

Voyager Learning CO  
Form 10-Q  
December 15, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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 1-3246

**Voyager Learning Company**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**36-3580106**  
(I.R.S.Employer  
Identification No.)

**1800 Valley View Lane, Suite 400, Dallas, Texas**  
(Address of Principal Executive Offices)

**75234-8923**  
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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

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

The number of shares of the registrant's common stock, \$.001 par value, outstanding as of October 31, 2008 was 29,874,145.

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Voyager Learning Company and Subsidiaries

Condensed Consolidated Statements of Operations

For the Thirteen Week Periods Ended March 31, 2007, and April 1, 2006

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Net sales	\$ 20,059	\$ 22,709
Cost of sales	(11,581)	(12,467)
<b>Gross profit</b>	<b>8,478</b>	<b>10,242</b>
Research and development expense	(1,109)	(1,472)
Selling and administrative expense	(22,668)	(29,038)
<b>Loss from continuing operations before interest and income taxes</b>	<b>(15,299)</b>	<b>(20,268)</b>
<b>Net interest expense:</b>		
Interest income	1,171	270
Interest expense	(2,489)	(4,843)
<b>Net interest expense</b>	<b>(1,318)</b>	<b>(4,573)</b>
Sublease income	732	
<b>Loss from continuing operations before income taxes</b>	<b>(15,885)</b>	<b>(24,841)</b>
Income tax benefit	6,074	4,088
<b>Loss from continuing operations</b>	<b>(9,811)</b>	<b>(20,753)</b>
Earnings from discontinued operations (less applicable income taxes of \$1,491 and \$6,503, respectively)	4,594	1,095
Gain on sale of discontinued operations (less applicable income taxes of \$11,160 and \$0, respectively)	46,572	
<b>Net earnings (loss)</b>	<b>\$ 41,355</b>	<b>\$ (19,658)</b>
<b>Net earnings (loss) per common share:</b>		
<b>Basic:</b>		
Loss from continuing operations	\$ (0.32)	\$ (0.70)
Earnings from discontinued operations	0.15	0.04
Gain on sale of discontinued operations	1.56	
<b>Basic net earnings (loss) per common share</b>	<b>\$ 1.39</b>	<b>\$ (0.66)</b>
<b>Diluted:</b>		
Loss from continuing operations	\$ (0.32)	\$ (0.70)
Earnings from discontinued operations	0.15	0.04
Gain on sale of discontinued operations	1.56	

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Diluted net earnings (loss) per common share \$ 1.39 \$ (0.66)

**Average number of common shares and equivalents outstanding:**

Basic	29,847	29,808
Diluted	29,847	29,808

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

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Voyager Learning Company and Subsidiaries

Condensed Consolidated Balance Sheets

As of March 31, 2007 and December 30, 2006

(In thousands)

	March 31, 2007 (Unaudited)	December 30, 2006
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 85,484	\$ 39,902
Accounts receivable, net	14,800	15,333
Income tax receivable	60,896	9,858
Inventory	15,360	12,601
Other current assets	15,704	69,552
Assets related to discontinued operations, current		70,712
<b>Total current assets</b>	<b>192,244</b>	<b>217,958</b>
Property, equipment, and software at cost	21,516	20,914
Accumulated depreciation and amortization	(6,003)	(5,124)
<b>Net property, equipment and software</b>	<b>15,513</b>	<b>15,790</b>
<b>Goodwill</b>	<b>210,090</b>	<b>210,090</b>
Acquired curriculum intangibles, net	61,903	65,625
Other intangible assets, net	7,850	8,323
Developed curriculum, net	7,786	6,997
Other assets	15,983	18,145
Assets related to discontinued operations, noncurrent		290,603
<b>Total assets</b>	<b>\$ 511,369</b>	<b>\$ 833,531</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 864	\$ 59,072
Accounts payable	29,270	10,056
Accrued expenses	28,812	83,773
Deferred revenue	14,292	17,705
Liabilities related to discontinued operations, current		215,264
<b>Total current liabilities</b>	<b>73,238</b>	<b>385,870</b>
<b>Long-term liabilities:</b>		
Long-term debt, less current maturities	1,377	1,592
Other liabilities	71,761	96,653
Liabilities related to discontinued operations, noncurrent		42,422
<b>Total long-term liabilities</b>	<b>73,138</b>	<b>140,667</b>
<b>Commitments and contingencies (See Note 15)</b>		

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Shareholders' equity:

Common stock (\$.001 par value, 50,000 shares authorized, 30,552 shares issued and 29,885 shares outstanding at March 31, 2007, 30,565 shares issued and 29,910 shares outstanding at December 30, 2006)	30	30
Capital surplus	355,715	356,655
Accumulated earnings (deficit)	28,867	(33,373)
Treasury stock, at cost (667 shares at March 31, 2007 and 655 shares at December 30, 2006)	(16,725)	(16,577)
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment, net of tax		25,989
Pension and postretirement plans, net of tax	(3,110)	(26,401)
Net unrealized gain on securities, net of tax	216	671
Accumulated other comprehensive income (loss)	(2,894)	259
Total shareholders' equity	364,993	306,994
Total liabilities and shareholders' equity	\$ 511,369	\$ 833,531

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

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Voyager Learning Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the Thirteen Week Periods Ended March 31, 2007, and April 1, 2006

(In thousands)

(Unaudited)

	Thirteen Weeks Ended March 31, 2007	April 1, 2006
<b>Operating activities:</b>		
Net earnings (loss)	\$ 41,355	\$ (19,658)
<b>Adjustments to reconcile net earnings (loss) to net cash used in operating activities:</b>		
Earnings from discontinued operations, net of tax	(4,594)	(1,095)
Gain on sale of discontinued operations, net of tax	(46,572)	
Depreciation and amortization	5,781	5,854
Amortization and write-off of deferred financing costs	2,236	163
Stock-based compensation (benefit)	(999)	1,388
Gain on sale of available for sale securities	(483)	(368)
Deferred income taxes	(6,349)	(27)
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Accounts receivable, net	(50,505)	9,346
Inventory	(2,759)	572
Other current assets	54,283	(988)
Other assets	(789)	(15,005)
Accounts payable	25,531	(3,583)
Accrued expenses	(57,533)	4,150
Deferred revenue	(3,335)	(2,153)
Other long-term liabilities	(11,625)	13,485
Other, net	(28)	(124)
<b>Net cash used in operating activities of continuing operations</b>	<b>(56,385)</b>	<b>(8,043)</b>
<b>Investing activities:</b>		
Expenditures for property, equipment, curriculum development costs, and software	(2,093)	(1,587)
Purchases of equity investments available for sale	(7,474)	(4,038)
Proceeds from sales of equity investments available for sale	7,078	8,976
Proceeds from sale of discontinued operations, net	186,342	
<b>Net cash provided by investing activities of continuing operations</b>	<b>183,853</b>	<b>3,351</b>
<b>Financing activities:</b>		
Proceeds from debt		248,694
Repayment of debt	(58,225)	(232,600)
Principal payments under capital lease obligations	(198)	(112)
Debt issuance costs	(302)	(50)
Proceeds from exercise of stock options, net		589
<b>Net cash provided by (used in) financing activities of continuing operations</b>	<b>(58,725)</b>	<b>16,521</b>
<b>Effect of exchange rate changes on cash</b>		<b>660</b>



