CAMBIUM LEARNING GROUP, INC.
Form 10-K
March 03, 2016

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, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-34575

Cambium Learning Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock, par value $0.001 per share, held by non-affiliates of the registrant was $55,656,359 based on the closing sale price of the registrant's common stock on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Capital Market. As of February 29, 2016, there were 45,735,818 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 2016 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, 2015.

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PART I

Cautionary Note Regarding Forward-looking Statements

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

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

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2015. The "Company", "we", "us", or "our" when used in this report refers to Cambium Learning Group, Inc. and its predecessors and consolidated subsidiaries, as the context requires.

Overview

Cambium Learning® Group, Inc., a Delaware corporation, is a leading educational solutions and services company that is committed to helping all students reach their full potential. We accomplish this goal by providing evidence-based solutions and expert professional services to empower educators and raise the achievement levels of all students. Our award winning product lines include: Learning A–Z® (www.learninga-z.com), ExploreLearning® (www.explorelearning.com), Voyager Sopris Learning™ (www.voyagersopris.com) and Kurzweil Education™ (www.kurzweiledu.com). Together, these product lines provide breakthrough technology solutions for online learning and professional support; best-in-class intervention and supplemental instructional materials; gold-standard professional development and school-improvement services; valid and reliable assessments; and proven materials to support a positive and safe school environment. The core beliefs comprising the cornerstones of our value proposition are:

- Every learner has untapped potential
- Teachers are the foundation – their importance must be valued
- Data, instruction and practice drive improvement

During 2015, our products, more fully described in Segment and Product Information below, continued to receive awards and accolades from industry publications including:

The 20th Annual Education Software Review Awards ("EDDIE") presented by The ComputED Gazette

In September 2015, the Company was awarded 10 EDDIE awards from ComputED Gazette, with Learning A-Z receiving 6 awards and every Cambium Learning Group business unit winning at least one award. The EDDIE Awards target innovative and content-rich programs and websites that augment the classroom curriculum and improve teacher productivity, providing parents and teachers with the technology to foster educational excellence. We won EDDIE Awards in the following categories:

Early Learning, Reading Website: Headsprout® by Learning A-Z

Multilevel, Reading Resource Website: Raz-Kids® by Learning A-Z

Multilevel, Teacher Tools, Reading Resource Website: Reading A-Z™ 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, Writing Website: Writing A-Z™ by Learning A-Z

Math Fluency Website: Reflex® by ExploreLearning

Math & Science Online Simulations: Gizmos® by ExploreLearning

ESL Website: LANGUAGE! ® Live by Voyager Sopris Learning

Literary Skills: Kurzweil 3000+firefly® by Kurzweil Education

2015 33rd Annual Awards of Excellence by Tech & Learning Magazine

In October 2015, ExploreLearning was among the winners of Tech & Learning magazine's 33rd Annual Awards of Excellence for Best Upgraded Product for its Reflex 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. Winners in the Best Upgraded Product category made significant enhancements in the past year to proven education tools. Reflex previously won in 2012 in the Best New Product category.

2015 CODiE Awards

In May 2015, Learning A-Z received a 2015 CODiE Award, representing the 11th CODiE we have received. For nearly 30 years, the Software and Information Industry Association (SIIA) CODiE Awards have recognized software and information companies for achievement and vision. It is the only peer-reviewed program in the content, education, and software industry. We won a 2015 award in the following category:

Best ELL/World Language Acquisition Instructional Solution: Reading A-Z by Learning A-Z

The 21st Annual Best Educational Software Awards ("BESSIE") presented by The ComputED Gazette

In April 2015, Learning A-Z, Voyager Sopris Learning, 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

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, Math Fluency Website: Reflex by ExploreLearning

Middle School, ESL Website: LANGUAGE! Live by Voyager Sopris Learning

Multilevel, Literary Skills: Kurzweil 3000+firefly by Kurzweil Education

Multilevel, Reading Resource Website: Raz-Kids by Learning A-Z

Multilevel, Math and Science Online Simulations: Gizmos by ExploreLearning

Teacher Tools, Reading Resource Website: Reading A-Z by Learning A-Z

2015 REVERE Award presented by the PreK-12 Learning Group of the Association of American Publishers

In July 2015, Learning A-Z received a 2015 REVERE Award for the content in its Reading A-Z product that supports English language learners (ELLs). 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.

2015 Readers' Choice Top Products presented by District Administration Magazine

In December 2015, ExploreLearning's Gizmos product was named to District Administration magazine's Readers' Choice Top Products for 2015. District Administration's Readers' Choice Top Products awards program informs superintendents and other senior school district leaders about products their colleagues around the country are using to help their districts excel in a variety of areas, such as technology, sustainability, and instruction.

Segment and Product Information

We have three reportable segments with separate management teams and infrastructures that offer various products and services: Learning A-Z®, Voyager Sopris Learning™, and ExploreLearning®. During 2015, net revenues were $55.2 million for Learning A-Z, $69.6 million for Voyager Sopris Learning, and $20.2 million for ExploreLearning. 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, interest income and expense, other income and expense, and income taxes. We do not allocate any of these costs to our segments, and our chief operating decision maker evaluates performance of operating segments excluding these items. Further information is available in our Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K.

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

Learning A-Z Segment

Learning A-Z is a PreK-6 education technology provider of digitally delivered resources and tools that support instruction and student growth in reading, writing, and science. Founded in 2002, Learning A-Z believes an enlightened approach to literacy—which starts with reading and writing, but also includes the development of key 21st century skills like communication, creativity, collaboration and critical-thinking—is the foundation to all learning. 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, including English language learners, intervention, special education, and daily instruction. Learning A-Z's resources are currently used in more than half the districts across the United States and Canada and in over 180 countries worldwide. Learning A-Z is committed to:

- Delivering unmatched value, whereby high-quality resources are affordable for every individual classroom
- Making personalized learning easier, giving teachers what they need to deliver the just-right instructional resources to every student
- Empowering teachers as the foundation of student achievement, ensuring that teachers are given the support they need to be effective and efficient

Learning A-Z operates seven 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.

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 guided reading, phonological awareness, phonics, comprehension, fluency, letter recognition and formation, high-frequency words, poetry, and vocabulary. The teaching resources include: reading lessons, decodable books, reader's theater scripts, reading worksheets and assessments; leveled readers spanned across 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 leveled books and a variety of other 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 students can access at school, at home, or on the go. The program currently includes over 400 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 gets students excited about reading and strengthens the school-to-home connection.

Headsprout is an online kids' reading program that takes students on a digital journey where they learn critical foundational reading and reading comprehension skills along the way. The program is designed to automatically adapt to the specific needs and learning pace of every student and begin instruction appropriate to their current reading level. Engaging reading instruction is tailored to each student's specific needs, 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 provides teachers with an online collection of resources to improve student skills associated with reading, thinking and learning science. The product delivers comprehensive units in Life, Earth, Physical, and Process Science that include numerous informational texts and lessons at three reading levels within each grade span: K-2, 3-4, and 5-6. The website also provides the opportunity for students to think and act like scientists through captivating activities, experiments, and projects. The website delivers a comprehensive library of printable and projectable science resources; materials to introduce and engage students in STEM fields; and Spanish translations for English language learners and bilingual programs.

