Voyager Learning CO
Form 10-K
March 06, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number 001-07680
Voyager Learning Company
(Exact name of registrant as specified in its charter)
Delaware
36-3580106
(State or Other Jurisdiction of Incorporation or Organization)
(I.R.S. Employer Identification No.)
1800 Valley View Lane, Suite 400, Dallas, Texas
75234-8923
(Address of Principal Executive Offices)
(Zip Code)
Registrant s telephone number, including area code:
(214) 932-9500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Title of each class
common stock, $.001 par value per share

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o **No** þ
Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o **No** þ
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 þ **No** o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 o	**Accelerated filer** þ	**Non-accelerated filer** o	**Smaller reporting company** o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o **No** þ
The aggregate market value of the registrant s voting stock held by non-affiliates (based upon the per share closing price of $5.45 on June 30, 2008) was approximately $142 million.
The number of shares of the registrant s common stock, $.001 par value, outstanding as of January 31, 2009 was 29,874,145.
Documents Incorporated By Reference: None

Part I

Voyager Learning Company

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 , intends , prospects , 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.

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2008.

Voyager Learning Company Business Overview

Voyager Learning Company (the Company , we , us , or our) has been a leading publisher of solutions for the educat automotive and power equipment markets. We have more than 50 years of experience in information, content development, and aggregation. Our predecessor company, Bell & Howell Company, was incorporated in Delaware in 1907. On January 31, 2005, we completed the acquisition of Voyager Expanded Learning, Inc. (VEL) in support of our long-term strategy to grow our educational business for grades K-12. On October 28, 2005, we sold our periodical microfilm operation to National Archive Publishing Company (NAPC) for $21.9 million. On November 28, 2006, we sold ProQuest Business Solutions (PQBS) to Snap-on Incorporated (Snap-on) for $514 million and the assumption of approximately $19 million of PQBS debt by Snap-on. On February 9, 2007, we sold ProQuest Information and Learning (PQIL) and the ProQuest brand for $195.2 million. On June 30, 2007 ProQuest Company amended Article I of its Certificate of Incorporation solely to change the corporate name from ProQuest Company to Voyager Learning Company . The name change and amendment were completed pursuant to Section 253(b) of the Delaware General Corporation Law through a merger of the Company s wholly-owned subsidiary, Voyager Learning Company, with and into the Company.

Our results from continuing operations are reported as a single business segment, Voyager Education (VED). As a result of the sale of PQBS in 2006 and the sale of PQIL in 2007, results for those units are reported as earnings from discontinued operations in our Consolidated Statements of Operations for the fiscal years ended December 29, 2007 and December 30, 2006. An overview of our ongoing operation follows.

We currently focus on three market areas related to K-12 education: reading programs and resources, math and science programs and resources, and professional development programs. We are a leading provider of results-driven reading and math intervention programs, professional development programs regarding the teaching of reading, subscription-based online supplemental reading, math and science resources and programs, and a core reading program for school districts throughout the United States (U.S.).

Our reading programs include: Voyager Passport , a comprehensive reading intervention system for K-5; Voyager Universal Literacy System®, a K-3 core reading program; Passport Reading Journeys , a middle school reading intervention system for grades 6-9; TimeWarp® Plus, a K-9 summer school reading intervention program; Voyager Pasaporte , a K-3 reading intervention system in Spanish; and Learning A-Z , a group of related websites known as Reading A-Z , Raz-Kids , Reading-tutors , Vocabulary A-Z , and Writing A-Z which provide online supplemental reading, writing and vocabulary lessons, books, and other resources for students and teachers.

Our math and science programs include: Vmath®, a math intervention system for grades 3-8; ExploreLearning , a subscription-based online library of interactive simulations in math and science for grades 3-12; and Science A-Z , a Learning A-Z website aimed at the supplemental science market.

VoyagerU® is our professional development program for teachers, literacy coaches and administrators.

Our products have achieved acceptance across a broad, economically and geographically diverse customer base. Voyager intervention and other products currently serve over 700,000 students in more than 1,000 school districts in all 50 states. Learning A-Z serves approximately 212,000 teachers in all states and in over 140 countries. ExploreLearning serves over 58,000 subscribers in approximately 2,600 schools within over 20 countries.

The Company counts some of the nation s largest districts among its major customers, including Los Angeles, Clark County, Houston, New York City, Buffalo, Richmond, VA, Cleveland, Milwaukee, and Miami-Dade County. The breadth of the customer base provides the Company with a national platform from which to launch new products, address new markets, and cross-sell products to existing customers.

Our customers generally purchase our reading, math or professional development programs along with any necessary implementation services or training for a single school year. In subsequent school years, customers wishing to serve the same number of students generally need to purchase new student materials or renew access to online content but do not typically repurchase teacher materials. Learning A-Z and ExploreLearning online subscriptions generally run for a twelve month period. In 2008, we generated approximately 76% of sales from reading programs, 13% of sales from math and science programs, 6% of sales from professional development programs, and 5% from other products and services.

Product Review

Reading Programs

Voyager Passport provides direct, systematic instruction in each of the five essential reading components (phonemic awareness, phonics, fluency, vocabulary, and comprehension) and is designed as an intervention program for K-5 students for whom a core reading program is not sufficient. The lessons are typically daily and run 30 to 40 minutes in duration. They are based on the latest scientific research regarding effective reading instruction and are carefully designed to effectively and efficiently address each of the strategies and skills necessary to improve the reading ability of struggling readers.

The Voyager Universal Literacy System is a comprehensive core reading curriculum for grades K-3 that explicitly and systematically teaches the five essential components of reading instruction as outlined by the National Reading Panel in 2000.

In 2007, we began offering an interactive web-based program called Ticket to Read (www.tickettoread.com) with our Passport and Universal Literacy System programs. Ticket to Read is designed to improve reading by allowing students to practice various aspects of reading skills. Instruction is leveled, self-paced and teacher monitored. Students are motivated by a leader board, a virtual clubhouse that includes earning online tickets and other rewards, games, and engaging self-selected passages on a variety of topics as they build vocabulary, fluency, phonics and reading comprehension skills. Approximately a quarter of the use takes place after school hours including weekends. The tool enables schools to get parents and/or guardians involved in their children s education.

Passport Reading Journeys is a targeted intervention program designed to accelerate reading for struggling readers in middle school and high school. The lesson format integrates reading, comprehension, vocabulary, fluency and writing. Age-appropriate content, real-life journeys on DVDs, online interactive lessons, and captivating text hold student interest and motivate students to read for both information and enjoyment. The program targets the affective domain as much as the cognitive domain as many struggling readers have lost confidence, are not engaged, and are close to dropping out. The program meets all of the instructional recommendations of the *Reading Next* Report and provides teachers with the tools necessary to help students become successful readers.

Voyager TimeWarp Plus is a four to six week summer reading intervention program which immerses K-9 students in reading adventures to build essential reading skills that can prevent summer learning loss and prepare students for the coming year. TimeWarp Plus is a balanced, research-based reading program offered as a two to four hour daily reading instruction focused around exciting, adventure-based themes and hands-on learning experiences. Student engagement and maximizing teacher time are key components of the program.

Voyager Pasaporte provides students in grades K-3 with targeted reading intervention in Spanish, using similar scientifically-based reading research and framework as Voyager Passport. The lessons are typically run daily for 30 to 40 minutes in duration. They are based on the latest scientific research regarding effective reading instruction and are carefully designed to effectively and efficiently address each of the strategies and skills necessary to improve the reading ability of struggling Spanish speaking children who can not read effectively in any language. Built-in assessment and progress monitoring tools provide teachers with vital information about student learning so they can adjust instruction as needed.

We also sell online supplemental reading products under the Learning A-Z brand. There are three free web sites, (LearningPage , Sites for Teachers, and Sites for Parents), which aid in directing interested parents, teachers, schools and districts to our six subscription-based sites: Reading A-Z, Raz-Kids, Reading-Tutors, Vocabulary A-Z, Writing A-Z, and Science A-Z. Each of these websites offers products available for purchase through online subscriptions.
Our Learning A-Z division s flagship product, Reading A-Z (www.readinga-z.com), offers thousands of research-based printable teacher materials to teach guided reading, phonological awareness, phonics, comprehension, fluency, letter recognition and formation, high frequency words, poetry, and vocabulary. The teaching resources include professionally developed downloadable leveled books (27 levels), a systematic phonics program that includes decodable books, high frequency word books, poetry books, nursery rhymes, vocabulary books, read-aloud books, lesson plans, worksheets, graphic organizers, and reading assessments. All leveled books, worksheets, graphic organizers and quizzes are available as printable PDF files and as projectables for use on interactive and non-interactive whiteboards. The leveled books and a variety of other books are available in Spanish and French, as well as a version with UK spellings.
Raz-Kids (www.raz-kids.com) is a student-centered online collection of interactive leveled books and quizzes designed to guide and motivate emergent and reluctant readers, as well as improve the skills of fluent readers. Students can listen to and read books as well as record their reading and then take an online quiz while receiving immediate feedback. Students earn stars for their reading activity. The stars can then be spent in each students personal clubhouse-like environment for purchasing a catalog full of items that include aliens and other fun characters. The program currently consists of over 300 online books along with companion quizzes and worksheets spread over 27 levels of difficulty. The website also features a classroom management system for teachers to build rosters, assign books, and review student reading activity.
Reading-Tutors (www.reading-tutors.com) is a low-cost, easy-to-use collection of research-based resource packets for tutors. Each of the 400 packets contains items tutors need to help emerging readers gain key literacy skills in the alphabet, phonological awareness, phonics, high-frequency words, fluency and comprehension. It also has all the resources needed to train tutors as well as set up and run a successful tutoring program.

Vocabulary A-Z (www.vocabularya-z.com) provides customized and pre-made vocabulary lessons for use by teachers to improve student vocabularies. Vocabulary A-Z has thousands of vocabulary words that can be used to generate custom vocabulary lessons and assessments. Word activities and worksheets are available based on the word lists the user generates. The Vocabulary A-Z lesson generator incorporates best practices from current educational research.
Writing A-Z (www.writinga-z.com) provides teachers with a comprehensive collection of resources to enhance the writing proficiency of students in grades K-6. The site provides core writing lessons grouped by genre including student packets with leveled materials, mini-lessons that target key writing processes and skills, and writing tools for organizing and improving writing.

Math and Science Programs

Vmath is a targeted, systematic intervention system that is aligned with the tenets of the National Council of Teachers of Mathematics and is designed to complement and enhance all major math programs by building upon and reinforcing the concepts, skills, and strategies of a core math program. Through 30 to 40 minutes of daily instruction, Vmath helps struggling students build a foundation in math and learn the skills and concepts crucial to achieving grade-level success. In January 2007 we added the VmathLive online math capability targeting additional student practice for grades 3-8. In 2008 we added ExploreLearning online simulations to provide visual instruction of concepts.

Low-performing math students may need summer intervention to prevent summer learning loss in math as well as in reading. Vmath Summer Adventure combines explicit instruction in essential math concepts and skills and real-life adventures to stimulate student interest and understanding over a shortened summer school program for grades K-8.

ExploreLearning supplies online simulations in math and science. ExploreLearning has won National Science Foundation funding, supports the tenets of the National Council of Teachers of Mathematics and has received positive mention in books published by the Association of Supervision and Curriculum Development and the National Science Teachers Association. ExploreLearning materials are correlated to state standards and over 120 math and science textbooks. Like Learning A-Z, ExploreLearning is an online subscription-based business.

The Learning A-Z website Science A-Z (www.sciencea-z.com) provides teachers with an online collection of resources to improve student skills in both science and reading. The website offers a collection of downloadable resources organized into thematic units aligned with state standards. The materials are categorized into four scientific domains: life, earth, physical and process science. The thematic units are organized into three grade level grouping, K-2, 3-4, and 5-6. The theme packs include lessons, books, high- interest information sheets, career sheets, and process activities. Within each grade span, all books and information sheets are written to a high, medium, and low level of difficulty. The website includes many other science resources including science fair resources and a monthly Science In the News feature.

Professional Development Programs

VoyagerU is a professional development program delivered to reading teachers, coaches, and educators in collaboration with state-wide and school district-wide professional development initiatives. It is designed to improve teacher effectiveness by providing a consistent approach to teaching reading. The program blends independent student instruction with facilitator-led training. We offer courses that are comprehensive or targeted for specific reading skills. Participants may earn college credit and hours toward professional development requirements. VoyagerU has been demonstrated to improve teacher instruction and student reading performance.

Business Development.

Curriculum Development. We continually seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. We develop our products using a combination of employees and outside resources such as university professors, research experts, and topical experts. We generally conduct an extensive refresh of our products every three to five years to incorporate the latest research, bring images current, and update factual content. The web based products are enhanced continuously. Between the product refreshes, we often develop variations, expansions (i.e. more grade levels) and other basic enhancements of our products. As of December 31, 2008, we had 87 employees in curriculum development. Research and development expense was $5.3 million, $4.5 million and $5.2 million for fiscal years 2008, 2007 and 2006, respectively.

Sales and Marketing. We currently organize our marketing and sales force around Voyager Expanded Learning, Learning A-Z and ExploreLearning products. Within these product lines, sales producers sell all available products and are generalist relationship managers. They are supported by product or subject matter experts as well as a corporate marketing team. As of December 31, 2008, our sales force consisted of 55 field and 46 inside sales producers for a total of 101 direct sales producers excluding sales management and marketing. Field and inside sales producers are segmented primarily based on size of district.

Proprietary Rights

We regard certain of our technologies and content as proprietary and rely primarily on a combination of copyright, trademark and trade secret laws, and employee or vendor non-disclosure agreements to protect our rights.

To a much lesser degree, we also license from third parties certain technology content or services upon which we rely to deliver our products and services to our customers.

We derive the majority of our curriculum content through in-house development efforts. Curriculum developed in house or developed through the use of independent contractors is the proprietary property of the Company. The curriculum developed might be augmented or complemented with third party products, which may include printed materials, video or photographs. This third party content may be sourced from various providers who retain the appropriate trademarks and copyright to the material and agree to our use on a nonexclusive, fee-based arrangement.

Our Trademarks are: Voyager Expanded Learning®, Voyager Learning®, VoyagerU®, Voyager Universal Literacy System®, TimeWarp®, TimeWarp® Plus, Voyager Passport, California Voyager Passport, Voyager Pasaporte, Vmath®, VmathLive, eVoyager®, Passport Reading Journeys, Reading A-Z, Raz-Kids, Reading-tutors, Vocabulary A-Z, Writing A-Z, ScienceA-Z.com, Learning A-Z, LearningPage, ExploreLearning, Gizmo®, VIP, Vital Indicators of Progress®, VPORT®, SOLO®, Strategic Online Learning Opportunities®, Ticket to Read, and Expect Results. Each trademark, trade name, or service mark of any other company appearing in this Annual Report on Form 10-K belongs to its holder.

Seasonality

Our quarterly operating results fluctuate due to a number of factors including the academic school year, funding cycles, the amount and timing of new products, and our spending patterns. In addition, our customers experience cyclical funding issues that can impact our revenue patterns. Historically, we have experienced our lowest sales and earnings in the first and fourth fiscal quarters with our highest sales and earnings in the second and third fiscal quarters.

Competition

The market for our products and services is highly competitive. We compete with basal text book suppliers such as Houghton Mifflin/Harcourt (Riverdeep), Scott Foresman (Pearson), and McGraw-Hill, who offer intervention products, often as part of their core reading programs, as well as supplemental suppliers including Cambium Learning, Scientific Learning, and Scholastic.

Government Regulations

Our operations are governed by laws and regulations relating to equal employment opportunity, workplace safety, information privacy, and worker health, including the Occupational Safety and Health Act and regulations hereunder. Additionally, as a Company that often bids on various state, local and federally funded programs, we are subject to various governmental procurement policies and regulations. We believe that we are in compliance in all material respects with applicable laws and regulations and that future compliance will not have a material adverse effect upon our consolidated operations or financial condition.

Concentration Risk

We are not overly dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. In fiscal 2007 and 2008, no single customer represented more than 10% of our consolidated net sales on an annual basis for either year. The top five customers accounted for approximately 22% of the Company s net sales in 2008.

Employees

Our future success is substantially dependent on the performance of our management team and our ability to attract and retain qualified technical and managerial personnel.

As of December 31, 2008, we had 399 employees. None of our employees are represented by collective bargaining agreements.

Website Access to Company Reports

We make available free of charge through our website, *www.voyagercompany.com*, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC). We are providing the address to our website solely for the information of our investors. Our website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Code of Ethics

In March 2003, we adopted a code of ethics, which was reviewed and updated in November 2008, for all of our finance employees, including our Chief Financial Officer and our Chief Executive Officer. A copy of this code of ethics is set forth on our website, *www.voyagercompany.com.* We adopted this code to promote such standards as (1) honest and ethical conduct; (2) full, fair, accurate, timely and understandable disclosure in our periodic reports; and (3) compliance with applicable governmental rules and regulations. Amendments to, or waivers from, the code of ethics will be posted on our website.

Also, in January 2004, we implemented a whistleblower hotline, as required under the Sarbanes-Oxley Act of 2002, by engaging a third party service that provides anonymous reporting for serious workplace ethical issues via phone and/or the Internet.

Item 1A. Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report for the year ended December 31, 2008.

The following risk factors are as of the date of this report and are not necessarily risk factors as of the December 31, 2008 financial statements.

