Writing Website: Writing A-Z by Learning A-Z
Multilevel, Critical Thinking Skills Website: Raz-Plus by Learning A-Z
Multilevel, Elementary Science Website: Science A-Z by Learning A-Z
Teacher Tools, Reading Resource Website: Reading A-Z® by Learning A-Z
Early Elementary, Math Fluency Website: Reflex® by ExploreLearning
Multilevel, Math and Science Online Simulations: Gizmos by ExploreLearning
Upper Elementary, Literacy Website: Kurzweil 3000® by Kurzweil Education

2017 CODiE Awards

In July 2017, Headsprout by Learning A-Z received a 2017 CODiE Award for Best Reading / English Language Arts Instructional Solution, representing the 6th consecutive year the Company has received at least one CODiE award. Since 1986, 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 industry.

2017 35th Annual Awards of Excellence by Tech & Learning Magazine

In November 2017, Learning A-Z was among the winners of Tech & Learning magazine’s 35th Annual Awards of Excellence for New Products for its Raz-Kids product. 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.

2018 Teachers’ Choice Awards for the Classroom

In early 2018, Learning A-Z was among the winners of Learning magazine’s annual Teachers’ Choice Awards for the Classroom for its Raz-Kids product. For 24 years, the Teachers’ Choice Awards for the Classroom has spotlighted the very best in classroom-tested, teacher-recommended products.

Segment and Product Information

We have three reportable segments with separate management teams and infrastructures that offer various products and services: Learning A-Z, ExploreLearning, and Voyager Sopris Learning. During 2017, net revenues were $75.1 million for Learning A-Z, $27.9 million for ExploreLearning, and $55.2 million for Voyager Sopris Learning. Segment results of operations 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, loss on extinguishment of debt 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. 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 literacy-focused PreK-6 educational provider of technology-enabled learning resources. Founded in 2002, Learning A-Z’s resources are now used by more than 5 million students in more than 170 countries. Learning A-Z products blend traditional teacher-led instruction with robust online resources to make teaching more effective and efficient, practice more accessible and personalized, assessment more strategic and automated, and learning more informed and proactive. With a comprehensive and blended approach, Learning A-Z delivers the tools students need without limiting a teacher’s ability to differentiate instruction as they see fit. Learning A-Z’s approach to literacy emphasizes knowledge and individual potential by recognizing that while reading and writing remain essential to attaining academic success, they are dynamic and dependent on real-world application and the incorporation of many other 21st century skills. Students today must read and write well, and they must also be able to think critically and analyze what they learn, solve problems, innovate and apply creativity, utilize advancing technology, communicate effectively orally and in writing, and collaborate with their peers. With a robust library of incredibly effective and flexible curriculum resources, Learning A-Z provides the tools teachers need to deliver personalized instruction for a wide range of student needs.

Learning A-Z Solutions

Reading A-Z includes an extensive collection of resources, including leveled books, lesson plans, and teaching materials, ideal for whole-class, small-group, and one-to-one reading instruction. Reading A-Z offers thousands of printable teacher materials to teach literacy skills. The teaching resources include: reading lessons, decodable books, reader's theater scripts, reading worksheets and assessments; leveled readers at 29 levels of difficulty; fluency passages to improve reading rate, accuracy and expression; phonological awareness and phonics lessons, flashcards, and worksheets; and vocabulary books, graphic organizers, word sorts, and other vocabulary resources. Many of the books are available in Spanish, French, and British English.

Raz-Kids makes practicing reading fun with a library of online eBooks and corresponding eQuizzes at 29 levels of difficulty that students can access at school, at home, or on the go. The program includes hundreds of eBooks and open-book eQuizzes, with new books added every month, including Spanish versions. Corresponding eQuizzes test comprehension, providing teachers with skill reports for data-driven instruction, and online running records let teachers digitally assess each student, saving valuable classroom time. The motivational Raz Rocket motivates students to read and expands learning beyond the classroom walls.

Raz-Plus combines the features of Reading A-Z and Raz-Kids for a blended learning platform that combines teacher-led whole-class and small-group instruction with technology-enabled resources for personalized reading practice.

Headsprout is a research-proven, adaptive K-5 digital reading program that supports students in learning critical foundational reading and comprehension skills in order to become capable and confident readers. What differentiates Headsprout from other online reading programs is its one-of-a-kind scaffolded instructional approach that automatically adapts so every student receives the individualized reading practice and instruction they need, including multiple levels of error correction to ensure skill mastery; embedded progress assessments to measure student comprehension; and online reporting to track individual and class-wide progress.

Science A-Z engages students in STEM curricula through a blend of science and literacy for grades K-6 that contains an extensive collection of multilevel texts, engaging lessons, and hands-on science experiments. The product provides comprehensive science units for grades K-6 across four science domains: Life, Earth and Space, Physical, and Process

Science. Each domain has a number of key units across three grade bands: K-2, 3-6, and 5-6. While intended as powerful supplement resources to augment daily science instruction, the program contains all the content needed for a core science curriculum. Science A-Z gives teachers access to a vast, easy-to-use library of resources, and engages students with experiments and activities designed to put science and engineering into practice and to expand learning opportunities.

Writing A-Z provides the differentiated materials and instruction tools K-6 educators need to teach writing in the classroom. With an extensive collection of lessons and instructional resources differentiated at five developmental levels, teachers can easily provide the lessons and activities students need to improve their writing skills. The product also delivers a set of eLearning tools students can use to practice their creative and process writing skills and submit assignments to their teacher online. Writing A-Z supports educators in teaching early emergent writers critical writing fundamentals, and more established writers the processes and skills they need to become college and career ready.

Vocabulary A-Z™ is an online resource that helps educators easily incorporate vocabulary into day-to-day instruction. The web site offers hundreds of resources and contains over 15,000 student-centric words to help make teaching vocabulary in the classroom effective, easy, and fun. Teachers can quickly create their own custom word lists with auto-generated five-day lesson plans and assessments or can choose from a collection of pre-made lists and lessons that include standards-based academic vocabulary, Dolch sight words, Marzano word lists, and high-frequency words. Lessons are designed to teach words based on context and meaning, not memorization, and support an array of subject-based units in grades K-6.

ReadyTest A-Z is an online resource that prepares students for success on high-stakes English Language Arts assessments. With the collection of teacher-led test-taking lessons and grade-appropriate practice tests, students and educators have the tools they need to develop students' close reading skills, improve testing self-confidence, strengthen test-taking stamina, and complete performance tasks, technology items, and constructed response. ReadyTest A-Z comes with a set of lessons teachers use to introduce and model skills students will need to become successful test takers, including mastery of complex literary and informational reading through the practice of analyzing text and thinking critically, reading questions closely, inferring meaning from text, and answering text-dependent questions and building arguments using evidence from the text.

ExploreLearning Segment

ExploreLearning makes online solutions that help students succeed in math and science. ExploreLearning combines research-proven instructional methods with innovative technology to create new pathways for learning. Founded in 1999, ExploreLearning solutions are now used in every U.S. state and over 50 countries worldwide. ExploreLearning offers two products that supplement core instruction in the classroom: Gizmos for grades 3-12 and Reflex for grades 2-8. Gizmos is a library of over 400 inquiry-based math and science simulations that help students make connections and draw conclusions through interaction, visualization and what-if exploration. Reflex is a highly-effective, game-based math fact fluency system that helps students of all ability levels succeed by continually adapting to students' instructional needs and providing motivational rewards for their effort.

ExploreLearning Solutions

Gizmos brings the power of inquiry—and STEM-based learning—to teachers and students in grades 3-12. Gizmos helps teachers take advantage of research-proven instructional strategies and enables students of all ability levels to develop conceptual understanding in math and science. With more than 400 Gizmos at their disposal, teachers can supplement and enhance instruction with interactive visualizations of mathematics and science concepts. Students can manipulate key variables, generate and test hypotheses, and engage in extensive "what-if" experimentation. Gizmos are designed to promote exploration, experimentation, and discovery in math and science. Unlike other products, most Gizmos are open-ended, which means students are free to manipulate variables, run experiments, and look for patterns. The lesson materials provided with Gizmos are customizable and follow a "structured inquiry" approach, with the goal of allowing students to figure out relationships on their own—students become active learners rather than passive recipients of information.

Reflex is an adaptive online solution that helps students in grades 2-8 develop math fact fluency—the quick and effortless (automatic) recall of basic math facts. By enabling students to effortlessly and quickly recall math facts, students free up working memory, enabling them to tackle more complex problems. Traditional methods of teaching math fact fluency, such as worksheets and flash cards, are not effective for many students because these methods are not individualized. They do not adapt to what students know and do not create a customized approach for every child—not to mention, worksheets and flashcards are not motivating and can reduce math to drudgery. Reflex efficiently moves students to fluency by continuously engaging, adapting, and individualizing instruction, thereby creating an optimal experience for every student. The program also provides educators with intuitive and powerful reporting that helps them effectively monitor and support student progress. For students, Reflex utilizes engaging, fast-paced games and rewards them for effort and progress, creating a compelling, motivational environment to support student achievement.

Voyager Sopris Learning Segment

Voyager Sopris Learning is a leading provider of technology, materials, and professional development for educators to ensure all students graduate prepared for college, career, and satisfaction in life after K-12. It has built a nearly 40-year legacy on research and data-based curriculum development, while remaining nimble and responsive to the shifts and changes required by new standards, more demanding and rigorous content, new and competitive technological capabilities, and the needs of educators today. On a daily basis, Voyager Sopris Learning listens to the challenges of teachers and students, and its products are designed to respond to the need for exciting intervention and supplemental curricula that engage students, while remaining

100% purpose-and data-driven in their delivery. Voyager Sopris Learning programs are steeped in research and evidence, but they are also built with a deep consideration and understanding of the realities and struggles of education today. The Voyager Sopris Learning segment also includes Kurzweil Education brand solutions, which are now fully integrated within the Voyager Sopris Learning management structure.

Voyager Sopris Learning Solutions

LANGUAGE! Live, authored by renowned literacy expert Louisa Moats, Ed.D., is a comprehensive literacy solution that combines teacher-directed learning with personalized interactive instruction in an online social environment. In light of the more rigorous standards and assessments, the ultimate goal of LANGUAGE! Live is to quickly advance grades 5-12 students to grade-level performance in literacy. It was designed with a carefully scaffolded learning progression intended to meet the high expectations of state standards. Engaging student-directed technology drives instruction and builds foundational skills, while teacher-directed learning hones in on more advanced literacy skills. LANGUAGE! Live takes the best of more than two decades of research and instructional program development to the next level with cutting-edge, next generation online peer collaboration, gamification, and social media.

Language Essentials for Teachers of Reading and Spelling (LETRS®), authored also by Louisa Moats, Ed.D., is the expertly designed professional development solution for educators who are responsible for teaching and improving PreK-12 instruction in reading, writing, and spelling. Beyond the routines and lesson plans of adopted reading programs, it is important that educators understand the language structures they are teaching, how students learn to read and write, and the reasons some children struggle. LETRS gives teachers this knowledge while addressing each component of reading instruction-phonemic awareness, phonics and word study, oral language, vocabulary, reading fluency and automaticity, comprehension, assessment, and writing. Through LETRS, teachers and reading coaches gain a deeper understanding of language structure and how to help struggling readers. LETRS and the national cadre of expert trainers, all of whom were once educators, help teachers apply best practice in teaching reading in the classroom every day. The LETRS family of products includes Principal’s Primer for Increasing Reading Achievement.