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Increase in cash and cash equivalents of continuing operations	68,743	12,489
<b>Net cash used in discontinued operations:</b>		
Net cash used in operating activities	(19,891)	(359)
Net cash used in investing activities	(2,540)	(14,531)
Net cash used in financing activities	(730)	(6,038)
<b>Net cash used in discontinued operations</b>	<b>(23,161)</b>	<b>(20,928)</b>
Increase (decrease) in cash and cash equivalents	45,582	(8,439)
Cash and cash equivalents, beginning of period	39,902	30,957
Cash and cash equivalents, end of period	\$ 85,484	\$ 22,518
<b>Non-cash financing and investing activities:</b>		
Acquisition of equipment through capital leases	\$	\$ 43

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

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**Voyager Learning Company and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1 Basis of Presentation**

The Condensed Consolidated Financial Statements include the accounts of Voyager Learning Company and its subsidiaries and are unaudited. All intercompany transactions are eliminated.

On November 28, 2006, we sold ProQuest Business Solutions ( PQBS ) to Snap-on Incorporated. In December 2006, we announced the sale of ProQuest Information & Learning ( PQIL ) to Cambridge Scientific Abstracts, LP. The sale of PQIL was completed on February 9, 2007. The operating results and the gain on sale of PQBS and PQIL have been segregated from our continuing operations for all periods presented in our Condensed Consolidated Financial Statements and are separately reported as discontinued operations (see Note 6 herein).

As permitted under the Securities and Exchange Commission ( SEC ) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Certain reclassifications to the 2006 Consolidated Financial Statements have been made to conform to the 2007 presentation. We believe that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 30, 2006 (the 2006 10-K ). The Company has already filed its annual report on Form 10-K for the year ended December 29, 2007 (the 2007 Form 10-K ). This section should also be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in the 2007 Form 10-K. Due to seasonality, the results of operations for the thirteen weeks ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 29, 2007.

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

With the sale of PQBS in November 2006 and the sale of PQIL in February 2007, the Company had business segments that were included in discontinued operations in both years. Because the Company's management approach, organizational structure,

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operating performance measurement and reporting, and operational decision making are performed from a single company perspective, the Company operates as one reportable segment within the United States ( U.S. ) in fiscal 2007, which includes all corporate operations.

**Note 2 Correction of an Immaterial Error**

While preparing for adoption of Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ) and also preparation of the 2007 tax provision, we discovered errors in the amount of income tax expense (benefit) recognized in 2006. These errors were primarily related to the calculation of U.S. tax basis of foreign and domestic subsidiaries. These tax errors while immaterial to the previously issued 2006 financial statements, could distort the 2007 financial results. As such, we have corrected the 2006 results being presented in the 2007 financial statements. There was no impact on the statement of operations for the thirteen weeks ended April 1, 2006 as the changes all impacted the fourth quarter of fiscal year 2006. Changes to the December 30, 2006 consolidated balance sheet are as follows:

**Consolidated Balance Sheet**

As of December 30, 2006

<i>(Dollars in thousands)</i>	2006 as Originally Filed	Error Correction	2006 as Corrected
<b>Assets:</b>			
Other current assets	\$ 72,162	\$ (2,610)	\$ 69,552
<b>Total current assets</b>	<b>220,568</b>	<b>(2,610)</b>	<b>217,958</b>
<b>Total assets</b>	<b>836,141</b>	<b>(2,610)</b>	<b>833,531</b>
<b>Liabilities:</b>			
Accrued expenses	85,269	(1,496)	83,773
<b>Total current liabilities</b>	<b>387,366</b>	<b>(1,496)</b>	<b>385,870</b>
Other liabilities	88,341	8,312	96,653
<b>Total long-term liabilities</b>	<b>132,355</b>	<b>8,312</b>	<b>140,667</b>
<b>Shareholders' equity (deficit):</b>			
Accumulated deficit	(24,102)	(9,271)	(33,373)
<b>Other comprehensive income (loss):</b>			
Accumulated foreign currency translation adjustment, net of tax expense of \$2,423 and \$2,739 as corrected	26,305	(316)	25,989
Pension and postretirement plans, net of tax benefit of \$544 and \$713 as corrected	(26,570)	169	(26,401)
Net unrealized gain on securities, net of tax expense of \$31 and \$39 as corrected	679	(8)	671
Accumulated other comprehensive income (loss)	414	(155)	259
<b>Total shareholders' equity (deficit)</b>	<b>316,420</b>	<b>(9,426)</b>	<b>306,994</b>
<b>Total liabilities and shareholders' equity</b>	<b>836,141</b>	<b>(2,610)</b>	<b>833,531</b>

**Table of Contents****Note 3 Accounts Receivable**

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled \$0.3 million and \$1.8 million at March 31, 2007 and December 30, 2006, respectively. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The allowance for sales returns is based on historical rates of return.

**Note 4 Stock-Based Compensation**

The total amount of pre-tax expense (benefit) for stock-based compensation recognized in selling, general and administrative expense, in the thirteen weeks ended March 31, 2007 and April 2, 2006 was \$(1.0) million and \$1.0 million, respectively. Additionally, \$(0.1) million and \$0.4 million in pre-tax expense (benefit) for stock-based compensation is recognized in earnings from discontinued operations in the thirteen weeks ended March 31, 2007 and April 2, 2006, respectively.

There were no issuances of stock-based compensation awards during the thirteen weeks ended March 31, 2007.