In addition to risk factors otherwise set forth in this Annual Report on Form 10-K, factors that could cause actual results to differ materially from the Company s forward-looking statements include, but are not limited to, the following:

Our sales and profitability depend on our ability to continue to develop new products that appeal to customers and end users.

We compete in markets characterized by continual change, product introductions and enhancements, changes in customer demands and evolving industry standards. The technological and curriculum life cycles of our products are difficult to estimate. Our business may be harmed if we are not able to develop new products and invest in existing products to keep them relevant in the market place.

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

We derive a significant portion of our revenues from public schools, which are heavily dependent on federal, state, and local government funding. In addition, the school appropriations process is often slow, unpredictable and subject to many factors outside of our control. Curtailments, delays, changes in leadership, shifts in priorities, or general reductions in funding could delay or reduce our revenues. Funding difficulties experienced by schools could also cause those institutions to be more resistant to price increases and could slow investments in educational products which could harm our business.

The Company s business may be adversely affected by changes in state educational funding as a result of changes in legislation, both at the federal and state level, changes in the state procurement process, changes in government leadership, emergence of other priorities, and changes in the condition of the local, state or U.S. economy. While in the past few years the availability of state and federal funding for elementary and high school education has improved due to legislation such as No Child Left Behind and Reading First, recent reductions in and proposed elimination of appropriations for these programs and mid-year 2008 state budget adjustments have and may continue to cause some school districts to reduce spending on our products. Further reductions in funding for public schools may harm our recurring and new business if our customers are not able to find and obtain alternative sources of funding.

We face intense competition and may not be able to successfully attract and retain customers.

The market for our products and services is highly competitive. We compete with both basal text book suppliers such as Houghton Mifflin/Harcourt (Riverdeep), Scott Foresman (Pearson), and McGraw-Hill, who often offer intervention products free or at discounted prices as part of their core reading programs as well as supplemental suppliers including Cambium Learning, Scientific Learning, and Scholastic. Many of our current and potential future competitors may have substantially greater financial resources, name recognition, experience, and larger customer bases than we do. Accordingly, our competitors may be able to respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers and devote greater resources to the development and sale of their products. Any of the above results could adversely affect our ability to attract and retain customers and harm our business.

Recent developments in the commercial credit markets and education funding environment may adversely affect the Company s ability to pursue strategic alternatives, including the possible sale of the Company.

Recently, the commercial credit markets in the U.S. have experienced a variety of difficulties and changed economic conditions that could have an adverse impact on our ability to complete any of the strategic alternatives the Company is considering, including the possible sale of the Company. Potential acquirers of the Company may not be able to secure sufficient financing resources to complete a possible transaction. Such restrictions may limit the number of potential purchasers and could reduce the possible purchase price for the Company. Additionally, recent changes in economic conditions could reduce funds available to states and schools for education spending and recent changes in legislation reducing Reading First funding effective 2008 could have an adverse impact on the value of the Company and our ability to complete any of the strategic alternatives the Company is considering, including the possible sale of the Company.

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

We regard certain of the technology underlying our services and products as proprietary and we rely on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements and other contracts to establish and protect our technology and other intellectual property rights. There can be no assurance the steps we take to protect our proprietary technology will be adequate to prevent misappropriation of our technology, or to prevent third parties from developing similar technology independently.

We license from third parties certain technology content and that content may not continue to be available to us.

We also license from third parties certain technology content or services upon which we rely to deliver our products and services to our customers. This technology may not continue to be available to us on commercially reasonable terms or at all. Moreover, we may face claims from persons who claim that their licensed technologies infringe upon or violate those persons proprietary rights. These types of claims, regardless of the outcome, may be costly to defend and may divert our management s efforts and resources.

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

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

Our success depends on our ability to attract and retain key personnel.

Our success depends on our ability to attract and retain highly qualified management, creative, and technical personnel. Members of our senior management team bring substantial industry and management experience to our planning and execution. If they or other key employees were to leave us, and we were unable to find qualified replacements, our business could be harmed.

We use the Internet extensively, and federal or state governments may adopt laws or regulations that could expose us to substantial liability.

Due to the increasing usage of the Internet, federal and state governments may adopt laws or regulations regarding commercial online services, the Internet, user privacy, intellectual property rights, content regulation, and taxation. Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent and could expose us to substantial liability. For example, certain U.S. laws, such as the federal Digital Millennium Copyright Act and various federal laws aimed at protecting children and limiting the content made available to them, could expose us to substantial liability. Furthermore, various proposals at the federal, state, and local level could impose additional taxes on internet sales. These laws, regulations, and proposals could decrease Internet commerce and other Internet uses and adversely affect the success of our online products and business.

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in our delivery of electronic content to customers and ultimately may cause us to lose customers.
Any delays or failures in the systems or errors in the software that we use for the technology based component of our products which include assessment, reporting tools and learning programs could harm our business. We have occasionally suffered failures of the computer and telecommunication systems that we use to deliver electronic content to customers. The growth of our customer base, as well as the number of sites we provide, may strain our systems in the future. The systems we currently use to deliver our services to customers (except for external telecommunications systems) are located in our facilities in Dallas, Texas, Charlottesville, Virginia and Tucson, Arizona as well as in a third party data center in Allen, Texas. Although we maintain property insurance, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures associated with third party hosting providers or by failures of third party technology used in our products, and we could have no control over remedying these failures. Any failures or problems with our systems or software could force us to incur significant costs to remedy the failure or problem, decrease customer demand for our products, tarnish our reputation and thus harm our business.
Our systems face security risks and our customers have concerns about their privacy.
Our systems and websites may be vulnerable to unauthorized access by hackers, computer viruses and other disruptive problems. Security breaches could lead to misappropriation of our customers information, our websites, our intellectual property and other rights, as well as disruption in the use of our systems and websites. Unauthorized access to, as well as denial of, various internet and online services has occurred, and will likely occur again. Any security breach related to our websites could tarnish our reputation and expose us to damages and litigation. We may also incur significant costs to maintain our security precautions or to correct problems caused by security breaches. Further, to maintain these security measures, we are required to monitor our customers access to our websites which may cause disruption to our customers use of our systems and websites. These disruptions and interruptions could harm our business.

We have a single distribution center and could experience significant disruption of business and ultimately lose customers in the event it was damaged or destroyed.

The Company stores and distributes the majority of its printed materials through a single warehouse in Dallas, Texas. In the event that warehouse was damaged or destroyed, the Company would be delayed in responding to customer requests. Customers often purchase materials very close to the school year and such delivery delays could cause our customers to turn to competitors for products they need immediately. While the Company maintains adequate property insurance, the loss of customers could have a long term, detrimental impact on our reputation and business.

Our operating results continue to fluctuate, and a revenue or earnings shortfall in a particular quarter could have a negative impact on the price of our common stock.

Variations in our operating results occur from time to time as a result of many factors, such as the timing and amount of customers expenditures, our product mix, new product introductions, and general economic conditions. Our sales cycles are relatively long and depend on factors such as the size of customer orders and the terms of subscription agreements. Consequently, it is difficult to predict if and when we will receive a customer order. Because a high percentage of our expenses are fixed, the timing of customer orders can cause variations in quarterly operating results. Certain customers buying patterns and funding availability generally cause our sales and cash flow to be lower in the first and fourth quarters of the year. As a result of the difficulty in forecasting our quarterly revenues, our operating results for a quarter may fall below investors expectations, which may cause the price of our common stock to fall abruptly and significantly.

Our stock price may be volatile, and your investment in our stock could decline in value.

Our common stock price has fluctuated significantly in the recent past. In addition, market prices for securities of companies in our industry have been highly volatile and may continue to be highly volatile in the future. Often the volatility in our common stock price is unrelated to our operating performance. As a result of these fluctuations in the price of our common stock, you may not be able to sell your common stock at or above the price you pay for it.

On March 28, 2007, the New York Stock Exchange (NYSE) suspended the trading of the Company s securities and, thereafter, the common stock of the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol PQES.PK. On July 2, 2007, consistent with its corporate name change, the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol VLCY.PK.

We are a party to a number of matters of civil litigation that could have a material adverse effect on our financial results.

The Company is involved in legal actions and claims arising in the ordinary course of business. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material effect on the Company s financial position and results of operations.

The impact of ongoing securities class action, derivative and insurance-related litigation may be material. We are also subject to the risk of additional litigation and regulatory action in connection with the restatement of our Consolidated Financial Statements.

In connection with the restatements of our Consolidated Financial Statements described in our 2005 Annual Report on Form 10-K, we and certain of our former and current officers and directors have been named as defendants in a number of lawsuits, including class action and shareholder derivative suits. We cannot currently predict the impact or outcome of these litigations, which could be material. The continuation and outcome of these lawsuits and related ongoing investigations, as well as the initiation of similar suits and investigations, may have a material adverse impact on our results of operations and financial condition.

As a result of the restatement of our Consolidated Financial Statements described in our 2005 Annual Report on Form 10-K, we could become subject to additional class action, derivative or other securities litigation. As of the date hereof, we are not aware of any additional litigation or investigation having been commenced against us related to these matters, but we cannot predict whether any such litigation or regulatory investigation will be commenced or, if it is, the outcome of any such litigation or investigation. The initiation of any additional securities litigation or investigations, together with the lawsuits and investigations described above, may also harm our business and financial condition.

Our insurance coverage could be insufficient to cover losses we may incur as a result of litigation.

The Company has received a reservation of rights notice from its insurance carriers regarding coverage under the Directors and Officers liability insurance policies and there can be no assurance that the carriers will cover the costs of defense or any judgment or settlement in whole or in part. If an adverse judgment is rendered or a settlement is reached in excess of the insurance coverage limits, the Company may experience a material adverse impact on its financial condition.

For a further description of the nature and status of these legal proceedings, see Item 3 Legal Proceedings.

Item 1B. Unresolved Staff Comments.

The information set forth in Item 3 of this report regarding SEC proceedings is incorporated herein by reference.

Item 2. Properties.

As of December 31, 2008, our principal corporate office is located in Dallas, Texas. For our ongoing operations, we lease facilities in Dallas, Texas, Charlottesville, Virginia, Tucson, Arizona and Ann Arbor, Michigan.

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, the Company subleased substantial space to the buyer of PQIL. The Company, the owner of the leased buildings in Ann Arbor, and the buyer of PQIL reached an agreement in March 2008 whereby the buyer of PQIL took full responsibility for the lease of the corporate headquarters and former PQIL space in exchange for the Company paying $11 million to the buyer of PQIL. Under the terms of the March 2008 agreement, we terminated our Ann Arbor leases and signed a sublease for 13,090 square feet in Ann Arbor, which was later reduced to 3,060 square feet by year-end 2008 in order to continue performing certain information technology support functions.

The following table provides summary information in square feet with respect to the facilities associated with continuing operations and corporate headquarters as of December 31, 2008.

	Total (sq ft)
Owned	
Leased	**164,131**
Total	**164,131**

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

Item 3. Legal Proceedings.

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.

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. A Stipulation and Agreement of Settlement was signed by the parties and the Court granted preliminary approval of such agreement. During January 2009, the Company paid $4 million into an escrow account and our insurers funded the remaining portion of the settlement into the escrow account. The settlement is subject to final Court approval. There is no assurance that a final Court approval will be obtained. 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 Court. 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 parties entered into Stipulation of Settlement on January 9, 2009. This Stipulation of Settlement is subject to Court approval and the provision of notice to shareholders. There is no assurance that a final Court approval will be obtained or putative class member participation will be sufficient. If the derivative litigation settlement arrangement is not finalized, the Company intends to defend itself vigorously.

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.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 31, 2008.

Part II

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

On March 28, 2007, the NYSE suspended the trading of the Company s securities and, thereafter, the common stock of the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol PQES.PK. On July 2, 2007, consistent with its corporate name change, the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol VLCY.PK.

As of December 31, 2008, there were 756 holders of record of our common stock.

The high and low closing sales prices or quotes of our common stock on the NYSE/Pink Sheets Electronic Quotation Service were as follows. Because our stock is quoted on the Pink Sheets Electronic Quotation Service, the closing prices may not reflect actual transactions.

	2008		2007	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
First	**$ 7.15**	**$ 5.95**	**$ 12.14**	**$ 8.23**
Second	**6.55**	**4.95**	**10.36**	**8.32**
Third	**5.20**	**3.93**	**9.85**	**6.94**
Fourth	**3.90**	**1.05**	**8.20**	**4.75**

We made no share repurchases in the fiscal year ended December 31, 2008.
We have not declared or paid any cash dividends to our shareholders. Any future determination to pay dividends will be at the discretion of our Board of Directors.

Item 6. Selected Financial Data.

The following selected consolidated financial and operating data for continuing operations have been derived from our Consolidated Financial Statements as of the end of and for each of the fiscal years in the five-year period ended December 31, 2008. PQBS, which was sold in November 2006, and PQIL, which was sold in February 2007, are classified as discontinued operations for all periods presented. The following data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the accompanying notes included elsewhere herein.

			Fiscal		
(Dollars in thousands, except per share data)	2008	2007	2006	2005	2004
Continuing Operations Data: [(1)] [(2)]					
Net sales	$ 98,531	$ 109,612	$ 115,051	$ 90,967	$ 1,837
Cost of sales (exclusive of depreciation and amortization shown separately below)	(35,939)	(36,192)	(37,417)	(30,874)	(60)
Gross profit	62,592	73,420	77,634	60,093	1,777
Research and development expense	(5,302)	(4,532)	(5,198)	(4,127)	
Selling and administrative expense [(3)]	(64,394)	(82,867)	(92,695)	(48,585)	(17,744)
Depreciation and amortization expense	(21,358)	(23,190)	(23,865)	(20,513)	(663)
Goodwill impairment [(4)]	(43,141)	(67,232)	(42,496)		
Lease termination costs [(5)]	(11,673)				
Loss from continuing operations before interest, other income (expense), and income taxes	(83,276)	(104,401)	(86,620)	(13,132)	(16,630)
Net interest income (expense)	975	335	(27,464)	(18,915)	(378)
Other income (expense)	(363)	4,408			
Income tax benefit (expense) [(6)]	1,160	12,396	64,063	1,778	(25,097)
Loss from continuing operations	$ (81,504)	$ (87,262)	$ (50,021)	$ (30,269)	$ (42,105)
Basic and diluted loss from continuing operations per common share	$ (2.73)	$ (2.92)	$ (1.68)	$ (1.03)	$ (1.47)

(Dollars in thousands)	At the End of Fiscal 2008	2007	2006	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	$ 67,302	$ 53,868	$ 39,902	$ 30,957	$ 4,313
Total assets	304,097	402,727	833,531	917,114	535,968
Long-term debt and capital leases, less current maturities [7]	96	810	1,592	860	150,000
Total debt and capital leases [7]	245	1,599	60,664	516,149	154,185
Total shareholders equity (deficit) [8]	212,759	290,330	306,994	(48,447)	(51,073)

Footnotes to the Selected Financial Data:

(1) On January 31, 2005, we acquired all the outstanding ownership interest in VEL. The results of VEL s operations subsequent to the acquisition on January 31, 2005 are combined with the results of two minor acquisitions (ExploreLearning and Learning A-Z), one made in 2004 and one made in 2005 to form the Voyager Education VED segment reported as continuing operations in our Consolidated Financial Statements.

(2) The Company implemented a plan to sell its PQBS and PQIL operations during the second quarter of 2006. The sale of PQBS was completed in

November 2006 and the sale of PQIL was completed in February 2007. Results of operations for PQBS and PQIL are reported as results from discontinued operations for all periods presented.

(3) **In 2008, 2007, and 2006, respectively, selling and administrative expenses include corporate costs of $14.9 million, $34.1 million, and $46.2 million, the majority of which are associated with the closing of the Ann Arbor offices, financial restatements, and completion of the sale of PQBS and PQIL. The transition of corporate offices from Ann Arbor, MI to Dallas, TX was completed by year-end 2008.**

(4) **The required annual testing for impairment of goodwill resulted in goodwill impairment for the VED business unit in 2008, 2007, and 2006. See Note 5 to our Consolidated Financial**

Statements included herein for further details.

(5) In 2008 the Company entered into a series of agreements with its landlord regarding the termination of certain obligations in relation to the long term leases for the facilities in Ann Arbor, Michigan. The Company terminated and was released from all obligations relating to these certain leases on March 7, 2008, resulting in a total charge to expense in the first quarter of 2008 for all lease termination costs.

(6) Tax expense in 2004 reflects an increase in deferred tax expense of $25.1 million to reflect the impact of establishing a valuation allowance against deferred tax assets as a result of restatement adjustments.

(7) Upon closing on the sale of PQBS on November 28, 2006, we made a pro-rata payment

of 89% of the principal then outstanding under our 2002 Notes, our 2005 Notes and our Credit Agreement. Upon closing on the sale of PQIL on February 9, 2007, we paid our remaining balances owed to our bank lenders and Noteholders and were released from all obligations under the 2002 Note Purchase Agreement, the 2005 Note Purchase Agreement, and the Credit Agreement.

(8) Shareholders equity for 2006 reflects the $347.7 million gain from the sale of PQBS. Shareholders equity for 2007 reflects the $46.6 million gain from the sale of PQIL.

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

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report for the year ended December 31, 2008.

Organization of Information

Management s Discussion and Analysis includes the following sections:

- Overview
- Critical Accounting Policies and Estimates
- Results of Continuing Operations
- Fiscal Year 2008 Compared to Fiscal Year 2007
- Fiscal Year 2007 Compared to Fiscal Year 2006
- Liquidity and Capital Resources
- Capital Expenditures and Outlook

Commitments and Contractual Obligations
Recently Issued Financial Accounting Standards

Overview

As of December 31, 2008, we provide products and services through one business segment.