Step Up to Writing®, authored by writing instructional expert Maureen Auman, M.A., is a highly flexible writing program that provides research-based, hands-on, multisensory writing strategies and writing activities that help students become proficient in the areas of informative/explanatory; narrative and personal narrative; and opinion/argument writing. These strategies foster development of critical thinking, reading comprehension, and listening and speaking skills. Step Up to Writing helps establish writing as a process rather than as an end product. Its current edition has been remastered to meet the rigor of the college and career readiness standards, while maintaining the same evidence-proven explicit instruction and workshop approach that has engaged diverse groups of students and improved their writing skills for years. Every Step Up to Writing strategy is built to support specific standards in the areas of writing, language, reading, and speaking and listening.

TransMath®, authored by mathematics expert John Woodward, Ph.D., is a comprehensive, skill-based mathematics intervention program developed specifically for students in grades 5-10 who are two or more years behind in math on standardized grade level tests and lack the necessary skills for successful entry into algebra. The program is an intensive support for the remediation and acceleration of middle and high school students, including students in special education, who are experiencing academic difficulties in the area of math. TransMath’s explicit and systematic instruction addresses students’ gaps in procedural fluency, conceptual understanding, strategic competence, adaptive reasoning, and productive disposition. TransMath’s integrated technology and engaging visual representations support differentiated learning needs.

Vmath®, is a targeted math intervention program for struggling students in grades 2-8 that provides additional opportunities to master critical math concepts and skills. Vmath is specifically designed to reinforce grade-level expectations. Through a balanced, systematic approach, Vmath creates successful learning experiences for students and develops confident, independent learners of mathematics. The Vmath family of products also includes Vmath Summer Adventure, a 2-8 summer school program that shores up summer learning loss in math and VmathLive®, a K-8 motivational online program that provides purposeful math practice.

Velocity™ is a K-5 supplemental literacy intervention and the next generation in adaptive instruction-transforming the classroom and empowering both students and teachers like no other program. Each Velocity student embarks on a learning path that is unique to his or her skills and abilities, meaning no two students will have the same experience. Velocity functions as an extension of the teacher’s presence in the classroom—by continually monitoring each student’s understanding of skills, instantly adjusting lessons to make them more effective for each individual, and then providing actionable insights to the teacher in order to make the most of instructional time.

Kurzweil 3000 is a reading, writing, and learning software for an array of students who struggle. Widely recognized as one of the most comprehensive and integrated solutions for addressing language and literacy difficulties, Kurzweil 3000 embraces and supports the concept of Universal Design for Learning (UDL) by making print and electronic material available to a broad spectrum of students. Kurzweil 3000 uses a multisensory approach—presenting print or electronic text on the computer screen with added visual and auditory accessibility. It incorporates a host of dynamic features (including powerful decoding, study skills, and test taking tools) designed to support each individual's learning style and promote active learning. For students who have difficulty physically accessing curriculum materials, it provides a digital means of engaging with text and supports students who use alternative methods for accessing the computer. Kurzweil 3000 allows students with disabilities to access the regular education curriculum, and the software's versatility allows school districts to meet a variety of students' learning needs using just one program—regardless of the grade level or curriculum area.

Other significant Voyager Sopris Learning solutions include the following: DIBELS Next®, a K-6 valid and reliable reading screener that predicts student reading success; Read Well®, a K-3 literacy program that focuses on readability to teach fundamental literacy skills; REWARDS®, a 3-12 supplemental program that provides strategies for reading multisyllabic words; TimeWarp Plus®, a K-8 extended-day and/or summer school program that supplements reading instruction; and LANGUAGE!® The Comprehensive Literacy Curriculum, an intensive intervention for students in grades 4-12 who are substantially below grade-level expectations for literacy.

Industry Information

The majority of our sales are to public school districts in the United States, although we also sell both domestically and internationally to other types of customers, including private and charter schools, teachers, home school and parent consumers, and other companies that bundle our products with their offerings. Our public school district customers are largely dependent on federal, state, and local funding to purchase our products. While estimates on the total size of the market vary, recent industry reports estimate that the amount that is spent in the United States on instructional materials and services is approximately $8.6 billion, with digital sales now capturing more than half of this amount.

The K-12 education market has been impacted by the adoption of rigorous state standards designed to ensure students obtain the skills and knowledge in their K-12 education careers to graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. Almost all states have moved toward more rigorous standards, adopting either their own state-specific standards or the Common Core State Standards which were designed to establish a single set of clear educational standards throughout the country for grades K-12. We believe schools and districts will augment and replace instructional materials to align to the new standards and to prepare students for assessments measuring progress against the new rigorous standards.

Additionally, a growing market acceptance of and demand for technology-based educational content and delivery is driving a substantial shift in the education market. Schools and districts are demanding more effective solutions, and technology solutions have the potential to increase effectiveness by individualizing and differentiating instruction.

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; 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. We believe that with more attention to student progress, increased analysis of U.S. student outcomes versus other countries, and movement to adopt more rigorous standards, such as the Common Core State Standards, the number of children deemed to need differentiated products for unique student needs is likely to increase.

We believe our strategic plans are aligned to these market trends.

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 by segment.

- Learning A-Z competitors include Curriculum Associates' i-Ready, Francisco Partners' myON, and Renaissance's Accelerated Reader.
- ExploreLearning competitors include Scholastic's FASTT Math, Penda Learning, and PhET.
- Voyager Sopris Learning competitors include traditional and supplemental curriculum suppliers, including Houghton Mifflin Harcourt, Pearson, McGraw-Hill Education, Curriculum Associates, and Lexia, with the Kurzweil Education product lines competing against suppliers such as Don Johnston and TextHelp's Read+Write.

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Seasonality

Our quarterly operating results fluctuate due to a number of factors, including the academic school year, school procurement policies, funding cycles, new products and the amount and timing of spending 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, since school districts complete most of their purchases around the start of a new school year.

Product Development, Marketing, and Sales

We are strategically focused on ensuring that our product offerings are the most effective at helping students reach their full potential, and that our sales and marketing forces can effectively and efficiently deliver our educational solutions. Each segment has its own development, marketing, and sales 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. Product development expenditures may be incurred to incorporate the latest research or pedagogy, bring images current, or update factual content, or to develop variations, expansions (e.g., more grade levels) or other enhancements of our products. We are focusing our development efforts on technology-enabled subscription solutions and expect sales of our purely print-based products to continue to decline. Our online subscription products are enhanced continuously.

Changing educational standards also provide opportunities to meet new market needs. The continued 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 $13.7 million and $12.9 million for the years ended December 31, 2017 and 2016, 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 by segment in 2017:

- Learning A-Z – $7.6 million
- ExploreLearning – $3.0 million
- Voyager Sopris Learning – $4.8 million

Sales and Marketing

Our sales force includes both field sales producers, who generally cover districts with larger student enrollment, 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. All of our segments, and Learning A-Z in particular, are increasingly making use of e-commerce and the Internet to sell our products. We have and will continue to participate in state adoptions and requests for proposals when our products meet the needs of these procurement initiatives. As of December 31, 2017, our total combined company sales force employees consisted of 65 field and 73 inside sales representatives for a total of 138 direct sales producers, excluding sales management and marketing. We often use resellers for international sales and also use a small number of independent sales representatives. Sales and marketing expense was $49.5 million and $47.2 million for the years ended December 31, 2017 and 2016, 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, 2017, 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 7% of our total net revenues in 2017.

Governmental Regulations

Our operations are governed by laws and regulations relating to privacy and data protection for education and student information, 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

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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.

Management Team

John Campbell. John Campbell, age 57, 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). Mr. Campbell has also served on the Education Board for the Software Information Industry Association (SIIA).

Barbara Benson. Barbara Benson, age 47, 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.

Aaron Ingold. Aaron Ingold, age 44, is the President of Voyager Sopris Learning, where he leads the segment’s efforts to provide technology, materials, and professional development for educators to ensure all students graduate prepared for college, career, and satisfaction in life after K-12. Prior to his promotion to President, Mr. Ingold served as Senior Vice President of Sales of Voyager Sopris Learning. Mr. Ingold brings a wealth of experience in education technology sales, having served as a Field Executive with ProQuest Information and Learning, as the Western Regional Manager for ExploreLearning, and the National Sales Director for Kurzweil Education.

Paul Fonte. Paul Fonte, age 49, has served as Chief Technology Officer of Cambium Learning Group since 2013. Mr. Fonte previously served as the Vice President of Technology for Cambium Learning Technologies since December 2009. Mr. Fonte joined the Company in 2003 as Senior Project Lead and was promoted to a number of positions within the Company, including the Director of Technology where he served until December 2009. Mr. Fonte has over 25 years of professional experience developing and delivering software at all levels.

Patrick Marcotte. Patrick Marcotte, age 34, is the President of Learning A-Z. Mr. Marcotte joined Learning A-Z in 2013 and prior to his promotion to President, he held positions including Vice President of Research and Development and Senior Director of Implementation where he helped establish the professional services approach Learning A-Z relies on today. He began his tenure with Learning A-Z as part of the Headsprout acquisition, and during that time, he led action research and pilot implementations in several of the largest school districts in the United States.

Scott McWhorter. Scott McWhorter, age 33, has served as General Counsel of Cambium Learning Group since 2015. Mr. McWhorter joined the Company in 2014 and holds a Juris Doctor from Southern Methodist University Dedman School of Law. Prior to his tenure at the Company, Mr. McWhorter served in the legal departments of SoftLayer, Inc. and the Office of the Texas Attorney General.

David Shuster. David Shuster, age 51, is the Founder and President of ExploreLearning. Mr. Shuster is a former classroom educator and is intimately involved in the design and development of ExploreLearning’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.

Employees

As of December 31, 2017, we had a total of 649 employees, including 600 full-time, 18 regularly scheduled part-time employees, and 31 need-based 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 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 curricula 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 and all amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). These filings may also be examined, and copies may be obtained, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the public reference room by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public on the SEC’s Internet site at www.sec.gov. 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.

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 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, 2017.

Risks Related to our Business

Changes in funding or budget priorities at 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 educational 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 and limit our ability to forecast the timing of sales.
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 limit our ability to forecast the timing of sales or cause us to modify our sales strategy or 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 as a result of school procurement patterns. 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.

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 in a timely manner, 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 our technology-enabled 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.

Furthermore, destruction or disruption of data center sites could cause a system-wide failure. Claims for damages as a result of system failures could exceed the coverage of the property insurance we maintain on these premises. 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,

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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 are currently in flux and are 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 online offerings, the Family Educational Rights and Privacy Act (FERPA), which imposes parental or student consent requirements for specified disclosures of student information to third parties, and California's Student Online Personal Information Protection Act (SOPIPA), which protects student data from being used in certain non-educational contexts.

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.

The inventory and fulfillment operations for our Voyager Sopris Learning segment are outsourced to a third-party warehouse 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 the outsource provider 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. The loss of customers could have a long-term, detrimental impact on our reputation and business.

Weather risks or natural disasters could disrupt our operations or could impact our customers which might negatively impact the timing or completion of sales.

Weather disruptions due to snowstorms, hurricanes, tornadoes, floods or fires, or other natural disasters, could disrupt our operations or adversely impact school districts in the United States or other domestic or international customers. If our customers are adversely affected by such events, this could result in reduced demand for our products and solutions during the event, impacting the timing of sales, or could impact the completion of sales.

