CAMBIUM LEARNING GROUP, INC.
Form 10-Q
November 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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

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 ý 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 ý No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ý

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

The number of shares of the registrant’s common stock, $0.001 par value per share, outstanding as of November 3, 2016 was 46,023,259.

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Item 1. Financial Statements.
Cambium Learning Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	$42,113	$40,339	$114,871	$109,264
Cost of revenues:				
Cost of revenues	8,876	9,120	23,615	24,283
Amortization expense	4,780	4,434	12,905	12,712
Total cost of revenues	13,656	13,554	36,520	36,995
Research and development expense	3,301	2,935	9,440	7,827
Sales and marketing expense	12,152	11,722	36,309	32,845
General and administrative expense	5,872	5,120	15,976	15,537
Shipping and handling costs	380	457	760	879
Depreciation and amortization expense	875	1,001	2,572	2,994
Total costs and expenses	36,236	34,789	101,577	97,077
Income before interest, other income (expense) and income taxes	5,877	5,550	13,294	12,187
Net interest expense	(1,876)	(3,575)	(5,598)	(10,875)
Other income, net	—	204	—	679
Income before income taxes	4,001	2,179	7,696	1,991
Income tax expense	(173)	(213)	(206)	(517)
Net income	$3,828	$1,966	$7,490	$1,474
Other comprehensive income:				
Amortization of net pension loss	38	56	112	168
Comprehensive income	$3,866	$2,022	$7,602	$1,642
Net income per common share:				
Basic	$0.08	$0.04	$0.16	$0.03
Diluted	$0.08	$0.04	$0.16	$0.03
Average number of common shares and equivalents outstanding:				
Basic	45,869	45,562	45,791	45,513
Diluted	47,285	47,103	47,157	46,744

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

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

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,738	$ 8,645
Accounts receivable, net	29,490	14,640
Inventory	3,111	4,694
Restricted assets, current	1,254	1,265
Other current assets	12,196	9,981
Total current assets	57,789	39,225
Property, equipment and software at cost	62,403	55,824
Accumulated depreciation and amortization	(37,864)	(33,284)
Property, equipment and software, net	24,539	22,540
Goodwill	47,842	47,842
Acquired curriculum and technology intangibles, net	1,589	2,731
Acquired publishing rights, net	804	1,459
Other intangible assets, net	2,393	3,231
Pre-publication costs, net	17,768	16,441
Restricted assets, less current portion	2,264	3,099
Other assets	4,481	4,817
Total assets	$ 159,469	$ 141,385

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

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

	September 30, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 2,822	$ 1,993
Accrued expenses	14,056	14,224
Current portion of long-term debt	6,475	3,850
Deferred revenue, current	84,313	74,107
Total current liabilities	107,666	94,174
Long-term liabilities:		
Long-term debt	93,057	97,872
Deferred revenue, less current portion	13,353	11,481
Other liabilities	10,885	12,027
Total long-term liabilities	117,295	121,380
Commitments and contingencies (See Note 12)	—	—
Stockholders' equity (deficit):		
Preferred stock ($.001 par value, 15,000 shares authorized, zero shares issued and outstanding at September 30, 2016 and December 31, 2015)	—	—
Common stock ($.001 par value, 150,000 shares authorized, 52,523 and 52,268 shares issued, and 45,991 and 45,736 shares outstanding at September 30, 2016 and December 31, 2015, respectively)	53	52
Capital surplus	286,380	285,306
Accumulated deficit	(336,485)	(343,975)
Treasury stock at cost (6,532 shares at September 30, 2016 and December 31, 2015)	(12,784)	(12,784)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,656)	(2,768)
Accumulated other comprehensive loss	(2,656)	(2,768)
Total stockholders' equity (deficit)	(65,492)	(74,169)
Total liabilities and stockholders' equity (deficit)	$ 159,469	$ 141,385