**Note 5 Net Earnings (Loss) per Common Share**

Basic net earnings/ (loss) per common share are computed by dividing net earnings/ (loss) by the weighted average number of common shares outstanding during the period. Diluted net earnings/(loss) per common share is computed by dividing net earnings/(loss) by the weighted average number of common shares outstanding during the period, including the potential dilution that could occur if all of our outstanding stock awards that are in-the-money were exercised, using the treasury stock method. A reconciliation of the weighted average number of common shares and equivalents outstanding used in the calculation of basic and diluted net earnings per common share are shown in the table below for the periods indicated:

<i>(Shares in thousands)</i>	<b>March 31, 2007</b>	<b>April 1, 2006</b>
<b>Basic</b>	<b>29,847</b>	<b>29,808</b>
<b>Dilutive effect of awards</b>		
<b>Diluted</b>	<b>29,847</b>	<b>29,808</b>

No awards were included in the computation of diluted net earnings (loss) per common share for the thirteen weeks ended March 31, 2007 and April 1, 2006 because a loss from operations occurred and to include them would be anti-dilutive.

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**Note 6 Discontinued Operations**

In the second quarter of 2006, the Company determined to sell PQBS and PQIL to raise capital to repay its outstanding debt. The Board authorized the plan of sale and investment bankers were retained to assist the Company in the sales. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. On February 9, 2007, we sold PQIL and all of our remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. We used a portion of the proceeds from that sale to pay down all remaining debt, excluding capital leases.

The operating results of sold or to be sold businesses have been segregated from our continuing operations. The Condensed Consolidated Statements of Operations separately reflect the earnings of PQBS and PQIL and the gain on sale of PQIL as discontinued operations. Interest expense of \$0.8 million and \$3.3 million for the thirteen weeks ended March 31, 2007 and April 1, 2006 respectively, was allocated to discontinued operations based on the ratio of sold or to be sold businesses to total net assets of the consolidated company.

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The major classes of assets and liabilities related to discontinued operations at fiscal year ended December 30, 2006 included in our Consolidated Balance Sheets, all of which relate to the ProQuest Information and Learning businesses, were as follows:

	Fiscal Period Ended December 30, 2006
<i>(Dollars in thousands)</i>	
<b>Assets related to discontinued operations:</b>	
Accounts receivable, net	\$ 46,456
Other current assets	24,256
<b>Total current assets related to discontinued operations</b>	<b>70,712</b>
Property, plant, equipment, and software, net	206,171
Long-term receivables	3,173
Goodwill, net	68,398
Other intangible assets, net	6,946
Other assets	5,915
<b>Total assets related to discontinued operations</b>	<b>\$ 361,315</b>
<b>Liabilities related to discontinued operations:</b>	
Current maturities of long-term debt	\$ 5,945
Accounts payable	51,284
Accrued expenses	11,629
Deferred income	146,406
<b>Total current liabilities related to discontinued operations</b>	<b>215,264</b>
Long-term debt, less current maturities	5,019
Other liabilities	37,403
<b>Total liabilities related to discontinued operations</b>	<b>\$ 257,686</b>

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Results from discontinued operations are shown in the tables below for the quarter to date periods indicated:

<i>(Dollars in thousands)</i>	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
<b>Net sales by business segment:</b>		
<b>ProQuest Information and Learning</b>	\$ 26,062	\$ 59,608
<b>ProQuest Business Solutions</b>		44,915
<b>Net sales from discontinued operations</b>	\$ 26,062	\$ 104,523
<b>Earnings (loss) before interest and income taxes:</b>		
<b>ProQuest Information and Learning</b>	\$ 6,932	\$ (1,700)
<b>ProQuest Business Solutions</b>		13,022
<b>Earnings from discontinued operations before interest and income taxes</b>	6,932	11,322
<b>Interest expense, net</b>	(847)	(3,724)
<b>Income tax expense</b>	(1,491)	(6,503)
<b>Earnings from discontinued operations, net of taxes</b>	\$ 4,594	\$ 1,095

The gain on sale of discontinued operations for the thirteen weeks ended March 31, 2007, which relates to the ProQuest Information and Learning businesses, was derived as follows:

<i>(Dollars in thousands)</i>	
<b>Sale price</b>	\$ 195,249
<b>Net assets, related liabilities, and selling costs <sup>(1)</sup></b>	(137,517)
<b>Gain on sale</b>	57,732
<b>Income tax expense</b>	(11,160)
<b>Gain on sale of discontinued operations, net of tax</b>	\$ 46,572

<sup>(1)</sup> Net assets sold includes goodwill of \$68.0 million

**Note 7 Comprehensive Income**

Comprehensive income or loss includes net earnings, foreign currency translation adjustments, minimum pension liability, and net unrealized gain on available-for-sale securities.

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Comprehensive income is shown in the table below for the periods indicated:

<i>(Dollars in thousands)</i>	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
<b>Net earnings (loss)</b>	<b>\$ 41,355</b>	<b>\$ (19,658)</b>
<b>Other comprehensive income (loss):</b>		
<b>Foreign currency translation adjustment</b>	<b>(1,313)</b>	<b>1,472</b>
<b>Pension and postretirement plans, net of tax</b>	<b>8</b>	
<b>Unrealized gain (loss) on securities, net of tax</b>	<b>(455)</b>	<b>(158)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 39,595</b>	<b>\$ (18,344)</b>

**Note 8 Other Current Assets**

Other current assets at March 31, 2007 and December 30, 2006 consisted of the following:

<i>(Dollars in thousands)</i>	March 31, 2007	As of December 30, 2006
<b>Short-term deferred tax asset</b>	<b>\$ 2,566</b>	<b>\$ 61,153</b>
<b>Deferred costs</b>	<b>1,092</b>	<b>1,394</b>
<b>Available for sale securities</b>	<b>5,118</b>	<b>4,677</b>
<b>Other</b>	<b>6,928</b>	<b>2,328</b>
<b>Total</b>	<b>\$ 15,704</b>	<b>\$ 69,552</b>

**Note 9 Other Assets**

Other assets at March 31, 2007 and December 30, 2006 consisted of the following:

<i>(Dollars in thousands)</i>	March 31, 2007	As of December 30, 2006
<b>Long-term deferred tax asset</b>	<b>\$</b>	<b>\$ 1,016</b>
<b>Deferred financing costs, net</b>	<b>50</b>	<b>1,984</b>
<b>Insurance receivable</b>	<b>15,000</b>	<b>15,000</b>
<b>Other</b>	<b>933</b>	<b>145</b>
<b>Total</b>	<b>\$ 15,983</b>	<b>\$ 18,145</b>



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Accrued expenses at March 31, 2007 and December 30, 2006 consisted of the following:

<i>(Dollars in thousands)</i>	March 31, 2007	As of December 30, 2006
<b>Accrued income taxes</b>	<b>\$</b>	<b>\$ 56,513</b>
<b>Salaries, bonuses and benefits</b>	<b>10,958</b>	<b>15,510</b>
<b>Corporate transition costs</b>	<b>1,451</b>	
<b>Other</b>	<b>16,403</b>	<b>11,750</b>
<b>Total</b>	<b>\$ 28,812</b>	<b>\$ 83,773</b>