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

If customer acceptance of our products is negatively impacted by changing educational standards, or if we fail to adapt and respond effectively to changing educational standards or market needs or preferences, our sales could decline or we may be required to expend more on investments in product development than planned.

Our international business exposes us to risks.

Our growth strategy includes expansion of sales outside of the United States, primarily through resellers and other third parties. For the year ended December 31, 2017, 9% of our revenue was derived from outside the United States. Our international sales involve a variety of risks, including potentially more stringent regulations related to data security and data privacy; potential technical challenges in delivering our educational products; limited or insufficient intellectual property protection; potential or actual violations of domestic and international anticorruption laws, such as the U.S. Foreign Corrupt Practices Act, and dependence on third parties with whom we may not have much historical experience.

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.

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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 is limited by covenants of the existing Credit Agreement (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 our common stock 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 Veronis Suhler Stevenson (“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)(2) and (c)(2). 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.

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 debt outstanding and will have the obligation to make scheduled principal and interest payments.
On December 10, 2015, we entered into a $135.0 million Senior Secured Credit Agreement (the "Credit Agreement") which provided for a term loan A which had an initial principal amount of $70.0 million ("Term Loan A"), a term loan B which had an initial principal amount of $35.0 million ("Term Loan B") and a $30.0 million revolving credit facility (the "Revolving Credit Facility") (together, the "Senior Secured Credit Facility"), secured by a lien on substantially all of our assets. The Senior Secured Credit Facility matures on December 10, 2020.
As of December 31, 2017, we have outstanding $48.5 million aggregate principal amount under our Credit Agreement, which requires scheduled quarterly principal payments, with the balance due at maturity. We may also be required to make an annual repayment based on an excess cash flow requirement, and may be subject to certain other prepayment requirements.
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. 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.

Our debt agreements contain restrictions that may limit our flexibility in operating our business.
The Credit Agreement contains a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to engage in acts that may be in our best interest, including restrictions on our and our subsidiaries' ability to:

- incur or guarantee additional indebtedness;
- pay cash dividends and make other restricted payments;
- create or incur certain liens;
- make certain investments, loans or advances;
- transfer or sell assets;
- engage in certain transactions with affiliates;
- make acquisitions that total more than $30.0 million in the aggregate or $10.0 million individually; or
- enter into an agreement that represents a change in control.

Additionally, our Credit Agreement requires us to satisfy specified financial covenants, including a maximum total net leverage ratio and a minimum fixed charge coverage ratio, both as defined in the Credit Agreement. Our ability to meet those financial covenants can be affected by events beyond our control, and we may not be able to continue to meet those covenants.

A breach of the restrictive covenants or the financial covenants or the occurrence of other events specified in the Credit Agreement could result in an event of default under the Credit Agreement. Such a default, if not cured or waived, may allow the lender to accelerate the repayment of the debt and we may not have sufficient assets to make such repayments. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets as collateral under the Credit Agreement.

Our ability to use net operating loss ("NOL") carryforwards to reduce future tax payments could be negatively impacted if there is an "ownership change" as defined under Section 382 of the Internal Revenue Code.

If the Company experiences an ownership change, as determined under Section 382 of the Internal Revenue Code ("Section 382") it could adversely impact the Company's ability to utilize net operating loss carryforwards (NOLs) and other tax assets, which can be used to offset tax liabilities. The inability to utilize the NOLs would significantly increase the Company's cash tax burden, and could result in the NOLs expiring prior to their use.

In September 2016, the Company entered into a Tax Asset Protection Rights Agreement (the "Rights Agreement"), between the Company and Wells Fargo Bank, National Association, as Rights Agent. The Rights Agreement is designed to preserve our substantial NOLs and other significant tax benefits which may be available to reduce potential future tax liabilities. The Rights Agreement is not intended to be an antitakeover measure or to deter offers that are fair and otherwise in the best interests of our stockholders.

Item 1B. Unresolved Staff Comments.

This item is not required for a smaller reporting company.

Item 2. Properties.

We lease office facilities at the following locations: Dallas, Texas, which serves as our corporate headquarters and as the primary location for our Voyager Sopris Learning segment; Tucson, Arizona, which serves as the primary location for our Learning A-Z segment; Charlottesville, Virginia, which serves as the primary location for our ExploreLearning segment; Ann Arbor, Michigan, which serves employees from a variety of segments; Longmont, Colorado, which serves a small number of Shared Services and Voyager Sopris Learning employees; and Athens, Georgia, which serves a small number of ExploreLearning employees. At December 31, 2017, our leased properties consisted of 124,494 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 business.

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, 2017 and 2016.

	Year Ended December 31,			
	2017		2016	
Fiscal Quarter	High	Low	High	Low
First	$5.45	$4.55	$5.06	$3.43
Second	$5.40	$4.67	$4.83	$3.96
Third	$6.87	$4.73	$5.86	$4.43
Fourth	$7.30	$5.19	$5.55	$4.25

As of February 28, 2018, there were 425 holders of record of our common stock.

Dividends

We have not declared or paid any cash dividends to our stockholders, nor do we expect to pay dividends in the foreseeable future. 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 cash dividends is limited by covenants of the existing Credit Agreement described in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

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, 2017.
Organization of Information
Management's Discussion and Analysis of Financial Condition and Results of Operations includes the following sections:
- Form of Organization and Segments
- Long-Term Strategy
- Results of Operations
- Liquidity and Capital Resources
- Summary of Cash Flows
- Commitments and Contractual Obligations
- Non-GAAP Measures
- Off-Balance Sheet Arrangements
- Critical Accounting Policies and Estimates
- Recently Issued Financial Accounting Standards

Form of Organization and Segments
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.
The Company operates in three reportable segments with separate management teams and infrastructures that offer various products and services. 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, loss on extinguishment of debt 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.
Long-Term Strategy
We believe we have a tremendous opportunity to continue to transform our business model through continued strong execution of our development, marketing, and sales plans. We will continue 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 solutions were 79% of our 2017 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 are:
- 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 adaptable and individualized solutions for students throughout the United States and worldwide.
- Continue to invest in innovative education technology solutions. 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 believe that leveraging technology will help us better serve teachers and students, and that school

districts will continue to shift more spending to technology products.

- Nurture relationships with customers. 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 students who use our products.

We may also enhance our organic growth through opportunistic acquisitions that leverage the strength of our existing brands or that include technology solutions with adaptive features.

Results of Operations

During 2017, consolidated Bookings increased 2% to $164.4 million, compared to $161.8 million in 2016. Bookings by segment for the year ended December 31, 2017 and the percentage change from 2016 by segment were as follows:

- Learning A-Z: $80.8 million, increased 10% in the year, continuing its historical growth performance.
- ExploreLearning: $31.0 million, increased 19%, with double-digit growth for both the Reflex math product and the Gizmos math and science simulations.
- Voyager Sopris Learning: $52.6 million, decreased 16%, primarily due to a decline in the segment’s legacy print and transactional solutions, which are not the strategic focus of the segment, and were 21% lower than prior year. Bookings for the segment’s technology-enabled solutions declined 3%, falling short of Company expectations for growth this year with slow traction for the new Velocity solution combined with an expected decline in many of the older technology offerings. LANGUAGE! Live, the segment’s digital flagship solution for technology-enabled adolescent intervention, had strong growth of 20% during the year.

We continue to execute our strategy to shift resources to subscription and technology-enabled products. For the year ended December 31, 2017, Bookings for technology-enabled products represented approximately 79% of Bookings compared to 73% in 2016. 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 via a digital platform. For the Voyager Sopris Learning segment, several products classified as technology-enabled include supplemental print materials.

During 2017, in response to the lower-than-expected performance at the Voyager Sopris Learning segment, we completed restructuring activities to reduce our cost structure. Restructuring costs totaled $1.4 million, and were recorded as follows: cost of revenues of $0.3 million, research and development expense of $0.5 million, sales and marketing expense of $0.2 million, and general and administrative expense of $0.4 million. The restructuring costs primarily represent severance charges, and are excluded from our non-GAAP Adjusted EBITDA and Cash Income measures. The 2017 restructuring activities are expected to result in approximately $3.5 million of annualized savings at the Voyager Sopris Learning segment. A leaner cost base and a flatter management structure will provide this segment with flexibility, allowing Voyager Sopris Learning time to complete its transformation as it generates profits from declining legacy products while gaining traction on the fewer, more impactful educational solutions that are expected to drive top-line growth and margin expansion over time.

In 2016, in a separate restructuring event, Voyager Sopris Learning incurred severance costs of $1.1 million. These restructuring costs are excluded from our non-GAAP Adjusted EBITDA and Cash Income measures. The Voyager Sopris Learning restructuring costs were recorded as follows: cost of revenues of $0.4 million, research and development expense of $0.5 million, sales and marketing expense of $0.2 million, and general and administrative expense of $45 thousand.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

(in thousands)	Year Ended December 31, 2017 Amount	% of Revenues	Year Ended December 31, 2016 Amount	% of Revenues	Year Over Year Change Favorable/(Unfavorable) $	%
Net revenues:						
Product revenues						
Learning A-Z	$75,148	47.5 %	$66,049	43.4 %	$9,099	13.8 %
ExploreLearning	27,857	17.6 %	23,739	15.6 %	4,118	17.3 %
Voyager Sopris Learning	52,339	33.1 %	58,770	38.6 %	(6,431)	(10.9)%
Service revenues						
Voyager Sopris Learning	2,840	1.8 %	3,800	2.5 %	(960)	(25.3)%
Total net revenues	158,184	100.0 %	152,358	100.0 %	5,826	3.8 %
Cost of revenues:						
Cost of product revenues						
Learning A-Z	3,641	2.3 %	2,576	1.7 %	(1,065)	(41.3)%
ExploreLearning	3,741	2.4 %	3,606	2.4 %	(135)	(3.7)%
Voyager Sopris Learning	18,572	11.7 %	21,579	14.2 %	3,007	13.9 %
Cost of service revenues						
Voyager Sopris Learning	1,612	1.0 %	2,361	1.5 %	749	31.7 %
Amortization expense	17,968	11.4 %	18,142	11.9 %	174	1.0 %
Total cost of revenues	45,534	28.8 %	48,264	31.7 %	2,730	5.7 %
Research and development expense	13,651	8.6 %	12,865	8.4 %	(786)	(6.1)%
Sales and marketing expense	49,470	31.3 %	47,238	31.0 %	(2,232)	(4.7)%
General and administrative expense	20,620	13.0 %	21,062	13.8 %	442	2.1 %
Shipping and handling costs	825	0.5 %	912	0.6 %	87	9.5 %
Depreciation and amortization expense	2,797	1.8 %	3,406	2.2 %	609	17.9 %
Goodwill impairment	4,325	2.7 %	—	0.0 %	(4,325)	(100.0)%
Income before interest, other expense and income taxes	20,962	13.3 %	18,611	12.2 %	2,351	12.6 %
Net interest expense	(4,845)	(3.1 %)	(7,190)	(4.7)%	2,345	32.6 %
Loss on extinguishment of debt	(360)	(0.2 %)	(698)	(0.5)%	338	48.4 %
Income tax benefit (expense)	29,298	18.5 %	(293)	(0.2)%	29,591	10,099.3 %
Net income	$45,055	28.5 %	$10,430	6.8 %	$34,625	332.0 %

Net revenues

Net revenues for the year ended December 31, 2017 increased $5.8 million, or 3.8%, to $158.2 million from $152.4 million in the same period of 2016. Bookings increased 1.6% compared to 2016. Increased net revenues in Learning A-Z and ExploreLearning were partially offset by lower net revenues in Voyager Sopris Learning. Net revenues by segment were as follows:

- Learning A-Z's net revenues increased $9.1 million, or 13.8%, to $75.1 million in the year ended December 31, 2017 compared to the same period of 2016. Revenue growth outpaced Bookings growth during the year due to the recognition of prior period Bookings, which are recognized pro-rata over the applicable subscription periods.
- ExploreLearning's net revenues increased $4.1 million, or 17.3%, to $27.9 million in the year ended December 31, 2017 compared to the same period of 2016. The increase in net revenues is a lower percentage than the increase in Bookings due to the timing of the subscription revenues pro-rata over the applicable subscription periods.
- Voyager Sopris Learning's net revenues decreased $7.4 million, or 11.8%, to $55.2 million in the year ended December 31, 2017 compared to the same period of 2016 as a result of Voyager Sopris Learning's Bookings decline.