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

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

	Nine Months Ended September 30, 2016		2015	
Net income	$ 7,490		$ 1,474	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	15,477		15,706	
Amortization of note discount and deferred financing costs	834		922	
Stock-based compensation and expense	681		486	
Other	3		5	
Changes in operating assets and liabilities:				
Accounts receivable, net	(14,850	)	(14,572	)
Inventory	1,583		583	
Other current assets	(2,215	)	(2,582	)
Other assets	200		(799	)
Restricted assets	846		856	
Accounts payable	829		1,949	
Accrued expenses	(168	)	(1,329	)
Deferred revenue	12,078		12,998	
Other long-term liabilities	(1,030	)	(450	)
Net cash provided by operating activities	21,758		15,247	
Investing activities:				
Cash paid for acquisitions	—		(400	)
Expenditures for property, equipment, software and pre-publication costs	(16,171	)	(15,107	)
Net cash used in investing activities	(16,171	)	(15,507	)
Financing activities:				
Principal payments under capital lease obligations	—		(802	)

Repayment of debt	(2,888)	—
Borrowings under revolving credit facility	15,000	—
Payment of revolving credit facility	(15,000)	—
Proceeds from exercise of stock options	394	188
Net cash used in financing activities	(2,494)	(614)
Change in cash and cash equivalents	3,093	(874)
Cash and cash equivalents, beginning of period	8,645	34,387
Cash and cash equivalents, end of period	$ 11,738	$ 33,513

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

Cambium Learning Group, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 — Basis of Presentation

Presentation

The Condensed Consolidated Financial Statements include the accounts of Cambium Learning® Group, Inc. and its subsidiaries (the “Company”) and are unaudited. The condensed consolidated balance sheet as of December 31, 2015 has been derived from audited financial statements. All intercompany transactions have been eliminated.

As permitted under the Securities and Exchange Commission (“SEC”) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been omitted. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Due to seasonality, the results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for any future interim period or for the year ending December 31, 2016.

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

Nature of Operations

The Company is a leading educational solutions and services company that is committed to helping all students reach their full potential. The Company’s brands include: Learning A-Z®, Voyager Sopris Learning®, ExploreLearning®, and Kurzweil Education®. Together, these brands 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.

These brands comprise three reportable segments with separate management teams and infrastructures that offer various products and services. See Note 14 – Segment Reporting for further information on the Company’s segment reporting structure.

Note 2 — Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled \$0.6 million and \$0.2 million at September 30, 2016 and December 31, 2015, respectively. The allowance for doubtful accounts is based on a review of outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of return as well as other factors that in the Company’s judgment, could reasonably be expected to cause sales returns to differ from historical experience.

Note 3 — Stock-Based Compensation and Expense

Cambium Learning Group, Inc. 2009 Equity Incentive Plan

In 2009, the Company adopted the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (“Incentive Plan”). Under the Incentive Plan, 5,000,000 shares of common stock were reserved for issuance of awards which may be granted in the form of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, conversion stock options, conversion stock appreciation rights, and other stock or cash awards. The Incentive Plan is administered by the board of directors which has the authority to establish the terms and conditions of awards granted under the Incentive Plan.

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Stock-Based Compensation and Expense

The following table presents our stock-based compensation expense resulting from stock options that are recorded in our condensed consolidated statements of operations and comprehensive income for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Cost of revenues	$15	$11	$44	$29
Research and development expense	43	37	129	98
Sales and marketing expense	50	42	150	113
General and administrative expense	126	102	358	246
Total	$234	$192	$681	$486

2016 Grants

In the first quarter 2016, the Company granted 290,000 options under the Incentive Plan with an exercise price of $4.50. The options vest in equal monthly installments on the last day of the month over a four-year period, with an initial vesting date of March 31, 2016. In the third quarter 2016, the Company granted 25,000 options under the Incentive Plan with an exercise price of $4.88. The options vest in equal monthly installments on the last day of the month over a four-year period, with an initial vesting date of July 31, 2016. As of September 30, 2016, the Company had 2,823,426 stock options outstanding.