On February 12, 2007, the Company's Board of Directors approved and announced to employees the closing of the corporate office in Ann Arbor, Michigan. The transition plan, which is expected to be completed by year-end 2008, included the elimination of redundant positions and transitioning the performance of certain operational activities to Dallas, Texas. The Company expects to incur approximately \$4.4 million in severance and retention expense related to the transition plan, of which \$4.2 million was accrued during the thirteen weeks ended March 31, 2007. Costs are included in selling, general, and administrative expense. The change in accruals for corporate transition costs related to severance and retention payments for the thirteen weeks ended March 31, 2007 is as follows:

<i>(Dollars in thousands)</i>	
<b>Balance as of December 30, 2006</b>	<b>\$</b>
<b>Accruals</b>	<b>4,152</b>
<b>Payments made</b>	
<b>Balance as of March 31, 2007</b>	<b>\$ 4,152</b>
<b>Current portion</b>	<b>\$ 1,451</b>
<b>Long-term portion</b>	<b>\$ 2,701</b>

**Table of Contents****Note 11 Other Liabilities**

Other liabilities at March 31, 2007 and December 30, 2006 consisted of the following:

<i>(Dollars in thousands)</i>	March 31, 2007	As of December 30, 2006
<b>Pension benefits, long-term portion</b>	<b>\$ 20,511</b>	<b>\$ 20,853</b>
<b>Long-term deferred tax liability</b>	<b>10,775</b>	<b>1,326</b>
<b>Long-term income tax payable</b>	<b>1,048</b>	<b>28,092</b>
<b>Legal contingency accrual</b>	<b>20,000</b>	<b>20,000</b>
<b>Long-term deferred compensation</b>	<b>5,610</b>	<b>11,592</b>
<b>Post-retirement medical benefits, long-term portion</b>	<b>135</b>	<b>137</b>
<b>Deferred rent</b>	<b>7,675</b>	<b>7,303</b>
<b>Long-term deferred revenue</b>	<b>128</b>	<b>50</b>
<b>Other</b>	<b>5,879</b>	<b>7,300</b>
<b>Total</b>	<b>\$ 71,761</b>	<b>\$ 96,653</b>

**Note 12 Pension and Other Postretirement Benefit Plans**

Components of net periodic benefit costs are:

<i>(Dollars in thousands)</i>	Thirteen Weeks Ended			
	U.S. Defined Benefit Pension Plan		Other Postretirement Benefits	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
<b>Service cost</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Interest cost</b>	<b>297</b>	<b>307</b>	<b>2</b>	<b>3</b>
<b>Expected return on plan assets</b>				
<b>Amortization of prior service cost</b>				
<b>Recognized net actuarial (gain) loss</b>	<b>34</b>	<b>34</b>	<b>(26)</b>	<b>(27)</b>
<b>Net pension and other postretirement benefit cost (income)</b>	<b>\$ 331</b>	<b>\$ 341</b>	<b>\$ (24)</b>	<b>\$ (24)</b>

**Table of Contents****Note 13 Debt and Lines of Credit**

The following table summarizes our debt as of the dates indicated:

<i>(Dollars in thousands)</i>	March 31, 2007	As of December 30, 2006
<b>Long-term debt:</b>		
2002 Senior notes due 10/01/12	\$	\$ 16,605
2005 Senior notes due 01/31/15		19,373
Revolving credit agreement		22,247
Capital lease obligations	2,236	2,433
Termination costs	5	6
<b>Long-term debt</b>	<b>2,241</b>	<b>60,664</b>
Less: current maturities	(864)	(59,072)
<b>Long-term debt, less current maturities</b>	<b>\$ 1,377</b>	<b>\$ 1,592</b>

Upon closing on the sale of PQIL on February 9, 2007, we paid our remaining balances owed to our lenders and noteholders and were released from all obligations under the 2002 Senior Notes due 10/01/12, 2005 Senior Notes due 01/31/15, and the 2005 Revolving Credit Agreement.

Interest expense for the first quarter of 2007 includes \$2.2 million for amortization and write-off of deferred financing fees related to the extinguished debt balances.

**Note 14 Uncertain Tax Positions**

Effective December 31, 2006, the Company adopted FIN 48. FIN 48 requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a more likely than not threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts, and are classified as current or long term based on the time until expected payment.

Upon adoption of FIN 48, the Company recorded a reduction to its accumulated deficit of \$20.9 million and had a total of \$18.9 million of unrecognized tax benefits. The total amount of these unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$8.0 million.

In the first quarter of 2007, the Company recorded a decrease to its liability for unrecognized tax benefits of approximately \$3.5 million, which primarily relates to positions taken during prior periods that are moved to a guarantor liability account or the gain on disposition of a subsidiary. Following this decrease, the total amount of these unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.2 million.

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The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Previously, our policy was to classify interest and penalties as an operating expense in arriving at pretax income. The Company had approximately \$9,000 in interest related to unrecognized tax benefits accrued as of the FIN 48 adoption date and no amounts were accrued for penalties as of such date.

The Company anticipates the settlement of approximately \$0.6 million with the taxing authorities within the next twelve months for non-deductible costs.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various U.S. state jurisdictions. The tax years which remain subject to examination by major tax jurisdictions as of fiscal year end 2007 include 2002-2007.

Under the sale agreements with Snap-On Incorporated and Cambridge Scientific Abstracts, LP ( CSA ), the Company is liable to indemnify Snap-On Incorporated or CSA for any income taxes assessed against PQBS or PQIL for periods prior to the sale of PQBS or PQIL. The Company has established a liability for those matters where it is not probable that the position will be sustained. The amount of the liability is based on management's best estimate given the Company's history with similar matters and interpretations of current laws and regulations.

### **Note 15 Contingent Liabilities**

#### **Putative Securities Class Actions**

Between February and April 2006, four putative securities class actions, consolidated and designated *In re ProQuest Company Securities Litigation*, were filed in the U.S. District Court for the Eastern District of Michigan (the Court ) against the Company and certain of its former and then-current officers and directors. Each of these substantially similar lawsuits alleged that the Company and certain officers and directors ( the Defendants ) violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), as well as the associated Rule 10b-5, in connection with the Company's proposed restatement.

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs' counsel. By stipulation of the parties, the consolidated lawsuit was stayed pending restatement of the Company's financial statements. On January 24, 2007, lead plaintiffs filed their amended consolidated complaint, which Defendants moved to dismiss on March 15, 2007. The Court denied Defendants motion to dismiss on November 6, 2007.