Writing A-Z delivers leveled lesson and resources at five developmental levels for differentiated instruction and a collection of interactive tools for students to practice their writing online. The website contains a range of lessons and supporting resources for teaching students at different developmental levels, from emerging writers beginning to experiment with words and sounds to beginning-fluent writers ready to begin mastering the five steps of the writing process. Writing A-Z resources include hundreds of leveled lessons, activities, and materials to teach writing to every student at their developmental level; dynamic mini-lessons that target specific writing skills; interactive online student writing tools; and digital reporting and student scoring.

Vocabulary A-Z contains an online database with over 14,000 words teachers can use to create their own custom vocabulary word lists and five-day lessons or choose from a wide selection of pre-made word lists. The vocabulary database has words organized in content-area, functional, and resource-correlated categories.

ReadyTest A-Z develops students' test-taking stamina and confidence with a collection of grade-appropriate practice tests and lessons that prepare them for the rigors of standardized testing. The product contains a set of teacher-led lessons that model the skills and strategies necessary for success on end-of-year tests, and grade-appropriate practice sessions that introduce students to the various question and answer types they will encounter on today's standardized assessments. ReadyTest A-Z provides access to 20 grade-appropriate Practice Tests available in online and print formats; 20 Test-Taking Lessons that model critical skills and strategies necessary for success on high-stakes tests; technology-enhanced items on online Practice Tests; and online reporting to monitor individual and class-wide progress.

Voyager Sopris Learning Segment

The Voyager Sopris Learning segment includes our Voyager Sopris Learning and Kurzweil Education brands.

Voyager Sopris Learning Brand

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

Voyager Sopris Literacy Solutions

LANGUAGE! ® Live is a comprehensive literacy solution that combines teacher-directed learning with personalized interactive instruction in an online environment. 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. A 90-minute instructional block each day is recommended, but the program is flexible and supports a variety of schedules. In addition to its use for general education students who are at risk of not attaining core standards, LANGUAGE! Live also supports English language learners and students with special needs.

LANGUAGE!® The Comprehensive Literacy Curriculum, is an intensive intervention for students in grades 4–12 who are substantially below grade-level expectations for literacy. With an explicit, systematic approach that is designed to accelerate the growth of struggling readers and nonreaders, LANGUAGE! integrates instruction across key literacy strands, including foundational skills, writing, vocabulary, fluency, grammar, comprehension, and spoken English. LANGUAGE! is a mastery-based curriculum designed for students with language-based learning disabilities, English language learners, and students who have not yet grasped foundational literacy skills. Students exit as soon as they achieve grade-level proficiency, which will vary depending on the specific needs of the student and where the student enters the curriculum.

Step Up to Writing® is a comprehensive resource of multisensory writing strategies that develop students' ability to create thoughtful, well-written compositions. With a focus on the complete writing process, Step Up to Writing provides instruction to teach each phase of writing and is designed to ensure that students understand what good writing looks like; are able to evaluate their own writing and the writing of others; and are confident in planning, drafting, editing, revising, producing, and publishing an original composition. The solution seamlessly integrates into any literacy curriculum or can be implemented as a standalone writing solution.

Passport Reading Journeys® is an engaging literacy solution for middle and high school students reading significantly below grade level. The reading intervention program uses a blended approach focused on engaging students with age-appropriate instruction and content that includes real-world relevant, captivating Expedition themes and technology components that support and enhance instruction.

REWARDS® is a family of reading and writing intervention materials specifically designed for adolescent struggling learners. Educators nationwide have embraced REWARDS as a powerful short-term intervention that results in long-term literacy achievement. The program supports any core curriculum and offers flexible implementation options. The ultimate goal of the REWARDS family of products is to increase fluency rates, deepen comprehension of informational and content-area texts, and increase precision in sentence writing.

Read Well® is an innovative K-3 reading and language arts solution that helps students build the critical skills needed to be successful readers and learners. The program allows teachers to effectively target students at all stages of development. Through a blended approach of whole-class instruction, differentiated small-group instruction, motivating technology, and individual student practice, teachers have the flexibility they need to meet students at their skill levels and adapt instruction accordingly.

Ticket to Read® is a self-paced, student-centered online program that results in improved reading performance. As students complete tasks in the areas of foundational skills, fluency, vocabulary, and comprehension, they earn points that can be used to decorate their personal clubhouse or stock their toy store.

DIBELS® Next (grades K–6), and the Spanish-language counterpart IDEL® (grades K–3) provide quick and efficient measures that indicate if a student is on track for reading success. With both universal screening and progress monitoring components, these measures are critical tools for educators as they identify students who need intervention support, evaluate the effectiveness of interventions, and support the response to intervention/multitiered model. Teachers have the option of using DIBELS Next Survey, an advanced assessment administered to students who have not reached benchmark goals, or DIBELS Deep, brief measures that are individually administered, untimed diagnostic assessments of critical reading skills for students in grades K–5, and for older learners with very low skills. The data generated from this suite of assessments support educators as they identify students who need intervention, select and evaluate instructional interventions, group students, and prepare instruction to support students in reaching learning goals.

LETRS® (Language Essentials for Teachers of Reading and Spelling) is a professional development program that responds to the need for high-quality teachers of literacy in grades preK–12. Authored by literacy expert Louisa Moats, Ed.D., LETRS provides the deep foundational knowledge necessary to understand how students learn to read, write, and spell—and why some of them struggle. Based on real-world experience and the science of reading, the program provides strategies and activities that can be implemented immediately. Each LETRS course is designed to give educators the tools they need to be confident teacher leaders who seek deep learning and reflection as they prepare for the challenging work of making literacy a reality for every student.

Voyager Sopris Math Solutions

TransMath® is a comprehensive math intervention curriculum that targets middle and high school students who lack the foundational skills necessary for entry into algebra and are two or more years below grade-level in math. In TransMath, concepts are developed with visual models that help students see big ideas being taught and build skills in algebraic thinking, computational fluency, fluency with rational numbers, and aspects of geometry and measurement.

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. With a blended print and technology solution, or a digital-only option, Vmath delivers essential content using strategies proven to accelerate and motivate at-risk students.

VmathLive® is a web-based solution empowering students to master math content at their own pace in a motivating online environment. VmathLive's learning pedagogy offers scaffolded help with problem-specific step-by-step hints and onscreen tutoring focused on visual representations of math concepts with both English and Spanish audio. The learning path is structured so that students work sequentially through a year's worth of math, and they are encouraged to stay on track with messaging, badges, trophies, points, and other engagement strategies. VmathLive's Play component includes games that focus on mental math skills.

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

Kurzweil Education Brand

The Kurzweil Education brand delivers educational technology that solves real problems. The Kurzweil Education literacy and learning solutions offer learners a way up and a path forward. Students' varying needs, their challenges, and their potential to achieve drive Kurzweil Education, which continues to develop literacy-boosting solutions that directly enhance opportunities to learn and achieve. Using the principles of Universal Design for Learning, our solutions deliver content and tools that enable all learners to read, understand, and demonstrate their learning using technology-based tools.

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

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

ExploreLearning Segment

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning has two products: Gizmos, which we believe is the world's best library of interactive, online simulations for math and science in grades 3-12; and Reflex, a powerful solution for math fact fluency development for grades 2-8.