Note 4 — Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock awards using the treasury stock method. Weighted-average shares from common share equivalents in the amount of 534,726 and 448,666 for the three and nine months ended September 30, 2016, respectively, and 135,930 and 258,542 for the three and nine months ended September 30, 2015, respectively, were excluded from the respective dilutive shares outstanding because their effect was anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Numerator:				
Net income	$3,828	$1,966	$7,490	$1,474
Denominator:				
Basic:				
Weighted-average common shares used in computing basic net income per share	45,869	45,562	45,791	45,513
Diluted:				
Add weighted-average effect of dilutive securities:				
Stock options and restricted stock awards	1,416	1,541	1,366	1,231
Weighted-average common shares used in computing diluted net income per share	47,285	47,103	47,157	46,744
Net income per common share:				
Basic	$0.08	$0.04	$0.16	$0.03

Diluted	$0.08	$0.04	$0.16	$0.03

Note 5 — Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability (exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3 — Valuations derived from valuation techniques in which significant value drivers are unobservable.

Applicable guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

At September 30, 2016, financial instruments include $11.7 million of cash and cash equivalents, restricted assets of $3.5 million, collateral investments of $1.8 million, and Senior Secured Credit Facility term loans, net of discount and deferred financing costs, of $99.5 million. At December 31, 2015, financial instruments include $8.6 million of cash and cash equivalents, restricted assets of $4.4 million, collateral investments of $1.8 million, and Senior Secured Credit Facility term loans, net of discount and deferred financing costs, of $101.7 million. The fair market values of cash equivalents, restricted assets, and collateral investments are equal to their carrying value, as these investments are recorded based on quoted market prices and/or other market data for the same or comparable instruments and transactions as of the end of the reporting period. See Note 13 – Long-Term Debt for additional information regarding the Company's term loans.

At September 30, 2016 and December 31, 2015, the carrying value of the Company's Senior Secured Credit Facility term loans approximates the fair value, as the borrowings are tied to the London Interbank Offered Rate ("LIBOR") and are market sensitive.

Assets and liabilities measured at fair value on a recurring basis are as follows:

(in thousands)		Fair Value at Reporting Date Using		
Description	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted Assets:				
Money Market	$ 3,518	$3,518	$ —	$ —
Collateral Investments:				
Money Market	906	906	—	—
Certificates of Deposit	879	879	—	—

(in thousands)		Fair Value at Reporting Date Using		
Description	December 31, 2015	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)		
Restricted Assets:				
Money Market	$ 4,364	$4,364	$ —	$ —
Collateral Investments:				
Money Market	905	905	—	—
Certificates of Deposit	878	878	—	—

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(in thousands)	Total Gains (Losses) for the Nine Months Ended September 30,	
Description	2016	2015
Restricted Assets:		
Money Market	$ —	$ —
Collateral Investments:		
Money Market	—	—
Certificates of Deposit	—	—

Assets and liabilities measured at fair value on a non-recurring basis are listed below at their carrying values as of each reporting date:

(in thousands)		Fair Value at Reporting Date Using		
Description	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	$ 47,842	$ —	$ —	$ 47,842
Property, equipment and software, net	24,539	—	—	24,539
Pre-publication costs, net	17,768	—	—	17,768
Acquired curriculum and technology intangibles, net	1,589	—	—	1,589
Acquired publishing rights, net	804	—	—	804
Other intangible assets, net	2,393	—	—	2,393

(in thousands)		Fair Value at Reporting Date Using		
Description	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	$ 47,842	$ —	$ —	$ 47,842
Property, equipment and software, net	22,540	—	—	22,540

Pre-publication costs, net	16,441	——	16,441
Acquired curriculum and technology intangibles, net	2,731	——	2,731
Acquired publishing rights, net	1,459	——	1,459
Other intangible assets, net	3,231	——	3,231

(in thousands)	Total Gains (Losses) for the Nine Months Ended September 30,	
Description	2016	2015
Goodwill	$ —	$ —
Property, equipment and software, net	—	—
Pre-publication costs, net	—	—
Acquired curriculum and technology intangibles, net	—	—
Acquired publishing rights, net	—	—
Other intangible assets, net	—	—

There were no significant remeasurements of these assets during the nine months ended September 30, 2016 or 2015.