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On July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action law suit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan for \$20 million. The settlement will be funded largely by insurance. Under the terms of the agreement, the Company would pay approximately \$5 million in fees and settlement amounts to settle all claims related to the financial statements with remaining amounts to be paid by insurers. The settlement is subject to completion of a Stipulation and Agreement of Settlement to be signed by the parties, preliminary and final court approval and the participation of a sufficient percentage of the putative class. There is no assurance that a final Stipulation and Agreement of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. A copy of the recently signed Memorandum of Understanding regarding this settlement was filed on Form 8-K with the SEC. If the settlement arrangement is not finalized, the Company intends to defend itself vigorously.

### **Shareholder Derivative Lawsuits**

On April 18, 2006 and December 19, 2006, respectively, two shareholder derivative lawsuits were filed in the U.S. District Court for the Eastern District of Michigan (the Court), purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company's shareholders. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated order staying the litigation pending completion of the Company's restatement and a special committee investigation into the restatement.

On January 29, 2008, the Court entered an order consolidating the two cases and approving co-lead and co-liaison counsel representing plaintiffs. Pursuant to a stipulated scheduling order entered on February 15, 2008, plaintiffs filed a consolidated amended complaint on March 20, 2008. The consolidated amended complaint purports to state claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, rescission, imposition of a constructive trust, violations of the Sarbanes-Oxley Act of 2002 and violations of the Securities Exchange Act of 1934 against current and former officers or directors of the Company and one of its subsidiaries. On December 3, 2008 the Company reached an agreement in principle to settle the shareholder derivative litigation law suit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan. Under the terms of the agreement, the Company and its insurers would pay an amount not to exceed

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\$650,000 in attorneys' fees and agree to maintain or adopt additional corporate governance standards. The Company's portion of this amount is equal to \$500,000. The settlement is subject to completion of a Stipulation of Settlement to be signed by the parties, preliminary and final court approval and the provision of notice to shareholders. There is no assurance that a final Stipulation of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. The Company intends to defend itself vigorously. It is not yet possible to determine the ultimate outcome of this action.

### **Securities and Exchange Commission Investigation**

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company's announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company's restatement. On July 22, 2008, the SEC (Commission) filed a settled enforcement action against the Company in the U.S. District Court for the Eastern District of Michigan. Pursuant to that settlement, the terms of which were disclosed previously by the Company, without admitting or denying the allegations in the Complaint, the Company consented to the filing by the Commission of a Complaint, and to the imposition by the Court of a final judgment of permanent injunction against the Company. The Complaint alleges civil violations of the reporting, books and records and internal controls provisions of the Securities Exchange Act of 1934. The final judgment was signed by the Court on July 28, 2008 and permanently enjoins the Company from future violations of those provisions. No monetary penalty was imposed. The settlement resolved fully the previously disclosed SEC investigation of the Company's restatement.

### **Data Driven Software Corporation vs. Voyager Expanded Learning et al.**

Voyager Expanded Learning (VEL) was a defendant in an arbitration styled: D2 Data Driven Software Corporation f/k/a EdSoft Software Corporation (EdSoft) v. Voyager Expanded Learning, Inc., et al., before the American Arbitration Association, No. 71 117 Y 00238 06.

Effective on or about January 24, 2008, VEL, the individual respondents and EdSoft executed a mutual release and settlement agreement. VEL subsequently paid EdSoft \$5.4 million in connection with that settlement. In addition to providing mutual releases between EdSoft, on one hand, and VEL and the individual respondents, on the other hand, the parties agreed to dismiss all lawsuits with prejudice. EdSoft also executed a release of arbitration award. The Company accrued \$5.4 million related to this settlement as of year end of 2006.

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**Other Contingent Liabilities**

We are also involved in various legal proceedings incidental to our business. Management believes that the outcome of these proceedings will not have a material adverse effect upon our consolidated operations or financial condition and we believe we have recognized appropriate reserves as necessary based on facts and circumstances known to management.

We have letters of credit in the amount of \$0.6 million outstanding as of March 31, 2007 to support workers' compensation insurance coverage as well as collateral for the Company's credit card and Automated Clearinghouse (ACH) programs.

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**Item 2.**

**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 Voyager Learning Company and Subsidiaries (collectively the Company) and the notes thereto included in the annual report on Form 10-K for the year December 30, 2006 (the 2006 Form 10-K), as well as the accompanying interim financial statements and the notes thereto for the periods ending March 31, 2007. The Company has already filed its annual report on Form 10-K for the year ended December 29, 2007 (the 2007 Form 10-K). This section should also be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in the 2007 Form 10-K.

**Safe Harbor for Forward-looking Statements**

Except for the historical information and discussions contained herein, statements contained in this document may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors, which could cause actual results to differ materially. In some cases, you can identify forward-looking statements by terminology such as may, should, expects, plans, anticipates, believes, estimates, predicts, potential, continue, projects, in priorities, or the negative of such terms or similar terminology. These factors may cause our actual results to differ from any forward-looking statements. We undertake no obligation to update any of our forward-looking statements.

**Results of Continuing Operations**

Voyager Expanded Learning and ExploreLearning were both acquired in 2005 and Learning A-Z was acquired in 2004. These operations together are Voyager Education (VED) and comprise our single reporting segment for fiscal year 2007. The continuing operations presented below include the operational activities for VED and the activities based in Ann Arbor, Michigan required to finalize the restatement efforts, transition the corporate office to Dallas, Texas and complete the sale of PQIL.

We determined to sell ProQuest Business Solutions (PQBS) and ProQuest Information & Learning (PQIL) in the second quarter of 2006. PQBS was sold on November 28, 2006 and PQIL was sold on February 9, 2007 and therefore their results are classified as discontinued operations and excluded from the following discussion.