Gizmos® are interactive simulations 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 as they see fit, 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. Thus students become active learners rather than passive recipients of information.

Reflex® is an adaptive and individualized online system which helps students of all ability levels develop instant recall of their basic math facts. This innovative technology supports math fact fluency-the quick and effortless (automatic) recall of basic math facts. Reflex efficiently moves students to fluency by continuously 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.

Industry Information

We sell primarily to public school districts in the United States. On a much smaller scale, we also sell to private and charter schools, teachers, home school and parent consumers, and other companies that bundle our products with their offerings. Most of our public school district customers are largely dependent on state and local funding to purchase our products. School districts also use funding through federal education programs. Third party estimates attribute approximately 10% of school district funding from federal sources, with the larger portion split roughly equally between state and local sources. While we do not collect funding source data from our customers, management believes these estimates are reflective of our school district customer base.

The 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. Common Core State Standards were designed to establish a single set of clear educational standards throughout the country for grades K-12. While Common Core State Standards have become a political issue with states both for and against Common Core, almost all states are moving toward more rigorous standards. 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, the digitalization of education 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 personalizing and individualizing instruction. The demand for such products has developed rapidly over the past several years and has led to changes in the way that providers develop, produce, market, and distribute products.

We believe 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, and 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 intervention 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 Scholastic's Storia, Capstone Digital's myON, Lexia Learning's Reading Core5, and Big Universe.
- Voyager Sopris Learning competitors include traditional and supplemental curriculum suppliers, including Houghton Mifflin Harcourt, Pearson, McGraw-Hill Education, with the Kurzweil Education product lines competing against suppliers such as Don Johnston and TextHelp's Read+Write.
- ExploreLearning competitors include Scholastic's FASTT Math and Adaptive Curriculum.

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, representing by far the preponderance of orders, revenue and income each year.

Product Development, Marketing and Sales

We are strategically focused on having the best possible product offerings and the sales and marketing forces to effectively and efficiently deliver these products. Each segment has its own development, 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. We update our products as needed to incorporate the latest research or pedagogy, bring images current, or update factual content. Our web-based products are enhanced continuously. Between the product refreshes, we often develop variations, expansions (e.g., more grade levels) and other basic enhancements of our products.

We are focusing our development efforts on technology-enabled solutions and expect sales of our purely print-based products to continue to decline. These investments will include enhancements for our Learning A-Z and

ExploreLearning subscription products, and the development of new and technology-enabled learning solutions in the Voyager Sopris Learning segment, including continued investment in the Kurzweil Education web-based subscription solution k3000+firefly.

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

Research and development expense, net of capitalization, was $10.9 million and $11.1 million for the years ended December 31, 2015 and 2014, 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 2015:

- Learning A-Z – $6.9 million
- Voyager Sopris Learning – $8.0 million
- ExploreLearning – $2.3 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. Voyager Sopris Learning also uses direct marketing through catalogs. We have and will continue to participate in state adoptions when our products meet the needs of those adoptions. As of December 31, 2015, our total combined company sales force employees consisted of 68 field and 52 inside sales representatives for a total of 120 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 $44.1 million and $41.4 million for the years ended December 31, 2015 and 2014, 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, 2015, on a consolidated basis, no single customer accounted for more than 10% of our total net revenues in any one year. Our top ten customers accounted for approximately 11% of our total net revenues in 2015.

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 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 55, 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 45, has served as the Chief Financial Officer of Cambium Learning Group, Inc. since March 2013. Ms. Benson joined the Company in March 2007 and previously served as Controller of Cambium Learning Group, Inc. from December 2009 to March 2013, and as Controller of the Voyager Learning Company from March 2007 to December 2009. She has also served as the Principal Accounting Officer of the Company since March 2010. From 2004 until joining the Company in March 2007, Ms. Benson held positions at Pegasus Solutions, Inc., a hotel technology provider of reservation, distribution, financial, and representation services, including Controller and Director of Financial Accounting and Reporting. She began her career as an auditor with Coopers & Lybrand. Ms. Benson is a Certified Public Accountant licensed in the state of Texas.

Bob Holl. Bob Holl, age 72, is the Co-founder and President of Learning A-Z. Mr. Holl has a wealth of educational knowledge and publishing experience having spent 10 years as a public school educator and 30 years in educational publishing. Before founding Learning A-Z, he served as Vice President of Development for the Wright Group and prior to that served as Editor-in-Chief of Addison-Wesley Publishing and Scott-Foresman Publishing Companies. He has been the architect and writer of many curriculum programs and educational resources during his publishing career.

Jeffrey A. Elliott.   Jeffrey A. Elliott, age 55, joined us in July 2015 as President of Voyager Sopris Learning, where he leads the effort to provide innovative, evidence-based instructional and professional service solutions to help schools meet and surpass their goals for student achievement. Prior to joining us, Mr. Elliott was President/CEO of The Virtual High School, an online learning provider serving middle and high school students. Mr. Elliott was President/CEO at Advanced Academics from 2003 to 2012, after joining the company in 2002 as Chief Operating Officer. From 1999 to 2002, Mr. Elliott was with Seattle-based Wright Group/McGraw-Hill Education, where he served as Vice President of Business Development overseeing three divisions of the educational publishing company. In 1996, Mr. Elliott joined newly formed Tribune Education as Director of Strategic Planning and Development. From 1983 to 1996, Mr. Elliott served in a variety of management roles at Chicago Tribune Company.

David Shuster. David Shuster, age 48, is the Founder and President of ExploreLearning. Mr. Shuster is a former classroom educator and is intimately involved in the design and development of 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.

Paul Fonte. Paul Fonte, age 47, currently serves as Chief Technology Officer of Cambium Learning Group. Mr. Fonte previously served as the Vice President of Technology for Cambium Learning Technologies since December 2009. Mr. Fonte joined 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.

Employees

As of December 31, 2015, we had a total of 585 employees, including 568 full-time and 17 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 curriculum might be augmented or complemented with third party products, which may include printed materials, videos or photographs. This additional third party content may be sourced from various providers who retain the appropriate trademarks and copyrights to the material and agree to our use under a nonexclusive, fee-based arrangement.

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

Website Access to Company Reports

We make available free of charge through our website, www.cambiumlearning.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K 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"). 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, 2015.

Risks Related to our Business

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

We derive a significant portion of our revenues from public schools, which are heavily dependent on federal, state and local government funding. Budget cuts, curtailments, delays, changes in leadership, shifts in priorities or general reductions in funding could reduce or delay our revenues. Funding difficulties experienced by schools could also cause those institutions to demand price reductions and could slow or reduce purchases of 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.

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

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

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

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

Weather disruptions due to snowstorms, hurricanes, or tornadoes could result in school closures, resulting in reduced demand for our products during the affected periods. Additionally, we conduct certain of our businesses and maintain warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as snowstorms, hurricanes, tornadoes, or floods.

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

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

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

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

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

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

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

Any significant delays, disruptions or failures in the systems, or errors in the software, that we use for 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. Although we maintain property insurance on these premises, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures associated with third party hosting providers or by failures of third party technology used in our products, and we may have no control over remedying these failures.

