Voyager Learning CO
Form 10-Q
November 20, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ______ to ______.

Commission file number 1-3246

Voyager Learning Company

(Exact name of registrant as specified in its charter)

Delaware	**36-3580106**
(State or Other Jurisdiction of	**(I.R.S.Employer**
Incorporation or Organization)	**Identification No.)**
789 Eisenhower Parkway, Ann Arbor, Michigan	**48106-1346**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (734) 761-4700

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

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

Large accelerated filer ¨ Accelerated Filer x Non-accelerated filer ¨ Smaller Reporting Company ¨

The number of shares of the Registrant s Common Stock, $.001 par value, outstanding as of September 15, 2008 was 29,879,252.

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Voyager Learning Company and Subsidiaries

Consolidated Statements of Operations

For the Thirteen and Thirty-Nine Week Periods

Ended September 30, 2006 and October 1, 2005

(In thousands, except per share data)

(Unaudited)

(In thousands, except per share data)	Thirteen Weeks Ended September 30, 2006	Thirteen Weeks Ended October 1, 2005	Thirty-Nine Weeks Ended September 30, 2006	Thirty-Nine Weeks Ended October 1, 2005
Net sales	$ 33,565	$ 33,283	$ 93,866	$ 60,808
Cost of sales	(15,223)	(16,057)	(44,499)	(34,310)
Gross profit	18,342	17,226	49,367	26,498
Research and development expense	(1,386)	(1,408)	(4,126)	(3,210)
Selling and administrative expense	(20,574)	(12,870)	(73,926)	(34,535)
Earnings (loss) from continuing operations before interest, income taxes, and equity in earnings of affiliate	(3,618)	2,948	(28,685)	(11,247)
Net interest expense:				
Interest income	78	52	795	143
Interest expense	(7,739)	(5,193)	(20,097)	(14,137)
Net interest expense	(7,661)	(5,141)	(19,302)	(13,994)
Loss from continuing operations before income taxes	(11,279)	(2,193)	(47,987)	(25,241)
Income tax benefit	2,892	122	10,827	1,401
Loss from continuing operations	(8,387)	(2,071)	(37,160)	(23,840)
Earnings from discontinued operations (less applicable income taxes of $11,555, $1,562, $17,758 and $7,456, respectively)	21,320	2,986	32,244	17,730
Net earnings (loss)	$ 12,933	$ 915	$ (4,916)	$ (6,110)
Net earnings (loss) per common share:				
Basic:				
Earnings (loss) from continuing operations	$ (0.28)	$ (0.07)	$ (1.24)	$ (0.81)
Earnings (loss) from discontinued operations	0.71	0.10	1.08	0.60
Basic net earnings (loss) per common share	$ 0.43	$ 0.03	$ (0.16)	$ (0.21)
Diluted:				
Earnings (loss) from continuing operations	$ (0.28)	$ (0.07)	$ (1.24)	$ (0.81)
Earnings (loss) from discontinued operations	0.71	0.10	1.08	0.60
Diluted net earnings (loss) per common share	$ 0.43	$ 0.03	$ (0.16)	$ (0.21)

Average number of common shares and equivalents outstanding:				
Basic	**29,818**	**29,760**	**29,814**	**29,610**
Diluted	**29,818**	**29,760**	**29,814**	**29,610**

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

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Voyager Learning Company and Subsidiaries

Consolidated Balance Sheets

As of September 30, 2006 and December 31, 2005

(In thousands)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 7,664**	**$ 30,957**
Accounts receivable, net	**26,409**	**30,913**
Inventory, net	**14,463**	**12,972**
Other current assets	**12,520**	**16,995**
Assets related to discontinued operations, current	**135,307**	**104,536**
Total current assets	**196,363**	**196,373**
Property, plant, equipment, and software, at cost	**20,103**	**10,186**
Accumulated depreciation and amortization	**(4,200)**	**(1,918)**
Net property, plant, equipment, and software	**15,903**	**8,268**
Goodwill	**252,586**	**252,618**
Acquired curriculum intangibles, net	**69,583**	**81,776**
Other intangibles, net	**8,846**	**10,489**
Developed curriculum, net	**6,768**	**5,686**
Other assets	**26,938**	**12,654**
Assets related to discontinued operations, noncurrent	**419,843**	**349,250**
Total assets	**$ 996,830**	**$ 917,114**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ 536,942**	**$ 515,289**
Accounts payable	**10,566**	**12,351**
Accrued expenses	**30,849**	**28,267**
Deferred income	**13,938**	**14,019**
Liabilities related to discontinued operations, current	**255,752**	**259,205**
Total current liabilities	**848,047**	**829,131**
Long-term liabilities:		
Long-term debt, less current maturities	**1,804**	**860**
Other liabilities	**77,673**	**59,763**
Liabilities related to discontinued operations, noncurrent	**106,990**	**75,807**
Total long-term liabilities	**186,467**	**136,430**
Shareholders equity (deficit):		
Common stock ($.001 par value, 50,000 shares authorized, 30,572 shares issued and 29,917 shares outstanding at September 30, 2006, and 30,563 shares issued and 29,910 shares outstanding at	**30**	**30**