Note 6 — Other Current Assets

Other current assets at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Deferred costs	$ 9,586	$ 8,514
Prepaid expenses	2,245	1,367
Other	365	100
Other current assets	$ 12,196	$ 9,981

Note 7 — Other Assets

Other assets at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Collateral investments	$ 1,785	$ 1,783
Deferred costs, less current portion	1,648	1,479
Deferred financing costs - revolving credit facility	756	892
Other	292	663
Other assets	$ 4,481	$ 4,817

Deferred Financing Costs

Deferred financing costs relate to costs incurred with the issuance of the Senior Secured Credit Agreement. See Note 13 – Long-Term Debt.

Collateral Investments

The Company maintains certificates of deposit to collateralize its outstanding letters of credit associated with credit collections and workers' compensation activity. At September 30, 2016 and December 31, 2015, the Company had $0.9 million in certificates of deposit serving as collateral for its outstanding letters of credit.

Additionally, the Company maintains a money market fund investment to serve as collateral for a travel card program. The balance of the money market fund investment was $0.9 million at September 30, 2016 and December 31, 2015.

Note 8 — Accrued Expenses

Accrued expenses at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Salaries, bonuses and benefits	$ 9,444	$ 9,383
Pension and post-retirement benefit plans	1,093	1,093
Accrued royalties	723	1,201
Other	2,796	2,547
Accrued expenses	$ 14,056	$ 14,224

Pension and Post-Retirement Benefit Plans

See Note 10 – Pension Plan for additional information regarding the Company's pension plan.

Note 9 — Other Liabilities

Other liabilities at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Pension and post-retirement benefit plans, long-term portion	$ 9,364	$ 9,903
Deferred rent	731	881
Long-term income tax payable	449	896

Long-term deferred compensation	341	347
Other liabilities	$ 10,885	$ 12,027

Pension and Post-Retirement Benefit Plans
See Note 10 – Pension Plan for additional information regarding the Company's pension plan.

Note 10 — Pension Plan
The net pension costs of the Company's defined benefit pension plan were comprised primarily of interest costs and totaled $0.1 million and $0.2 million, respectively, for the three months ended September 30, 2016 and 2015 and $0.4 million and $0.5 million, respectively, for the nine months ended September 30, 2016 and 2015. The net pension costs included the amortization of accumulated net loss of $38 thousand and $0.1 million, for the three months ended September 30, 2016 and 2015, respectively. The net pension costs included the amortization of accumulated net loss of $0.1 million and $0.2 million for the nine months ended September 30, 2016 and 2015, respectively.