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

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

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

Examples of regulations that could be applicable to our company include the Children's Online Privacy Protection Act (COPPA), relating to access to and the use of information received from children in respect to our on-line offerings, 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 an Ozburn Hessey Logistics ("OHL") location in the St. Louis, Missouri area. In the event that these distribution facilities were damaged, destroyed or experienced technological failure, we would be delayed in responding to customer requests. Additionally, business disruptions within OHL that are out of our control could delay our ability to deliver printed materials to our customers in a timely manner. Customers often purchase materials very close to the school year and such delivery delays could cause our customers to turn to competitors for products they need immediately. While we maintain adequate property insurance, the loss of customers could have a long-term, detrimental impact on our reputation and business.

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

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

Risks Related to Debt and Ownership of our Common Stock

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

We do not plan to declare or pay any cash dividends on our shares of common stock in the foreseeable future and currently intend to retain future earnings, if any, for future operation, debt reduction and expansion. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors, and will depend on, among other things, our results of operations, financial condition, restrictions imposed by applicable law, business and investment strategy, contractual limitations and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends 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 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.

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

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

We have a significant amount of 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 provides for a $70.0 million term loan A ("Term Loan A"), a $35.0 million term loan B ("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, 2015, we have outstanding $70.0 million aggregate principal amount under the Term Loan A, $35.0 million under the Term Loan B, and no amount outstanding under the Revolving Credit Facility. The Term Loan A and Term Loan B require scheduled quarterly principal payments beginning on March 31, 2016, with the balance due at maturity. We may also be required to make an annual repayment of the Term Loan A and Term Loan B based on an excess cash flow requirement, as defined in the Credit Agreement and beginning in 2017, and may be subject to certain other prepayment requirements. Further, the Revolving Credit Facility is subject to a clean-down provision requiring the amounts outstanding under the Revolving Credit Facility to total $5.0 million or less for a period of at least 30 consecutive days between October 1 and December 31 of each fiscal year. Interest payment dates can vary depending on whether we elect London Interbank Offered Rate ("LIBOR") loans, and the interest period selected for such LIBOR loans, or Base Rate loans, as defined in the Credit Agreement, but in any event will be made in intervals of no less than three months.

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 variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Credit Agreement are at variable rates of interest, subject to a 1% LIBOR floor, and expose us to interest rate risk. On February 26, 2016, we entered into interest rate cap agreements for approximately half of our outstanding Term Loan A and Term Loan B loans, less required amortization, for a three year period. Under the interest rate cap agreements, we will receive payments for any period that the three-month LIBOR rate exceeds 2.5%. Under the terms of our Credit Agreement, we are not required to enter into interest rate protection agreements in excess of this amount and time period. If interest rates increase and we are unable to effectively hedge our interest rate risk, our debt service obligations on the variable rate indebtedness will increase.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal corporate office is located in Dallas, Texas. We lease office and warehouse facilities in Dallas, Texas; Charlottesville, Virginia; Tucson, Arizona; Longmont, Colorado; Natick, Massachusetts; and Ann Arbor, Michigan. At December 31, 2015, our leased properties consisted of 106,817 square feet.

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

PART II

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

Market Information

Our common stock is traded on the NASDAQ Capital Market under the symbol "ABCD." Below are the high and low sale prices for each quarter in the years ended December 31, 2015 and 2014.

	Year Ended December 31,			
	2015		2014	
Fiscal Quarter	High	Low	High	Low
First	$3.40	$1.65	$2.54	$1.59
Second	$4.45	$2.85	$2.40	$1.90
Third	$5.45	$4.07	$2.25	$1.29
Fourth	$5.97	$4.60	$2.10	$1.40

As of February 29, 2016, there were 566 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.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Securities authorized for issuance under equity compensation plans at December 31, 2015 are as follows:

(in thousands, except per share amounts)

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding	Number of securities remaining available

		options	for future issuance under equity incentive plans (a)
Equity compensation plans approved by security holders	2,882	$ 1.93	1,710
Equity compensation plans not approved by security holders	—	—	—
Total	2,882	$ 1.93	1,710

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

Item 6. Selected Financial Data.

This item is not required for a smaller reporting company.

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

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2015.

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

Form of Organization

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

Segments

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, other income and expense, and income taxes. We do not allocate any of these costs to our segments, and our chief operating decision maker evaluates performance of operating segments excluding these items.

Reclassifications

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

Segment Aggregation

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

Reclassification of Certain Operating Expenses and General Capital Expenditures

Certain operating expenses, such as rent, personnel, and consulting fees, previously pooled and reported in Other in the 2014 segment information have been reclassified to the applicable reportable segment to which the expense directly supported.

Additionally, General Capital Expenditures, also previously reported in Other in the 2014 segment information, have been reclassified to the applicable reportable segment to which the expenditure related. These reclassifications were made in order to provide a more complete depiction of the reportable segments as stand-alone operations. Segment disclosures for the year ended December 31, 2014 were conformed to the 2015 presentation.

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

	Three Months Ended				
(in thousands)	March 31,	June 30,	September 30,	December 31,	Fiscal 2014
Operating expense					
Learning A-Z	$33	$36	$ 37	$ 36	$142
Voyager Sopris Learning	173	170	170	214	727
ExploreLearning	—	—	—	—	—
Other	(206)	(206)	(207)	(250)	(869)
Operating expense	$—	$—	$ —	$ —	$—

	Three Months Ended				
(in thousands)	March 31,	June 30,	September 30,	December 31,	Fiscal 2014
Capital expenditures - general expenditures					
Learning A-Z	$221	$406	$ 304	$ 274	$1,205
Voyager Sopris Learning	119	89	55	42	305
ExploreLearning	192	66	13	44	315
Other	(532)	(561)	(372)	(360)	(1,825)
Capital expenditures - general expenditures	$—	$—	$ —	$ —	$—

Long-Term Strategy

We experienced success with our technology-enabled products in 2015 and believe we have created a platform to gain momentum in 2016. As Learning A-Z, ExploreLearning, and newer products in Voyager Sopris Learning like LANGUAGE! Live and kurzweil 3000+firefly have already shown, we have a tremendous opportunity to continue to transform our business model through continued strong execution of our development, marketing and sales plans. Therefore, we will continue to deploy cash generated by legacy products to invest in high-return, technology-enabled opportunities and selectively expand our sales and marketing capabilities, maintaining careful oversight of the relationship of our cost base to Bookings and revenue performance, to create a higher-margin, growing business. Bookings generated by our faster growing technology-enabled solutions may grow to 75% or more of our 2016 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 technology-enabled solutions. Technology-enabled solutions include purely online products like Learning A-Z and ExploreLearning, as well as products like the new intervention programs being developed by Voyager Sopris Learning or the online Kurzweil Education subscription solution k3000+firefly. Our products and programs are designed to help teachers around the world address the increasingly wide range of individual needs and

potential of every student in their classroom. We are committed to leveraging technology to make a difference for students.

