

CAMBIUM LEARNING GROUP, INC.
Form 10-Q
May 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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
(State or Other Jurisdiction of
Incorporation or Organization)

27-0587428
(I.R.S. Employer
Identification No.)

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

75287
(Zip Code)

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

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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 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 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

Indicate by check mark 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, \$0.001 par value per share, outstanding as of April 29, 2016 was 45,760,702.

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Item 1. Financial Statements.

Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net revenues	\$33,674	\$31,471
Cost of revenues:		
Cost of revenues	7,007	6,886
Amortization expense	3,650	4,003
Total cost of revenues	10,657	10,889
Research and development expense	3,120	2,477
Sales and marketing expense	12,311	10,644
General and administrative expense	5,002	5,215
Shipping and handling costs	159	174
Depreciation and amortization expense	841	993
Total costs and expenses	32,090	30,392
Income before interest, other income (expense)		
and income taxes	1,584	1,079
Net interest expense	(1,764)	(3,674)
Other income, net	—	215
Loss before income taxes	(180)	(2,380)
Income tax benefit (expense)	78	(118)
Net loss	\$(102)	\$(2,498)
Other comprehensive loss:		
Amortization of net pension loss	37	56
Comprehensive loss	\$(65)	\$(2,442)
Net loss per common share:		
Basic	\$(0.00)	\$(0.05)
Diluted	\$(0.00)	\$(0.05)
Average number of common shares and equivalents		
outstanding:		
Basic	45,739	45,479
Diluted	45,739	45,479

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

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,900	\$ 8,645
Accounts receivable, net	9,574	14,640
Inventory	4,436	4,694
Restricted assets, current	1,254	1,265
Other current assets	9,383	9,981
Total current assets	29,547	39,225
Property, equipment and software at cost	58,182	55,824
Accumulated depreciation and amortization	(34,737)	(33,284)
Property, equipment and software, net	23,445	22,540
Goodwill	47,842	47,842
Acquired curriculum and technology intangibles, net	2,351	2,731
Acquired publishing rights, net	1,240	1,459
Other intangible assets, net	2,952	3,231
Pre-publication costs, net	16,913	16,441
Restricted assets, less current portion	2,814	3,099
Other assets	4,695	4,817
Total assets	\$ 131,799	\$ 141,385

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

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	March 31, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 2,166	\$ 1,993
Accrued expenses	8,871	14,224
Revolving credit facility	10,500	—
Current portion of long-term debt	4,725	3,850
Deferred revenue, current	61,582	74,107
Total current liabilities	87,844	94,174
Long-term liabilities:		
Long-term debt	96,269	97,872
Deferred revenue, less current portion	10,220	11,481
Other liabilities	11,451	12,027
Total long-term liabilities	117,940	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 March 31, 2016 and		
December 31, 2015)		
Common stock (\$.001 par value, 150,000 shares authorized,		
52,293 and 52,268 shares issued, and 45,761 and 45,736		
shares outstanding at March 31, 2016 and December 31, 2015,		
respectively)		
	52	52
Capital surplus	285,555	285,306
Accumulated deficit	(344,077)	(343,975)
Treasury stock at cost (6,532 shares at March 31, 2016		
and December 31, 2015)		
	(12,784)	(12,784)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,731)	(2,768)
Accumulated other comprehensive loss	(2,731)	(2,768)
Total stockholders' equity (deficit)	(73,985)	(74,169)

Total liabilities and stockholders' equity (deficit)	\$ 131,799	\$ 141,385
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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)

	Three Months Ended March 31,	
	2016	2015
Net loss	\$(102)	\$(2,498)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Depreciation and amortization expense	4,491	4,996
Amortization of note discount and deferred financing		
costs	280	304
Stock-based compensation and expense	208	135
Other	—	1
Changes in operating assets and liabilities:		
Accounts receivable, net	5,066	2,301
Inventory	258	(188)
Other current assets	598	(635)
Other assets	77	(257)
Restricted assets	296	306
Accounts payable	173	1,384
Accrued expenses	(5,353)	(5,808)
Deferred revenue	(13,786)	(9,448)
Other long-term liabilities	(539)	(177)
Net cash used in operating activities	(8,333)	(9,584)
Investing activities:		
Expenditures for property, equipment, software and		
pre-publication costs	(4,990)	(4,783)
Net cash used in investing activities	(4,990)	(4,783)
Financing activities:		
Principal payments under capital lease obligations	—	(264)
Repayment of debt	(963)	—
Borrowings under revolving credit facility	11,000	—
Payment of revolving credit facility	(500)	—
Proceeds from exercise of stock options	41	19
Net cash provided by (used in) financing activities	9,578	(245)
Change in cash and cash equivalents	(3,745)	(14,612)
Cash and cash equivalents, beginning of period	8,645	34,387

Cash and cash equivalents, end of period	\$4,900	\$19,775
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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 months ended March 31, 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 \$0.2 million at March 31, 2016 and December 31, 2015. 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 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.

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 loss for the periods presented:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Cost of revenues	\$15	\$8
Research and development expense	41	28
Sales and marketing expense	48	33
General and administrative expense	104	66
Total	\$208	\$135

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.

Note 4 — Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss 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 2,885,243 for the three months ended March 31, 2016, and 2,612,281 for the three months ended March 31, 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 loss per share:

(in thousands, except per share data)	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net loss	\$(102)	\$(2,498)
Denominator:		
Basic:		
Weighted-average common shares used in computing basic net loss per share	45,739	45,479

Diluted:

Add weighted-average effect of dilutive securities:		
Stock options and restricted stock awards	—	—
Weighted-average common shares used in computing diluted net loss per share	45,739	45,479
Net loss per common share:		
Basic	\$(0.00)	\$(0.05)
Diluted	\$(0.00)	\$(0.05)

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.

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

At March 31, 2016, financial instruments include \$4.9 million of cash and cash equivalents, restricted assets of \$4.1 million, collateral investments of \$1.8 million, \$10.5 million of borrowings under the Revolving Credit Facility, and Senior Secured Credit Facility term loans, net of discount and deferred financing costs, of \$101.0 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 Revolving Credit Facility and term loans.

At March 31, 2016 and December 31, 2015, the carrying value of the Company’s Senior Secured Credit Facility term loans and Revolving Credit Facility 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			
	Quoted Prices			
	in Active			
	Markets Significant for			
		Other Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs
Description	March 31, 2016	(Level 1)	(Level 2)	(Level 3)
Restricted Assets:				
Money Market	\$4,068	\$4,068	\$ —	\$ —
Collateral Investments:				
Money Market	905	905	—	—
Certificates of Deposit	879	879	—	—

(in thousands)	Fair Value at Reporting Date Using	
Description	Significant	Significant

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	December 31, 2015	Quoted Prices in Active Markets (Level 2) for Identical Assets (Level 1)	Other Observable Inputs	Unobservable Inputs (Level 3)
Restricted Assets:				
Money Market	\$ 4,364	\$4,364	\$ —	\$ —
Collateral Investments:				
Money Market	905	905	—	—
Certificates of Deposit	878	878	—	—

(in thousands) Description	Total Gains (Losses) for the Three Months Ended March 31, 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 Quoted Prices	in Active Markets	Significant for Other Identical Observable Assets
Description	March 31, 2016	Inputs (Level 1)	Inputs (Level 2) (Level 3)
Goodwill	\$47,842	\$—	\$ 47,842
Property, equipment and software, net	23,445	—	23,445
Pre-publication costs, net	16,913	—	16,913
Acquired curriculum and technology intangibles, net	2,351	—	2,351
Acquired publishing rights, net	1,240	—	—