The decline was less than the Bookings decline of 15.8% due to the recognition of prior period Bookings for technology deliverables, which are recognized pro rata over the applicable subscription periods. Service revenues are primarily related to the delivery of LETRS professional development training.

Cost of revenues primarily include print and royalty costs, and expenses to purchase, handle and warehouse product, and to provide services and support to customers. Total cost of revenues, excluding amortization, decreased $2.6 million, or 8.5%, to $27.6 million in the year ended December 31, 2017 compared to the same period of 2016. Cost of revenues benefited year-over-year from the cost right-sizing activities at Voyager Sopris Learning, as well as the increasing contribution from higher-margin technology-enabled solutions. The Learning A-Z and ExploreLearning segments, which are delivered on-line and have no royalty costs, comprised 65.1% of net revenues in 2017 compared to 58.9% of net revenues in 2016. Cost of revenues by segment were as follows:

- Learning A-Z's cost of revenues increased $1.1 million, or 41.3%, to $3.6 million in the year ended December 31, 2017 compared to the same period of 2016. The increased costs were due to the higher volume of subscriptions as well as increased customer support initiatives.
- ExploreLearning's cost of revenues increased $0.1 million, or 3.7%, to $3.7 million in the year ended December 31, 2017 compared to the same period of 2016. The increased costs were related to implementation and training due to the segment's increased level of customer support commensurate with Bookings growth.
- Voyager Sopris Learning's cost of revenues decreased $3.8 million, or 15.7%, to $20.2 million in the year ended December 31, 2017 compared to the same period of 2016. This year-over-year decline was driven by lower net revenues and the cost right-sizing activities completed in 2016. Voyager Sopris Learning's cost of revenues included restructuring costs of $0.3 million in 2017 and $0.4 million in 2016. Cost of service revenues are primarily related to the delivery of LETRS professional development training.

Amortization expense in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and developed pre-publication and technology product development. Amortization decreased $0.2 million to $18.0 million in 2017 compared to $18.1 million for same period of 2016. The change was due to decreased amortization of acquired publishing rights and curriculum of $1.2 million, partially offset by increased amortization of developed pre-publication and technology product development of $1.0 million.

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 $0.8 million, or 6.1%, to $13.7 million for the year ended December 31, 2017 compared to the same period of 2016. The increase is due to planned investments to support growth initiatives at Learning A-Z and ExploreLearning which were partially offset by decreases at Voyager Sopris Learning. Research and development expense included restructuring costs of $0.5 million in 2017 and 2016.

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 for the year ended December 31, 2017 increased $2.2 million to $49.5 million, or 4.7%, compared to $47.2 million for the same period in 2016. The increase is due to planned investments to support growth initiatives at Learning A-Z and ExploreLearning, partially offset by decreases in Voyager Sopris Learning. Sales and marketing expense included restructuring costs of $0.2 million in 2017 and 2016.

General and administrative expense

General and administrative expense decreased $0.4 million, or 2.1%, to $20.6 million for the year ended December 31, 2017 compared to the same period of 2016. Prior year general and administrative expense was impacted by a $0.5 million write-off to bad debt expense of accounts receivable related to a large international reseller for Learning A-Z. General and administrative expense included restructuring costs of $0.4 million in 2017 and $45 thousand in 2016. General and administrative expenses represented 13.0% of net revenues in 2017 compared to 13.8% of net revenues in 2016.

Shipping and handling costs

Shipping costs decreased $0.1 million, or 9.5%, to $0.8 million for the year ended December 31, 2017 compared to the same period of 2016. Shipping and handling costs were 0.5% of net revenues for the year ended December 31, 2017, down slightly from the 0.6% of net revenues for 2016 due to the higher mix of technology solutions.

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Depreciation and amortization expense

Depreciation and amortization expense decreased $0.6 million, or 17.9%, to $2.8 million for the year ended December 31, 2017 compared to the same period of 2016. The decrease is due to a decrease in amortization of acquired trade names and customer lists.

Goodwill impairment

Goodwill impairment expense for the year ended December 31, 2017 was $4.3 million and was related to the Company's Kurzweil Education reporting unit within the Voyager Sopris Learning segment.

Net interest expense

Net interest expense decreased $2.3 million, or 32.6%, to $4.8 million for the year ended December 31, 2017 compared to the same period of 2016 as a result of the scheduled debt amortization payments and voluntary prepayments made during 2017 and 2016.

Loss on extinguishment of debt

During the year ended December 31, 2017, we made voluntary prepayments of $20.6 million aggregate principal amount of our Senior Secured Credit Facility (defined below). This extinguishment resulted in a loss of $0.4 million, due to the write-off of unamortized deferred financing costs and debt discount. During the year ended December 31, 2016, we made voluntary prepayments of $25.0 million aggregate principal amount of our Senior Secured Credit Facility. This extinguishment resulted in a loss of $0.7 million due to the write-off of unamortized deferred financing costs and debt discount.

Income tax benefit (expense)

We recorded an income tax benefit of $29.3 million in 2017 and income tax expense of $0.3 million in 2016. During 2017, we reduced the valuation allowance against most of our deferred tax assets and remeasured our deferred tax assets at the newly-enacted corporate tax rate. The significant change in tax benefit (expense) from 2016 to 2017 is predominantly a result of the reduction in the valuation allowance offset by the remeasurement of the deferred tax assets. Tax expense in 2016 was primarily attributable to state income taxes.

Liquidity and Capital Resources

Our primary sources of liquidity are cash balances, cash flow from operations and the Revolving Credit Facility (defined below) that we entered into in December 2015. Sales seasonality attributable to the buying cycle of school districts, which generally starts at the beginning of each new school year in the fall, affects our operating cash flow. As a result of this inherent seasonality, we normally incur a net cash deficit from all of our activities in the first and second quarters of the year and we normally generate cash in the third and fourth quarters of the year. We expect borrowings under the Revolving Credit Facility to vary according to this seasonality, and accounts receivable balances are normally at their highest at the end of the third quarter. Our cash balances at December 31, 2017 were $8.5 million, our net accounts receivable were $12.9 million, we had no outstanding borrowings under the Revolving Credit Facility and we had $29.8 million of availability under the Revolving Credit Facility.

Based on current and anticipated levels of operating performance and cash flow from operations, combined with our existing cash balances and availability under the Revolving Credit Facility, we believe that we will be able to make required principal and interest payments on our debt and fund our working capital, operational and capital expenditure requirements for the next 12 months.

Scheduled annual principal payments on our credit facility are $5.7 million in 2018. We expect 2018 capital expenditures for product development and general capital expenditures to be approximately in-line with 2017 capital expenditures of $18.2 million. General capital expenditures represent expenditures that benefit the entire Company such as back-office systems, servers and computer equipment, or office furniture. In addition to funding operations, capital expenditures, and required debt interest and principal payments, we may elect to use future cash flow for acquisition opportunities, strategic initiatives or to make voluntary early prepayments of debt.

Long-term debt

Senior Secured Credit Facility

On December 10, 2015, we entered into a $135.0 million Senior Secured Credit Agreement (the “Credit Agreement”) which provided for a term loan A which had an initial principal amount of $70.0 million (“Term Loan A”), a term loan B which had an initial principal amount of $35.0 million (“Term Loan B”) and a $30.0 million revolving credit facility (the “Revolving Credit Facility”) (together, the “Senior Secured Credit Facility”), secured by a lien on substantially all of our assets. The Senior Secured Credit Facility matures on December 10, 2020. In 2017, we repaid the entire principal amount outstanding of the Term Loan B.

Borrowings under the Senior Secured Credit Facility bear interest equal to either a Base Rate, as defined in the Credit Agreement, or the London Interbank Offered Rate (“LIBOR”) (subject to a 1.0% floor), at our option, plus an applicable margin. The applicable margin for the Term Loan A and Revolving Credit Facility ranges between 2.75% and 3.50% for Base Rate loans and 3.75% and 4.50% for LIBOR loans. The applicable margin for the Term Loan A and Revolving Credit Facility is based on a leverage calculation. As of December 31, 2017, we qualified for the lowest applicable margin, and the interest rate for the Term Loan A was 5.44%. Additionally, unused borrowing capacity under the Revolving Credit Facility is subject to a commitment fee of 0.5%. Interest is payable in arrears every three months or less, based on the selected LIBOR interest period.

The Credit Agreement contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments and dispositions, and limitations on fundamental changes. A maximum consolidated net leverage ratio and minimum fixed charge coverage ratio were effective beginning in the first quarter of 2016. Upon an event of default, and after any applicable cure period, the Administrative Agent could elect to accelerate the maturity of the loan. Events of default include customary items, such as failure to pay principal and interest in a timely manner and breach of covenants. At December 31, 2017, the Company was in compliance with all covenants related to the Senior Secured Credit Facility.

The principal balances of the Senior Secured Credit Facility were issued at a discount, representing fees paid to lenders, of $1.9 million, which will be amortized over the life of the debt using the effective interest rate method. Unamortized discount at December 31, 2017 was $0.4 million.

During the year ended December 31, 2017, the Company made voluntary prepayments of $20.6 million aggregate principal amount of our Senior Secured Credit Facility. This extinguishment resulted in a loss of $0.4 million, due to the write-off of unamortized deferred financing costs and debt discount. During the year ended December 31, 2016, we made voluntary prepayments of $25.0 million aggregate principal amount of our Senior Secured Credit Facility. This extinguishment resulted in a loss of $0.7 million due to the write-off of unamortized deferred financing costs and debt discount.

The Term Loan A requires scheduled quarterly principal payments with the balance due at maturity. We are subject to certain prepayment requirements, including an Excess Cash Flow Payment, as defined in the Credit Agreement. The Company expects to make an Excess Cash Flow Payment of $0.3 million in 2018. The scheduled annual minimum principal payments, excluding any potential Excess Cash Flow Payments, are as follows:

(in thousands)	Future Payments
2018	$ 5,706
2019	7,132
2020	35,662
2021	—
2022	—
	$ 48,500

Summary of Cash Flows
Cash provided by (used in) our operating, investing and financing activities is summarized below:

	Year Ended December 31,	
(in thousands)	2017	2016
Operating activities	$49,203	$44,479
Investing activities	(19,204)	(20,054)
Financing activities	(26,436)	(28,140)

Operating activities. Cash provided by operating activities was $49.2 million and $44.5 million for the years ended December 31, 2017 and 2016, respectively. The increase in cash provided by operations is due to the improved operational results, combined with improvements in cash usage during 2017, including incentive compensation payments that were $1.3 million lower than prior year, the return of $1.0 million of cash from certificate of deposit and bond collateral during the year ended December 31, 2017, and cash interest payments that were $2.2 million lower than the prior year.