- 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

Bookings is an internal non-GAAP 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. During 2015, consolidated Bookings increased 5.6% to $159.1 million, compared to $150.6 million in 2014. Bookings by segment for the year ended December 31, 2015 and the percentage change from 2014 by segment were as follows:

- Learning A-Z: $65.2 million, increased 25.1%, with continued strong growth in its student-centric solutions, including Raz-Kids.com, Headsprout, Writing A-Z and ReadyTest A-Z. The growth in these solutions demonstrates strong demand for products that put technology directly into students' hands.
- Voyager Sopris Learning: $72.9 million, decreased 7.4%, with Bookings growth from newer technology-enabled subscription solutions such as LANGUAGE! Live and Kurzweil's k3000+firefly offset by the expected decline of older legacy products. Voyager Sopris Learning also experienced success with the expanded Step Up to Writing program released in 2015, as school districts require quality programs to meet rigorous writing assessments.
- ExploreLearning: $21.0 million, increased 5.9%, based on continued strong performance of its technology-enabled products, Gizmos and Reflex.

We continue to execute our strategy to shift resources to subscription and technology-enabled products. For the year ended December 31, 2015, Bookings for technology-enabled products grew 19% versus the prior year. In addition to strong growth, technology-enabled products made up a larger portion of our Bookings, comprising 67% of Bookings in 2015 versus 60% of Bookings in 2014. For purposes of this metric, technology-enabled products are defined as those products that are sold primarily as a technology-based solution or that could be used solely using a digital platform. For the Voyager Sopris Learning segment, several products classified as technology-enabled include supplemental print materials.

GAAP net revenues increased in 2015 by 2.2% to $144.9 million, compared to $141.7 million in 2014. Net revenues by segment were as follows:

- Learning A-Z: $55.2 million, increased 24.3%, consistent with its ongoing strong Bookings trend
- Voyager Sopris Learning: $69.6 million, decreased 12.2%, consistent with its Bookings decline and the slower revenue recognition timing associated with its transition to technology-enabled products
- ExploreLearning: $20.2 million, increased 11.2%, higher than its Bookings increase in 2015 due to the recognition of prior period Bookings, which are recognized pro-rata over the applicable subscription periods

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

- To facilitate expected growth of our technology-enabled products, we made investments in 2015 and 2014 in our product development and sales and marketing, which increased certain costs as a percentage of net revenues, especially in Learning A-Z, for the full year 2015.
- The increasing contribution from higher-margin technology-enabled products positively impacted our earnings.
- Efforts in 2014 to right-size the Voyager Sopris Learning cost structure had a positive impact on earnings.
- Capital expenditures have increased as we continue to invest in the development of technology-enabled products that prepare students to achieve and thrive in increasingly rigorous testing environments.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

	Year Ended December 31, 2015		Year Ended December 31, 2014		Year Over Year Change Favorable/(Unfavorable)	
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$	%
Net revenues:						
Product revenues						
Learning A-Z	$55,167	38.1 %	$44,385	31.3 %	$ 10,782	24.3 %
Voyager Sopris Learning	62,846	43.4 %	70,819	50.0 %	(7,973)	(11.3)%
ExploreLearning	20,162	13.9 %	18,138	12.8 %	2,024	11.2 %
Service revenues						
Voyager Sopris Learning	6,745	4.7 %	8,405	5.9 %	(1,660)	(19.8)%
Total net revenues	144,920	100.0 %	141,747	100.0 %	3,173	2.2 %
Cost of revenues:						
Cost of product revenues						
Learning A-Z	1,950	1.3 %	1,586	1.1 %	(364)	(23.0)%
Voyager Sopris Learning	22,161	15.3 %	27,631	19.5 %	5,470	19.8 %
ExploreLearning	3,068	2.1 %	2,867	2.0 %	(201)	(7.0)%
Cost of service revenues						
Voyager Sopris Learning	4,151	2.9 %	5,790	4.1 %	1,639	28.3 %
Amortization expense	17,370	12.0 %	18,270	12.9 %	900	4.9 %
Total cost of revenues	48,700	33.6 %	56,144	39.6 %	7,444	13.3 %
Research and development expense	10,924	7.5 %	11,091	7.8 %	167	1.5 %
Sales and marketing expense	44,088	30.4 %	41,431	29.2 %	(2,657)	(6.4)%
General and administrative expense	20,098	13.9 %	19,357	13.7 %	(741)	(3.8)%
Shipping and handling costs	1,056	0.7 %	1,469	1.0 %	413	28.1 %
Depreciation and amortization expense	3,868	2.7 %	4,209	3.0 %	341	8.1 %
Income before interest, other income (expense) and income taxes	16,186	11.2 %	8,046	5.7 %	8,140	101.2 %
Net interest expense	(13,981)	(9.6)%	(17,659)	(12.5)%	3,678	20.8 %
Loss on extinguishment of debt	(4,016)	(2.8)%	(922)	(0.7)%	(3,094)	335.6 %
Other income, net	679	0.5 %	1,180	0.8 %	(501)	(42.5)%
Income tax expense	(193)	(0.1)%	(600)	(0.4)%	407	67.8 %
Net loss	$(1,325)	(0.9)%	$(9,955)	(7.0)%	$ 8,630	86.7 %

Net revenues

Net revenues for the year ended December 31, 2015 increased $3.2 million, or 2.2%, to $144.9 million from $141.7 million in the same period of 2014. Bookings increased 5.6% compared to 2014. 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 $10.8 million, or 24.3%, to $55.2 million in the year ended December 31, 2015 compared to the same period of 2014. The year-over-year growth in net revenues is the result of Learning A-Z's ongoing strong Bookings trend.

- Voyager Sopris Learning's net revenues decreased $9.6 million, or 12.2%, to $69.6 million in the year ended December 31, 2015 compared to the same period of 2014. The year-over-year change was impacted by lower Bookings, with declines in legacy print-based products and school improvement services outpacing gains from newer technology-enabled solutions. The decline was larger than the Bookings decline of 7.4%, due to the transition to technology-enabled products for which revenues are recognized more slowly than print products. Service revenues are related to school improvement services and the delivery of LETRS and NUMBERS professional development training.
- ExploreLearning's net revenues increased $2.0 million, or 11.2%, to $20.2 million in the year ended December 31, 2015 compared to the same period of 2014. Revenue growth outpaced Bookings growth during the year as a result of the recognition of prior period Bookings, which are recognized pro-rata over the applicable subscription period.

Cost of revenues

Cost of revenues include expenses to print, purchase, handle and warehouse product, as well as order processing and royalty costs, and to provide services and support to our customers. Total cost of revenues, excluding amortization, decreased $6.5 million, or 17.3%, to $31.3 million in the year ended December 31, 2015 compared to the same period of 2014. Cost of revenues benefited year-over-year from the increasing contribution from higher-margin technology-enabled solutions and right-sizing cost structure efforts completed in 2014. Cost of revenues by segment were as follows:

- Learning A-Z's cost of revenues increased $0.4 million, or 23.0%, to $2.0 million in the year ended December 31, 2015 compared to the same period of 2014. The increase in cost of revenues was due to increased costs related to supporting the expanding subscriber base as well as new customer implementations as a result of the continued trend of strong Bookings growth.
- Voyager Sopris Learning's cost of revenues decreased $7.1 million, or 21.3%, to $26.3 million in the year ended December 31, 2015 compared to the same period of 2014. This year-over-year decline was driven by lower Bookings, as well as a decrease in school improvement services. Cost of service revenues are related to school improvement services and the delivery of LETRS and NUMBERS professional development training.
- ExploreLearning's cost of revenues increased $0.2 million, or 7.0%, to $3.1 million in the year ended December 31, 2015 compared to the same period of 2014. The increase in cost of revenues is primarily due to increased costs related to implementation and training due to the segment's increased level of customer support.