We focus on three market areas related to K-12 education: reading programs, math and science programs, and professional development programs. We are a leading provider of results-driven, in-school reading and math intervention programs, professional development programs regarding the teaching of reading, subscription-based online supplemental reading and science programs, and a core reading program for school districts throughout the U.S.

Certain reclassifications to the Consolidated Financial Statements for all prior periods presented have been made to conform to the 2008 presentation. In prior years, we included amortization of our acquired and developed curriculum and certain other operational assets in Cost of Sales. In the current year presentation, all depreciation and amortization for the periods presented herein has been segregated and shown as a separate line item on the Consolidated Statements of Operations. Also, in prior years, we included a line item in our Consolidated Financial Statements entitled selling and administrative expense. In the current year presentation, amounts previously included in this line item have been reclassified into the line items sales and marketing expense, general and administrative expense, or depreciation and amortization expense. A summary of the impact of these conforming reclassifications on previously filed results is as follows (in thousands):

	2007 as Originally Filed	Reclassifications	2007 in Current Year Presentation	2006 as Originally Filed	Reclassifications	2006 in Current Year Presentation
Cost of sales	$ (55,720)	$ 19,528	$ (36,192)	$ (57,279)	$ 19,862	$ (37,417)
Gross profit	53,892	19,528	73,420	57,772	19,862	77,634
Selling and administrative expense	(86,529)	86,529		(96,698)	96,698	
Sales and marketing expense		(29,587)	(29,587)		(27,614)	(27,614)
General and administrative expense		(53,280)	(53,280)		(65,081)	(65,081)
Depreciation and amortization expense		(23,190)	(23,190)		(23,865)	(23,865)

Critical Accounting Policies and Estimates

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

On an ongoing basis, we evaluate our estimates including those related to accounting for revenue recognition, impairment, capitalization and depreciation, allowances for doubtful accounts and sales returns, inventory reserves, income taxes, and other contingencies. We base our estimates on historical experience and other assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily available from other sources. Actual results may differ from these estimates, which could have a material impact on our financial statements.

Certain accounting policies require higher degrees of judgment than others in their application. We consider the following to be critical accounting policies due to the judgment involved in each. For a detail discussion of our significant accounting policies see Note 1 to our Consolidated Financial Statements included herein.

Revenue Recognition. We account for our revenues under Staff Accounting Bulletin No. 104, "Revenue Recognition (SAB No. 104). Revenues are derived from sales of reading, math and science, and professional development solutions to school districts primarily in the U.S. Sales include printed materials and often online access to educational materials for individual students, teachers, and classrooms. Revenue from the sale of printed materials for reading and math products is recognized when the product is shipped to or received by the customer. Revenue for product support, implementation services, and online subscriptions is recognized over the period services are delivered. The division of revenue between shipped materials, online materials, and ongoing support and services is determined in accordance with Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). Revenue for our professional development courses, which includes an internet delivery component, is recognized over the contractual delivery period, typically nine to twelve months. Revenue for the online content sold separately or included with our curriculum materials is recognized ratably over the subscription period, typically a school year. Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

ExploreLearning and Learning A-Z derive revenue exclusively from sales of online subscriptions to their reading, math and science teaching websites. Typically, the subscriptions are for a twelve month period and the revenue is recognized ratably over the period the online access is available to the customer.

Discontinued Operations. We sold PQBS on November 28, 2006. We sold PQIL on February 9, 2007. Accordingly, the operating results of these businesses have been segregated from our continuing operations and are separately reported as discontinued operations.

Interest on consolidated debt that was repaid as a result of the PQBS and PQIL disposal transactions has been allocated between discontinued operations and continuing operations.

Impairment of Long Lived Assets. We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows, which is based on the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. The determination whether these assets are impaired involves significant judgment based on projections of future performance.

Impairment of Goodwill. We review the carrying value of goodwill for impairment at least annually based on the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets (SFAS No. 142). The annual analysis is performed during the fourth fiscal quarter or when certain triggering events occur. The impairment test requires us to compare the fair value of each reporting unit to its carrying value. For businesses or assets that have been sold, we use the actual sales price in the determination of fair value. The determination whether these assets are impaired involves significant judgment based on projections of future performance. Changes in strategy and/or market conditions may result in further adjustments to recorded goodwill balances.

Developed Curriculum. We capitalize certain pre-publication costs of our curriculum including art, prepress, editorial, and other costs incurred in the creation of the master copy of our curriculum products. Curriculum development costs are amortized over the expected life of the education program, generally on a straight-line basis over a period of three to five years. We periodically review the recoverability of the capitalized costs based on expected net realizable value.

Accounts Receivable. Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. These allowances are based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of returns.

Reserve for Obsolete Inventory. We estimate a reserve for obsolete inventory. Inventory reserves are reviewed on a periodic basis and required adjustments, if any, are made.
Income Taxes. Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in every jurisdiction in which we do business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing whether deferred tax assets will be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that a portion of the deferred tax assets will not be realized, a valuation allowance is established. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced.
Other Contingencies. Other contingencies are recorded when it is probable that a liability exists and the value can be reasonably estimated.

Results of Continuing Operations

VEL and ExploreLearning were both acquired in 2005 and Learning A-Z was acquired in 2004. These operations together are Voyager Education and comprise our single reporting segment. 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 PQBS and 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.

	Fiscal					
	2008		2007		2006	
(Dollars in thousands)	Amount	% of sales	Amount	% of sales	Amount	% of sales
Net sales	**$ 98,531**	**100.0**	**$ 109,612**	**100.0**	**$ 115,051**	**100.0**
Cost of sales (exclusive of depreciation and amortization shown separately below)	**(35,939)**	**(36.5)**	**(36,192)**	**(33.0)**	**(37,417)**	**(32.5)**
Gross profit	**62,592**	**63.5**	**73,420**	**67.0**	**77,634**	**67.5**
Research and development expense	**(5,302)**	**(5.4)**	**(4,532)**	**(4.1)**	**(5,198)**	**(4.5)**
Sales and marketing expense	**(33,734)**	**(34.2)**	**(29,587)**	**(27.0)**	**(27,614)**	**(24.0)**
General and administrative expense	**(30,660)**	**(31.1)**	**(53,280)**	**(48.6)**	**(65,081)**	**(56.6)**
Depreciation and amortization expense	**(21,358)**	**(21.7)**	**(23,190)**	**(21.2)**	**(23,865)**	**(20.8)**
Goodwill impairment	**(43,141)**	**(43.8)**	**(67,232)**	**(61.3)**	**(42,496)**	**(36.9)**
Lease termination costs	**(11,673)**	**(11.8)**				
Loss from continuing operations before interest, other income (expense) and income taxes	**(83,276)**	**(84.5)**	**(104,401)**	**(95.2)**	**(86,620)**	**(75.3)**
Net interest income (expense)	**975**	**1.0**	**335**	**0.3**	**(27,464)**	**(23.9)**
Other income (expense), net	**(363)**	**(0.4)**	**4,408**	**4.0**		
Income tax benefit	**1,160**	**1.2**	**12,396**	**11.3**	**64,063**	**55.7**
Loss from continuing operations	**$ (81,504)**	**(82.7)**	**$ (87,262)**	**(79.6)**	**$ (50,021)**	**(43.5)**

Fiscal Year 2008 Compared to Fiscal Year 2007

Overview

During 2008, we experienced a decline in net sales, or revenues, due to lower order volume and higher revenue deferral rates. The decline in order volume is primarily attributed to market conditions, most notably, the amount of funding available to schools to purchase our products and services declined significantly. Funding to schools from the

federal level declined as the Reading First program was reduced. Local funding declined as a result of lower property tax receipts. Additionally, higher operating costs in the schools from midyear fuel cost increases further depleted available funds. The revenue decline is greater than the volume decline primarily due to the change of product mix towards more service based or technology based products, which requires a greater degree of deferred revenue recognition over the period of product use.

While revenues declined in 2008, our spending for sales and marketing increased as we sought to maintain sales volumes in an increasingly challenging market and due to costs associated with our participation in several 2008 state adoptions. In late 2008, to respond to the market conditions and the related decline in revenue, we reduced our cost structure through a reduction in force in November 2008 and we enacted plans to reduce selected non-headcount areas. The reduction in force affected 26 fulltime employees and roughly 15 equivalent contractor positions. The reduction was almost exclusively in the Voyager Expanded Learning product line as well as in general overhead, as opposed to our Learning A-Z or ExploreLearning product lines. The 26 positions represented 7% of the Company s total full time work force.

Other significant developments include the following:

- The increasing usage of web-based capabilities within our curriculum, including Ticket to Read and VmathLive, has had a positive impact on student achievement and stand-alone sales of these products has increased. We believe such capabilities are an emerging trend within education and that we are well positioned to capture market share in this space.
- Our web-based products have seen a significant increase in usage outside of normal school hours, including weekends, which increases the advocacy of our products among influential groups, such as students, teachers and parents.
- Participation in the 2008 Florida adoption has proved successful in generating sales, customer acceptance, and student achievement.
- We filed all of our fiscal quarterly reports for 2008 in January 2009. Upon filing these reports, the Company became current with its filings with the SEC after three years of delinquent reporting following the discovery of material irregularities in our accounting in January 2006.

Operating Trends

The following trends have or may have a positive impact on our revenues and profitability:

- Sales of our online subscription based products grew significantly in 2008 and we expect growth to continue in the coming years.
- We believe our product diversification, such as growth in the online offerings and new intervention products for higher grades, will allow us to strengthen our ability to sustain share in a troubled market and capture share when the market recovers.
- We believe our focus on usage and partnership with the customer to implement our solutions with fidelity will result in higher success rates and such success, if achieved, will lead to customer retention and growth through reference sales.
- Efforts taken in 2008 to reduce our cost structure, including the reduction in force, better aligns our cost structure to current market conditions.

Negative operating trends include:

- Adverse developments in the education funding environment, including the reductions in Reading First funding that occurred in 2008 and reductions in available state and local funds as property taxes decline, have impacted our operations during the current year and may continue to have and potentially increase the impact on our future sales, profits, cash flows and carrying value of assets.
- School districts may find it difficult to secure alternative funding sources in the midst of the current market conditions.

Recently Passed Federal Legislation

In February 2009 the American Reinvestment and Recovery Act (ARRA) was passed. The Act provides significant new federal funding for various education initiatives over the next two years. While the education funding is for a broad set of initiatives, a meaningful amount is anticipated to be targeted for programs often used by schools for our products. While success in winning some of these funds for our products is not certain, we believe it has the potential to stabilize some of the negative funding trends which emerged in 2008.

Net Sales.

(Dollars in millions)		2008		2007
Reading programs	**$**	**75.6**	**$**	**87.1**
Math and science programs		**12.6**		**11.0**
Professional development		**5.6**		**7.4**
Other (primarily freight)		**4.7**		**4.1**
Total	**$**	**98.5**	**$**	**109.6**

Total net sales from continuing operations decreased $11.1 million, or 10.1%, to $98.5 million in 2008. The decrease was primarily driven by lower order volume and higher revenue deferral rates in fiscal 2008 compared to fiscal 2007. We experienced weakness in markets and products that have heavy reliance on federal, state and local funding sources. Our reading intervention for middle school students and our online offerings continue to grow, but that growth was not enough to offset declines in products with heavy reliance on federal funding. In 2008, we deferred a larger percentage of sales compared to 2007 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. We defer the revenue associated with those services and on-line access and recognize 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. Gross profit decreased $10.8 million in fiscal 2008 to $62.6 million compared to $73.4 million in fiscal 2007. Our gross profit percentage for 2008 decreased 3.5 percentage points to 63.5% compared to 67.0% for 2007. The decrease is primarily due to the deferral of a larger percentage of sales in 2008 versus 2007, which reduced net sales but did not have an offsetting and corresponding decrease in 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. To a lesser degree, the gross profit declined due to increases in printing costs as our product was upgraded in quality and the Company chose to produce more specialized, state specific versions to sell in state adoptions.

Research and Development.
Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for fiscal 2008 increased $0.8 million to $5.3 million compared to $4.5 million in fiscal 2007, primarily due to the ratio of capitalizable versus non-capitalizable activities performed during the year.
Sales and Marketing.
Sales and marketing expenditures include all costs related to selling efforts and marketing costs. Sales and marketing expense for fiscal 2008 increased $4.1 million to $33.7 million compared to $29.6 million in fiscal 2007, as we sought to maintain sales volumes in an increasingly challenging market and due to costs associated with our participation in several 2008 state adoptions. The increase in expenditures was primarily in our growth products without a corresponding decrease in spending associated with products which declined in sales.
General and Administrative.

(Dollars in millions)		**2008**		**2007**
VED	**$**	**15.8**	**$**	**19.2**
Corporate		**14.9**		**34.1**
Total	**$**	**30.7**	**$**	**53.3**

General and administrative expenses decreased $22.6 million, or 42.4%, to $30.7 million compared to fiscal 2007. General and administrative activities include $14.9 million for 2008 and $34.1 million for the comparable period of 2007 related to activities based in Ann Arbor, Michigan required to finalize the restatement and SEC filing efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL.
Both the Corporate and Dallas-based general and administrative expenses decreased in 2008 as the efforts to complete the restatement, get current on SEC filings, and finalize the transition efforts were brought closer to conclusion in 2008.

Goodwill Impairment.

In conducting our annual goodwill impairment testing for fiscal 2008, we compared the book value of the Company s single reporting unit to its estimated fair market value. These estimates of fair market are dependent on multiple assumptions, estimates and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2008, the estimated fair market value of the reporting unit was estimated to have fallen below the book value as a result of worsening and prolonged adverse developments in the overall education funding environment, including the reductions in Reading First funding effective 2008 and the reductions in available state and local funds. As a result of these factors, an impairment charge of $43.1 million was recorded in 2008.

In conducting our annual goodwill impairment testing for fiscal 2007, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED. These estimates of fair market are dependent on multiple assumptions and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2007, the estimated fair market value of VED was estimated to be less than the book value as a result of lower future cash flow projections, driven by adverse developments in the education funding environment at the federal and local level. An impairment charge of $67.2 million related to VED was recorded in 2007 as a result of these factors.

Lease Termination Costs.

On January 1, 2008, we entered into an agreement with one of our lessors, Relational, LLC f/k/a Relational Funding Corporation (Relational) and ProQuest LLC (formerly known as ProQuest-CSA LLC) (CSA) relating to certain obligations regarding the capital and operating leases for certain property and equipment used at our facilities at 777 Eisenhower Parkway (the 777 Facility) and 789 Eisenhower Parkway (the 789 Facility) in Ann Arbor, Michigan. The aforementioned leases originated as early as fiscal 2005 with up to five year terms. Effective January 1, 2008, we conveyed, assigned, transferred and delivered to CSA all of our right, title and interest and benefit of certain property and equipment. We were released from any and all obligations relating to these leases and Relational, as lessor, consented to such assignments and releases. Due to these assignments, the write off of certain assets and liabilities under capital leases, such as office furniture, phone and power supply systems, and video equipment, totaled a net charge of $0.1 million in the first quarter of 2008.

On January 25, 2008, we entered into a series of agreements with our current landlord, Transwestern Great Lakes, LP (Transwestern) and CSA relating to certain obligations regarding the long term leases for the facilities in Ann Arbor, Michigan. On March 4, 2008, we paid CSA $11.0 million, a portion of which was distributed to Transwestern for termination of the lease relating to office space at the 777 Facility. Upon the Closing Date of March 7, 2008, we were released from any and all obligations relating to the 15 year lease we previously entered into for the 777 Facility. Through assignment, we were also released from any and all obligations relating to the 15 year lease we previously entered into for office space at the 789 Facility. We assigned all of our rights under the lease for the 789 Facility to CSA and CSA assumed the obligations of tenant under such lease, as amended. Transwestern, as landlord, consented to such assignment. In connection with the termination and assignment of these long term facility leases, certain leasehold improvements and deferred rent were written off, which resulted in a net charge of $0.6 million in the first quarter of 2008. We recorded a total charge to expense in the first quarter of 2008 of $11.7 million for all lease termination costs.

Net Interest Income.

(Dollars in millions)		**2008**		**2007**
Interest income	**$**	**1.5**	**$**	**3.7**
Interest expense		**(0.5)**		**(3.4)**
Net interest income	**$**	**1.0**	**$**	**0.3**

Net interest income totaled $1.0 million for fiscal 2008 versus $0.3 million in fiscal 2007. 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 result was to eliminate interest expense associated with long-term debt other than capital leases effective February 2007. Additionally, lower cash balances throughout the year and a change in the mix of investments and related interest rates during 2008 relative to 2007 decreased earnings on cash balances and investments.

Other Income (Expense).

We announced plans after the sale of PQBS and PQIL to transition all of our corporate functions from the Ann Arbor headquarters to Dallas during 2007 and 2008. The transition plan was completed by year-end 2008. From the date of the sale of PQIL in February 2007, we subleased substantial space to the buyer of PQIL through March 2008 resulting in sublease income totaling $4.4 million in fiscal 2007 and $0.8 million in fiscal 2008.

The Company has tax-related receivables and liabilities denominated in foreign currencies resulting from the sale agreements with Snap-On Incorporated and Cambridge Scientific Abstracts, LP. Foreign exchange transaction losses of $1.0 million associated with these tax liabilities have been included in other income (expense) in fiscal 2008. Transaction gains and losses in fiscal 2007 were not material to the financial statements.