December 31, 2005)		
Capital surplus	**356,606**	**354,879**
Unearned compensation on restricted stock		**(3,122)**
Accumulated deficit	**(380,902)**	**(375,986)**
Treasury stock, at cost (655 shares at September 30, 2006 and 653 shares at December 31, 2005)	**(16,550)**	**(16,550)**
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment	**22,617**	**11,697**
Minimum pension liability, net of tax	**(20,045)**	**(20,045)**
Net unrealized gain (loss) on securities, net of tax	**560**	**650**
Accumulated other comprehensive income (loss)	**3,132**	**(7,698)**
Total shareholders equity (deficit)	**(37,684)**	**(48,447)**
Total liabilities and shareholders equity	**$ 996,830**	**$ 917,114**

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

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Voyager Learning Company and Subsidiaries

Consolidated Statements of Cash Flows

For the Thirty-Nine Week Periods

Ended September 30, 2006 and October 1, 2005

(In thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	September 30, 2006	October 1, 2005
Operating activities:		
Net earnings	**$ (4,916)**	**$ (6,111)**
Adjustments to reconcile net earnings to net cash used in operating activities:		
Earnings from discontinued operations, net of tax	**(32,244)**	**(17,729)**
Depreciation and amortization	**17,815**	**14,700**
Amortization of deferred financing costs	**3,662**	**467**
Stock-based compensation	**4,259**	**926**
Deferred income taxes	**(211)**	**(22,743)**
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	**4,503**	**(4,820)**
Inventory	**(1,491)**	**(3,954)**
Other current assets	**(376)**	**(544)**
Other assets	**(14,975)**	**731**
Accounts payable	**(1,784)**	**2,837**
Accrued expenses	**2,600**	**21,061**
Deferred income	**(82)**	**7,844**
Other long-term liabilities	**18,119**	**(5,587)**
Other, net	**(504)**	**88**
Net cash used in operating activities	**(5,625)**	**(12,834)**
Investing activities:		
Expenditures for property, plant, equipment, curriculum development costs, and software	**(12,725)**	**(6,689)**
Acquisitions, net of cash acquired		**(346,129)**
Purchases of equity investments available for sale	**(5,844)**	**(3,226)**
Proceeds from disposals of equity investments available for sale	**11,169**	**1,801**
Proceeds from (expenditures associated with) sales of discontinued operations, net	**(19)**	**(86)**
Net cash used in investing activities	**(7,419)**	**(354,329)**
Financing activities:		
Proceeds from debt	**558,815**	**513,100**
Repayment of debt	**(535,674)**	**(92,686)**
Principal payments under capital lease obligations	**(545)**	**(178)**
Debt issuance costs	**(2,969)**	**(2,071)**
Proceeds from exercise of stock options, net	**589**	**8,424**
Net cash provided by financing activities	**20,216**	**426,589**

Effect of exchange rate changes on cash	**1,021**	**(690)**
Increase in cash and cash equivalents of continuing operations	**8,193**	**58,736**
Net cash provided by (used in) discontinued operations:		
Net cash provided by operating activities	**23,206**	**38,622**
Net cash used in investing activities	**(37,638)**	**(53,498)**
Net cash used in financing activities	**(17,054)**	**(23,256)**
Net cash used in discontinued operations	**(31,486)**	**(38,132)**
Increase (decrease) in cash and cash equivalents	**(23,293)**	**20,604**
Cash and cash equivalents, beginning of period	**30,957**	**4,313**
Cash and cash equivalents, end of period	**$ 7,664**	**$ 24,917**
Non-cash financing and investing activities:		
Common / Treasury stock issued in connection with acquisitions	**$**	**$ 20,362**
Acquisition of equipment through capital leases	**$ 1,937**	**$ 948**

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

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Voyager Learning Company and Subsidiaries

Notes to the Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The Consolidated Financial Statements include the accounts of Voyager Learning Company and its subsidiaries, including Voyager Expanded Learning, Learning A-Z, and ExploreLearning (together VED), ProQuest Information & Learning (PQIL), and ProQuest Business Solutions (PQBS), and are unaudited. The accounts of PQBS and PQIL are being reported as discontinued operations. See Note 3 for more details.