Amortization expense

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and ongoing pre-publication and technology product development. Amortization decreased $0.9 million to $17.4 million in 2015 compared to $18.3 million for same period of 2014. The change was due to a decrease in amortization of acquired publishing rights and curriculum of $1.7 million which was partially offset by increased amortization of developed pre-publication and technology product development of $0.8 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 decreased $0.2 million, or 1.5%, to $10.9 million for the year ended December 31, 2015 compared to the same period of 2014. Research and development activities have been largely focused on product development during 2015 and a significant portion of the costs for product development are recorded as capital expenditures rather than research and development expense.

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, 2015 increased $2.7 million to $44.1 million, or 6.4%, compared to $41.4 million for the same period in 2014. This increase is due to planned increases in Learning A-Z to support aggressive growth, partially offset by decreases in Voyager Sopris Learning as a result of cost right-sizing efforts in 2014 and declining revenues.

General and administrative expense

General and administrative expense increased $0.7 million, or 3.8%, to $20.1 million for the year ended December 31, 2015 compared to the same period of 2014. General and administrative expense for the year ended December 31, 2014 included a gain on the sale of the IntelliTools product line of $0.3 million. In addition to the impact of this prior year item, the year over year increase includes expenditures to support Learning A-Z growth.

Shipping and handling costs

Shipping costs decreased $0.4 million, or 28.1%, to $1.1 million for the year ended December 31, 2015 compared to the same period of 2014. This decline was primarily attributable to the reduction in Bookings, especially legacy print-based Bookings, within Voyager Sopris Learning as discussed above.

Depreciation and amortization expense

Depreciation and amortization expense decreased $0.3 million, or 8.1%, to $3.9 million for the year ended December 31, 2015 compared to the same period of 2014.

Net interest expense

Net interest expense decreased $3.7 million, or 20.8%, to $14.0 million for the year ended December 31, 2015 compared to the same period of 2014. The decrease in net interest expense is primarily due to the repurchase of $35.0 million aggregate principal amount of debt during 2014. The new Senior Secured Credit Facility and redemption of outstanding senior secured notes due 2017 (the “Notes”) is expected to reduce interest expense, but because we entered into the Senior Secured Credit Facility in December 2015, this development had less impact on interest expense during 2015.

Loss on extinguishment of debt

During the year ended December 31, 2015, we extinguished the remaining $140.0 million aggregate principal amount of our Notes. This extinguishment resulted in a loss of $4.0 million, including interest paid covering the period from December 10, 2015 through the redemption date of approximately $2.5 million, the write-off of unamortized deferred financing costs and debt discount of approximately $1.5 million, and related other costs of $50 thousand.

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

See Note 11 — Long-Term Debt to the Consolidated Financial Statements for further information.

Other income, net

Other income, net decreased $0.5 million to $0.7 million in the year ended December 31, 2015 compared to the same period of 2014. The decrease was primarily due to a one-time settlement received by the Company associated with an internet domain name in the third quarter of 2014 and the termination of a sublease agreement in October 2015.

Income tax expense

We recorded income tax expense of $0.2 million in 2015 and $0.6 million in 2014. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated any deferred tax benefit generated. The year over year decrease is attributable to lower state income taxes in 2015.

Liquidity and Capital Resources

Our primary sources of liquidity are cash balances, cash flow from operations and the Revolving Credit Facility that we entered into in December 2015, as described below. 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. Our cash balances at December 31, 2015 were $8.6 million.

We believe that 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 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.

Capital spending in 2016 is expected to increase relative to 2015 as we continue to invest in new product development and product enhancements in each segment. Capital expenditures for 2016 are expected to range between $21.0 million and $22.0 million. By segment for product development, we expect to spend at least $8.0 million for Learning A-Z, $7.5 million for Voyager Sopris Learning, and $2.5 million for ExploreLearning. General capital expenditures represent expenditures that benefit the entire Company such as back-office systems, servers and computer equipment, or office furniture. General capital expenditures are expected to be approximately $3.0 million in 2016.

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 provides for a $70.0 million term loan A (“Term Loan A”), a $35 million term loan B (“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.

Borrowings under the Senior Secured Credit Facility bear interest equal to either a Base Rate, as defined in the Credit Agreement, or 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; however, the highest level of margin is applicable until the Company completes its second quarter 2016 leverage calculation. The applicable margin for the Term Loan B is 4.25% for Base Rate loans and 5.25% for LIBOR loans. From the inception of the Senior Secured Credit Facility to the end of the fourth quarter 2015, an interest rate of 5.5% applied to the Term Loan A and Revolving Credit Facility and an interest rate of 6.25% applied to the Term Loan B. Additionally, unused borrowing capacity under the Revolving Credit Facility is subject to a commitment fee of 0.5%. Interest is payable quarterly in arrears, or earlier for loans with shorter interest periods.

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 indebtedness, restrictions on investments and dispositions, and limitations on fundamental changes. A maximum consolidated net leverage ratio and minimum fixed charge coverage ratio are 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, 2015, 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, 2015 was $1.9 million.

Using the proceeds from the Senior Secured Credit Facility, we redeemed in full our 9.75% senior secured notes due 2017 and on December 10, 2015, we irrevocably deposited with Wells Fargo Bank, National Association, as trustee (the "Trustee") under the Senior Secured Notes Indenture (the "Indenture") an amount sufficient to pay and discharge all obligations under the Notes and the indenture. We deposited with the Trustee an amount totaling $146,825,000, consisting of $140,000,000 principal amount and $6,825,000 accrued and unpaid interest through but not including the redemption date. As a result, the Indenture was satisfied and discharged in full and ceased to be of further effect as of December 10, 2015. The redemption was effective February 15, 2016.

The Term Loan A and Term Loan B require scheduled quarterly principal payments beginning on March 31, 2016, 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, with the first payment due, if applicable, in September 2017. The scheduled annual minimum principal payments, excluding any potential Excess Cash Flow Payments, are as follows:

(in thousands)	Future Payments
2016	$ 3,850
2017	7,350
2018	7,350
2019	9,100
2020	77,350
	$ 105,000

Summary of Cash Flows

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

	Year Ended December 31,	
(in thousands)	2015	2014
Operating activities	$ 36,773	$ 23,643
Investing activities	(20,337)	(20,669)
Financing activities	(42,178)	(36,580)

Operating activities. Cash provided by operating activities was $36.8 million and $23.6 million for the years ended December 31, 2015 and 2014, respectively. Cash flows from operating activities were impacted favorably during 2015 by improved earnings compared to 2014. Additional factors include:

- The movement in 2014 of $2.1 million of cash to certificates of deposit to collateralize certain letters of credit, which were previously collateralized by the ABL Facility prior to its termination;

- The reduction of $1.8 million of certificates of deposit in 2015;
- Higher cash interest payments of $0.8 million in 2015 versus the prior year, due primarily to the extinguishment of our 9.75% senior secured notes due 2017 in December 2015; and
- Incentive compensation payments paid in early 2015 for the 2014 plan year were approximately $1.3 million lower than amounts paid in early 2014 for the 2013 plan year.