Investing activities. Cash used in investing activities was $19.2 million and $20.1 million for the years ended December 31, 2017 and 2016, respectively. Capital expenditures were $18.2 million in 2017, a decrease of $1.9 million from the $20.1 million of capital expenditures in 2016, driven by lower spend at Voyager Sopris Learning which had higher 2016 expenditures due to the work on the Velocity product.

In November 2017, the Company's ExploreLearning segment acquired Athens, Georgia-based startup IS3D, LLC, developers of Cogent Education™ Interactive Cases™ – dynamic online experiences that put students in the role of a science, technology, engineering and mathematics (STEM) professional tasked with solving a real-world problem. Investing cash outflows in 2017 include a $1.0 million payment made for the acquisition of IS3D, LLC. Cogent's award-winning Interactive Cases provide engaging and immersive contexts for learning difficult scientific concepts through authentic inquiry and problem solving. With initial availability expected by 2019, ExploreLearning plans to integrate Cogent Education resources into its Gizmos product.

Financing activities. Cash used in financing activities was $26.4 million and $28.1 million for the years ended December 31, 2017 and 2016, respectively. The year ended December 31, 2017 includes an overall reduction in the principal amount of debt of $27.7 million after making $7.0 million of mandatory debt amortization payments and $20.6 million of voluntary principal prepayments. Cash inflows in 2017 include $1.2 million of proceeds from the exercise of stock options. The year ended December 31, 2016 includes an overall reduction in the principal amount of debt of $28.9 million after making $3.9 million of mandatory debt amortization payments and $25.0 million of voluntary principal prepayments. Cash inflows in 2016 include $0.7 million of proceeds from the exercise of stock options. Borrowing and repayments under the new Revolving Credit Facility netted to zero during 2017 and 2016.

Commitments and Contractual Obligations

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

We have letters of credit outstanding at December 31, 2017 in the amount of $0.4 million to support and workers' compensation activity. We maintain certificates of deposit of $0.2 million to serve as collateral for these letters of credit. Additionally, we maintain a $0.9 million money market fund investment as collateral for our travel card program. The certificates of deposit and money market fund investment are recorded in Other Assets in the Consolidated Balance Sheets.

At December 31, 2017, we have $9.2 million in obligations with respect to our pension plan. For further information, see Note 12 — Profit-Sharing, Pension, and Other Postretirement Benefit Plans to our Consolidated Financial Statements.

As of December 31, 2017, we have approximately $0.5 million of long-term income tax liabilities that have a high degree of uncertainty regarding the timing of the future cash outflows. We are unable to reasonably estimate the years when settlement will occur with the respective taxing authorities.

Non-GAAP Measures

The Company uses the EBITDA, Adjusted EBITDA, and Cash Income non-GAAP financial measures to monitor and evaluate the operating performance of the Company and as a basis to set and measure progress towards performance targets.

- EBITDA is earnings from operations before interest, income taxes, and depreciation and amortization.

- Adjusted EBITDA is EBITDA excluding non-operational and non-cash items. Examples of items excluded from Adjusted EBITDA include stock-based compensation, merger, acquisition and disposition activities, certain impairment charges, and restructuring charges.
- Cash Income reduces Adjusted EBITDA for capital expenditures and removes the timing differences for recognition of deferred revenues and related deferred costs.

EBITDA, Adjusted EBITDA, and Cash Income are not prepared in accordance with GAAP and may be different from similarly named, non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. The Company believes these non-GAAP measures provide useful information to investors because they reflect the underlying performance of the ongoing operations of the Company and provide investors with a view of the Company's operations from management's perspective. Adjusted EBITDA and Cash Income remove significant restructuring, non-operational, or certain non-cash items from earnings. The Company uses Adjusted EBITDA and Cash Income to monitor and evaluate the operating performance of the Company and as the basis to set and measure progress toward performance targets. Further, the Cash Income measure directly affects compensation for employees and executives. The Company generally uses these non-GAAP measures as measures of operating performance and not as measures of the Company's liquidity. The Company's presentation of EBITDA, Adjusted EBITDA, and Cash Income should not be construed as an indication that our future results will be unaffected by unusual, non-operational, or non-cash items.

Reconciliations of Operational and Non-GAAP Measures

Bookings is an internal, operational metric that measures the total dollar value of customer orders in a period, regardless of the timing of the related revenue recognition. We consider Bookings a leading indicator of revenues.

Below are reconciliations of Bookings to Net Revenues and of Net Income to EBITDA, Adjusted EBITDA, and Cash Income for the years ended December 31, 2017 and 2016.

Reconciliation of Bookings to Net Revenues

	Year Ended December 31,	
(in thousands)	2017	2016
Bookings	$164,365	$161,778
Change in deferred revenues	(6,195)	(9,125)
Other [(a)]	14	(295)
Net revenues	$158,184	$152,358

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Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Cash Income

	Year Ended December 31,	
(in thousands)	2017	2016
Net income	$45,055	$10,430
Reconciling items between net income and EBITDA:		
Depreciation and amortization expense	20,765	21,548
Net interest expense	4,845	7,190
Income tax (benefit) expense	(29,298)	293
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	41,367	39,461
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Loss on extinguishment of debt	360	698
Restructuring costs[b]	1,388	1,103
Goodwill impairment	4,325	—
Merger, acquisition and disposition activities[c]	658	585
Stock-based compensation and expense[d]	865	928
Adjusted EBITDA	48,963	42,775
Change in deferred revenues	6,195	9,125
Change in deferred costs	(936)	(62)
Capital expenditures	(18,160)	(20,054)
Cash income	$36,062	$31,784

Reconciliation of Bookings to Net Revenues by Segment – 2017

	Year Ended December 31, 2017			
(in thousands)	Learning A-Z	ExploreLearning	Voyager Sopris Learning	Consolidated
Bookings	$80,756	$ 30,967	$52,642	$ 164,365
Change in deferred revenues	(5,509)	(3,070)	2,384	(6,195)
Other [a]	(99)	(40)	153	14
Net revenues	$75,148	$ 27,857	$55,179	$ 158,184

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Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Cash Income by Segment – 2017

(in thousands)	Year Ended December 31, 2017 Learning A-Z	Explore Learning	Voyager Sopris Learning	Other	Consolidated
Net income	$38,784	$10,701	$10,853	$(15,283)	$ 45,055
Reconciling items between net income and EBITDA:					
Depreciation and amortization expense	—	—	—	20,765	20,765
Net interest expense	—	—	—	4,845	4,845
Income tax (benefit) expense	—	—	—	(29,298)	(29,298)
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	38,784	10,701	10,853	(18,971)	41,367
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:					
Loss on extinguishment of debt	—	—	—	360	360
Restructuring costs[(b)]	—	—	1,230	158	1,388
Goodwill impairment	—	—	—	4,325	4,325
Merger, acquisition and disposition activities[(c)]	—	—	—	658	658
Stock-based compensation and expense[(d)]	205	121	281	258	865
Adjusted EBITDA	38,989	10,822	12,364	(13,212)	48,963
Change in deferred revenues	5,509	3,070	(2,384)	—	6,195
Change in deferred costs	(557)	(202)	(177)	—	(936)
Capital expenditures - product development	(7,635)	(2,965)	(4,845)	—	(15,445)
Capital expenditures - general expenditures	(1,212)	(550)	(429)	(524)	(2,715)
Cash income	$35,094	$10,175	$4,529	$(13,736)	$ 36,062

Reconciliation of Bookings to Net Revenues by Segment – 2016

(in thousands)	Year Ended December 31, 2016 Learning A-Z	ExploreLearning	Voyager Sopris Learning	Consolidated
Bookings	$73,253	$ 26,037	$62,488	$ 161,778
Change in deferred revenues	(6,913)	(2,376)	164	(9,125)
Other [(a)]	(291)	78	(82)	(295)
Net revenues	$66,049	$ 23,739	$62,570	$ 152,358

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Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Cash Income by Segment – 2016

(in thousands)	Year Ended December 31, 2016 Learning A-Z	Explore Learning	Voyager Sopris Learning	Other	Consolidated
Net income	$33,679	$8,635	$12,545	$(44,429)	$ 10,430
Reconciling items between net income and EBITDA:					
Depreciation and amortization expense	—	—	—	21,548	21,548
Net interest expense	—	—	—	7,190	7,190
Income tax expense	—	—	—	293	293
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	33,679	8,635	12,545	(15,398)	39,461
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:					
Loss on extinguishment of debt	—	—	—	698	698
Restructuring costs[(b)]	—	—	1,103	—	1,103
Merger, acquisition and disposition activities[(c)]	—	—	—	585	585
Stock-based compensation and expense[(d)]	223	124	294	287	928
Adjusted EBITDA	33,902	8,759	13,942	(13,828)	42,775
Change in deferred revenues	6,913	2,376	(164)	—	9,125
Change in deferred costs	206	(366)	98	—	(62)
Capital expenditures - product development	(7,492)	(2,427)	(7,422)	—	(17,341)
Capital expenditures - general expenditures	(1,027)	(419)	(566)	(701)	(2,713)
Cash income	$32,502	$7,923	$5,888	$(14,529)	$ 31,784

(a) In the reconciliations of Bookings to Net Revenues, Other comprises timing differences between the invoicing of a transaction, which generates Bookings, and its recognition as either net revenues or deferred revenues. The most common reasons for these timing differences include product that is shipped from our warehouse and invoiced but not recognized as revenues until physical delivery due to shipping terms, adjustments to the allowance for estimated sales returns, and revenue under contract that is earned and recognized in one period but invoiced in a subsequent period.

(b) Restructuring costs in 2017 and 2016 represent primarily severance charges, as part of efforts to reduce the cost structure of the Voyager Sopris Learning segment.

(c) Costs are related to merger and acquisition activities including due diligence and other non-operational charges such as pension and severance costs for former employees.

(d) Stock-based compensation and expense is related to our outstanding stock options.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

On an ongoing basis, we evaluate our estimates, including those related to accounting for revenue recognition, impairment, capitalization and depreciation, allowances for doubtful accounts and sales returns, inventory reserves, and

income taxes. We base our estimates on historical experience and other assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily available from other sources. Actual results may differ from these estimates, which could have a material impact on our financial statements.

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

Revenue Recognition

Learning A-Z and ExploreLearning Segments

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

Voyager Sopris Learning Segment

Revenues for our Voyager Sopris Learning segment are derived from sales of literacy and math educational solutions and services to school districts. Sales include printed materials, interactive web-based programs and online educational content, training and implementation services, and professional development. Revenue from the sale of printed materials is recognized when the product is shipped to or received by the customer, depending on the shipping terms of the arrangement. Revenue for interactive web-based programs and online educational content, which may be sold separately or included with printed curriculum materials, are recognized ratably over the subscription or contractual period, typically a school year. Professional services such as training, implementation, and professional development are recognized as delivered or over the period a subscription product is delivered.

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

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

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

Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

For all reportable segments, we may enter into agreements to license or sell certain publishing rights and content. The Company recognizes the revenue from these agreements when the license amount is fixed and determinable, collection is reasonably assured, and when either the license period, if applicable, has commenced or transfer of content, if applicable, has occurred.