**Table of Contents**First Quarter of Fiscal 2007 Compared to the First Quarter of Fiscal 2006

<i>(Dollars in millions)</i>	Thirteen Weeks Ended		Thirteen Weeks Ended		Favorable / (Unfavorable)	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006	\$	%
	Amount	% of sales	Amount	% of sales		
<b>Net sales</b>	<b>\$ 20.1</b>	<b>100.0</b>	<b>\$ 22.7</b>	<b>100.0</b>	<b>\$ (2.6)</b>	<b>(11.5)</b>
<b>Cost of sales</b>	<b>(11.6)</b>	<b>(57.7)</b>	<b>(12.5)</b>	<b>(55.1)</b>	<b>0.9</b>	<b>7.2</b>
<b>Gross profit</b>	<b>8.5</b>	<b>42.3</b>	<b>10.2</b>	<b>44.9</b>	<b>(1.7)</b>	<b>(16.7)</b>
<b>Research and development expense</b>	<b>(1.1)</b>	<b>(5.5)</b>	<b>(1.5)</b>	<b>(6.6)</b>	<b>0.4</b>	<b>26.7</b>
<b>Selling and administrative expense</b>	<b>(22.7)</b>	<b>(112.9)</b>	<b>(29.0)</b>	<b>(127.7)</b>	<b>6.3</b>	<b>21.7</b>
<b>Loss from continuing operations before interest and income taxes</b>	<b>(15.3)</b>	<b>(76.1)</b>	<b>(20.3)</b>	<b>(89.4)</b>	<b>5.0</b>	<b>24.6</b>
<b>Net interest expense</b>	<b>(1.3)</b>	<b>(6.5)</b>	<b>(4.6)</b>	<b>(20.3)</b>	<b>3.3</b>	<b>71.7</b>
<b>Sublease income</b>	<b>0.7</b>	<b>3.5</b>	<b>0.7</b>	<b>3.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Income tax benefit</b>	<b>6.1</b>	<b>30.3</b>	<b>4.1</b>	<b>18.1</b>	<b>2.0</b>	<b>48.8</b>
<b>Loss from continuing operations</b>	<b>\$ (9.8)</b>	<b>(48.8)</b>	<b>\$ (20.8)</b>	<b>(91.6)</b>	<b>\$ 11.0</b>	<b>52.9</b>

*Net Sales.*

Our total net sales from continuing operations decreased \$2.6 million, or 11.5%, to \$20.1 million in the first quarter of 2007. In 2007, the Company deferred a larger percentage of sales than in 2006 as we continue the trend of including more service and technology in our products. On-line access and service elements are delivered over time rather than immediately shipped to customers like printed materials. The Company defers the revenue associated with those services and on-line access and recognizes the revenue over the period they are delivered.

*Gross Profit.*

Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Additionally, cost of sales includes amortization related to our acquired and developed curriculum and certain other operational assets. Our gross profit percentage for the first quarter of 2007 decreased 2.6 percentage points to 42.3% compared to 44.9% for the first quarter of 2006. The decrease is due to the deferral of a larger percentage of sales in 2007 versus 2006, which reduced net sales but had less impact on cost of sales. The higher deferral percentages are primarily due to increased revenue attributed to our online materials, which are recognized over the period access is provided. VED sales and, therefore, its gross profit are subject to seasonality with the first and fourth quarters being the weakest.

*Research and Development.*

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the first quarter of 2007 decreased \$0.4 million to \$1.1 million compared to the first quarter of 2006, primarily due to the timing of expenditures.

**Table of Contents***Selling and Administrative.*

<i>(Dollars in millions)</i>	Thirteen Weeks Ended		Favorable / (Unfavorable)	
	March 31, 2007	April 1, 2006	\$	%
<b>VED</b>	\$ 9.8	\$ 12.4	\$ 2.6	21.0
<b>Corporate</b>	12.9	16.6	3.7	22.3
<b>Total</b>	\$ 22.7	\$ 29.0	\$ 6.3	21.7

Selling and administrative expenses decreased \$6.3 million, or 21.7%, to \$22.7 million compared to the first quarter of fiscal 2006. Selling and administrative activities include \$12.9 million in the first quarter of 2007 and \$16.6 million in first quarter of 2006 related to activities based in Ann Arbor, Michigan required to finalize the restatement efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL. These corporate expenses decreased \$3.7 million, or 22.3%, as a result of higher professional fees incurred in fiscal 2006 related to the restatement efforts.

Excluding the corporate costs, selling and administrative expenses decreased \$2.6 million, or 21.0%, year over year, and represented 48.8% and 54.6% as a percentage of revenues for the first quarter of fiscal 2007 and 2006, respectively. The decrease is primarily due to the timing of sales activities.

*Net Interest Expense.*

<i>(Dollars in millions)</i>	Thirteen Weeks Ended		Favorable / (Unfavorable)	
	March 31, 2007	April 1, 2006	\$	%
<b>Interest income</b>	\$ 1.2	\$ 0.3	\$ 0.9	300.0
<b>Interest expense</b>	(2.5)	(4.9)	2.4	49.0
<b>Total</b>	\$ (1.3)	\$ (4.6)	\$ 3.3	71.7

Net interest expense totaled \$1.3 million in the first quarter of fiscal 2007 versus \$4.6 million in the first quarter of fiscal 2006. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. On February 9, 2007, we sold PQIL and all of our remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. We used a portion of the proceeds from that sale to pay off all remaining debt, excluding capital leases. The result of this activity was to eliminate interest

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expense associated with long-term debt other than capital leases effective February 2007. Additionally, higher cash balances during 2007, primarily as a result of the proceeds, increased earnings on cash balances and investments.

### **Sublease Income.**

The Company announced plans after the sale of PQBS and PQIL to transition all of its corporate functions from its Ann Arbor headquarters to Dallas during 2007 and 2008. From the date of the sale of PQIL in February 2007, the Company subleased substantial space to the buyer of PQIL through March 2008 resulting in sublease income totaling \$0.7 million for the first quarter of fiscal 2007.

### **Income Tax Benefit.**

For the first quarter of fiscal 2007, the Company attributed an income tax benefit to continuing operations of \$6.1 million, which represents an effective tax rate of 38.2%. For the first quarter of fiscal 2006, the Company attributed an income tax benefit to continuing operations of \$4.1 million, which represents an effective tax rate of 25.6%. The income tax benefit recognized in 2006 was limited to income tax expense recognized by the Company's U.S. domestic discontinued operations.

### **Discontinued Operations.**

In December 2006, we announced the sale of our PQIL businesses. The sale was completed in February 2007 for \$195.2 million after final adjustments for working capital and assumed liabilities. Accordingly, the operating results of the PQIL businesses have been segregated from our continuing operations and reported as earnings from discontinued operations. The assets and liabilities were reported at estimated fair value as assets and liabilities related to discontinued operations as of December 30, 2006. We recognized a gain on the sale of discontinued operations of \$46.6 million (net of tax) due to the sale of PQIL in the first quarter of fiscal 2007.

### **Liquidity**

As of March 31, 2007, the Company did not have any debt with the exception of certain capital leases. We used the proceeds from the sale of the PQBS businesses on November 28, 2006 and PQIL businesses on February 9, 2007 to fully repay all of our outstanding debt balances, excluding capital leases. Cash and cash equivalents increased to \$85.5 million at March 31, 2007 compared to \$39.9 million at December 30, 2006.