Note 11 — Uncertain Tax Positions and Income Taxes
The Company recognizes the financial statement impact of a tax return position when it is more likely than not, based on technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, the Company applies judgment, taking into account applicable tax laws, experience managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in its financial statements. For each position, the difference between the benefit realized on the Company's tax return and the benefit reflected in its financial statements is recorded to Other Liabilities in the Condensed Consolidated Balance Sheets as an unrecognized tax benefit ("UTB"). The Company updates its UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with tax authorities. The balance of UTBs was $5.9 million at September 30, 2016 and $6.2 million at December 31, 2015.
Included in the balance of unrecognized tax benefits at September 30, 2016 are approximately $0.4 million of tax benefits that, if recognized, would affect the effective tax rate. The recognition of the remaining uncertain tax positions would not affect the effective tax rate, but would instead increase or would have increased available tax attributes. However, the recognition of the tax attribute would be offset by an increase in the deferred tax asset valuation allowance resulting in no net impact to the effective tax rate.
The Company recognizes interest accrued related to its UTBs and penalties as income tax expense. Related to the UTBs noted above, the Company recognized no penalties and immaterial interest during the three and nine months ended September 30, 2016. At September 30, 2016, the Company has liabilities of $0.1 million for penalties (gross) and $0.1 million for interest (gross). During the nine months ended September 30, 2016, UTBs were decreased by $0.5 million for effectively settled tax positions.
The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. All U.S. tax years prior to 2008 related to the Voyager Learning Company acquired entities have been audited by the Internal Revenue Service. Cambium and its subsidiaries have been examined by the Internal Revenue Service through the end of 2006. The Company has been audited by the various state tax authorities through 2007.
In September 2016, the Company entered into a Tax Asset Protection Rights Agreement (the "Rights Agreement"), between the Company and Wells Fargo Bank, National Association, as Rights Agent. The Rights Agreement is designed to preserve the Company's substantial net operating loss carryforwards (NOLs) and other significant tax benefits which may be available to reduce potential future tax liabilities. The Rights Agreement is not intended to be an antitakeover measure or to deter offers that are fair and otherwise in the best interests of the Company's stockholders.

Note 12 — Commitments and Contingencies
Legal Proceedings
The Company is involved in various legal proceedings incidental to its business. Management believes that the outcome of these proceedings will not have a material adverse effect upon the Company's consolidated operations or

financial condition and the Company has recognized appropriate liabilities as necessary based on facts and circumstances known to management. The Company expenses legal costs related to legal contingencies as incurred.

Purchase Commitments

From time to time, the Company may enter into firm purchase commitments for printed materials included in inventory which the Company expects to use in the ordinary course of business. These commitments are typically for terms less than one year and require the Company to buy minimum quantities of materials with specific delivery dates at a fixed price over the term. These open purchase commitments totaled $0.1 million as of September 30, 2016.

Letters of Credit

The Company has letters of credit outstanding at September 30, 2016 in the amount of $0.9 million to support credit collections and workers' compensation activity. The Company maintains certificates of deposit of $0.9 million as collateral for the letters of credit as well as an additional deposit to support Automated Clearing House processing and credit card collections. The Company also maintains a $0.9 million money market fund investment as collateral for a travel card program. The certificates of deposit and money market fund investment are included in Collateral Investments in Note 7 — Other Assets.

Note 13 — Long-Term Debt

Long-term debt at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Senior secured credit facility term loans maturing December 10, 2020	$ 102,113	$ 105,000
Less: Unamortized discount	(1,466)	(1,856)
Less: Unamortized deferred financing costs	(1,115)	(1,422)
Total debt	99,532	101,722
Less: current portion of long-term debt	6,475	3,850
Long-term debt	$ 93,057	$ 97,872

Senior Secured Credit Facility

On December 10, 2015, Cambium Learning, Inc. (the "Borrower"), a wholly-owned subsidiary of Cambium Learning Group, Inc., entered into a $135.0 million Senior Secured Credit Agreement (the "Credit Agreement") among the Borrower, the Company, Webster Bank, N.A., as Administrative Agent, L/C Issuer and a Lender, and the other Lenders party thereto, with Webster Bank, N.A., as Joint Lead Arranger, the Governor and Company of the Bank of Ireland, as Joint Lead Arranger and Syndication Agent, and Capital One National Association, and Babson Capital Finance, LLC, as Co-Documentation Agents (the "Senior Secured Credit Facility"). The Senior Secured Credit Facility consists of a term loan A which had an initial principal amount of $70.0 million ("Term Loan A"), a term loan B which had an initial principal amount of $35.0 million ("Term Loan B") and a $30.0 million revolving credit facility (the "Revolving Credit Facility"), secured by a lien on substantially all assets and capital stock of the Company, the Borrower and the Borrower's subsidiaries (collectively, the "Loan Parties"). 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 the LIBOR rate (subject to a 1.0% floor), at the Borrower's 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. 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 third quarter 2016, 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 of indebtedness, restrictions on investments and dispositions, limitations on fundamental changes to the Loan Parties, a maximum consolidated net leverage ratio, and minimum fixed charge coverage ratio. Upon an event of default, and after any applicable cure period, the Administrative Agent can 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 September 30, 2016, the Company was in compliance with all covenants related to the Credit Facility.