On February 9, 2006 the Company announced that during a review related to its 2005 internal controls assessment required by the Sarbanes-Oxley Act of 2002, the Company discovered material irregularities in its accounting for 2005 and prior periods. The Audit Committee initiated an investigation and retained Skadden, Arps, Slate, Meagher & Flom LLP, who in turn retained Chicago Partners LLC to assist in the investigation of the irregularities. In August 2006, the Company announced that the Audit Committee had completed the Audit Committee Investigation. The Company s financial statements for fiscal years 2003 and 2004 included in the 2005 Form 10-K were restated to reflect adjustments to previously reported information on Form 10-K. The 2005 Form 10-K also reflects the restatement of Selected Consolidated Financial Data for the fiscal years ended 2001 and 2002. As part of the restatement, the first three quarters of 2005 were also restated. Comparisons of results from operations and cash flows in this third quarter 2006 Form 10-Q to third quarter and nine months to date 2005 results are to the restated amounts.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Certain reclassifications to the 2005 Consolidated Financial Statements have been made to conform to the 2006 presentation. We believe that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2005. Due to seasonality, the results of operations for the twelve and thirty-nine weeks ended September 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 30, 2006.

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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.

Note 2 Significant Accounting Policies

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 $2.5 million and $0.6 million at September 30, 2006 and December 31, 2005, 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.

Inventory. Inventory costs include materials only. Inventory is stated at the lower of cost (determined using the first-in, first-out (FIFO) method) or market. When appropriate, a valuation reserve has been recorded to recognize slow-moving and obsolete inventory.

Property and Equipment. We recognized depreciation and amortization expense on property and equipment of $0.6 million and $0.2 million during the thirteen weeks ended September 30, 2006 and October 1, 2005, respectively and $1.6 million and $0.7 million for the thirty-nine weeks ended September 30, 2006 and October 1, 2005, respectively.

Purchased and Developed Software. Amortization of capitalized software costs during the thirteen weeks ended September 30, 2006 and October 1, 2005 totaled $0.3 million and $0.2 million, respectively and $0.8 million and $0.4 million for the thirty-nine weeks ended September 30, 2006 and October 1, 2005, respectively.

Acquired Curriculum. Acquired curriculum represents curriculum acquired in the acquisitions of Voyager Learning Company and ExploreLearning in 2005 and Learning A-Z in 2004. Acquired curriculum is being amortized using an accelerated method over ten years. Acquired curriculum is presented net of accumulated amortization of $28.8 million and $16.6 million as of September 30, 2006 and December 31, 2005, respectively. Amortization of acquired curriculum for the thirteen weeks ended September 30, 2006

and October 1, 2005 was $4.0 million and $4.6 million, respectively, and $12.2 million and $11.9 million for the thirty-nine weeks ended September 30, 2006 and October 1, 2005, 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. Curriculum development costs are presented net of accumulated amortization of $2.3 million and $0.7 million as of September 30, 2006 and December 31, 2005, respectively. Amortization of curriculum development costs for thirteen weeks ended September 30, 2006 and October 1, 2005 was $0.6 million and $0.3 million, respectively and $1.6 million and $0.3 million for the thirty-nine weeks ended September 30, 2006 and October 1, 2005.

Stock Option Plan. 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 Statement of Financial Accounting Standards 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 Statement of Financial Accounting Standards 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 (a) for all share-based payments granted after the effective date and (b) 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.

As a result of adopting SFAS No. 123R, our loss from continuing operations before income taxes for the thirteen weeks and thirty-nine weeks ended was $0.7 million and $2.0 million, respectively, higher than had we continued to account for stock-based employee compensation under APB No. 25. Additionally, $0.4 million and $1.2 million in stock compensation expense is included in

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earnings from discontinued operations for the thirteen and thirty-nine weeks ended, respectively. Basic and diluted net earnings per share for the thirteen weeks ended September 30, 2006 would have been $0.47 and $0.47, respectively, had we not adopted SFAS No. 123R, compared to reported basic and diluted net earnings per share of $0.43 and $0.43, respectively. Basic and diluted net earnings (loss) per share for the thirty-nine weeks ended September 30, 2006 would have been $(0.06) and $(0.06), respectively, had we not adopted SFAS No. 123R, compared to reported basic and diluted net earnings (loss) per share of $(0.16) and $(0.16), respectively.