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Impairment of Goodwill

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

GAAP provides entities with the option of performing a qualitative assessment to determine if it is more-likely-than-not that goodwill might be impaired (followed by a quantitative two-step goodwill impairment test if necessary) or proceeding directly to a quantitative two-step goodwill impairment test. For the two-step quantitative impairment test, the fair value of each reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of that unit, goodwill is not impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value of that unit, then a second step must be performed to determine the implied fair value of the reporting entity's goodwill. The second step of the impairment test requires the allocation of the fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded.

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

The following table details the goodwill balances at December 31, 2017 by segment:

(in thousands)	December 31, 2017
Learning A-Z	$ 13,215
ExploreLearning	6,947
Voyager Sopris Learning	23,356
Goodwill	$ 43,518

We performed the 2017 annual goodwill impairment analysis using four reporting units: Learning A-Z; ExploreLearning; and Voyager Sopris Learning and Kurzweil Education, which are both included in the Voyager Sopris Learning segment. As the Kurzweil Education reporting unit was fully integrated within the Voyager Sopris Learning management structure during 2017, the reporting units were combined after the October 1, 2017 goodwill analysis was performed. The reporting units have been combined in the table above.

During 2017, we elected to perform the optional qualitative assessment for the Learning A-Z and ExploreLearning reporting units. The qualitative assessment did not result in a conclusion that it was more likely than not that the fair value of these reporting units was less than their respective carrying amounts; therefore, it was unnecessary to perform the quantitative two-step goodwill impairment test for the Learning A-Z and ExploreLearning reporting units.

During 2017, we elected to perform the quantitative two-step goodwill impairment test for the Voyager Sopris Learning and Kurzweil Education reporting units. When performing the two-step quantitative impairment test, we first determined for step one the fair market value of each reporting unit to be tested using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including future cash flow projections with a terminal value multiple and the discount rate used to determine the expected present value of the estimated future cash flows. Future cash flow projections were based on management's best estimates of economic and market conditions over the projected period, including industry fundamentals such as the state of educational funding, revenue growth rates, future costs and operating margins, working capital needs, capital and other expenditures, and tax rates. The discount rate applied to the future cash flows was a weighted-average cost of capital and took into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and other relevant factors. The fair values of each reporting unit also took into consideration a market approach, based on estimated multiples. The step one calculation determined that the fair value of the Voyager Sopris Learning reporting unit exceeded its carrying amount by at least 10%; therefore, it was unnecessary to perform the second step of the quantitative impairment test. The step one calculation determined that the fair value of the Kurzweil Education reporting unit was less than its carrying amount; therefore, we proceeded to the second step of the quantitative impairment test.

Based on the step two test, we concluded that an impairment of the Kurzweil Education reporting unit was probable and could be reasonably estimated. As a result, we recorded Goodwill impairment expense of $4.3 million in the fourth quarter of 2017.

We performed the 2016 annual goodwill impairment analysis using four reporting units: Learning A-Z; ExploreLearning; and Voyager Sopris Learning and Kurzweil Education, which are both included in the Voyager Sopris Learning segment.

During 2016, we elected to perform the optional qualitative assessment for the Learning A-Z and ExploreLearning reporting units. The qualitative assessment did not result in a conclusion that it was more likely than not that the fair value of these reporting units was less than their respective carrying amounts; therefore, it was unnecessary to perform the quantitative two-step goodwill impairment test for the Learning A-Z and ExploreLearning reporting units.

During 2016, we elected to perform the quantitative two-step goodwill impairment test for the Voyager Sopris Learning and Kurzweil Education reporting units. When performing the two-step quantitative impairment test, we first determined for step one the fair market value of each reporting unit to be tested using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including future cash flow projections with a terminal value multiple and the discount rate used to determine the expected present value of the estimated future cash flows. Future cash flow projections were based on management's best estimates of economic and market conditions over the projected period, including industry fundamentals such as the state of educational funding, revenue growth rates, future costs and operating margins, working capital needs, capital and other expenditures, and tax rates. The discount rate applied to the future cash flows was a weighted-average cost of capital and took into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and other relevant factors. The fair values of each reporting unit also took into consideration a market approach, based on estimated multiples. The step one calculation determined that the fair values of these reporting units exceeded their respective carrying amounts by at least 10%; therefore, it was unnecessary to perform the second step of the quantitative impairment test.

No impairment was indicated as a result of our 2016 annual impairment analysis.

Impairment of Long Lived Assets

We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows. If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal.

Pre-Publication Costs

We capitalize certain pre-publication costs of our curriculum, including art, prepress, editorial, and other costs incurred in the creation of the master copy of our curriculum products. Pre-publication costs are amortized over the expected life of the education program, generally on an accelerated basis over a period of five years. The amortization methods and periods chosen reflect the expected revenues generated by the education programs. We periodically review the recoverability of the capitalized costs based on expected net realizable value.

Accounts Receivable

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

Inventory

Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value, and consists of finished goods. We reduce slow-moving or obsolete inventory to net realizable value. Inventory values are maintained at an amount that management considers appropriate based on factors such as the inventory aging, historical usage of the product, future sales forecasts, and product development plans. These factors involve management's judgment and changes in estimates could result in increases or decreases to the inventory values. The impact of a one percentage point change in the amount of inventory considered to be excess or obsolete would have resulted in an increase or decrease in cost of revenues of approximately $0.1 million for the year ended December 31, 2017. Inventory values are reviewed on a periodic basis.

Income Taxes

Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in each jurisdiction in which we do business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and the need of any valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing the extent to which deferred tax assets may be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that all or a portion of the deferred tax assets will not be realized, a valuation allowance is established.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We reevaluate our uncertain tax positions on a periodic basis, based on factors such as changes in facts and circumstances, changes in tax law, effectively settled issues under audit and new audit activity. We accrue interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

Recently Issued Financial Accounting Standards

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

7A. Quantitative and Qualitative Disclosures About Market Risk.

This item is not required for a smaller reporting company.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
Cambium Learning Group, Inc.
Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Cambium Learning Group, Inc. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, stockholders’ equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion.
Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Whitley Penn LLP

We have served as the Company's auditor since 2007.
Dallas, Texas
March 6, 2018

Cambium Learning Group, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data)

	Year Ended December 31, 2017	2016
Net revenues:		
Product revenues	$155,344	$148,558
Service revenues	2,840	3,800
Total net revenues	158,184	152,358
Cost of revenues:		
Cost of product revenues	25,954	27,761
Cost of service revenues	1,612	2,361
Amortization expense	17,968	18,142
Total cost of revenues	45,534	48,264
Research and development expense	13,651	12,865
Sales and marketing expense	49,470	47,238
General and administrative expense	20,620	21,062
Shipping and handling costs	825	912
Depreciation and amortization expense	2,797	3,406
Goodwill impairment	4,325	—
Total costs and expenses	137,222	133,747
Income before interest, other expense and income taxes	20,962	18,611
Net interest income (expense):		
Interest income	23	16
Interest expense	(4,868)	(7,206)
Net interest expense	(4,845)	(7,190)
Loss on extinguishment of debt	(360)	(698)
Income before income taxes	15,757	10,723
Income tax benefit (expense)	29,298	(293)
Net income	$45,055	$10,430
Other comprehensive income (loss):		
Net pension gain (loss)	$(255)	$690
Amortization of net pension loss	91	149
Comprehensive income	$44,891	$11,269
Net income per common share:		
Basic net income per common share	$0.97	$0.23
Diluted net income per common share	$0.95	$0.22
Average number of common shares and equivalents outstanding:		
Basic	46,416	45,861
Diluted	47,594	47,217

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

Cambium Learning Group, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$8,493	$4,930
Accounts receivable, net	12,937	13,378
Inventory	2,382	2,864
Restricted assets, current	961	988
Other current assets	11,193	11,235
Total current assets	35,966	33,395
Property, equipment and software at cost	65,250	62,885
Accumulated depreciation and amortization	(43,164)	(39,378)
Property, equipment and software, net	22,086	23,507
Goodwill	43,518	47,842
Other intangible assets, net	3,607	4,001
Pre-publication costs, net	17,758	17,397
Restricted assets, less current portion	1,293	2,278
Deferred tax assets	30,614	—
Other assets	3,712	3,520
Total assets	$158,554	$131,940
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$2,388	$2,172
Accrued expenses	12,121	11,720
Current portion of long-term debt	5,958	7,350
Deferred revenue, current	86,913	83,318
Total current liabilities	107,380	104,560
Long-term liabilities:		
Long-term debt	41,841	67,130
Deferred revenue, less current portion	13,995	11,395
Other liabilities	9,630	10,117
Total long-term liabilities	65,466	88,642
Commitments and contingencies (See Note 16)		
Stockholders' equity (deficit):		
Preferred Stock ($0.001 par value, 15,000 shares authorized, zero shares issued and outstanding at December 31, 2017 and 2016)	—	—
Common stock ($0.001 par value, 150,000 shares authorized, 53,333 and 52,738 shares issued, and 46,800 and 46,206 shares outstanding at December 31, 2017 and 2016, respectively)	53	53
Capital surplus	289,022	286,943
Accumulated deficit	(288,490)	(333,545)
Treasury stock at cost (6,532 shares at December 31, 2017 and 2016)	(12,784)	(12,784)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,093)	(1,929)
Accumulated other comprehensive loss	(2,093)	(1,929)
Total stockholders' equity (deficit)	(14,292)	(61,262)
Total liabilities and stockholders' equity (deficit)	$158,554	$131,940

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

Cambium Learning Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2017	2016
Operating activities:		
Net income	$ 45,055	$ 10,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	20,765	21,548
Goodwill impairment	4,325	—
Loss on extinguishment of debt	360	698
Amortization of note discount and deferred financing costs	790	1,091
Stock-based compensation and expense	865	928
Deferred income taxes	(30,614)	—
Other	(2)	3
Changes in operating assets and liabilities:		
Accounts receivable, net	452	1,262
Inventory	482	1,830
Other current assets	50	(1,254)
Other assets	(373)	1,116
Restricted assets	1,012	1,098
Accounts payable	216	179
Accrued expenses	276	(2,504)
Deferred revenue	6,195	9,125
Other long-term liabilities	(651)	(1,071)
Net cash provided by operating activities	49,203	44,479
Investing activities:		
Cash paid for acquisition, net of cash acquired	(1,044)	—
Expenditures for property, equipment, software and pre-publication costs	(18,160)	(20,054)
Net cash used in investing activities	(19,204)	(20,054)
Financing activities:		

Repayment of debt	(27,650		)	(28,850		)
Proceeds from exercise of stock options	1,214			710		
Borrowings under revolving credit facility	16,000			15,000		
Payment of revolving credit facility	(16,000		)	(15,000		)
Net cash used in financing activities	(26,436		)	(28,140		)
Change in cash and cash equivalents	3,563			(3,715		)
Cash and cash equivalents, beginning of period	4,930			8,645		
Cash and cash equivalents, end of period	$	8,493		$	4,930	
Supplemental disclosure of cash flow information:						
Net income taxes paid	$	1,136		$	822	
Interest paid	$	4,164		$	6,359	

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

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Cambium Learning Group, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)
(in thousands)

	Common Stock			Treasury Stock				
	Shares	Amount	Capital Surplus	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2015	52,268	$ 52	$285,306	(6,532)	$(12,784)	$ (2,768)	$(343,975)	$(74,169)
Stock-based compensation and expense	—	—	928	—	—	—	—	928
Issuance of restricted stock	4	—	—	—	—	—	—	—
Exercise of stock options	466	1	709	—	—	—	—	710
Net income	—	—	—	—	—	—	10,430	10,430
Pension plan	—	—	—	—	—	839	—	839
Balance at December 31, 2016	52,738	53	286,943	(6,532)	(12,784)	(1,929)	(333,545)	(61,262)
Stock-based compensation and expense	—	—	865	—	—	—	—	865
Cancellation of restricted stock	(4)	—	—	—	—	—	—	—
Exercise of stock options	598	—	1,214	—	—	—	—	1,214
Net income	—	—	—	—	—	—	45,055	45,055
Pension plan	—	—	—	—	—	(164)	—	(164)
Balance at December 31, 2017	53,333	$ 53	$289,022	(6,532)	$(12,784)	$ (2,093)	$(288,490)	$(14,292)

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

Note 1 — Basis of Presentation

Cambium Learning Group, Inc.