The principal balances of the Senior Secured Credit Facility were issued at a discount, representing fees paid to lenders, which are amortized over the life of the debt using the effective interest rate method. Unamortized discount at September 30, 2016 and December 31, 2015 was $1.5 million and $1.9 million, respectively.

The Company incurred debt issuance costs associated with the Senior Secured Credit Facility, which were deferred and are amortized over the term of the related debt using the effective interest method. Unamortized deferred financing costs related to both Term Loan A and Term Loan B totaled $1.1 million and $1.4 million at September 30, 2016 and December 31, 2015, respectively, and are presented as a reduction to Long-term Debt in the Consolidated Balance Sheets. Unamortized

deferred financing costs related to the Revolving Credit Facility totaled $0.8 million and $0.9 million at September 30, 2016 and December 31, 2015, respectively, and are classified as Other Assets in the Consolidated Balance Sheets.
At September 30, 2016, the Company had outstanding principal balances of $67.4 million of Term Loan A, $34.7 million of Term Loan B, and no borrowings under the Revolving Credit Facility, and had $30.0 million borrowing availability under the Revolving Credit Facility.
In February 2016, the Company paid $0.1 million to enter into interest rate cap agreements for approximately half of its outstanding Term Loan A and Term Loan B loans, less required amortization, for a three-year period. Under the interest rate cap agreements, the Company will receive payments for any period that the three-month LIBOR rate exceeds 2.5%.

Note 14 — Segment Reporting
The Company operates in three reportable segments with separate management teams and infrastructures that offer various products and services.
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 that 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 175 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.
Voyager Sopris Learning Segment
The Voyager Sopris Learning segment includes the Company's 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.
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, Kurzweil's solutions deliver content and tools that enable all learners to read, understand, and demonstrate their learning using technology-based tools.

ExploreLearning Segment

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning has two products: Gizmos®, which the Company believes 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.

Other

Other consists of unallocated shared services, such as accounting, legal, human resources and corporate related items, as well as depreciation and amortization expense, other income and expense, and income taxes. The Company does not allocate any of these costs to its segments, and the chief operating decision maker evaluates performance of operating segments excluding these items.

The following tables present the net revenues, operating expenses, income from operations, and capital expenditures which are used by the Company's chief operating decision maker to measure the segments' operating performance. The Company does not track assets directly by segment and the chief operating decision maker does not use assets to measure a segment's operating performance, and therefore this information is not presented.

	Three Months Ended September 30, 2016				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net revenues	$16,518	$19,466	$ 6,129	$—	$ 42,113
Cost of revenues	583	7,381	912	—	8,876
Amortization expense	—	—	—	4,780	4,780
Total cost of revenues	583	7,381	912	4,780	13,656
Other operating expenses	8,113	6,754	2,931	3,907	21,705
Depreciation and amortization expense	—	—	—	875	875
Total costs and expenses	8,696	14,135	3,843	9,562	36,236
Income before interest, other income (expense) and income taxes	7,822	5,331	2,286	(9,562)	5,877
Net interest expense	—	—	—	(1,876)	(1,876)
Income tax expense	—	—	—	(173)	(173)
Segment net income	$7,822	$5,331	$ 2,286	$(11,611)	$ 3,828
Expenditures for property, equipment, software and pre-publication costs	$2,491	$2,090	$ 819	$5	$ 5,405

	Three Months Ended September 30, 2015				
(in thousands)	Learning A-Z	Voyager Sopris Learning	ExploreLearning	Other	Consolidated
Net revenues	$13,733	$21,820	$ 4,786	$ —	$ 40,339
Cost of revenues	416	7,800	904	—	9,120
Amortization expense	—	—	—		