The following table illustrates the effect on net income (loss) and earnings (loss) per share as if we had applied the fair value recognition provisions of SFAS No. 123 for the thirteen weeks and thirty-nine weeks ended October 1, 2005.

(Dollars in thousands except per share amounts)	Thirteen Weeks Ended October 1, 2005		Thirty-Nine Weeks Ended October 1, 2005	
Net earnings (loss), as reported	$	915	$	(6,110)
Add: Stock-based compensation, as reported		403		926
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects		(1,948)		(5,754)
Pro forma net loss	$	(630)	$	(10,938)
Earnings (loss) per share:				
Basic - as reported	$	0.03	$	(0.21)
Basic - pro forma	$	(0.02)	$	(0.37)
Diluted - as reported	$	0.03	$	(0.21)
Diluted - pro forma	$	(0.02)	$	(0.37)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model or a binomial model. The assumptions for the Black-Scholes option-pricing model are as follows:

	2006	2005
Expected stock volatility	39.00%	36.71%
Risk-free interest rate (weighted average for fiscal year)	5.19%	3.82%
Expected years until exercise	3	4
Dividend yield	0.00%	0.00%

In fiscal 2004, the Compensation Committee of our Board of Directors granted 1,961,500 nonqualified stock options with an

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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 are intended to serve as a long-term incentive consistent with the Board s desire that management deliver long-term sustainable shareholder value.

On December 31, 2005, 170,500 options granted in 2004 were cancelled due to the departure of one of our senior executives.

Based on the complexity of this plan, we have utilized a binomial model to estimate the fair value of the options, utilizing the following assumptions:

	Granted November 2, 2005	Granted October 5, 2005	Granted February 4, 2004
Expected stock volatility	**29.74%**	**29.10%**	**31.50%**
Risk-free interest rate (as of grant date)	**4.55%**	**4.38%**	**3.07%**
Expected years until exercise	**7**	**4**	**5**
Dividend yield	**0.00%**	**0.00%**	**0.00%**

We also issue shares of restricted stock to certain employees and non-employees. For the thirteen and thirty-nine weeks ended September 30, 2006 we issued zero and 2,067 shares, respectively, compared to 3,792 and 112,444 shares, respectively, for the thirteen and thirty-nine weeks ended October 1, 2005.

Derivative Financial Instruments and Hedging Activities. We comply with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133) and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (SFAS No. 138). SFAS No. 133, as amended, requires that we recognize all derivative instruments as assets or liabilities in the balance sheet at fair value.

Net Earnings (loss) per Common Share. Basic 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. 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, and reflects the potential dilution that could occur if all of our outstanding stock options that are in-the-money were exercised and the restricted stock was fully vested, using the treasury stock method. Under the treasury stock method, the proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares. A reconciliation of the

weighted-average number of common shares and equivalents outstanding in the calculation of basic and diluted net earnings (loss) per common share is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(Shares in thousands)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Basic	**29,818**	**29,760**	**29,814**	**29,610**
Dilutive effect of stock options and non-vested restricted stock				
Diluted	**29,818**	**29,760**	**29,814**	**29,610**

No options or unvested restricted shares were included in the computation of diluted net earnings (loss) per common share for the thirteen and thirty-nine weeks ended September 30, 2006 and October 1, 2005 because a loss from continuing operations occurred and to include them would be anti-dilutive.

Segment Reporting. In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* , (SFAS No 131), we have aggregated our operating results for continuing operations into one reportable segment, VED, which consists of only domestic operations.