Income Tax Benefit.

In 2008, the Company attributed an income tax benefit of $1.2 million to continuing operations. Pre-tax losses at statutory tax rates provided a tax benefit of approximately $28.9 million. The impairment charge to non-deductible goodwill did not result in a tax benefit which is $15.1 million less than the amount expected based on the federal statutory tax rate. Furthermore, the Company continues to maintain a valuation allowance on its deferred tax assets. The requirement of maintaining a valuation allowance against its deferred tax assets eliminated almost all of the deferred tax benefit generated from the $37.3 million Federal net operating loss incurred in 2008.

In 2007, the Company attributed an income tax benefit of $12.4 million to continuing operations. Pre-tax losses at statutory tax rates provided a tax benefit of approximately $34.9 million. The impairment charge to non-deductible goodwill did not result in a tax benefit which is $23.5 million less than the amount expected based on the federal statutory tax rate.

The above factors are summarized below:

(Dollars in millions)	2008	2007
Taxes at statutory federal income tax rate	$ (28.9)	$ (34.9)
Non-deductible goodwill impairment	15.1	23.5
Changes in valuation allowance	13.5	
Other	(0.9)	(1.0)
Total tax benefit from continuing operations	$ (1.2)	$ (12.4)

Fiscal Year 2007 Compared to Fiscal Year 2006

Net Sales.

(Dollars in millions)	2007	2006
Reading programs	$ 87.1	$ 91.6
Math and science programs	11.0	8.1
Professional development	7.4	9.0
Other (primarily freight)	4.1	6.4
Total	$ 109.6	$ 115.1

Total net sales from continuing operations decreased $5.5 million, or 4.8%, to $109.6 million in 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. Gross profit decreased $4.2 million in fiscal 2007 to $73.4 million compared to $77.6 million in fiscal 2006. Our gross profit percentage for 2007 decreased 0.4 percentage points to 67.0% compared to 67.4% for 2006. The decrease is primarily due to the deferral of a larger percentage of sales in 2007 versus 2006, which reduced net sales but did not have an offsetting and corresponding decrease in 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.

Research and Development.
Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for fiscal 2007 decreased by $0.7 million to $4.5 million compared to $5.2 million for fiscal 2006, but remained flat as a percentage of revenues representing 4.1% of revenues in fiscal 2007 versus 4.5% in fiscal 2006.
Sales and Marketing.
Sales and marketing expenditures include all costs related to selling efforts and marketing costs. Sales and marketing expense for fiscal 2007 increased $2.0 million to $29.6 million in 2007 compared to $27.6 million in fiscal 2006 due to increased investment in the sales force.
General and Administrative.

(Dollars in millions)		**2007**		**2006**
VED	**$**	**19.2**	**$**	**18.9**
Corporate		**34.1**		**46.2**
Total	**$**	**53.3**	**$**	**65.1**

General and administrative expenses decreased $11.8 million, or 18.1%, to $53.3 million compared to fiscal 2006. General and administrative activities include $34.1 million in fiscal 2007 and $46.2 million in fiscal 2006 related to activities based in Ann Arbor, Michigan required to finalize the restatement and SEC filing efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL. General and administrative expenses decreased in 2008 as the efforts to complete the restatement and get current on SEC filings were reduced in 2007. The efforts to transition the corporate office were completed in 2008.
Net Interest Income (Expense).

(Dollars in millions)		**2007**		**2006**
Interest income	**$**	**3.7**	**$**	**1.1**
Debt		**(3.4)**		**(28.1)**
Other				**(0.5)**
Net interest income (expense)	**$**	**0.3**	**$**	**(27.5)**

Net interest income (expense) totaled $0.3 million in fiscal 2007 versus $(27.5) million in fiscal 2006. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. In December 2006, we announced the sale of PQIL including all remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. This sale closed on February 9, 2007, and 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 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.

Income Tax Benefit.

In 2006, the Company attributed an income tax benefit of $64.1 million to continuing operations. Pre-tax losses at statutory tax rates provided a tax benefit of approximately $39.9 million. The VEL impairment charge to non-deductible goodwill did not result in a tax benefit which is $14.9 million less than the amount expected based on the federal statutory tax rate. During 2006 PQIL transferred its investment in VEL to VLC. The Company recognized a tax benefit, net of valuation allowance, of approximately $37.5 million because the Company expected to realize a tax loss and recover a portion of its investments in VEL when PQIL left the U.S. consolidated group in fiscal 2007.

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 in our Consolidated Statements of Operations for fiscal years ended December 30, 2006 and December 29, 2007. We recognized a gain on the sale of discontinued operations of $46.6 million (net of tax) due to the sale of PQIL in fiscal 2007.

On November 28, 2006, we sold our PQBS businesses to Snap-on Incorporated for $514 million and the assumption of approximately $19 million of debt by Snap-on. Accordingly, the operating results of the PQBS businesses have been segregated from our continuing operations and reported as earnings from discontinued operations. We recognized a gain on the sale of discontinued operations of $347.7 million (net of tax) due to the sale of PQBS in fiscal 2006.

Goodwill Impairment.
For fiscal 2006, we performed our annual impairment testing of goodwill and impairment testing of long-lived assets as of December 30, 2006. As a result of this testing, we recorded impairment to goodwill of VED totaling $42.5 million. In conducting our annual goodwill impairment testing, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED using revenue and EBITDA multiples of publicly traded comparable companies. These estimates of fair market are dependent on multiple assumptions, estimates and inputs including: market prices of securities in general, prevailing interest rates, industry fundamentals including the state of educational funding, and the actual performance and future projections of the Company. As of year end 2006, the estimated fair market value of VED was estimated to have fallen below the book value as a result of multiple factors including: a more competitive environment, the need to invest in redesigning older products and to introduce new products, the need to improve customer retention, sales declines in certain key products, the loss of several significant customers, and lower actual performance and future projections than were made at the time of acquisition of Voyager.

Liquidity and Capital Resources

As of December 31, 2008, the Company does not have any debt with the exception of certain capital leases. Cash and cash equivalents increased to $67.3 million at December 31, 2008 compared to $53.9 million at December 29, 2007. In 2008, cash provided from operating activities was $31.2 million. Cash from operating activities included the receipt of a federal tax refund of $44.1 million and the payment of $11 million to terminate the Ann Arbor office space lease. During 2008, we continued to incur significant expenditures related to personnel and activities based in Ann Arbor, Michigan required to finalize past due financial reporting and transition the corporate office to Dallas, Texas, 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 fiscal 2008 included:

- $9.6 million of net purchases of marketable securities
- $7.9 million of expenditures related to property, plant, equipment, curriculum development costs, and software; and
- $0.3 million for principal payments on capital leases.

Capital Expenditures and Outlook

(Dollars in millions)		2008		2007		2006
Curriculum development costs	**$**	**3.7**	**$**	**5.4**	**$**	**3.6**
Fixed capital		**0.7**		**0.6**		**9.2**
Software		**3.5**		**2.8**		**1.6**
Total expenditures for property, equipment, curriculum development costs, and software	**$**	**7.9**	**$**	**8.8**	**$**	**14.4**

Relative to 2008, capital spending in 2009 is expected to decline slightly. Capital expenditures for 2009 will be concentrated primarily on ongoing and new product development which management believes will generate future sales growth.

As of January 31, 2009, we have cash, cash equivalents, and short-term investments totaling $63.1 million with no outstanding debt. During the fourth quarter of 2008, we provided an opportunity for participants in our replacement benefit plan (RBP) and our defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. We paid cash out $7.9 million in January 2009 related to these lump sum payments. Additionally, in January 2009, we escrowed $4 million under the terms of the agreement in principle to settle the consolidated shareholder securities class action lawsuit.

We believe that current cash, cash equivalents and short term investment balances, expected income tax refunds, and cash generated from operations will be adequate to fund the working capital and capital expenditures necessary to support our currently expected sales for the foreseeable future.

Commitments and Contractual Obligations

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

The following table summarizes our significant operational and contractual obligations and commercial commitments at December 31, 2008 showing the future periods in which such obligations are expected to be settled in cash:

(Dollars in millions)		**Total**		**2009**		**2010 & 2011**		**2012 & 2013**		**After 2013**
Capital lease obligation as of December 31, 2008	**$**	**0.3**	**$**	**0.2**	**$**	**0.1**	**$**		**$**	
Operating lease obligation as of December 31, 2008	**$**	**3.3**	**$**	**1.3**	**$**	**1.4**	**$**	**0.6**	**$**	

As of December 31, 2008, we also have $16.9 million in obligations with respect to our pension and post-retirement medical benefit plans. For further information see Note 13 to our Consolidated Financial Statements included herein.

We have letters of credit in the amount of $1.1 million outstanding as of December 31, 2008 to support workers compensation insurance coverage as well as collateral for the Company s credit card and Automated Clearinghouse (ACH) programs.

As of December 31, 2008, the Company had approximately $0.6 million of long-term income tax liabilities that have a high degree of uncertainty regarding the timing of the future cash outflows. The Company is unable to reasonably estimate the years when settlement will occur with the respective tax authorities.

Off-Balance Sheet Arrangements

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

Recently Issued Financial Accounting Standards

Information regarding recently issued accounting standards is included in Note 1 to the Consolidated Financial Statements, which is included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Company does not have material interest rate risk. As of December 31, 2008, the Company does not have any interest rate forwards or option contracts outstanding.

Foreign Currency Risk

The Company does not have material exposure to changes in foreign currency rates. As of December 31, 2008, the Company does not have any outstanding foreign currency forwards or option contracts.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Voyager Learning Company

We have audited Voyager Learning Company and subsidiaries (the Company) internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and December 29, 2007, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for the fiscal years then ended, and our report dated March 5, 2009, expressed an unqualified opinion on those consolidated financial statements and related financial statement schedule.

/s/ Whitley Penn LLP
Dallas, Texas
March 5, 2009

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Voyager Learning Company

We have audited the accompanying consolidated balance sheets of Voyager Learning Company and subsidiaries (the Company), as of December 31, 2008 and December 29, 2007, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for the fiscal years then ended. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule II. The Company s management is responsible for these financial statements and financial statement schedule. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial statement schedule referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2008 and December 29, 2007, and the results of their operations and their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, the Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an Interpretation of FASB No. 109,* effective as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 5, 2009 expressed an unqualified opinion.

/s/ Whitley Penn LLP
Dallas, Texas
March 5, 2009

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of Voyager Learning Company

We have audited the accompanying consolidated statement of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows of Voyager Learning Company (formerly known as ProQuest Company) (the Company) and subsidiaries for the fiscal year ended December 30, 2006. In connection with our audit of the consolidated financial statements, we have also audited financial statement schedule II for the fiscal year ended December 30, 2006. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Voyager Learning Company and subsidiaries for the fiscal year ended December 30, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the fiscal year ended December 30, 2006, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based payments in 2006.

/s/ KPMG LLP

Detroit, Michigan

September 17, 2008

Voyager Learning Company and Subsidiaries
Consolidated Statements of Operations
For the fiscal years ended December 31, 2008, December 29, 2007 and December 30, 2006

(In thousands, except per share data)	2008	2007	2006
Net sales	$ 98,531	$ 109,612	$ 115,051
Cost of sales (exclusive of depreciation and amortization shown separately below)	(35,939)	(36,192)	(37,417)
Gross profit	62,592	73,420	77,634
Research and development expense	(5,302)	(4,532)	(5,198)
Sales and marketing expense	(33,734)	(29,587)	(27,614)
General and administrative expense	(30,660)	(53,280)	(65,081)
Depreciation and amortization expense	(21,358)	(23,190)	(23,865)
Goodwill impairment	(43,141)	(67,232)	(42,496)
Lease termination costs	(11,673)		
Loss from continuing operations before interest, other income (expense) and income taxes	(83,276)	(104,401)	(86,620)
Net interest income (expense):			
Interest income	1,485	3,682	1,080
Interest expense	(510)	(3,347)	(28,544)
Net interest income (expense)	975	335	(27,464)
Other income (expense), net	(363)	4,408	
Loss from continuing operations before income taxes	(82,664)	(99,658)	(114,084)
Income tax benefit	1,160	12,396	64,063
Loss from continuing operations	(81,504)	(87,262)	(50,021)
Earnings from discontinued operations (less applicable income tax expense of $0, $1,491, and $23,776, respectively)		5,460	44,926
Gain on sale of discontinued operations (less applicable income tax expense of $0, $11,160, and $66,321, respectively)		46,572	347,708
Net earnings (loss)	$ (81,504)	$ (35,230)	$ 342,613

Net earnings (loss) per common share:						
Basic:						
Loss from continuing operations	$	(2.73)	$	(2.92)	$	(1.68)
Earnings from discontinued operations				0.18		1.51
Gain on sale of discontinued operations				1.56		11.66
Basic net earnings (loss) per common share	$	(2.73)	$	(1.18)	$	11.49
Diluted:						
Loss from continuing operations	$	(2.73)	$	(2.92)	$	(1.68)
Earnings from discontinued operations				0.18		1.51
Gain on sale of discontinued operations				1.56		11.66
Diluted net earnings (loss) per common share	$	(2.73)	$	(1.18)	$	11.49
Average number of common shares and equivalents outstanding:						
Basic		29,871		29,858		29,816
Diluted		29,871		29,858		29,816

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

Voyager Learning Company and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2008 and December 29, 2007

(In thousands, except per share data)	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 67,302	$ 53,868
Accounts receivable, net	7,371	9,266
Income tax receivable	19,782	65,600
Inventory	15,196	16,005
Other current assets	33,826	16,489
Total current assets	143,477	161,228
Property, equipment, and software at cost:		
Buildings and improvements	1,220	10,666
Machinery and equipment	4,707	5,975
Software	10,616	7,284
Total property, equipment, and software at cost	16,543	23,925
Accumulated depreciation and amortization	(9,718)	(8,584)
Net property, equipment, and software	6,825	15,341
Goodwill	99,717	142,858
Acquired curriculum intangibles, net	38,594	51,206
Other intangible assets, net	5,218	6,411
Developed curriculum, net	8,903	9,333
Other assets	1,363	16,350
Total assets	$ 304,097	$ 402,727

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

Voyager Learning Company and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2008 and December 29, 2007

(In thousands, except per share data)	2008	2007
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of capital lease obligations	$ 149	$ 789
Accounts payable	1,962	4,403
Accrued expenses	40,866	25,315
Deferred revenue	27,917	19,822
Total current liabilities	70,894	50,329
Long-term liabilities:		
Capital lease obligations, less current maturities	96	810
Other liabilities	20,348	61,258
Total long-term liabilities	20,444	62,068
Commitments and contingencies (See Note 18)		
Shareholders equity:		
Common stock ($.001 par value, 50,000 shares authorized, 30,550 shares issued and 29,874 shares outstanding at the end of fiscal 2008, and 30,552 shares issued and 29,883 shares outstanding at the end of fiscal 2007)	30	30
Capital surplus	357,741	356,683
Accumulated earnings (deficit)	(129,227)	(47,723)
Treasury stock, at cost (676 shares at the end of fiscal 2008 and 669 shares at the end of fiscal 2007)	(16,836)	(16,742)
Other comprehensive income (loss):		
Pension and postretirement plans, net of tax benefit of $713 in each year	1,093	(2,088)
Net unrealized gain (loss) on securities, net of tax expense of $39 in each year	(42)	170
Accumulated other comprehensive income (loss)	1,051	(1,918)
Total shareholders equity	212,759	290,330
Total liabilities and shareholders equity	$ 304,097	$ 402,727

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

Voyager Learning Company and Subsidiaries
Consolidated Statements of Cash Flows
For the fiscal years ended December 31, 2008, December 29, 2007 and December 30, 2006

(Dollars in thousands)	2008	2007	2006
Operating activities:			
Net earnings (loss)	$ (81,504)	$ (35,230)	$ 342,613
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Goodwill and long-lived asset impairment	43,141	67,232	42,496
Gain on sale of discontinued operations, net of tax		(46,572)	(347,708)
Earnings from discontinued operations, net of tax		(5,460)	(44,926)
Depreciation and amortization	21,358	23,190	23,865
Amortization and write-off of deferred financing costs		2,286	9,003
Stock-based compensation	878	137	4,309
Excess tax benefit realized related to stock-based compensation			(92)
Gain on sale of available for sale securities	(106)	(508)	(405)
Deferred income taxes	(1,176)	(12,671)	(64,105)
Non-cash lease termination costs	673		
Changes in operating assets and liabilities:			
Accounts receivable, net	1,895	6,067	(3,286)
Tax receivable	45,818	(55,742)	9,009
Inventory	809	(3,404)	371
Other current assets	6,866	52,009	2,890
Other assets	(13)	(1,205)	(14,970)
Accounts payable	(2,441)	661	(2,295)
Accrued expenses	(9,038)	(61,113)	(3,623)
Deferred revenue	8,367	3,385	3,685
Other long-term liabilities	(4,353)	(15,217)	32,455
Other, net	50	(4)	(133)
Net cash provided by (used in) operating activities of continuing operations	31,224	(82,159)	(10,847)
Investing activities:			
Expenditures for property, equipment, curriculum development costs, and software	(7,912)	(8,755)	(14,408)
Purchases of equity investments available for sale	(11,786)	(7,777)	(6,664)
Proceeds from sales of equity investments available for sale	2,172	8,843	11,521
Proceeds from (expenditures associated with) sale of discontinued operations, net		186,342	501,231
	(17,526)	178,653	491,680