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During the first quarter of fiscal 2007, cash used in operating activities from continuing operations was \$56.4 million, which includes net tax payments of \$60.4 million. Additionally, operating cash outflows include expenditures related to personnel and activities based in Ann Arbor, Michigan required to finalize the restatement efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL, as well as contributions made to legacy employee benefit plans.

Cash from continuing operations is seasonal with more cash generated in the second half of the year than in the first half of the year. Cash is historically generated during the second half of the year because the buying cycle of school districts generally starts at the beginning of each new school year in the fall.

Other significant uses of cash for continuing operations during the first quarter of 2007 included:

\$58.5 million for debt repayment and debt-related costs including fees and required make-whole premiums;

\$2.1 million of expenditures related to property, equipment, curriculum development costs, and software;

\$0.4 million for purchases of marketable securities, net of proceeds from the sale or maturity of these securities; and

\$0.2 million for principal payments on capital leases.

The sale of PQIL generated \$186.3 million net of selling costs.

Net cash used in discontinued operations in the first quarter of fiscal 2007 was \$23.2 million. We made payments of \$22.9 million in early 2007 to the United Kingdom ( U.K. ) pension plan concurrent with the sale of PQIL in February 2007. As a result of the sale of PQIL in 2007, the obligation for our U.K. pension plan was assumed by the buyer of PQIL and as of February 2007 we have no further obligation to make U.K. pension contributions.

## **Recently Issued Financial Accounting Standards**

In April 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FAS 142-3 ). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* . FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the impact, if any, that FAS 142-3 will have on its consolidated financial position, results of operations and cash flows.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, ( SFAS No. 160 ). Currently, the Company does not have an outstanding noncontrolling interest in one or more subsidiaries, nor does it deconsolidate any subsidiaries. SFAS No. 160 will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 to have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations ( SFAS No. 141R ). SFAS 141R establishes principles and requirements for how an acquirer accounts for business combinations. SFAS No. 141R includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141R applies prospectively and is effective for business combinations made by the Company beginning January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to measure many financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be recognized in earnings at each subsequent reporting date. Generally, the fair value option may be applied instrument by instrument and is irrevocable unless a new election date occurs. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that the entity also elects to apply the provisions of SFAS No. 157. We are currently evaluating the potential impact that the adoption of SFAS No. 159 will have on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, Employer's Accounting for Defined Pension and Other Postretirement Plans an amendment of SFASs No. 87, 88, 106 and 132(R), ( SFAS No. 158 ). SFAS No. 158 requires the recognition of the funded status of a benefit plan in the statement of financial position. It also requires the recognition as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not

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recognized as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers' Accounting for Pensions* ( SFAS No. 87 ) or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pension* ( SFAS No. 106 ). The statement also has new provisions regarding the measurement date as well as certain disclosure requirements. The recognition provisions of the statement were effective for our 2006 year end, and the measurement date requirements are effective for our 2008 year end. The adoption of the recognition and disclosure provisions of SFAS No. 158 had a minimal impact on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in *Generally Accepted Accounting Principles* ( GAAP ), and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. Certain provisions of this statement are effective for fiscal years beginning after November 15, 2007. We are currently evaluating whether adoption of this statement will result in a change to our fair value measurements and disclosures.

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**Item 3.**

**Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Risk**

At March 31, 2007, the Company does not have any interest rate forwards or option contracts outstanding.

As a result of the divestiture of PQBS on November 28, 2006 and PQIL on February 9, 2007 and subsequent payments of all of the Company's outstanding debt, excluding capital leases, the Company no longer has any material interest rate risk.

**Foreign Currency Risk**

At March 31, 2007, the Company does not have any outstanding foreign currency forwards or option contracts.

As a result of the divestiture of PQBS on November 28, 2006 and PQIL on February 9, 2007 and subsequent payments of all of the Company's outstanding debt, excluding capital leases, the Company no longer has any material exposure to changes in foreign currency rates.

**Item 4.**

**Controls and Procedures**

Evaluation of Disclosure Controls and Procedures.

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934) pursuant to Rule 13a-15 of the Exchange Act.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2007 due to material weaknesses in internal control over financial reporting as described in the 2006 Form 10-K.

Changes in Internal Control over Financial Reporting.

As the material weaknesses disclosed in the 2006 Form 10-K for the year ended December 30, 2006 were identified during and after the quarter ending March 31, 2007, the Company did not have the ability to remediate all of the control deficiencies identified in the 2006 Form 10-K.

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The Company sold its PQIL operations on February 9, 2007. The following deficiencies related specifically to internal controls at PQIL and are remediated during the first quarter of 2007 as a result of the sale:

Insufficient review and approval controls to ensure the propriety of certain spreadsheets critical to financial statement preparation;

Insufficient controls to ensure that key account reconciliations were prepared timely, appropriately reviewed and approved or properly reconciled to support detail;

Inadequate review and authorization controls associated with accounts payable disbursements;

Sufficient review and approval controls were not designed to ensure that leases were accurately recorded and disclosed in accordance with U.S. generally accepted accounting principles;

Adequate review and approval controls were not designed to ensure that capitalized costs relating to computer software developed or obtained for internal use were appropriately supported with sufficient and accurate documentation in accordance with U.S. generally accepted accounting principles;

Sufficient review and approval controls were not designed to ensure that revenue transactions and related cost of these transactions were properly accounted for;

Sufficient review and approval controls were not designed to ensure that the purchase price allocation for certain company acquisitions was properly adjusted to fair value at the time of acquisition;

Adequate reconciliation and review controls were not designed to ensure records regarding fixed and certain other assets were maintained in reasonable detail, allowing management to track physical assets, costs, service dates, depreciation and amortization and the ultimate disposal of these assets, and to properly account for such activity;

Adequate review and authorization controls were not in place to ensure that allocation and capitalization of costs associated with capital assets were properly recorded.

System access controls were not in place for certain information technology applications to appropriately prohibit or limit user



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access in areas including journal entries, account mapping, master-file maintenance, and overall general user administration; and

Adequate controls over segregation of duties did not exist in the internal software development department.

The following deficiency disclosed in the 2006 Form 10-K was also remediated during the first quarter of 2007:

Deficiency - Management did not have adequate monitoring and information and communication controls at the entity level. Specifically, controls at the entity level to monitor the design and operating effectiveness of other specific controls presented in the following paragraphs were not operating effectively. Information and communication controls were not properly developed and designed by management to communicate and enforce, as applicable, corporate strategy and objectives, policies and procedures, ethical practices and behavior, authorization policies, training and job responsibilities.