Investing activities. Cash used in investing activities was $20.3 million and $20.7 million for the years ended December 31, 2015 and 2014, respectively. Capital expenditures were $2.1 million higher in the year ended December 31, 2015 compared to the same period of 2014 as we continue to make strategic investments in our product offerings. Cash outflows in the year ended December 31, 2015 include the final Headsprout acquisition payment of $0.4 million. Cash outflows in 2014 include a Headsprout acquisition payment of $3.6 million, offset by proceeds from the IntelliTools product line sale of $0.8 million.

Financing activities. Cash used in financing activities was $42.2 million and $36.6 million for the years ended December 31, 2015 and 2014, respectively. The year ended December 31, 2015 includes the overall reduction in the principal amount of debt of $35.0 million after the extinguishment of our 9.75% senior secured notes due 2017 and the closing of the Senior Secured Credit

Facility. Proceeds from the new Senior Secured Credit Facility were offset by a discount, in the form of fees paid to lenders, of $1.9 million, and in connection with the new financing we incurred $2.3 million in debt issuance costs. Payments related to extinguishment of the 9.75% senior secured notes due 2017 totaled $2.5 million, primarily interest paid covering the period from the extinguishment date to the redemption date. Cash inflows in 2015 include $0.4 million of proceeds from the exercise of stock options. Borrowing and repayments under the new Revolving Credit Facility netted to zero during 2015. Financing cash outflows for the year ended December 31, 2014 include the repurchase of $35.0 million of our 9.75% senior secured notes due 2017, as well as cash payments of $0.6 million in conjunction with share repurchases.

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, 2015 in the amount of $0.9 million to support the credit collections and workers' compensation activity. We maintain certificates of deposit of $0.9 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, 2015, we have $11.0 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, 2015, we have approximately $0.9 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 following 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, which directly affect compensation for employees and executives: Bookings, EBITDA, Adjusted EBITDA, and Cash Income.

- Bookings measure the total dollar value of customer orders in a period, regardless of the timing of the related revenue recognition, and is a leading indicator of revenue.
- EBITDA is earnings (loss) 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, loss on extinguishment of debt, and certain impairment charges.
- Cash Income reduces Adjusted EBITDA for capital expenditures and removes the timing differences for recognition of deferred revenues and related deferred costs.

Bookings, 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. We believe that 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. Net loss reported on a GAAP basis includes material non-operational and non-cash items while Adjusted EBITDA and Cash Income remove significant purchase accounting, non-operational or certain non-cash items from earnings. We generally use these non-GAAP measures as measures of operating performance and not as measures of liquidity. Our presentation of Bookings, 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.

Below are reconciliations of Bookings to Net Revenues and of Net Loss to Cash Income for the years ended December 31, 2015 and 2014.

Reconciliation of Bookings to Net Revenues

(in thousands)	Year Ended December 31, 2015	2014
Bookings	$159,082	$150,648
Change in deferred revenues	(14,391)	(9,876)
Other [(a)]	229	975
Net revenues	$144,920	$141,747

Reconciliation of Net Loss to Cash Income

(in thousands)	Year Ended December 31, 2015	2014
Net loss	$(1,325)	$(9,955)
Reconciling items between net loss and EBITDA:		
Depreciation and amortization expense	21,238	22,479
Net interest expense	13,981	17,659
Income tax expense	193	600
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	34,087	30,783
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(679)	(1,180)
Loss on extinguishment of debt	4,016	922
Gain on capital lease disposal	(357)	—
Merger, acquisition and disposition activities [(b)]	760	1,116
Stock-based compensation and expense [(c)]	687	511
Adjusted EBITDA	38,514	32,152
Change in deferred revenues	14,391	9,876
Change in deferred costs	(3,257)	(1,004)
Capital expenditures	(19,937)	(17,875)
Cash income	$29,711	$23,149

Reconciliation of Bookings to Net Revenues by Segment

	Year Ended December 31, 2015			
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Consolidated

Bookings	$65,167	$72,933	$ 20,982	$ 159,082
Change in deferred revenues	(10,079)	(3,488)	(824)	(14,391)
Other [(a)]	79	146	4	229
Net revenues	$55,167	$69,591	$ 20,162	$ 144,920

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Reconciliation of Net Income (Loss) to Cash Income by Segment

	Year Ended December 31, 2015				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net income (loss)	$28,432	$15,895	$ 7,102	$(52,754)	$ (1,325)
Reconciling items between net loss and EBITDA:					
Depreciation and amortization expense	—	—	—	21,238	21,238
Net interest expense	—	—	—	13,981	13,981
Income tax expense	—	—	—	193	193
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	28,432	15,895	7,102	(17,342)	34,087
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:					
Other income, net	—	—	—	(679)	(679)
Loss on extinguishment of debt	—	—	—	4,016	4,016
Gain on capital lease disposal	—	—	—	(357)	(357)
Merger, acquisition and disposition activities [(b)]	—	—	—	760	760
Stock-based compensation and expense [(c)]	174	232	85	196	687
Adjusted EBITDA	28,606	16,127	7,187	(13,406)	38,514
Change in deferred revenues	10,079	3,488	824	—	14,391
Change in deferred costs	(1,789)	(1,409)	(59)	—	(3,257)
Adjusted EBITDA excluding effect of deferred revenues and deferred costs	36,896	18,206	7,952	(13,406)	49,648
Capital expenditures – pre-publication costs	(4,804)	(2,802)	(675)	—	(8,281)
Capital expenditures – software development costs	(2,095)	(5,225)	(1,659)	—	(8,979)

Capital expenditures – general expenditures	(1,171)	(785)	(258)	(463)	(2,677)
Cash income	$28,826	$9,394	$ 5,360	$(13,869)	$ 29,711

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Reconciliation of Bookings to Net Revenues by Segment

	Year Ended December 31, 2014			
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Consolidated
Bookings	$52,085	$78,753	$ 19,810	$ 150,648
Change in deferred revenues	(7,715)	(563)	(1,598)	(9,876)
Other [(a)]	15	1,034	(74)	975
Net revenues	$44,385	$79,224	$ 18,138	$ 141,747

Reconciliation of Net Income (Loss) to Cash Income by Segment

	Year Ended December 31, 2014				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net income (loss)	$23,597	$15,656	$ 5,058	$(54,266)	$ (9,955)
Reconciling items between net loss and EBITDA:					
Depreciation and amortization expense	—	—	—	22,479	22,479
Net interest expense	—	—	—	17,659	17,659
Income tax expense	—	—	—	600	600
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	23,597	15,656	5,058	(13,528)	30,783
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:					
Other income, net	—	—	—	(1,180)	(1,180)
Loss on extinguishment of debt	—	—	—	922	922
Merger, acquisition and disposition activities [(b)]	—	—	—	1,116	1,116
Stock-based compensation and expense [(c)]	141	148	63	159	511
Adjusted EBITDA	23,738	15,804	5,121	(12,511)	32,152
Change in deferred revenues	7,715	563	1,598	—	9,876
Change in deferred costs	(904)	(161)	61	—	(1,004)
Adjusted EBITDA excluding effect of deferred revenues and deferred costs	30,549	16,206	6,780	(12,511)	41,024
Capital expenditures – pre-publication	(4,241)	(3,142)	(535)	—	(7,918)

costs					
Capital expenditures – software development costs	(1,385)	(4,802)	(1,067)	(31)	(7,285)
Capital expenditures – general expenditures	(1,205)	(305)	(315)	(847)	(2,672)
Cash income	$23,718	$7,957	$ 4,863	$(13,389)	$ 23,149

(a) Other comprises timing differences between the invoicing of a transaction, which generates Bookings, and its recognition as either net revenues or deferred revenue. 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) 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. This caption also includes a gain on sale of the IntelliTools product line of $0.3 million recorded in the second quarter of 2014.