Net cash provided by (used in) investing activities of continuing operations			
Financing activities:			
Proceeds from debt			**561,059**
Repayment of debt		**(58,225)**	**(1,015,798)**
Principal payments under capital lease obligations	**(264)**	**(840)**	**(746)**
Debt issuance costs		**(302)**	**(8,379)**
Proceeds from exercise of stock options, net			**589**
Excess tax benefit realized related to stock-based compensation			**92**
Net cash used in financing activities of continuing operations	**(264)**	**(59,367)**	**(463,183)**
Effect of exchange rate changes on cash			**(7,148)**
Increase in cash and cash equivalents of continuing operations	**13,434**	**37,127**	**10,502**
Net cash used in discontinued operations:			
Net cash provided by (used in) operating activities		**(19,891)**	**66,716**
Net cash used in investing activities		**(2,540)**	**(47,510)**
Net cash used in financing activities		**(730)**	**(20,763)**
Net cash used in discontinued operations		**(23,161)**	**(1,557)**
Increase in cash and cash equivalents	**13,434**	**13,966**	**8,945**
Cash and cash equivalents, beginning of year	**53,868**	**39,902**	**30,957**
Cash and cash equivalents, end of year	**$ 67,302**	**$ 53,868**	**$ 39,902**
Non-cash financing and investing activities:			
Acquisition of equipment through capital leases	**$**	**$**	**$ 1,937**

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

Voyager Learning Company and Subsidiaries
Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss)
For the fiscal years ended December 31, 2008, December 29, 2007 and December 30, 2006

(Dollars and shares in thousands)	Common Stock Issued	Common Stock Treasury	Capital Surplus	Unearned Compensation on Restricted stock	Accumulated Deficit	Accumulated Other Comprehensive Income(Loss)	Total
Balance, at the end of fiscal 2005 (Common stock, 30,563 shares issued; treasury stock, 653 shares)	$ 30	$ (16,550)	$ 354,879	$ (3,122)	$ (375,986)	$ (7,698)	$ (48,447)
Comprehensive income (loss):							
Net earnings					342,613		342,613
Foreign currency translation adjustments (net of tax expense of $2,739)						14,292	14,292
Pension and postretirement plans (net of tax expense of $7,059)						(6,163)	(6,163)
Unrealized gain on securities						21	21
Total comprehensive income (loss)							350,763
Adoption of SFAS 158						(193)	(193)
Restricted stock grant, 2 shares			(60)	60			
Restricted stock amortization, net of cancellations, 29 shares			1,259				1,259
Stock-based compensation expense			3,050				3,050
Stock options exercised, net 29 shares			589				589
Reclassification of unearned compensation on restricted stock			(3,062)	3,062			
Restricted stock utilized to pay taxes		(27)					(27)
Balance, at the end of fiscal 2006 (Common stock, 30,565 shares issued; treasury stock, 655 shares)	$ 30	$ (16,577)	$ 356,655	$	$ (33,373)	$ 259	$ 306,994
Comprehensive income (loss):							
Net earnings					(35,230)		(35,230)
Foreign currency translation adjustments						(1,313)	(1,313)
Pension and postretirement plans						1,029	1,029
Unrealized loss on securities						(501)	(501)

Total comprehensive income (loss)							**(36,015)**
Adoption of FIN 48					**20,880**		**20,880**
Write off foreign currency translation adjustments upon sale of PQIL						**(24,676)**	**(24,676)**
Write off accumulated other comprehensive income (loss) related to PQIL pension plan						**23,284**	**23,284**
Restricted stock amortization, net of cancellations, 13 shares			**369**				**369**
Stock-based compensation expense			**(506)**				**(506)**
Restricted stock utilized to pay taxes		**(165)**	**165**				
Balance, at the end of fiscal 2007 (Common stock, 30,552 shares issued; treasury stock, 669 shares)	**$ 30**	**$ (16,742)**	**$ 356,683**	**$**	**$ (47,723)**	**$ (1,918)**	**$ 290,330**
Comprehensive income (loss):							
Net earnings					**(81,504)**		**(81,504)**
Pension and postretirement plans						**3,181**	**3,181**
Unrealized loss on securities						**(212)**	**(212)**
Total comprehensive income (loss)							**(78,535)**
Restricted stock amortization			**110**				**110**
Stock-based compensation expense			**854**				**854**
Restricted stock utilized to pay taxes		**(94)**	**94**				
Balance, at the end of fiscal 2008 (Common stock, 30,550 shares issued; treasury stock, 676 shares)	**$ 30**	**$ (16,836)**	**$ 357,741**	**$**	**$ (129,227)**	**$ 1,051**	**$ 212,759**

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

Voyager Learning Company and Subsidiaries
Notes to the Consolidated Financial Statements
Note 1 Significant Accounting Policies

Nature of Operations. Voyager Learning Company and Subsidiaries (collectively the Company) is a leading provider of results-driven reading and math intervention programs, professional development programs regarding the teaching of reading, subscription-based online supplemental reading, math and science resources and programs, and a core reading program for school districts throughout the U.S.

Our reading programs include: Voyager Passport , a comprehensive reading intervention system for K-5; Voyager Universal Literacy System®, a K-3 core reading program; Passport Reading Journeys , a middle school reading intervention system for grades 6-9; TimeWarp® Plus, a K-9 summer school reading intervention program; Voyager Pasaporte , a K-3 reading intervention system in Spanish; and Learning A-Z , a group of related websites known as Reading A-Z , Raz-Kids , Reading-tutors , Vocabulary A-Z , and Writing A-Z which provide online supplemental reading, writing and vocabulary lessons, books, and other resources for students and teachers.

Our math and science programs include: Vmath®, a math intervention system for grades 3-8; ExploreLearning , a subscription-based online library of interactive simulations in math and science for grades 3-12; and Science A-Z , a Learning A-Z website aimed at the supplemental science market.

VoyagerU® is our professional development program for teachers, literacy coaches and administrators.

The Company has been a leading publisher of solutions for the education, automotive and power equipment markets. In 2005, we acquired Voyager Expanded Learning (VEL). In 2007, we changed our name to Voyager Learning Company.

The Company had provided products and services to our customers through three business segments. With the sale of ProQuest Business Solutions (PQBS) on November 28, 2006 and the sale of ProQuest Information and Learning (PQIL) on February 9, 2007, we now provide products and services to our customers through one business segment, Voyager Education (VED).

Reclassifications. Certain reclassifications to the Consolidated Financial Statements for all prior periods presented have been made to conform to the 2008 presentation. In prior years, the Company included amortization of its acquired and developed curriculum and certain other operational assets in Cost of Sales. In the current year presentation, all depreciation and amortization for the periods presented herein has been segregated and shown as a separate line item on the Consolidated Statements of Operations.
Also, in prior years, the Company included a line item in its Consolidated Financial Statements entitled selling and administrative expense. In the current year presentation, amounts previously included in this line item have been reclassified into the line items sales and marketing expense, general and administrative expense, or depreciation and amortization expense. A summary of the impact of these conforming reclassifications on previously filed results is as follows (in thousands):

	2007 as Originally Filed	Reclassifications	2007 in Current Year Presentation	2006 as Originally Filed	Reclassifications	2006 in Current Year Presentation
Cost of sales	$ (55,720)	$ 19,528	$ (36,192)	$ (57,279)	$ 19,862	$ (37,417)
Gross profit	53,892	19,528	73,420	57,772	19,862	77,634
Selling and administrative expense	(86,529)	86,529		(96,698)	96,698	
Sales and marketing expense		(29,587)	(29,587)		(27,614)	(27,614)
General and administrative expense		(53,280)	(53,280)		(65,081)	(65,081)
Depreciation and amortization expense		(23,190)	(23,190)		(23,865)	(23,865)

Use of Estimates. 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.
Principles of Consolidation. The Consolidated Financial Statements include the accounts of Voyager Learning Company and its majority owned subsidiaries. All intercompany transactions are eliminated.
Discontinued Operations. The Company considers businesses to be held for sale when management approves and commits to a formal plan to actively market a business for sale. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. We cease to record depreciation and amortization expense associated with assets held for sale at that time.
On November 28, 2006, we sold our PQBS businesses to Snap-on Incorporated. In December 2006, we announced the sale of our PQIL businesses to Cambridge Scientific Abstracts, LP. The sale 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 Consolidated Financial Statements and are separately reported as discontinued operations (see Note 4 to our Consolidated Financial Statements included herein for additional information on discontinued operations).

Fiscal Year. On December 20, 2007, the Board of Directors of the Company adopted a resolution changing the Company s fiscal year end from the Saturday nearest to December 31 to a calendar year. This change is effective for the fiscal year ended on December 31, 2008. The Company s fiscal 2007 year ended on December 29, 2007. The two-day transition period between December 29, 2007 and the 2008 annual fiscal year, which began January 1, 2008, is included in this Annual Report on Form 10-K for the year ending December 31, 2008. The Quarterly Report on Form 10-Q for the period ended March 31, 2008 was the first report filed by the Company for the newly adopted fiscal year and included the two-day transition period.

Prior to fiscal 2008, our fiscal year ended on the Saturday nearest to December 31 each calendar year. References to fiscal year 2007 or fiscal 2007 are for the 52 weeks ended December 29, 2007 and references to fiscal year 2006 or fiscal 2006 are for the 52 weeks ended December 30, 2006.

Revenue Recognition. The Company accounts for its revenues under Staff Accounting Bulletin No. 104, Revenue Recognition (SAB No. 104). Revenues are derived from sales of reading, math and science, and professional development solutions to school districts primarily in the U.S. Sales include printed materials and often online access to educational materials for individual students, teachers, and classrooms. Revenue from the sale of printed materials for reading and math products is recognized when the product is shipped to or received by the customer. Revenue for product support, implementation services, and online subscriptions is recognized over the period services are delivered. The division of revenue between shipped materials, online materials, and ongoing support and services is determined in accordance with Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). Revenue for our professional development courses, which includes an internet delivery component, is recognized over the contractual delivery period, typically nine to twelve months. Revenue for the online content sold separately or included with our curriculum materials, is recognized ratably over the access period, typically a school year. Shipments to school book depositories are on consignment and revenue is recognized based on shipments from the depositories to the schools.

ExploreLearning and Learning A-Z derive revenue exclusively from sales of online subscriptions to reading, math and science teaching materials. Typically, the subscriptions are for a 12 month period and the revenue is recognized ratably over the period the online access is available to the customer.

The amount of service revenues are less than 10% of total revenues for all periods presented.
For our discontinued operations, PQIL s published products provided users with access to comprehensive databases, including historical newspapers, Early English Books Online (EEBO), e-dissertations, and topic specific products on either a subscription basis that normally covers twelve months, or through a perpetual access license. PQIL followed the guidance under SAB No. 104 for all subscription products. Revenue from subscription agreements was recognized ratably over the term of the subscription, including any free before or after periods, using the straight-line method. For sales of perpetual access licenses, revenue was recognized over the greater of one year or the applicable period if the perpetual access license was associated with a subscription or data access agreement.
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 $0.7 million and $1.3 million at year end 2008 and 2007, 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.
Foreign Currency Translation. The financial position and results of operations of each of our foreign subsidiaries which are included in discontinued operations, are measured using the local currency as the functional currency. Revenues and expenses are translated at average exchange rates prevailing during the respective fiscal periods. Assets and liabilities are translated into U.S. dollars using the exchange rates at the end of the respective fiscal periods. Balance sheet translation adjustments arising from differences in exchange rates from period to period are included in the determination of our other comprehensive income (loss) which is reflected as a component of shareholders equity.

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:

(Shares in thousands)	**2008**	**2007**	**2006**
Basic	**29,871**	**29,858**	**29,816**
Dilutive effect of awards			
Diluted	**29,871**	**29,858**	**29,816**

The following were not included in the computation of diluted net income per share because their effect would have been antidilutive: options to purchase shares of 0.9 million, 1.4 million, and 3.0 million for fiscal years 2008, 2007, and 2006, respectively; nonvested restricted stock of zero, 16,000, and 85,000 for fiscal years 2008, 2007, and 2006, respectively; and a stock appreciation right with respect to 0.3 million shares in fiscal years 2008 and 2007.

Cash and Cash Equivalents. We consider all highly liquid investments with maturities of three months or less (when purchased) to be cash equivalents. The carrying amount reported in the Consolidated Balance Sheets approximates fair value.

Inventory. Inventory costs include material only. Inventory is stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market. Where appropriate, a valuation reserve has been recorded to reduce slow-moving or obsolete inventory to net realizable value.

Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the assets estimated useful lives using the straight-line method. Estimated lives range from three to five years for office and computer equipment, five to seven years for furniture and fixtures, and fourteen to eighteen years in fiscal 2007 and four to five years in fiscal 2008 for buildings and leasehold improvements. Amortization of leasehold improvements is computed based on the shorter of the assets estimated useful lives or the lease term. Expenditures for maintenance and repairs, as well as minor renewals, are charged to operations as incurred, while betterments and major renewals are capitalized. Any gain or loss resulting from the retirement or sale of an asset is credited or charged to operations.

We recognized depreciation and amortization expense on property and equipment of $1.3 million, $2.3 million and $2.1 million for fiscal 2008, 2007 and 2006, respectively.

Purchased and Developed Software. Purchased and developed software includes the costs to purchase third party software and to develop internal-use software. Amortization of purchased software costs in fiscal 2008, 2007 and 2006 totaled $0.4 million, $0.5 million, and $0.7 million, respectively. The Company follows the guidance in Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1) for capitalizing software projects. Software costs are amortized over the expected economic life of the product, generally three to five years. Amortization of developed software costs in fiscal 2008, 2007 and 2006 totaled $1.8 million, $1.0 million, and $0.5 million, respectively. At December 31, 2008 and 2007, unamortized capitalized software was $4.6 million and $3.2 million, respectively, which included zero or immaterial amounts of software under development.

Acquired Curriculum. Acquired curriculum represents curriculum acquired in the acquisitions of VEL and ExploreLearning in 2005 and Learning A-Z in 2004 and is the initial purchase accounting value placed on the past development and refinement of the core methodologies, processes and measurement techniques by which VED structures curriculum. Acquired curriculum is being amortized using an accelerated method over ten years, as it has an economic benefit declining over the estimated useful life. Acquired curriculum is presented net of accumulated amortization of $59.8 million and $47.2 million as of fiscal year end 2008 and 2007, respectively. Amortization of acquired curriculum for fiscal 2008, 2007 and 2006 was $12.6 million, $14.4 million and $16.2 million, respectively.

Developed Curriculum. We capitalize certain pre-publication costs of our curriculum including art, prepress, editorial, and other costs incurred in the creation of the master copy of our curriculum products. Curriculum development costs are amortized over the expected life of the education program, generally on a straight-line basis over a period of three to five years. We periodically review the recoverability of the capitalized costs based on expected net realizable value, and generally retire the assets once fully depreciated. Developed curriculum costs are presented net of accumulated amortization of $5.3 million and $6.0 million as of fiscal year end 2008 and 2007, respectively. Amortization of curriculum development costs for fiscal year 2008, 2007, and 2006 was $4.1 million, $3.1 million, and $2.2 million, respectively.

Goodwill and Other Intangible Assets. Goodwill and other intangible assets are related to the acquisitions of VEL and ExploreLearning in 2005 and Learning A-Z in 2004. Other intangible assets include trade names/trademarks and customer relationships, which are being amortized on a straight-line basis over estimated lives ranging from five to ten years, and non-compete agreements, which are being amortized on a straight-line basis over their contractual lives ranging from one to five years. Amortization of other intangible assets in fiscal 2008, 2007, and 2006 was $1.2 million, $1.9 million, and $2.2 million, respectively. Other intangible assets are presented net of accumulated amortization.

See Note 5 herein for further discussion of our review of Goodwill and the related impairment charge recognized in fiscal 2008.

Impairment of Long Lived Assets. We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows, which is based on the requirements of Statement of Financial Accounting Standards (SFAS) No. 144**,** Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. The determination whether these assets are impaired involves significant judgment based on projections of future performance. For fiscal years 2008, 2007 and 2006, no impairment was indicated.

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

Shipping and Handling Costs. All amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. Shipping and handling costs incurred by the Company are included in cost of sales.

Advertising Costs. The Company, from time to time, ships products to prospective customers as samples. Samples costs are expensed upon shipment and totaled $2.1 million, $1.6 million, and $0.8 million in 2008, 2007, and 2006 respectively. Other costs of advertising, which include advertising, print, and photography expenses, are expensed as incurred and totaled $1.1 million, $0.7 million, and $0.3 million in 2008, 2007, and 2006, respectively.

Income Taxes. Provision is made for the expense, or benefit, associated with taxes based on income. The provision for income taxes is based on laws currently enacted in every jurisdiction in which we do business and considers laws mitigating the taxation of the same income by more than one jurisdiction. Significant judgment is required in determining income tax expense, current tax receivables and payables, deferred tax assets and liabilities, and valuation allowance recorded against the net deferred tax assets. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years, loss carryforward limitations, and tax planning strategies in assessing whether deferred tax assets will be realized in future periods. If, after consideration of these factors, management believes it is more likely than not that a portion of the deferred tax assets will not be realized, a valuation allowance is established. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced. Effective December 31, 2006, we adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) and account for liabilities related to uncertain tax positions in accordance with its provisions.

Sales Taxes. The Company reports sales taxes collected from customers and remitted to governmental authorities on a net basis. Sales tax collected from customers is excluded from revenues. Collected but unremitted sales tax is included as part of accounts payable in the accompanying consolidated balance sheets.