Cambium Learning® Group, Inc. (the "Company") was incorporated under the laws of the State of Delaware in June 2009. On December 8, 2009, the Company completed the mergers of Voyager Learning Company ("VLCY") and VSS-Cambium Holdings II Corp. ("Cambium") into two of its wholly-owned subsidiaries, resulting in VLCY and Cambium becoming wholly-owned subsidiaries. Following the completion of the mergers, all of the outstanding capital stock of VLCY's operating subsidiaries, Voyager Expanded Learning, Inc. and LAZEL, Inc., was transferred to Cambium Learning, Inc., Cambium's operating subsidiary ("Cambium Learning"). The transaction was accounted for as an "acquisition" of VLCY by Cambium, as that term is used under U.S. Generally Accepted Accounting Principles ("GAAP"), for accounting and financial reporting purposes under the applicable accounting guidance for business combinations.

Fiscal Year

The consolidated financial statements present the Company as of a calendar year ending on December 31st.

Nature of Operations and Segments

The Company has three reportable segments with separate management teams and infrastructures that offer various products and services: Learning A-Z®, ExploreLearning®, and Voyager Sopris Learning®. Segment results of operations 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, loss on extinguishment of debt and income taxes. The Company does not allocate any of these costs to its segments, and its chief operating decision maker evaluates performance of operating segments excluding these items.

See Note 18 — Segment Reporting for further information on the Company's segment reporting structure.

Learning A-Z Segment

Learning A-Z is a literacy-focused PreK-6 educational provider of technology-enabled learning resources. Founded in 2002, Learning A-Z's resources are now used by more than 5 million students in more than 170 countries. Learning A-Z products blend traditional teacher-led instruction with robust online resources to make teaching more effective and efficient, practice more accessible and personalized, assessment more strategic and automated, and learning more informed and proactive. With a comprehensive and blended approach, Learning A-Z delivers the tools students need without limiting a teacher's ability to differentiate instruction as they see fit. Learning A-Z's approach to literacy emphasizes knowledge and individual potential by recognizing that while reading and writing remain essential to attaining academic success, they are dynamic and dependent on real-world application and the incorporation of many other 21st century skills. Students today must read and write well, and they must also be able to think critically and analyze what they learn, solve problems, innovate and apply creativity, utilize advancing technology, communicate effectively orally and in writing, and collaborate with their peers. With a robust library of incredibly effective and flexible curriculum resources, Learning A-Z provides the tools teachers need to deliver personalized instruction for a wide range of student needs.

Learning A-Z operates the following subscription-based websites: Reading A-Z®, Raz-Kids®, Headsprout®, Science A-Z®, Writing A-Z™, Vocabulary A-Z™, and ReadyTest A-Z™. These websites can be purchased stand-alone or in collections, for a comprehensive solution that provides online supplemental books, lessons, assessments and other instructional resources for individual classrooms, schools, and districts. Learning A-Z's premier offering is an integration of teacher centric Reading A-Z with student centric Raz-Kids in a bundled product marketed as Raz-Plus™.

ExploreLearning Segment

ExploreLearning makes online solutions that help students succeed in math and science. ExploreLearning combines research-proven instructional methods with innovative technology to create new pathways for learning. Founded in 1999, ExploreLearning solutions are now used in every U.S. state and over 50 countries worldwide. ExploreLearning offers two products that supplement core instruction in the classroom: Gizmos® for grades 3-12 and Reflex® for grades 2-8. Gizmos is a library of over 400 inquiry-based math and science simulations that help students make connections and draw conclusions through interaction, visualization and what-if exploration. Reflex is a highly-effective, game-based math fact fluency system that helps students of all ability levels succeed by continually adapting to students' instructional needs and providing motivational rewards for their effort.

Voyager Sopris Learning Segment

Voyager Sopris Learning is a leading provider of technology, materials, and professional development for educators to ensure all students graduate prepared for college, career, and satisfaction in life after K-12. It has built a nearly 40-year legacy on research and data-based curriculum development, while remaining nimble and responsive to the shifts and changes required by new standards, more demanding and rigorous content, new and competitive technological capabilities, and the needs of educators today. On a daily basis, Voyager Sopris Learning listens to the challenges of teachers and students, and its products are designed to respond to the need for exciting intervention and supplemental curricula that engage students, while remaining 100% purpose-and data-driven in their delivery.

Voyager Sopris Learning programs are steeped in research and evidence, but they are also built with a deep consideration and understanding of the realities and struggles of education today. The Voyager Sopris Learning segment also includes Kurzweil Education® brand solutions, which are now fully integrated within the Voyager Sopris Learning management structure.

Voyager Sopris Learning solutions include LANGUAGE!® Live, Language Essentials for Teachers of Reading and Spelling (LETRS®), Step Up to Writing®, TransMath®, Vmath, Velocity™ and Kurzweil 3000® among other instructional resources.

Note 2 — Significant Accounting Policies

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

Learning A-Z and ExploreLearning Segments

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

Voyager Sopris Learning Segment

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

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

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

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

Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

For all reportable segments, the Company may enter into agreements to license or sell certain publishing rights and content. The Company recognizes the revenue from these agreements when the license amount is fixed and determinable, collection is reasonably assured, and when either the license period, if applicable, has commenced or transfer of content, if applicable, has occurred.

See "Recently Issued Financial Accounting Standards" for the expected impact of the Company's adoption of the new revenue standard.

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled $0.1 million and $0.2 million at December 31, 2017 and 2016, respectively. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of returns as well as other factors that in the Company's judgment could reasonably be expected to cause sales returns to differ from historical experience. A reconciliation of the accounts receivable reserve is shown in the table below for the periods indicated:

	December 31,	
(in thousands)	2017	2016
Accounts receivable reserve, beginning of period	$210	$231
Charged to costs and expenses	76	554
Charged to other accounts [(1)]	(73)	29
Write-offs	(86)	(604)
Accounts receivable reserve, end of period	$127	$210

[(1)] Changes in sales return reserve

Net Income per Common Share

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period; including potential dilutive shares of common stock, assuming the dilutive effect of outstanding stock options and restricted stock awards using the treasury stock method. Weighted-average shares from common share equivalents in the amount 653,497 and 489,450 for the years ended December 31, 2017 and 2016, respectively, were excluded from dilutive shares outstanding because their effect was anti-dilutive.

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

(in thousands, except per share data)	Year Ended December 31, 2017	2016
Numerator:		
Net income	$45,055	$10,430
Denominator:		
Basic:		
Weighted-average common shares used in computing basic net income per share	46,416	45,861
Diluted:		
Add weighted average effect of dilutive securities:		
Stock options and restricted stock awards	1,178	1,356
Weighted-average common shares used in computing diluted net income per share	47,594	47,217
Net income per common share:		
Basic	$0.97	$0.23
Diluted	$0.95	$0.22

Cash and Cash Equivalents
The Company considers all highly liquid investments with maturities of three months or less (when purchased) to be cash equivalents. The carrying amount reported in the Consolidated Balance Sheets approximates fair value.
Inventory
Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value, and consists of finished goods. The Company reduces slow-moving or obsolete inventory to net realizable value. Inventory values are maintained at an amount that management considers appropriate based on factors such as the inventory aging, historical usage of the product, future sales forecasts, and product development plans. Inventory values are reviewed on a periodic basis.
Restricted Assets
Restricted assets consist of funds placed in a rabbi trust pursuant to the merger agreement for the purpose of funding certain obligations acquired in the VLCY merger, mostly deferred compensation, pension, and employee-related obligations.
Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the assets' estimated useful lives using the straight-line method. Estimated lives are as follows:

Asset Class	Estimated Useful Life
Computer and other equipment	3-5 years
Leasehold improvements	Lesser of useful life or lease term
Furniture and fixtures	8 years

Expenditures for maintenance and repairs, as well as minor renewals, are charged to expense as incurred, while improvements and major renewals are capitalized.
Purchased and Developed Software
Purchased and developed software includes the costs to purchase third-party software and to develop internal-use software, which includes software as a service offered to customers with an online subscription. The Company

follows applicable guidance for the costs of computer software developed or obtained for internal use for capitalizing software projects. Software costs are amortized over the expected economic life of the product, generally on an accelerated basis over

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a period of five years for internally developed software offered to customers as an online subscription service, and generally on a straight-line basis over a period of three to five years for other software. At December 31, 2017 and 2016, unamortized capitalized software was $17.5 million and $19.0 million, respectively, which included amounts of software under development of $0.5 million and $0.3 million, respectively. Interest capitalized during the years ended December 31, 2017 and 2016 totaled $0.1 million and $0.2 million, respectively.

Acquired Curriculum and Technology

Acquired curriculum and technology represents curriculum and developed technology acquired in the acquisitions of Headsprout in 2013 and VLCY in 2009, and is the initial purchase accounting value placed on the past development and refinement of the core methodologies, processes, measurement techniques, and technologies by which the Company structures curriculum. Acquired curriculum and technology is being amortized using an accelerated method over six to seven years, as it has an economic benefit declining over the estimated useful life. The Company periodically reviews the recoverability of the acquired curriculum and technology based on expected net realizable value, and generally retires the assets once fully depreciated. Acquired curriculum and technology is presented net of accumulated amortization of $21.8 million and $21.3 million at December 31, 2017 and 2016, respectively.

See Note 4 — Goodwill and Other Intangible Assets and Note 10 — Fair Value of Financial Instruments for further discussion of the Company’s curriculum and technology assets.

Pre-Publication Costs

The Company capitalizes certain pre-publication costs of its curriculum, including art, prepress, editorial, and other costs incurred in the creation of the master copy of its curriculum products. Pre-publication costs are amortized over the expected life of the education program, generally on an accelerated basis over a period of five years. The amortization methods and periods chosen reflect the expected sales generated by the education programs. The Company periodically reviews the recoverability of the capitalized costs based on expected net realizable value, and generally retires assets once fully depreciated. Pre-publication costs are presented net of accumulated amortization of $24.6 million and $21.4 million at December 31, 2017 and 2016, respectively. Interest capitalized was $0.1 million during the years ended December 31, 2017 and 2016.