The Company validated existing and designed and implemented a number of specific entity-level controls to ensure adequate monitoring and information and communication activities. Specific examples include the following:

Monitoring activities performed by the Audit Committee, including meeting with the independent external and internal auditors, and authorizing and reviewing the SOX audit plans and results, and reviewing financial results.

Monitoring activities performed by Management including frequent, periodic Senior Management meetings to review and discuss key issues facing the Company, review and evaluate tone at the top and governance issues and financial results.

Monitoring activities performed by functional management over business and financial results including close supervision and review of month-end financial close reports and financial statements.

Enhanced information and communication mechanisms including the Senior Management meetings referenced above, posting of information to the Company website, dissemination of email communications and information presented during the annual meeting.

Dissemination of a Code of Business Conduct to all employees.

Dissemination of a Code of Ethical Conduct to finance and accounting employees.

Development of job descriptions and training plans.

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Development, implementation and on-going evaluation of controls activities at the business process level to reinforce the Company's emphasis on ethical behavior and to focus on compliance with the Company's policies and procedures including authorization protocols.

**Part II. Other Information**

**Item 1. Legal Proceedings**  
**Putative Securities Class Actions**

Between February and April 2006, four putative securities class actions, consolidated and designated *In re ProQuest Company Securities Litigation*, were filed in the U.S. District Court for the Eastern District of Michigan (the Court) against the Company and certain of its former and then-current officers and directors. Each of these substantially similar lawsuits alleged that the Company and certain officers and directors (the Defendants) violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as the associated Rule 10b-5, in connection with the Company's proposed restatement.

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs' counsel. By stipulation of the parties, the consolidated lawsuit was stayed pending restatement of the Company's financial statements. On January 24, 2007, lead plaintiffs filed their amended consolidated complaint, which Defendants moved to dismiss on March 15, 2007. The Court denied Defendants motion to dismiss on November 6, 2007.

On July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action law suit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan for \$20 million. The settlement will be funded largely by insurance. Under the terms of the agreement, the Company would pay approximately \$5 million in fees and settlement amounts to settle all claims related to the financial statements with remaining amounts to be paid by insurers. The settlement is subject to completion of a Stipulation and Agreement of Settlement to be signed by the parties, preliminary and final court approval and the participation of a sufficient percentage of the putative class. There is no assurance that a final Stipulation and Agreement of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. A copy of the recently signed Memorandum of Understanding regarding this settlement was filed on Form 8-K with the SEC. If the settlement arrangement is not finalized, the Company intends to defend itself vigorously.

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### **Shareholder Derivative Lawsuits**

On April 18, 2006 and December 19, 2006, respectively, two shareholder derivative lawsuits were filed in the U.S. District Court for the Eastern District of Michigan (the Court), purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company's shareholders. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated order staying the litigation pending completion of the Company's restatement and a special committee investigation into the restatement.

On January 29, 2008, the Court entered an order consolidating the two cases and approving co-lead and co-liaison counsel representing plaintiffs. Pursuant to a stipulated scheduling order entered on February 15, 2008, plaintiffs filed a consolidated amended complaint on March 20, 2008. The consolidated amended complaint purports to state claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, rescission, imposition of a constructive trust, violations of the Sarbanes-Oxley Act of 2002 and violations of the Securities Exchange Act of 1934 against current and former officers or directors of the Company and one of its subsidiaries. On December 3, 2008 the Company reached an agreement in principle to settle the shareholder derivative litigation law suit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan. Under the terms of the agreement, the Company and its insurers would pay an amount not to exceed \$650,000 in attorneys' fees and agree to maintain or adopt additional corporate governance standards. The Company's portion of this amount is equal to \$500,000. The settlement is subject to completion of a Stipulation of Settlement to be signed by the parties, preliminary and final court approval and the provision of notice to shareholders. There is no assurance that a final Stipulation of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. The Company intends to defend itself vigorously. It is not yet possible to determine the ultimate outcome of this action.

### **Securities and Exchange Commission Investigation**

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company's announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company's restatement. On July 22, 2008, the SEC (Commission) filed a settled enforcement action against the Company in the U.S. District Court for the Eastern District of Michigan.

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Pursuant to that settlement, the terms of which were disclosed previously by the Company, without admitting or denying the allegations in the Complaint, the Company consented to the filing by the Commission of a Complaint, and to the imposition by the Court of a final judgment of permanent injunction against the Company. The Complaint alleges civil violations of the reporting, books and records and internal controls provisions of the Securities Exchange Act of 1934. The final judgment was signed by the Court on July 28, 2008 and permanently enjoins the Company from future violations of those provisions. No monetary penalty was imposed. The settlement resolved fully the previously disclosed SEC investigation of the Company's restatement.

**Item 1A. Risk Factors.**

For a discussion of the Company's risk factors, please refer to Part 1, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

**Item 5. Other Information**

In a Current Report on Form 8-K filed by the Company on December 4, 2006, the Company reported that it had completed the sale of ProQuest Business Solutions ( PQBS ) to Snap-On Incorporated ( Snap-On ). The material reported in such Current Report is incorporated herein by reference. PQBS has been accounted for as discontinued operations in conformity with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-lived Assets since the second quarter of fiscal 2006.

In a Current Report on Form 8-K filed by the Company on February 15, 2007, the Company reported that it had completed the sale of its Information and Learning business ( PQIL ) to Cambridge Scientific Abstracts and its affiliates. The material reported in such Current Report is incorporated herein by reference. PQIL has been accounted for as discontinued operations in conformity with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-lived Assets since the second quarter of fiscal 2006.

For information regarding how these dispositions impacted the consolidated financial statements of the Company, see the discontinued operations detail with respect to these sales contained in the Company's Annual Report on Form 10-K for fiscal 2006, including Note 5 to the consolidated financial statements, and the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2006, including Note 3, which information is incorporated herein by reference.

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**Item 6. Exhibits**

(a) Exhibits:

The following exhibits are filed as part of this Quarterly Report. The exhibit numbers preceded by an asterisk (\*) indicate exhibits previously filed and are hereby incorporated herein by reference. Exhibits preceded by a plus sign (+) indicate a management contract or compensatory plan or arrangement.

<b>Index Number</b>	<b>Description</b>
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Certification of Richard J. Surratt, President and CEO of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of David W. Asai, Senior Vice President and Chief Financial Officer of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Date: December 15, 2008**

**VOYAGER LEARNING COMPANY**

/s/ Richard J. Surratt  
Richard J. Surratt  
President and CEO

/s/ David W. Asai  
David W. Asai  
Senior Vice President and Chief Financial Officer