Stock-Based Compensation. Prior to January 1, 2006, we accounted for our stock option plan using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), as allowed by SFAS No. 123, Accounting for Stock-based Compensation (SFAS No. 123). No stock-based compensation expense was recognized in the income statement related to stock options as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Restricted stock grants were valued at the market price on the award dates and recognized as compensation expense over the vesting period.

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, Share-Based Payment (SFAS No. 123R), which requires all share-based payments to be recognized in the income statement based on their fair values. We adopted this statement using the modified prospective method in which compensation cost is recognized based on the requirements of SFAS No.123R for all share-based payments granted after the effective date and for all awards granted prior to the effective date that remain unvested on the effective date. Compensation costs for awards with graded vesting are recognized on a straight-line basis over the anticipated vesting period.

Foreign Exchange Risks. Historically, a portion of revenue, earnings, and net investment in foreign affiliates has been exposed to changes in foreign exchange rates, primarily related to the discontinued operations. Substantially all foreign exchange risks are managed through operational means. However, we believe that from time to time some foreign exchange risks related to certain transactions are better managed by utilizing foreign currency forwards or option contracts. These contracts are reported at fair value and any changes in fair value are recognized currently in earnings. These contracts are not designated for hedging treatment under SFAS No. 133, as amended. We did not have any foreign currency forwards or option contracts outstanding at December 31, 2008 or December 29, 2007.

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.

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 No. 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 No. 141R should be applied 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. On January 1, 2008, the Company did not elect to apply the provisions of SFAS No. 159 to financial assets and liabilities.

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 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. SFAS 157 was effective for financial assets and liabilities in fiscal years beginning after November 15, 2007, and is effective for nonfinancial assets and liabilities in fiscal years beginning after November 15, 2008. We adopted the provisions of SFAS No. 157 related to recurring financial assets and liabilities beginning fiscal 2008. The adoption had no impact on our consolidated financial statements. All financial assets and liabilities are valued using level 1 inputs. The Company is currently evaluating the potential impact of SFAS No. 157 to nonfinancial assets and liabilities on our consolidated financial position, results of operation and cash flows.

Note 2 Business Segments

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 prior years. Because the Company s management approach, organizational structure, 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 U.S. as of February 2007, which includes all corporate operations. The loss from continuing operations before interest, other income (expense) and income taxes and depreciation and amortization attributable to the corporate operations continue to be shown separately below for comparability with prior years. As the transition of activities based in Ann Arbor, Michigan to headquarters in Dallas, TX was complete as of December 31, 2008, all assets are presented as VED for 2008.

Information concerning our operating business segments for fiscal 2008, 2007, and 2006 for our continuing operations is as follows (dollars in thousands):

	2008		
	VED	**Corporate**	**Total**
Net sales	**$ 98,531**	**$**	**$ 98,531**
Loss from continuing operations before interest, other income (expense) and income taxes	**$ (56,569)**	**$ (26,707)**	**$ (83,276)**
Capital expenditures	**$ 7,912**	**$**	**$ 7,912**
Depreciation and amortization	**$ 21,248**	**$ 110**	**$ 21,358**
Total assets	**$ 304,097**	**$**	**$ 304,097**

	2007		
	VED	**Corporate**	**Total**
Net sales	**$ 109,612**	**$**	**$ 109,612**
Earnings (loss) from continuing operations before interest and income taxes	**$ (69,192)**	**$ (35,209)**	**$ (104,401)**
Capital expenditures	**$ 8,670**	**$ 85**	**$ 8,755**
Depreciation and amortization	**$ 22,110**	**$ 1,080**	**$ 23,190**
Total assets	**$ 283,091**	**$ 119,636**	**$ 402,727**

	2006		
	VED	**Corporate**	**Total**
Net sales	**$ 115,051**	**$**	**$ 115,051**
Earnings (loss) from continuing operations before interest and income taxes	**$ (39,315)**	**$ (47,305)**	**$ (86,620)**

Capital expenditures	**$ 5,860**	**$ 8,548**	**$ 14,408**
Depreciation and amortization	**$ 22,777**	**$ 1,088**	**$ 23,865**
Total assets [1]	**$ 322,131**	**$ 150,085**	**$ 472,216**

[1] **Total assets includes assets from continuing operations only.**

Note 3 Income Taxes

Earnings from continuing operations before income taxes in fiscal year 2008, 2007, and 2006 were all attributable to the U.S.

Total income taxes for the fiscal years 2008, 2007 and 2006 were allocated as follows:

(Dollars in thousands)	2008	2007	2006
Income from continuing operations	**$ (1,160)**	**$ (12,396)**	**$ (64,063)**
Income from discontinued operations		**1,491**	**23,776**
Gain on sale of discontinued operations		**11,160**	**66,321**
Shareholders equity, for minimum pension liability			**7,059**
Shareholders equity, for currency translation adjustment on unremitted foreign earnings			**2,739**
Goodwill			**(54)**
Long-lived intangibles			**(413)**
	$ (1,160)	**$ 255**	**$ 35,365**

Income tax expense attributable to income from continuing operations in fiscal 2008, 2007, and 2006 included the following:

(Dollars in thousands)	2008	2007	2006
Current income tax expense (benefit):			
United States federal	**$ (222)**	**$**	**$**
State and local	**238**	**275**	**42**
Current income tax expense	**16**	**275**	**42**
Deferred income tax benefit			
United States federal	**(832)**	**(12,183)**	**(62,268)**
State and local	**(344)**	**(488)**	**(1,837)**
Deferred income tax benefit	**(1,176)**	**(12,671)**	**(64,105)**
Income tax benefit	**$ (1,160)**	**$ (12,396)**	**$ (64,063)**

The significant components of deferred income tax expense (benefit) attributable to loss from continuing operations were as follows:

(Dollars in thousands)	2008	2007	2006
Deferred income tax benefit, exclusive of item listed below:	**$ (1,176)**	**$ (3,692)**	**$ (45,829)**
Benefits of gain from sale and discontinued operations allocated to continuing operations		**(8,979)**	**(18,276)**
Deferred income tax benefit	**$ (1,176)**	**$ (12,671)**	**$ (64,105)**

Reconciliation of income tax expense (benefit) from continuing operations and the domestic federal statutory income tax expense (benefit) were as follows:

(Dollars in thousands)	2008	2007	2006
Statutory federal income tax rate	**$ (28,932)**	**$ (34,880)**	**$ (39,930)**
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal benefit	**(56)**	**(214)**	**(1,795)**
Change of intent for investment basis difference			**(37,525)**
Non-deductible goodwill	**15,099**	**23,531**	**14,874**
Changes in valuation allowance	**13,486**		
Other	**(757)**	**(833)**	**313**
Income tax benefit	**$ (1,160)**	**$ (12,396)**	**$ (64,063)**

Deferred income taxes are primarily provided for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. The tax effects of each type of temporary difference and carryforward (for both continuing and discontinued operations) that give rise to a significant portion of deferred tax assets (liabilities) at the end of fiscal 2008 and 2007 were as follows:

(Dollars in thousands)	2008	2007
Deferred tax assets are attributable to:		
Net operating loss carryforwards	**$ 13,191**	**$ 822**
Tax credit carryforwards	**8,675**	**10,176**
Deferred compensation & pension benefits	**8,300**	**10,154**
Legal contingency accrual, less insurance receivable	**1,750**	**1,750**
Property and equipment	**197**	**202**
Other	**3,258**	**5,661**
Total gross deferred tax assets	**35,371**	**28,765**
Valuation allowance	**(20,513)**	**(11,154)**
Net deferred tax assets	**14,858**	**17,611**
Deferred tax liabilities are attributable to:		
Curriculum costs	**(13,057)**	**(17,320)**
Intangibles	**(2,075)**	**(2,247)**
Other liabilities	**(370)**	**68**
Total gross deferred tax liabilities	**(15,502)**	**(19,499)**
Net deferred tax asset (liability)	**$ (644)**	**$ (1,888)**

The net deferred tax asset (liability) is classified as follows:

(Dollars in thousands)	2008	2007
Short-term deferred tax asset	**$ 1,994**	**$ 2,566**
Long-term deferred tax liability	**(2,638)**	**(4,454)**
Net deferred tax asset (liability)	**$ (644)**	**$ (1,888)**

The net decrease in the valuation allowance in 2007 was $26.8 million. The valuation allowance decreased during 2007 primarily as a result of selling PQIL. Deferred tax assets associated with PQIL that had valuation allowances established on them were divested. As of December 31, 2007, the amount of valuation allowance that existed was $11.2 million. The amount of valuation allowance is all attributable to the US Federal and state jurisdictions. The net US domestic deferred tax assets and liabilities before valuation allowance was approximately $9.3 million. As of December 31, 2007, there is not any amount of the valuation allowance for which subsequently recognized benefits will be allocated to reduce goodwill or other intangible assets.

The net increase in the valuation allowance in 2008 was $9.4 million. The valuation allowance increased during 2008 primarily because of the net operating loss generated in 2008. As of December 31, 2008, the amount of valuation allowance that existed was $20.5 million. The amount of valuation allowance is all attributable to the U.S. federal and state jurisdictions. The net U.S. domestic deferred tax assets and liabilities before valuation allowance was approximately $19.9 million. As of December 31, 2008, there is not any amount of the valuation allowance for which subsequently recognized benefits will be allocated to reduce goodwill or other intangible assets.

At December 31, 2008, the amounts and expiration dates of loss and tax credit carryforwards were as follows:

(Dollars in thousands)	**Amount as of year ended 2008**	**Expire or start expiring at the end of:**
U.S. net operating loss [1]	**$ 37,337**	**2028**
State net operating loss carryforward (net):		
State tax net operating losses	**349**	**2012-2028**
Tax credits:		
Foreign tax credit	**1,378**	**2011-2015**
Minimum tax credit	**6,549**	**Carry forward indefinitely**
Research and development tax credit	**748**	**2014-2021**
Total tax credits	**8,675**	

[1] **Not subject to any annual limitation.**

Income taxes refunded, net of tax payments, were $45.9 million for fiscal year 2008. Income taxes paid, net of refunds, for fiscal years 2007 and 2006 were $66.6 million and $0.3 million, respectively. The Company has refunds receivable from taxing authorities of $19.8 million and $65.6 million as of fiscal year end 2008 and 2007, respectively.

As of December 31, 2008, the Company is under examination by the IRS for fiscal years 2003-2004 and 2006-2007. The examination for fiscal years 2003-2004 has been completed by the local IRS examination team. The income tax refunds of $9.2 million requested by the Company for 2003-2004 have been approved by the local office but are still subject to review by IRS joint committee. These years under examination contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they related to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. 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.

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.

Uncertain Tax Positions

In July 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 applies to all tax positions related to income taxes.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance, December 31, 2006	**$**	**18,940**
Increases for tax positions taken during the current period		**1,381**
Decreases relating to settlements		**(623)**
Decreases relating to dispositions		**(4,909)**
Balance, December 29, 2007	**$**	**14,789**
Increases for tax positions taken during the current period		
Decreases relating to settlements		**(173)**
Balance, December 31, 2008	**$**	**14,616**

During the fiscal year ended December 31, 2008, the Company recorded a decrease to its liability for unrecognized tax benefits of approximately $0.2 million, which primarily relates to settlement of a state income tax filing position. Included in the balance of unrecognized tax benefits at December 31, 2008 are approximately $0.5 million of tax benefits that, if recognized, would affect the effective tax rate. Because of the impact of deferred tax accounting and the availability of tax attributes, the majority of the tax positions would ordinarily not affect the effective tax rate or the payment of cash to the taxing authorities. However, due to the limited evidence to support the realization of these tax assets a valuation allowance is required.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company recognized penalties of zero and immaterial amounts for interest (gross) during 2008 and, as of December 31, 2008, has a liability for penalties of zero and interest (gross) of approximately $0.1 million.

We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

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 December 31, 2008 include 2003 2007.

Note 4 Discontinued Operations

The Board determined to sell PQBS and PQIL and authorized the plan of sale in the second quarter of 2006. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. In December 2006, we announced the sale of PQIL including all remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. The sale of PQIL was closed on February 9, 2007 and we used a portion of the proceeds from that sale to pay down all remaining debt, excluding capital leases.

The operating results of these businesses have been segregated from our continuing operations. The Consolidated Statements of Operations separately reflect the gains on sale and the earnings of PQBS and PQIL as discontinued operations. Interest expense of zero, $0.8 million, and $18.3 million for 2008, 2007 and 2006, respectively, was allocated to discontinued operations based on the ratio of net assets of sold or to be sold businesses to total net assets of the consolidated company.

Results from discontinued operations are shown in the tables below for the fiscal years indicated:

(Dollars in thousands)	Fiscal Years Ended December 29, 2007	December 30, 2006
Net sales by business segment:		
ProQuest Information and Learning	**$ 26,062**	**$ 259,103**
ProQuest Business Solutions		**172,813**
Net sales from discontinued operations	**26,062**	**431,916**
Earnings (loss) before interest and income taxes:		
ProQuest Information and Learning	**7,798**	**37,591**
ProQuest Business Solutions		**51,533**
Earnings from discontinued operations before interest and income taxes	**7,798**	**89,124**
Interest expense, net	**(847)**	**(20,422)**
Income tax expense	**(1,491)**	**(23,776)**
Earnings from discontinued operations, net of taxes	**$ 5,460**	**$ 44,926**

The gain on sale in fiscal years 2007 and 2006 resulting from the sale of discontinued operations was derived as follows:

(Dollars in thousands)	2007	2006
Sale price	**$ 195,249**	**$ 513,986**
Net assets, related liabilities, and selling costs [1]	**(137,517)**	**(99,957)**
Gain on sale	**57,732**	**414,029**
Income tax expense	**(11,160)**	**(66,321)**
Gain on sale of discontinued operations, net of tax	**$ 46,572**	**$ 347,708**

[1] **Net assets sold in fiscal 2007 and 2006 include**

goodwill of $68.0 million and $52.2 million, respectively.

The sale of PQBS generated significant taxable income that enabled the Company to utilize capital loss carryforwards and other tax attributes in 2006 for which the Company had previously established valuation allowances. Therefore, the tax expense of $66.3 million for 2006 was significantly less than the statutory tax rate because of the release of the valuation allowance on these tax attributes.

Note 5 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the fiscal years ended December 31, 2008 and December 29, 2007 are as follows:

(Dollars in thousands)	
Balance as of December 30, 2006	**$ 210,090**
Goodwill impairment	**(67,232)**
Balance as of December 29, 2007	**$ 142,858**
Goodwill impairment	**(43,141)**
Balance as of December 31, 2008	**$ 99,717**

Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* , (SFAS No. 142), goodwill and other indefinite-lived intangible assets are no longer amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. The Company s annual impairment testing is performed during the fourth fiscal quarter. The first step of impairment testing for fiscal 2008 showed that the book value of the Company s single reporting unit exceeded its fair value; therefore, a second step of testing was required under SFAS No. 142. The second step requires the allocation of fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination. The fair value was determined using an income approach based on forecasted operating results. As a result of the second step of our 2008 impairment test, the goodwill balance for the reporting unit as of the measurement date was determined to be partially impaired. The estimates of fair market used in our goodwill testing are dependent on multiple assumptions, estimates and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2008, the estimated fair market value of the reporting unit was estimated to have fallen below the book value as a result of worsening and prolonged adverse developments in the overall education funding environment, including the reductions in Reading First funding effective 2008 and the reductions in available state and local funds. As a result of these factors, an impairment charge of $43.1 million was recorded in 2008.

In conducting our annual goodwill impairment testing for fiscal 2007, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED. These estimates of fair market are dependent on multiple assumptions and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2007, the estimated fair market value of VED was estimated to be less than the book value as a result of lower future cash flow projections, driven by adverse developments in the education funding environment at the federal and local level. An impairment charge of $67.2 million related to VED was recorded in 2007 as a result of these factors.

For fiscal 2006, the Company performed its annual impairment testing of goodwill and impairment testing of long-lived assets as of December 30, 2006. As a result of this testing, the Company recorded impairment to goodwill of VED totaling $42.5 million. In conducting our annual goodwill impairment testing, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED using revenue and EBITDA multiples of publicly traded comparable companies. These estimates of fair market are dependent on multiple assumptions and inputs including: market prices of securities in general, prevailing interest rates, industry fundamentals including the state of educational funding, and the actual performance and future projections of the Company. As of year end 2006, the estimated fair market value of VED was estimated to have fallen below the book value as a result of multiple factors including: a more competitive environment, the need to invest in redesigning older products and to introduce new products, the need to improve customer retention, sales declines in certain key products, the loss of several significant customers, and lower actual performance and future projections than were made at the time of acquisition of Voyager.

Our definite lived intangible assets and related accumulated amortization at the end of fiscal 2008 and 2007 consist of the following:

	Balance as of December 31, 2008		
(Dollars in thousands)	Gross	Accumulated Amortization	Net
Acquired curriculum	$ 98,410	$ (59,816)	$ 38,594
Developed curriculum	14,243	(5,340)	8,903
Customer relationships	5,130	(2,160)	2,970
Trademark	3,860	(1,636)	2,224
Non-compete agreements	381	(357)	24
Total intangibles, net	$ 122,024	$ (69,309)	$ 52,715

	Balance as of December 29, 2007		
	Gross	Accumulated Amortization	Net
Acquired curriculum	$ 98,410	$ (47,204)	$ 51,206
Developed curriculum	15,288	(5,955)	9,333
Customer relationships	5,130	(1,614)	3,516
Trademark	3,860	(1,224)	2,636
Non-compete agreements	3,517	(3,258)	259
Total intangibles, net	$ 126,205	$ (59,255)	$ 66,950

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years and thereafter is as follows: 2009 $15.3 million; 2010 $12.9 million; 2011 $9.7 million; 2012 $7.0 million; 2013 $4.8 million; all years thereafter $3.0 million.