(c) Stock-based compensation and expense is related to our outstanding options, restricted stock awards, and warrants.

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

Voyager Sopris Learning Segment

Revenues for our Voyager Sopris Learning brand 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, school improvement 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, and school improvement services 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 on-line 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.

The Kurzweil Education brand derives revenue from either an online subscription or from the delivery of software. Subscription revenues are recognized ratably over the period the online access is available to the customer. Perpetual software sales are recognized when shipped or provided to customers. Maintenance and support services for our perpetual software can include telephone support, bug fixes, and, for certain products, rights to upgrades and enhancements on a when-and-if available basis. Professional services such as training, implementation, and professional development are recognized as delivered or over the period services or the subscription is delivered. In certain instances, telephone support and software repairs are provided for free within the first three months of licensing the software. The cost of providing this service is insignificant, and is accrued at the time of revenue recognition.

Learning A-Z and ExploreLearning Segments

The Learning A-Z and ExploreLearning segments derive revenue exclusively 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.

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.

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 or 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. 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, 2015 by segment:

(in thousands)	December 31, 2015
Learning A-Z	$ 13,215
Voyager Sopris Learning	27,680
ExploreLearning	6,947
Goodwill	$ 47,842

We performed the 2015 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 2015, we elected to perform the optional qualitative assessment for each reporting unit. 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 any of our reporting units.

During 2014, 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 2014, we 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.

No impairment was indicated as a result of our 2015 or 2014 annual impairment analysis.

Historically, when performing the two-step quantitative impairment test, we first determine 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 historical and projected multiples of certain guideline companies. If the carrying value of the reporting unit exceeds the fair value of that unit for the first step of the impairment test, then a second step was 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.

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 market, 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, 2015. 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 every 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. The amount of the deferred tax asset considered realizable may be reduced if estimates of future taxable income during the carryforward period are reduced.

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.

We have audited the accompanying consolidated balance sheets of Cambium Learning Group, Inc. and subsidiaries (the “Company”), as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, stockholders’ equity (deficit), and cash flows for the years then ended. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2015 and 2014, 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.

/s/ Whitley Penn LLP

Dallas, Texas

March 2, 2016

Cambium Learning Group, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share data)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Net revenues:		
Product revenues	$138,175	$133,342
Service revenues	6,745	8,405
Total net revenues	144,920	141,747
Cost of revenues:		
Cost of product revenues	27,179	32,084
Cost of service revenues	4,151	5,790
Amortization expense	17,370	18,270
Total cost of revenues	48,700	56,144
Research and development expense	10,924	11,091
Sales and marketing expense	44,088	41,431
General and administrative expense	20,098	19,357
Shipping and handling costs	1,056	1,469
Depreciation and amortization expense	3,868	4,209
Total costs and expenses	128,734	133,701
Income before interest, other income (expense) and income taxes	16,186	8,046
Net interest income (expense):		
Interest income	13	4
Interest expense	(13,994)	(17,663)
Net interest expense	(13,981)	(17,659)
Loss on extinguishment of debt	(4,016)	(922)
Other income, net	679	1,180
Loss before income taxes	(1,132)	(9,355)
Income tax expense	(193)	(600)
Net loss	$(1,325)	$(9,955)
Other comprehensive income (loss):		
Net pension gain (loss)	$925	$(1,930)
Amortization of net pension loss	223	86
Comprehensive loss	$(177)	$(11,799)
Net loss per common share:		
Basic net loss per common share	$(0.03)	$(0.22)
Diluted net loss per common share	$(0.03)	$(0.22)
Average number of common shares and equivalents outstanding:		
Basic	45,550	45,636
Diluted	45,550	45,636

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, 2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$8,645	$34,387
Accounts receivable, net	14,640	14,304
Inventory	4,694	5,337
Restricted assets, current	1,265	1,345
Other current assets	9,981	8,168
Total current assets	39,225	63,541
Property, equipment and software at cost	55,824	51,298
Accumulated depreciation and amortization	(33,284)	(30,442)
Property, equipment and software, net	22,540	20,856
Goodwill	47,842	47,842
Acquired curriculum and technology intangibles, net	2,731	5,209
Acquired publishing rights, net	1,459	2,762
Other intangible assets, net	3,231	4,499
Pre-publication costs, net	16,441	15,070
Restricted assets, less current portion	3,099	4,152
Other assets	4,817	5,286
Total assets	$141,385	$169,217

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, 2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$1,993	$1,612
Accrued expenses	14,224	17,432
Capital lease obligations, current	—	1,076
Current portion of long-term debt	3,850	—
Deferred revenue, current	74,107	61,788
Total current liabilities	94,174	81,908
Long-term liabilities:		
Long-term debt	97,872	137,374
Capital lease obligations, less current portion	—	943
Deferred revenue, less current portion	11,481	9,409
Other liabilities	12,027	14,638
Total long-term liabilities	121,380	162,364
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, 2015 and 2014)	—	—
Common stock ($0.001 par value, 150,000 shares authorized, 52,268 and 52,006 shares issued, and 45,736 and 45,474 shares outstanding at December 31, 2015 and 2014, respectively)	52	52
Capital surplus	285,306	284,243
Accumulated deficit	(343,975)	(342,650)
Treasury stock at cost (6,532 shares at December 31, 2015 and 2014)	(12,784)	(12,784)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,768)	(3,916)
Accumulated other comprehensive loss	(2,768)	(3,916)
Total stockholders' equity (deficit)	(74,169)	(75,055)
Total liabilities and stockholders' equity (deficit)	$141,385	$169,217

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,	
	2015	2014
Operating activities:		
Net loss	$(1,325)	$(9,955)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	21,238	22,479
Loss on extinguishment of debt	4,016	922
Amortization of note discount and deferred financing costs	1,226	1,509
Gain on sale of IntelliTools product line	—	(289)
Non-cash (gain) loss on disposal of assets	(524)	93
Stock-based compensation and expense	687	511
Deferred income taxes	(13)	(21)
Changes in operating assets and liabilities:		
Accounts receivable, net	(336)	1,463
Inventory	643	3,626
Other current assets	(2,391)	(1,285)
Other assets	1,359	(1,538)
Restricted assets	1,133	1,338
Accounts payable	381	311
Accrued expenses	(2,808)	(4,648)
Deferred revenue	14,391	9,876
Other long-term liabilities	(904)	(749)
Net cash provided by operating activities	36,773	23,643
Investing activities:		
Cash paid for acquisition	(400)	(3,600)
Proceeds from sale of IntelliTools product line	—	806
Expenditures for property, equipment, software and pre-publication costs	(19,937)	(17,875)
Net cash used in investing activities	(20,337)	(20,669)
Financing activities:		