See Note 10 — Fair Value of Financial Instruments for further discussion of the Company’s pre-publication costs.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets relate to the acquisitions of Headsprout in 2013, VLCY in 2009, and Cambium Learning in 2007. Other intangible assets include trade names/trademarks, reseller networks, and customer relationships/lists, which are being amortized on a straight-line basis over estimated lives ranging from seven to fifteen years. Other intangible assets are presented net of accumulated amortization of $3.4 million and $19.6 million at December 31, 2017 and 2016, respectively.

See Note 4 — Goodwill and Other Intangible Assets and Note 10 — Fair Value of Financial Instruments for further discussion of the Company’s goodwill and other intangible assets.

Depreciation and Amortization

Depreciation and amortization for the years ended December 31, 2017 and 2016 consisted of the following:

	Year Ended December 31,	
(in thousands)	2017	2016
Acquired publishing rights	$585	$874
Acquired curriculum and technology	532	1,465
Pre-publication costs	8,109	7,715
Internally developed software related to product	8,742	8,088
Total amortization included in cost of revenues	17,968	18,142
Trade names and trademarks	377	398
Other intangible assets	49	683
Property, equipment and software	2,371	2,325
Total depreciation and amortization included in operating expense	2,797	3,406
Total depreciation and amortization	$20,765	$21,548

Impairment of Long Lived Assets

The Company reviews the carrying value of definite-lived long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows. If the review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by either quoted market prices or discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. The determination whether the Company's definite-lived intangible assets are impaired involves significant assumptions and estimates, including projections of future cash flows, the percentage of future revenues and cash flows attributable to the intangible assets, asset lives used to generate future cash flows, and royalty relief savings attributable to trademarks.

Deferred Costs

Certain up-front costs associated with completing the sale of the Company's products are deferred and recognized as the related revenue is recognized.

Advertising Costs

The Company may ship products to prospective customers as samples. Samples costs are expensed to sales and marketing expense upon shipment and totaled $0.3 million and $0.4 million for the years ended December 31, 2017 and 2016, respectively. Other costs of advertising, which include advertising, print, and photography expenses, are expensed as incurred and totaled $1.7 million and $1.3 million for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in each jurisdiction in which the Company does business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and the need of any valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing the extent to which deferred tax assets may be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that all or a portion of the deferred tax assets will not be realized, a valuation allowance is established.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company reevaluates its uncertain

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tax positions on a periodic basis, based on factors such as changes in facts and circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. The Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

Sales Taxes

The Company reports sales taxes collected from customers and remitted to governmental authorities on a net basis. Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of Accrued Expenses in the accompanying Consolidated Balance Sheets.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with applicable accounting guidance for share-based payments. This guidance requires all share-based payments to be recognized in the Consolidated Statements of Operations and Comprehensive Income based on their fair values. Compensation costs for awards with graded vesting are recognized on a straight-line basis over the anticipated vesting period.

Recently Issued Financial Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The new revenue guidance defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The guidance requires improved disclosures to help users of the financial statements better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 allows for either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The original effective date was for annual periods beginning after December 15, 2016. On July 9, 2015, the FASB elected to defer the effective date of the new revenue recognition standard by one year, for annual periods beginning after December 15, 2017. The Company will adopt this guidance using the modified retrospective approach on January 1, 2018. The Company has concluded that revenue recognition for its most significant revenue stream—subscription-based educational technology solutions—will not change materially under the new accounting standard and will continue to be recognized pro rata over the subscription period. The Company expects to defer additional revenue related to several provisions of the new guidance, including additional customer support obligations. This change is not expected to have a significant impact on the Company’s financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02). The guidance in ASU 2016-02 requires entities to record the assets and liabilities created by leases greater than one year. This ASU is effective for interim periods and fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

In March 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The guidance simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill as the second step of the goodwill impairment evaluation. Companies are instead required to recognize goodwill impairment based on the excess of the reporting unit’s carrying value compared to its fair value. This ASU is effective in 2020 for calendar year entities, and early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

Recently Adopted Financial Accounting Standards

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 requires an entity to measure inventory within the scope of the update at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for interim periods and fiscal years beginning after December 15, 2016. The Company adopted ASU 2015-11 in the first quarter of 2017 with no material impact to the financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). The guidance simplifies certain aspects of accounting for stock-based accounting. ASU 2016-09 is effective for interim periods and fiscal years beginning after December 15, 2016. The Company prospectively adopted ASU 2016-09 in the first quarter of 2017 and has elected to account for forfeitures as they occur. There was no material impact to the Company's consolidated financial position, results of operations, equity, or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting (ASU 2017-09). The ASU provides guidance on the various types of changes which would trigger modification accounting for share-based payment awards. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company has early adopted ASU 2017-09 in the third quarter of 2017 with no material impact to the financial statements.

Note 3 — Property, Equipment and Software

Balances of major classes of assets and accumulated depreciation and amortization at December 31, 2017 and 2016 consisted of the following:

	December 31,	
(in thousands)	2017	2016
Software	$48,910	$47,822
Computers and other equipment	12,173	11,025
Furniture and fixtures	2,308	2,214
Leasehold improvements	1,859	1,824
Property, equipment and software at cost	65,250	62,885
Accumulated depreciation and amortization	43,164	39,378
Property, equipment and software, net	$22,086	$23,507

Note 4 — Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016 are as follows:

(in thousands)	Learning A-Z	ExploreLearning	Voyager Sopris Learning	Total
Balance at December 31, 2015				
Goodwill, gross	$13,215	$ 6,947	$217,262	$237,424
Accumulated impairment loss	—	—	(189,582)	(189,582)
Goodwill	13,215	6,947	27,680	47,842
Impairment	—	—	—	—
Acquisitions	—	—	—	—
Balance at December 31, 2016				
Goodwill, gross	13,215	6,947	217,262	237,424
Accumulated impairment loss	—	—	(189,582)	(189,582)
Goodwill	13,215	6,947	27,680	47,842
Impairment	—	—	(4,325)	(4,325)
Acquisitions	—	—	—	—
Balance at December 31, 2017				
Goodwill, gross	13,215	6,947	217,262	237,424
Accumulated impairment loss	—	—	(193,906)	(193,906)
Goodwill	$13,215	$ 6,947	$23,356	$43,518

Impairment Analysis

In accordance with GAAP, goodwill and other indefinite-lived intangible assets are not amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. Relevant accounting guidance provides entities with the option of performing a qualitative assessment to determine if it is more likely than not that goodwill might be impaired (followed by a quantitative two-step goodwill impairment test if necessary) or proceeding directly to a quantitative two-step goodwill impairment test.

When the Company elects to perform the qualitative assessment for a reporting unit, management evaluates relevant events and circumstances, such as macroeconomic conditions, industry and market changes, cost changes in key inputs, overall financial performance, and pertinent entity-specific or reporting unit-specific changes. If after assessing the totality of relevant events and circumstances, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is unnecessary.

The Company performs its annual impairment test on October 1st each year.

2017 Annual Goodwill Impairment Analysis

The Company performed the 2017 annual goodwill impairment analysis using four reporting units: Learning A-Z; ExploreLearning; and Voyager Sopris Learning and Kurzweil Education, which are both included in the Voyager Sopris Learning segment. As the Kurzweil Education reporting unit was fully integrated within the Voyager Sopris Learning management structure during 2017, the reporting units were combined after the October 1, 2017 goodwill analysis was performed. The reporting units have been combined in the table above.

During 2017, the Company elected to perform the optional qualitative assessment for the Learning A-Z and ExploreLearning reporting units. The qualitative assessment did not result in a conclusion that it was more likely than not that the fair value of these reporting units was less than their respective carrying amounts; therefore, it was unnecessary to perform the quantitative two-step goodwill impairment test for the Learning A-Z and ExploreLearning reporting units.

During 2017, the Company elected to perform the quantitative two-step goodwill impairment test for the Voyager Sopris Learning and Kurzweil Education reporting units. The step one calculation determined that the fair value of the Voyager Sopris Learning reporting unit exceeded its carrying amount by at least 10%; therefore, it was unnecessary to perform the second step of the quantitative impairment test. The step one calculation determined that the fair value of the Kurzweil Education reporting unit was less than its carrying amount; therefore, the Company proceeded to the second step of the quantitative impairment test.

Based on the step 2 test, the Company concluded that an impairment of the Kurzweil Education reporting unit was probable and could be reasonably estimated. When performing the two-step quantitative impairment test, the Company first determined the fair market value of the Kurzweil Education reporting unit using a weighted income and market approach. The income approach was dependent on multiple assumptions and estimates, including future cash flow projections with a terminal value multiple and the discount rate used to determine the expected present value of the estimated future cash flows. Future cash flow projections were based on management’s best estimates of economic and market conditions over the projected period, including revenue growth rates, future costs and operating margins, working capital needs, capital and other expenditures, and tax rates. The discount rate applied to the future cash flows was a weighted average cost of capital and took into consideration market and industry conditions, returns for comparable companies, the rate of return an outside investor would expect to earn, and other relevant factors. The market approach was based on historical and projected multiples for the Kurzweil Education reporting unit. As a result, goodwill impairment expense of $4.3 million was recorded in the fourth quarter of 2017.

2016 Annual Goodwill Impairment Analysis

The Company performed the 2016 annual goodwill impairment analysis using four reporting units: Learning A-Z; ExploreLearning; and Voyager Sopris Learning and Kurzweil Education, which are both included in the Voyager Sopris Learning segment.

During 2016, the Company elected to perform the optional qualitative assessment for the Learning A-Z and ExploreLearning reporting units. The qualitative assessment did not result in a conclusion that it was more likely than not that the fair value of these reporting units was less than their respective carrying amounts; therefore, it was unnecessary to perform the quantitative two-step goodwill impairment test for the Learning A-Z and ExploreLearning reporting units.

During 2016, the Company elected to perform the quantitative two-step goodwill impairment test for the Voyager Sopris Learning and Kurzweil Education reporting units. The step one calculated fair values of these reporting units exceeded their respective carrying amounts by at least 10%; therefore, it was unnecessary to perform the second step of the quantitative impairment test.

Intangible Assets

The Company’s definite-lived intangible assets and related accumulated amortization at December 31, 2017 and 2016 consisted of the following:

(in thousands)	December 31, 2015	Additions	Disposals	Impairments	December 31, 2016	Additions	Disposals	Impairments	December 31, 2017
Intangible assets, gross:									
Publishing rights	$ 26,200	$ —	$ —	$ —	$ 26,200	$ —	$ (26,200)	$ —	$ —
Trademark	5,110	—	—	—	5,110	—	—	—	5,110
Customer relationships	7,717	—	(3,417)	—	4,300	—	(4,300)	—	—
Acquired curriculum and technology	24,828	—	(2,248)	—	22,580	1,150	—	—	23,730
Reseller network	12,300	—	—	—	12,300	—	(12,300)	—	—
Total intangible assets, gross	76,155	—	(5,665)	—	70,490	1,150	(42,800)	—	28,840
Intangible assets, accumulated amortization:									
Publishing rights	(24,741)	(874)	—	—	(25,615)	(585)	26,200	—	—
Trademark	(2,612)	(398)	—	—	(3,010)	(378)	—	—	(3,388)
Customer relationships	(7,127)	(579)	3,417	—	(4,289)	(11)	4,300	—	—
Acquired curriculum and technology	(22,096)	(1,465)	2,248	—	(21,313)	(532)	—	—	(21,845)
Reseller network	(12,158)	(104)	—	—	(12,262)	(38)	12,300	—	—
Total intangible assets, accumulated amortization	(68,734)	(3,420)	5,665	—	(66,489)				