There were no intangibles acquired in 2008 or 2007.

Note 6 Other Current Assets

Other current assets at the end of fiscal 2008 and 2007 consist of the following:

(Dollars in thousands)	2008	2007
Short-term deferred tax asset	$ 1,994	$ 2,566
Deferred costs	1,907	1,434
Available for sale securities	13,137	3,629
Insurance receivable	15,000	1,217
Other	1,788	7,643
Total	$ 33,826	$ 16,489

Available-for-sale securities represent assets, invested in equity and fixed income securities, held in a rabbi trust, related to executive plans, as well as investments in short-term debt securities that will mature within one year.

See Note 18 for further description of the legal contingency accrual related to the putative securities class actions and the related receivable from the Company s insurance providers. This liability and related receivable were classified as long-term as of December 29, 2007.

Note 7 Other Assets

Other assets at the end of fiscal 2008 and 2007 consist of the following:

(Dollars in thousands)	2008	2007
Insurance receivable	**$**	**$ 15,000**
Other	**1,363**	**1,350**
Total	**$ 1,363**	**$ 16,350**

Note 8 Accrued Expenses

Accrued expenses at the end of fiscal 2008 and 2007 consist of the following:

(Dollars in thousands)	2008	2007
Salaries, bonuses and benefits	**$ 6,900**	**$ 8,540**
Pension and post-retirement medical benefits	**6,675**	**2,101**
Deferred compensation	**3,233**	**1,590**
Corporate transition costs	**1,879**	**2,466**
Legal contingency accrual	**20,000**	**5,400**
Other	**2,179**	**5,218**
Total	**$ 40,866**	**$ 25,315**

See Note 13 for further description of our pension benefits.

See Note 16 for further description of our corporate transition costs.

See Note 18 for further description of the legal contingency accrual related to the putative securities class actions and the related receivable from the Company s insurance providers. This liability and related receivable were classified as long-term as of December 29, 2007.

The legal contingency accrual of $5.4 million as of December 29, 2007 is related to an arbitration that was settled and paid in the first quarter of 2008.

Note 9 Other Liabilities

Other liabilities at the end of fiscal 2008 and 2007 consist of the following:

(Dollars in thousands)	2008	2007
Pension and post-retirement medical benefits, long-term portion	**$ 10,239**	**$ 18,957**
Long-term deferred tax liability	**2,638**	**4,454**
Long-term income tax payable	**640**	**777**
Legal contingency accrual		**20,000**
Long-term deferred compensation	**2,765**	**5,713**
Deferred rent	**128**	**7,639**
Long-term deferred revenue	**1,590**	**1,317**
Other	**2,348**	**2,401**
Total	**$ 20,348**	**$ 61,258**

See Note 13 for further description of our pension benefits.

Note 10 Leases

Capital Lease Obligations

Voyager Learning Company leases certain facilities and equipment for selling and administrative purposes under capital lease agreements with original lease terms up to 5 years. Capital leases that exist as of year-end 2008 expire no later than 2010.

The gross value of leased capital assets was $1.4 million and $3.5 million at December 31, 2008 and December 29, 2007, respectively, which are included in Machinery and Equipment on the Consolidated Balance Sheet. The gross value of leased capital assets was reduced by $1.9 million as of the beginning of fiscal 2008 due to the assignment of certain property and equipment leases to CSA. The accumulated amortization of leased capital assets was $1.0 million and $1.6 million at December 31, 2008 and December 29, 2007, respectively. Amortization of capital lease assets is recognized over the term of the lease on a straight line basis and included in depreciation expense.

See Note 16 for further description of our lease termination costs.

Operating Leases

We lease certain facilities and equipment for production and selling and administrative purposes under agreements with original lease periods up to 15 years (5 years excluding leases terminated in early 2008). Leases generally include provisions requiring payment of taxes, insurance, and maintenance on the leased property. Some leases include renewal options and rent escalation clauses, and certain leases include options to purchase the leased property during or at the end of the lease term.

In connection with the sale of PQIL in February 2007, the Company and ProQuest LLC (formerly known as ProQuest-CSA LLC) (CSA) entered into a transition services agreement (TSA) and subsequently certain assignment agreements that established, among other things, sublease payments due the Company from CSA for use of certain property, equipment and office space at 777 Eisenhower Parkway, Ann Arbor, Michigan (the 777 Facility) and 789 Eisenhower Parkway, Ann Arbor, Michigan (the 789 Facility). The TSA was effective for up to one year following the sale of PQIL with automatic month-to-month extensions thereafter; however, all sublease income received by the Company from CSA ceased after the associated capital or operating leases were either fully assigned to CSA or terminated by April 2008. Sublease income received from CSA for capital and operating leases for fiscal 2008 and 2007 totaled $0.8 million and $4.4 million, respectively.

Pursuant to a Sublease Agreement entered into between the Company and CSA effective March 7, 2008, the Company subleased certain space located in the 789 Facility under operating leases. The term of such sublease, which includes approximately 13,090 square feet of rental space (i) is for six months from the Closing Date of March 7, 2008, with month to month extensions thereafter but not past December 31, 2008, for approximately 10,030 square feet to be utilized by the Company s remaining corporate functions in such facility, and (ii) runs from the Closing Date until December 31, 2008, with optional semi-annual extensions thereafter but not past December 31, 2010, for approximately 3,060 square feet to be utilized by the Company for certain technology related functions in the 789 Facility. Future lease payment obligations related to the Sublease Agreement total $0.1 million for fiscal 2009 and 2010 combined.

Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial term of the lease. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the initial lease term. Total rental expense for fiscal 2008, 2007, and 2006 was $3.0 million, $6.2 million, and $2.2 million, respectively.

Future minimum capital lease and operating lease payments under long-term non-cancelable leases, and the related present value of capital lease payments at December 31, 2008 are as follows:

(Dollars in thousands)	Capital Leases	Operating Leases
2009	**$ 159**	**$ 1,272**
2010	**98**	**1,110**
2011		**320**
2012		**333**
2013		**258**
Subsequent to 2013		
Total minimum lease payments	**257**	**$ 3,293**
Less: Amount representing interest	**(12)**	
Present value of net minimum lease payments	**245**	
Less: current portion	**(149)**	
Obligations under capital leases, less current portion	**$ 96**	

See Note 16 for further description of our lease termination costs.

Note 11 Fair Value of Financial Instruments

Our financial instruments include cash equivalents, investments available-for-sale, accounts receivable, accounts payable and long-term debt.

The book value of cash equivalents and investments available-for-sale reflect fair market value because 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. We believe the book value of accounts receivable and accounts payable approximates fair value due to their short-term nature.

Note 12 Debt

Upon closing on the sale of PQIL on February 9, 2007, the Company paid its 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, including accrued interest, fees, and required make-whole premiums.

Interest expense for the first quarter of 2007 includes $2.3 million for amortization and write-off of deferred financing fees related to the extinguished debt balances.

Cash paid for interest on Company debt, lines of credit and capital leases for continuing and discontinued operations were immaterial amounts in fiscal 2008 and $1.1 million and $43.9 million in 2007 and 2006, respectively.

Previously Outstanding Debt

2002 Senior Notes

On January 31, 2005, we entered into a First Amendment to the 2002 Note Purchase Agreement dated as of October 1, 2002 (the 2002 Note Purchase Agreement), under and pursuant to which we originally issued and sold our 5.45% senior notes (the 2002 Senior Notes) due October 1, 2012, in an aggregate principal amount of $150 million. No principal payments were due until October 1, 2006. The notes amortized in seven equal annual payments of $21.4 million, beginning October 1, 2006 and ending on October 1, 2012. The interest rate on these senior notes was fixed at 5.45% and was payable semi-annually. The first amendment, among other things, amended the financial covenants under the 2002 Note Purchase Agreement to give effect to the acquisition of Voyager Expanded Learning. Specifically, the consolidated adjusted net worth covenant and the consolidated debt covenants were adjusted to be consistent with the terms of the 2005 Note Purchase Agreement. The Waiver Agreement (defined below) modified the interest rate as of May 2, 2006 to give the holders of the 2002 Senior Notes the option of a fixed interest rate of 7.87%, interest at the London Interbank Offered Rate (LIBOR) plus 2.5% or the interest at the Base Rate (defined below) plus 1.0% and changed other provisions as described below.

2005 Senior Notes

The 2005 Note Purchase Agreement dated as of January 31, 2005 (the 2005 Note Purchase Agreement) provided for, among other things, the issuance and sale of the Company s 5.38% Senior Notes due January 31, 2015, in the aggregate principal amount of $175 million (the 2005 Senior Notes). No principal payments were due until January 31, 2010. We were required to make six equal annual principal payments of $29.1 million on the 2005 Senior Notes commencing on January 31, 2010. The applicable annual interest on the 2005 Notes was fixed at 5.38% and was payable semi-annually in arrears calculated on the basis of a 360-day year of twelve 30-day months. The Waiver Agreement (defined below) modified the interest rate as of May 2, 2006 to give the holders of the 2005 Senior Notes the option of a fixed interest rate of 7.87%, interest at LIBOR plus 2.5% or interest at the Base Rate plus 1.0% and changed other provisions as described below.

2005 Revolving Credit Agreement

On January 31, 2005, we replaced our previous revolving credit agreement with a new variable interest rate facility (the 2005 Revolving Credit Agreement). The 2005 Revolving Credit Agreement was a five-year, unsecured revolving credit facility in an amount up to $275 million, with a sub-facility for letters of credit (in an amount not to exceed $20 million) and a sub-facility for swingline loans (in an amount not to exceed $15 million). The final maturity date of the 2005 Revolving Credit Agreement was January 31, 2010 with no principal payments due until that date.

Borrowings and letters of credit under the 2005 Revolving Credit Agreement originally bore interest, at our option, at either LIBOR plus a spread ranging from 0.75% to 1.75% or 0.0% to 0.25% over an alternative base rate. The alternative base rate is the greater of the LaSalle Bank Midwest National Association prime rate or the Federal Funds rate plus 0.50% (Base Rate). The Waiver Agreement (defined below) modified the interest rate as of May 2, 2006 to give the lenders the option of LIBOR plus 2.5% or the Base Rate plus 1.0%. The interest rate in effect as of December 30, 2006 was LIBOR + 2.5%, which was 7.85% on $22.2 million outstanding at December 30, 2006.

The 2002 Note Purchase Agreement, the 2005 Note Purchase Agreement and the 2005 Revolving Credit Agreement are collectively referred to as the Credit Agreements .

On February 9, 2006, we announced the restatement of our historical financial statements. The restatement resulted in failure to comply with the covenants set forth in the Credit Agreements. The events of default included, but were not limited to, failure to deliver the annual audited financial statements for the 2005 fiscal year and related compliance certificate within the required period, failure to comply with the rules and regulations of the SEC, failure to notify the bank agent or any bank lender of any event of default, material misrepresentations, and failure to make the payment of interest on a portion of the existing bank advances and on the existing 2002 Senior Notes.

On May 2, 2006, the Company entered into a Waiver and Omnibus Amendment Agreement (the Waiver Agreement) by and among the Company, each of the other lenders party thereto (the Lenders) and LaSalle Bank Midwest National Association, as collateral agent. This Waiver Agreement was effective until November 30, 2006, and was subject to the Company s ongoing compliance with certain additional covenants. Under the terms of the Waiver Agreement:

- the Lenders agreed not to exercise remedies available to them resulting from the Company s defaults under its Credit Agreements and to temporarily waive the specified existing and continuing defaults during the period commencing on the date of default and expiring on November 30, 2006 unless the date was extended to January 31, 2007 if the Company achieved certain pre-determined milestones,

- the Credit Agreements were amended to provide that the covenants, events of default and other provisions were substantially the same among those agreements,

- the Credit Agreements were amended to provide that the financial covenants contained in the Credit Agreements were replaced by monthly EBITDA and capital expenditures covenants,

- the swingline facility contained in the 2005 Revolving Credit Agreement s was cancelled,

- the existing amounts outstanding under the 2005 Revolving Credit Agreement which were repaid as of the effective date of the Waiver Agreement could not be re-borrowed,

- the revolving commitment under the 2005 Revolving Credit Agreement was capped at $32.8 million,

- a new superpriority credit facility was established in an amount up to $56 million in the aggregate, so long as the Company was in compliance with the underlying terms and conditions of the Waiver Agreement,

- the Company was required to grant a security interest in substantially all its assets and to provide guarantees from all its domestic subsidiaries with respect to the Credit Agreements and the superpriority credit facility,

- borrowings under the superpriority credit facility would be at either LIBOR plus 3.5% or the Base Rate plus 2.0% which was on average approximately 175 basis points higher than under the then existing Credit Agreements, and

- the Company would pay various fees, including a waiver fee applicable to the 2002 Senior Notes, the 2005 Senior Notes, and the existing 2005 Revolving Credit Agreement of 25 basis points ($1.3 million), and a 100 basis point origination fee ($0.6 million) on the superpriority credit facility.

In October 2006, in order to sell PQBS to Snap-on Incorporated, the Company entered into a Waiver Agreement which extended the waiver period from November 30, 2006 to March 15, 2007. In addition the amendment modified the superpriority credit facility allowing the company to borrow up to $15.0 million beginning January 1, 2007, increasing to $20.3 million on February 1, 2007, and decreasing to zero on March 15, 2007.

On November 28, 2006, the Company sold PQBS to Snap-on Incorporated. The aggregate consideration received by the Company was $514 million including the assumption by Snap-on of approximately $19 million of debt. Upon completing the sale of PQBS on November 28, 2006, the Company used the proceeds from the sale, along with certain other funds from the Company, to repay $475.8 million, representing 89% of its outstanding debt.

As of December 30, 2006, debt was $58.2 million excluding *capital leases. The interest rate in effect under the amended 2005 Revolving Credit Agreement was LIBOR + 2.5%, which was 7.85% on $22.2 million of debt outstanding. The company did not have the* ability to borrow any additional amounts under the 2005 Revolving Credit Agreement as of December 30, 2006. The interest rate on Senior Notes was a fixed interest rate of 7.87% on $28.1 million of debt outstanding and a variable rate of LIBOR + 2.5%, which was 7.85% on $7.9 million outstanding at December 30, 2006.

Note 13 Profit-Sharing, Pension, and Other Postretirement Benefit Plans

Defined Contribution Plans

Eligible employees who elect to do so can participate in our defined contribution profit-sharing retirement plans. As the Company is not obligated to continue these defined contribution plans in future years, the Company expenses its annual contributions to these plans but does not record a liability for these plans. The amounts charged to earnings for fiscal 2008, 2007 and 2006 related to these plans were $0.8 million, $0.8 million, and $3.0 million, respectively.

The Company also has contractual obligations under a frozen replacement benefit plan (RBP) for a small number of terminated and retired executives and one current employee. Because the RBP is frozen, no participant can make or is entitled to additional contributions. Instead the Company has accrued a liability totaling $5.6 million as of year end 2008 to reflect its estimated future obligation for RBP. The current portion of the RBP liability, which was $3.1 million at year end 2008, is included on the line Salaries, bonus and benefits in Note 8 to these financial statements. The long term portion of the RBP liability, which was $2.5 million at year end 2008, is included on the line Long-term deferred compensation in Note 9 of these financial statements. See Future Contributions in this footnote regarding lump sum payments made in January 2009 which further reduced the RBP liability.

Defined Benefit Plan and Other Postretirement Benefit Plan

We also have a frozen defined benefit pension plan covering certain terminated and retired former domestic employees. The benefits are primarily based on years of service and/or compensation during the years immediately preceding retirement. We use a measurement date of December 31 for our pension and postretirement benefit plans.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFASs No. 87, 88, 106, and 132(R) (SFAS No. 158). This statement requires reporting of the funded status of defined benefit postretirement plans as an asset or liability in the statement of financial position, recognizing changes in the funded status due to gains or losses, prior service costs, and net transition assets or obligations in other comprehensive income in the year the changes occur, adjusting other comprehensive income when the gains or losses, prior service costs, and net transition assets or obligations are recognized as components of net period benefit cost through amortization, and measuring the funded status of a plan as of the date of the statement of financial position, with limited exceptions. SFAS No. 158 was effective for recognition of the funded status of the benefit plans for fiscal years ended after December 15, 2006 and was effective for the measurement date provisions for fiscal years ended after December 15, 2008. We adopted SFAS No. 158 effective December 30, 2006, with minimal impact to our financial statements.

As a result of the sale of PQIL, the obligation for our United Kingdom (U.K.) pension plan was assumed by the buyer of PQIL and as of February 2007 the Company has no further obligation to make U.K. pension contributions. The Company made payments of $22.9 million in early 2007 to its U.K. pension plan concurrent with the sale of PQIL in February 2007.
In addition, we have contributory and non-contributory postretirement medical benefit plans and a non-contributory postretirement life insurance benefit plan covering certain domestic employees. All of these other postretirement benefit plans are unfunded. Effective January 1, 2006 we ceased to offer a retiree medical program.
The net cost of our defined benefit pension plan and other postretirement benefit plan for fiscal 2008, 2007, and 2006 were as follows:

	U.S. Defined Benefit Pension Plan			**Other Postretirement Benefits**		
(Dollars in thousands)	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Service cost	**$**	**$**	**$**	**$**	**$**	**$**
Interest cost	**1,242**	**1,189**	**1,227**	**5**	**8**	**11**
Recognized net actuarial loss/(gain)	**72**	**135**	**138**	**(98)**	**(104)**	**(107)**
Net pension and other postretirement benefit cost (income)	**$ 1,314**	**$ 1,324**	**$ 1,365**	**$ (93)**	**$ (96)**	**$ (96)**

Obligation and Funded Status
The funded status of our defined benefit pension plan and other postretirement benefit plan at the end of fiscal 2008 and 2007 were as follows:

	U.S. Defined Benefit Pension Plan		Other Postretirement Benefits	
(Dollars in thousands)	2008	2007	2008	2007
Change in Benefit Obligation				
Benefit obligation, beginning of year	$ 20,903	$ 22,569	$ 134	$ 194
Service cost				
Interest cost	1,242	1,189	5	8
Actuarial (gain)/loss	(3,277)	(933)	69	(66)
Benefits paid	(2,039)	(1,922)	(131)	(2)
Benefit obligation, end of year	$ 16,829	$ 20,903	$ 77	$ 134
Change in Plan Assets				
Fair value, beginning of year	$	$	$	$
Company contributions	2,039	1,922	131	2
Benefits paid	(2,039)	(1,922)	(131)	(2)
Fair value, end of year	$	$	$	$
Funded/(unfunded) status	$ (16,829)	$ (20,903)	$ (77)	$ (134)
Accrued benefit cost	$ (16,829)	$ (20,903)	$ (77)	$ (134)
Amounts Recognized in the Consolidated Balance Sheets				
Current accrued benefit liability	(6,648)	(2,060)	(27)	(41)
Non-current accrued benefit liability	(10,181)	(18,843)	(50)	(93)
Net amount recognized	$ (16,829)	$ (20,903)	$ (77)	$ (134)

At December 31, 2008, we had a net actuarial gain of $0.3 million and $0.1 million for our U.S. pension and other postretirement benefits, respectively. These amounts are included in Accumulated Other Comprehensive Income (Loss) on our Consolidated Balance Sheets. Of these amounts, we expect immaterial amounts to be recognized as a component of net pension and other postretirement benefit cost (income) during 2009.
See Future Contributions in this footnote regarding lump sum payments made in January 2009 which reduced the pension plan liability.
Plan Assumptions

	U.S. Defined Benefit	Other Postretirement

	Pension Plan		Benefits	
	2008	**2007**	**2008**	**2007**
Discount rate	**6.25%**	**6.25%**	**5.50%**	**5.00%**

The discount rate is determined by analyzing the average returns of high-quality fixed income investments defined as AA-rated or better. We also utilize an interest rate yield curve for instruments with maturities corresponding to our benefit obligations.

Additional Information

For our pension plan, the projected benefit obligation and accumulated benefit obligation at the end of fiscal 2008 and 2007 were as follows:

	U.S. Defined Benefit Pension Plan	
(Dollars in thousands)	**2008**	**2007**
Projected benefit obligation	**$ 16,829**	**$ 20,903**
Accumulated benefit obligation	**$ 16,829**	**$ 20,903**

Assumed Health Care Cost Trend Rates

	2008	2007
Health care cost trend rate assumed for next year	**8.50%**	**9.00%**
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**6.00%**	**6.00%**
Year that the rate reaches the ultimate trend rate	**2014**	**2014**

Assumed future health care cost trend rates do not have a significant effect on postretirement medical benefit costs. A one percentage point change in the assumed health care cost trend rates would have less than a two thousand dollar impact on the benefit plan obligation at year end 2008 and less than a four thousand dollar impact on the benefit plan obligation at year end 2007.

Future Contributions

During the fourth quarter of 2008, the Company provided an opportunity for participants in its RBP and its defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. Prior to the distribution opportunity, both plans were frozen, with no participants entitled to make additional contributions or earn additional service years. Based on the responses received, the Company paid cash out of approximately $7.9 million in January 2009 related to these lump sum payments. As a result of the settlements the Company expects to record a gain of $1.3 million in January 2009. At the end of January 2009, after normal distributions and the settlement, the total liability related to the RBP was $1.4 million and the total liability related to the U.S. defined benefit plan was $11.2 million.

Total contributions expected to be paid under our frozen U.S. retirement plans or to the beneficiaries thereof during fiscal 2009 are $9.7 million, consisting of $6.6 million to our U.S. defined benefit plan and $3.1 million to RBP, including the lump sum payments made in January 2009.

Gross benefit payment obligations under our continuing defined benefit plans for the next ten years are anticipated to be as follows:

(Dollars in thousands)	**U.S. Retirement Plans (SRP and RBP)**	**Other Postretirement Benefits**
2009	**$ 9,728**	**$ 27**
2010	**1,969**	**21**
2011	**1,719**	**17**
2012	**1,365**	**14**
2013	**1,319**	**5**
2014 - 2018	**5,275**	

In December 2003, Congress passed the Medicare Act of 2003. We do not provide post-65 medical or prescription drug coverage; therefore, our postretirement benefit liability and costs are not impacted by the employer subsidy provision of the Act.

Note 14 Common Stock

We have 50,000,000 authorized shares of common stock, ($.001 par value per share), 30,550,443 shares issued and 29,874,145 shares outstanding as of December 31, 2008 and 30,552,129 shares issued and 29,882,559 shares outstanding as of December 29, 2007.

Note 15 Stock-Based Compensation

As of December 31, 2008, the Company has one stock-based compensation plan, which is described below. The total amount of pre-tax expense for stock-based compensation recognized in general and administrative expense in fiscal 2008, 2007, and 2006 was $0.9 million, $0.1 million, and $3.1 million, respectively. Additionally, zero, ($0.1) million and $1.2 million in pre-tax expense (benefit) for stock-based compensation is recognized in earnings from discontinued operations in 2008, 2007 and 2006, respectively. The total income tax benefit recognized for book purposes in the consolidated statement of operations related to stock-based compensation was zero, zero, and $0.4 million for fiscal 2008, 2007, and 2006, respectively. The total tax benefit realized was immaterial for 2008 and $0.2 million for both fiscal 2007 and 2006.

Stock Option Plan

In fiscal 2003, we adopted the 2003 ProQuest Strategic Performance Plan (Option Plan), which replaced the ProQuest Company 1995 Stock Option Plan and the ProQuest Company Non-Employee Directors Stock Option Plan. Under the Option Plan, 5,160,000 shares of common stock were reserved for issuance. In 2004, an additional 1,532,000 shares were reserved for issuance. The Option Plan is administered by the Compensation Committee of the Board of Directors which has the authority to establish the terms and conditions of awards granted under the Option Plan. Under the Option Plan, the Committee can grant stock appreciation rights, restricted stock, performance stock, performance units, annual management incentive awards and other stock or cash awards.

Options granted to certain executives may contain a replacement option feature. When the option s exercise price is paid with shares of the Company s common stock, which the executive previously owned for more than six months, a replacement option is granted for the number of shares used to make that payment. The replacement option has an exercise price equal to the fair market value of the Company s common stock on the date the replacement option is granted; is exercisable in full six months after the date of the grant; and has a term expiring on the expiration date of the original options. Options granted in 2004 are not eligible for this replacement feature.

Long Term Incentive Performance (LTIP) Grants

In fiscal 2004, the Compensation Committee of our Board of Directors granted 1,961,500 nonqualified stock options with an exercise price of $30.97 per share to six members of our senior executive team. On October 5, 2005 and November 2, 2005, an additional 100,000 and 175,000 nonqualified stock options with an exercise price of $36.52 and $30.97, respectively, were granted to two new members of our senior executive team. These stock options were issued under a new Long Term Incentive Performance (LTIP) plan consistent with the Board s desire that management deliver long-term sustainable shareholder value. The number of options granted to each executive under the 2004 LTIP was the projected aggregate number of options that would have been granted annually over a five year period to each of these executives based on their then positions and responsibilities. Currently, there is only one executive who retains rights under the LTIP plan. The options outstanding under this grant equal 440,000 shares. All other options granted under the LTIP have been terminated or forfeited.

Under this grant, the options vest after seven years and expire in ten years. However, if certain stock price thresholds are met during the initial seven year period, the vesting of the options is accelerated. These stock price thresholds represented 8% to 10% compounded annual stock price growth rates for 3 to 5 years as of the date of the grant.
The following table outlines the stock price thresholds and the number of options accelerated at each target stock price.

	2004 grant	
Stock Price	**Achievement Period**	**Options Vested**
$36.67	**3 years**	**208,000**
$39.81	**4 years**	**246,000**
$42.77	**5 years**	**283,000**
$46.88	**5 years**	**440,000**

If the options are exercised, the executive must retain 50% of all after-tax gains in shares of the Company until his retirement or termination of employment at Voyager Learning Company.

Stock Appreciation Right (SAR) Grant

In fiscal 2007, the Compensation Committee of our Board of Directors granted a stock appreciation right (SAR) with respect to 300,000 shares of the Company s common stock with an exercise price of $8.55 per share to one member of our senior executive team. Under this grant, the SAR vests over a three year period and expires in five years. The SAR will be settled in cash in the amount equal to the excess of the fair market value of common stock over the exercise price multiplied by the number of shares exercised. The SAR has been classified as a liability award based on the cash settlement provisions.

Executive Stock Option Grants

At the end of fiscal 2008, we had options outstanding for 342,335 shares granted to key executives. The term for these options is six or ten years, vesting in equal annual increments over either a three-year or a five-year period.

Nonvested Restricted Stock Grants

During fiscal 2006, we granted certain employees and members of our Board of Directors 2,067 shares of nonvested restricted stock, with market values at the date of grant of $0.1 million. In fiscal 2007 and 2006, we cancelled 12,604 shares and 30,430 shares, respectively, of the nonvested restricted stock granted, with market values at the date of grant of $0.4 million and $1.1 million, respectively. These shares were valued at the market price at their respective award dates and are being recognized as expense over the 3 year vesting period.

During fiscal 2008 and 2007 the Company issued 15,714 and 11,158, respectively, cash-based restricted stock units to members of the Company s Board of Directors (2,619 and 1,594 units per board member, respectively). Under this grant, the cash based restricted stock units vest after six months. As of December 30, 2008 and December 29, 2007, each director was entitled to receive a cash payment equal to the product of the 2,619 and 1,594 units, respectively, multiplied by the closing stock price on December 30, 2008 and December 28, 2007, respectively. No actual shares were issued in relation to these grants, but instead, the grants were intended to provide payment to the members of the Board of Directors in a form of compensation that is related to the price of the Company s stock. All cash settled restricted stock units related to these grants have been and were classified as liability awards based on their cash settlement provisions and were valued at the settlement amount of approximately $0.1 million at year end 2007, which was paid in January 2008. Liability and expense amounts related to these awards granted in 2008 are not material at December 31, 2008.

Fair Value of Stock Option and SAR Grants

The fair value of each stock-based compensation award granted is estimated on the date of grant using either the Black-Scholes option-pricing model or a binomial model.

All other stock option and SAR grants are calculated using the Black-Scholes option-pricing model. The following assumptions were used during the periods presented to estimate the fair value of awards:

	2008	2007	2006
Expected stock volatility	**45.90%**	**35.30%**	**39.00%**
Risk-free interest rate (weighted average for fiscal year)	**1.10%**	**3.06%**	**5.19%**
Expected years until exercise	**3**	**3**	**3**
Dividend yield	**0.00%**	**0.00%**	**0.00%**

Summary of Stock Option and SAR Activity

A summary of the stock option and stock appreciation right transactions for fiscal 2006, 2007, and 2008 is as follows:

	Executive Grantees		Director Grantees		LTIP Grantees		SAR Grantee	
	Shares (000 s)	Weighted Average Exercise Price	Shares (000 s)	Weighted Average Exercise Price	Shares (000 s)	Weighted Average Exercise Price	Shares (000 s)	Weighted Average Exercise Price
Balance at the end of fiscal 2005	**1,432**	**$ 25.53**	**66**	**$ 30.20**	**2,066**	**$ 31.24**		**$**
2006:								
Granted			**18**	**12.29**				
Exercised	**(29)**	**20.47**						
Forfeited/cancelled	**(300)**	**27.49**	**(3)**	**32.63**	**(260)**	**30.97**		
Awards outstanding at the end of fiscal 2006	**1,103**	**$ 25.21**	**81**	**$ 24.68**	**1,806**	**$ 31.28**		**$**
Awards exercisable at the end of fiscal 2006	**1,073**	**$ 25.13**	**63**	**$ 30.06**		**$**		**$**
Weighted average fair value of awards granted during fiscal 2006	**$**		**$ 4.13**		**$**		**$**	
2007:								
Granted							**300**	**8.55**
Exercised								
Forfeited/cancelled	**(259)**	**25.66**	**(9)**	**26.78**	**(1,366)**	**31.38**		
Awards outstanding at the end of fiscal 2007	**844**	**$ 25.08**	**72**	**$ 25.98**	**440**	**$ 30.97**	**300**	**$ 8.55**
	844	**$ 25.08**	**72**	**$ 25.98**		**$**		**$**

Awards exercisable at the end of fiscal 2007												
Weighted average fair value of awards granted during fiscal 2007		**$**			**$**			**$**			**$**	**2.61**
2008:												
Granted												
Exercised												
Forfeited/cancelled	**(502)**		**25.65**	**(4)**		**25.81**						
Awards outstanding at the end of fiscal 2008	**342**	**$**	**24.23**	**68**	**$**	**25.99**	**440**	**$**	**30.97**	**300**	**$**	**8.55**
Awards exercisable at the end of fiscal 2008	**342**	**$**	**24.23**	**68**	**$**	**25.99**		**$**		**100**	**$**	**8.55**

The total intrinsic value of options outstanding and exercisable as of December 31, 2008 was zero. The total intrinsic value of stock options exercised during fiscal 2008, 2007, and 2006 was zero for all three years. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $1.48 of our common stock on December 31, 2008. The total grant date fair value of stock options vested during fiscal 2008, 2007, and 2006 was $0.3 million, $0.3 million, and $2.1 million, respectively.

As of December 31, 2008, there was $0.1 million of unrecognized compensation cost related to outstanding stock options and stock appreciation rights, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 0.1 years. To the extent the forfeiture rate is different than what we have anticipated, stock-based compensation related to these awards will be adjusted in accordance with SFAS No. 123R.
The following tables provide additional information with respect to stock options and stock appreciation rights outstanding at the end of fiscal 2008:

	Awards Outstanding			Awards Exercisable		
Range of Exercise Price	**Number Outstanding (000 s)**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable (000 s)**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$10.00 and Below	**300**	**3.3**	**$ 8.55**	**100**	**3.3**	**$ 8.55**
$10.01 - $15.00	**16**	**3.5**	**12.29**	**16**	**3.5**	**12.29**
$15.01 - $20.00	**98**	**0.5**	**18.88**	**98**	**0.5**	**18.88**
$20.01 - $25.00	**151**	**0.6**	**21.81**	**151**	**0.6**	**21.81**
$25.01 - $30.00	**20**	**1.0**	**27.61**	**20**	**1.0**	**27.61**
$30.01 - $35.00	**524**	**4.4**	**31.13**	**84**	**1.0**	**31.95**
$35.01 - $40.00	**41**	**2.2**	**36.15**	**41**	**2.2**	**36.15**
	1,150	**3.1**	**$ 22.82**	**510**	**1.5**	**$ 21.39**

	Number of Shares (000 s)	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**
Vested and expected to vest as of December 31, 2008	**1,150**	**3.1**	**$ 22.82**	**$**

Summary of Nonvested Restricted Stock Activity
A summary of the nonvested restricted stock transactions for fiscal 2006, 2007, and 2008 is as follows:

	Employee Grantees			Director Grantees		
	Shares (000 s)		Weighted Average Grant-Date Fair Value	Shares (000 s)		Weighted Average Grant-Date Fair Value
Nonvested restricted stock balance at the end of fiscal 2005	**118**	**$**	**33.55**	**13**	**$**	**28.82**
2006:						
Granted	**2**		**29.04**			
Vested	**(18)**		**34.83**			
Forfeited/cancelled	**(30)**		**34.67**			
Nonvested restricted stock outstanding at the end of fiscal 2006	**72**	**$**	**32.61**	**13**	**$**	**28.82**
2007:						
Granted						
Vested	**(48)**		**33.11**	**(8)**		**28.10**
Forfeited/cancelled	**(10)**		**32.20**	**(3)**		**25.75**
Nonvested restricted stock outstanding at the end of fiscal 2007	**14**	**$**	**31.17**	**2**	**$**	**35.80**
2008:						
Granted						
Vested	**(14)**		**31.17**	**(2)**		**35.80**
Forfeited/cancelled						
Nonvested restricted stock outstanding at the end of fiscal 2008		**$**			**$**	

As of December 31, 2008, there were no remaining shares or unrecognized compensation cost related to nonvested restricted stock.
The total fair value of restricted stock shares vested during fiscal 2008 and 2007 was approximately $0.5 million and $1.8 million, respectively.

Securities Authorized for Issuance
Securities authorized for issuance under equity compensation plans at December 31, 2008 are as follows:

	Number of securities to be	Weighted-average	Number of securities remaining available for future issuance

Plan Category	issued upon exercise of outstanding options and rights		exercise price of outstanding options and rights	under equity compensation plans (a)
Equity compensation plans approved by security holders	**1,150**	**$**	**22.82**	**3,213**
Equity compensation plans not approved by security holders				