Correction of an immaterial error. While preparing the financial statements for 2006, we discovered an error in the amount of expense recognized in 2005 for cost of goods sold related to royalty costs incurred by the PQIL division which was sold in February 2007. The error was immaterial to previously issued 2005 financial statements and is immaterial to 2006 results in light of the fact that the PQIL division has been sold and is now being reported as discontinued operations. We have corrected the 2005 results being presented in the 2006 financial statements. The correction increased earnings from discontinued operations for the thirteen week period ended October 1, 2005 by $0.8 million. A summary of the impact of this change on previously filed 2005 quarterly results is as follows:

	Thirteen week period ended October 1, 2005			Thirty-nine week period ended October 1, 2005		
(In thousands except per share amounts)	Uncorrected	Error Correction	As corrected	Uncorrected	Error Correction	As corrected
Earnings from discontinued operations	$ 2,231	$ 755	$ 2,986	$ 15,875	$ 1,854	$ 17,729
Net earnings (loss)	$ 160	$ 755	$ 915	$ (7,964)	$ 1,854	$ (6,110)
Net earnings (loss) per common share						
Basic and Diluted:						
Earnings from discontinued operations	$ 0.08	$ 0.02	$ 0.10	$ 0.54	$ 0.06	$ 0.60
Net earnings (loss) per common share	$ 0.01	$ 0.02	$ 0.03	$ (0.27)	$ 0.06	$ (0.21)
Average number of common shares and equivalents outstanding:						
Basic	29,760	29,760	29,760	29,610	29,610	29,610
Diluted	29,760	29,760	29,760	29,610	29,610	29,610

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Note 3 Discontinued Operations

In the second quarter of 2006, the Company determined to sell PQBS and PQIL to raise capital to repay its outstanding debt. The Board authorized the plan of sale and investment bankers were retained to assist the Company in the sales. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. 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 down all remaining debt.

The operating results of sold or to be sold businesses have been segregated from our continuing operations. The Consolidated Statements of Operations separately reflect the earnings of PQBS and PQIL as discontinued operations. Interest expense of $5.3 million and $13.7 million for thirteen and thirty-nine weeks ended September 30, 2006 and $2.6 million and $7.1 million for the thirteen and thirty-nine weeks ended October 1, 2005 respectively, was allocated to discontinued operations based on the ratio of net assets being sold to total net assets of the consolidated company.

Total assets related to discontinued operations by business segment at September 30, 2006 and fiscal year ended December 31, 2005 were as follows:

	Periods Ended	
(Dollars in thousands)	**September 30, 2006**	**December 31, 2005**
Assets related to discontinued operations by business segment:		
ProQuest Information and Learning businesses	**$ 382,374**	**$ 339,602**
ProQuest Business Solutions businesses	**172,776**	**114,184**
Total assets related to discontinued operations	**$ 555,150**	**$ 453,786**

The major classes of assets and liabilities related to discontinued operations at September 30, 2006 and fiscal year ended December 31, 2005 included in our Consolidated Balance Sheets were as follows:

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(Dollars in thousands)	Period Ended September 30, 2006	Period Ended December 31, 2005
Assets related to discontinued operations:		
Accounts receivable, net	**$ 102,286**	**$ 76,535**
Inventory	**2,003**	**2,273**
Other current assets	**31,018**	**25,728**
Total current assets related to discontinued operations	**135,307**	**104,536**
Property, plant, equipment, and software, net	**209,239**	**196,870**
Investment in affiliate	**3,445**	**2,131**
Long-term receivables	**14,549**	**12,924**
Goodwill, net	**118,014**	**111,865**
Other intangible assets, net	**56,408**	**12,275**
Other assets	**18,188**	**13,185**
Total assets related to discontinued operations	**$ 555,150**	**$ 453,786**
Liabilities related to discontinued operations:		
Current maturities of long-term debt	**$ 6,456**	**$ 7,419**
Accounts payable	**61,725**	**70,497**
Accrued expenses	**20,329**	**22,266**
Current portion of monetized future billings	**12,002**	**17,058**
Deferred income	**155,240**	**141,965**
Total current liabilities related to discontinued operations	**255,752**	**259,205**
Monetized future billings, less current portion	**9,677**	**18,533**
Long-term debt, less current maturities	**6,067**	**10,457**
Other liabilities	**91,246**	**46,817**
Total liabilities related to discontinued operations	**$ 362,742**	**$ 335,012**

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

(Dollars in thousands)	Thirteen Weeks Ended September 30, 2006	Thirteen Weeks Ended October 1, 2005	Thirty-Nine Weeks Ended September 30, 2006	Thirty-Nine Weeks Ended October 1, 2005
Net sales by business segment:				
ProQuest Information and Learning	**$ 66,520**	**$ 70,302**	**$ 188,855**	**$ 204,470**
ProQuest Business Solutions	**47,305**	**45,871**	**138,369**	**136,086**
Net sales from discontinued operations	**$ 113,825**	**$ 116,173**	**$ 327,224**	**$ 340,556**
Earnings (loss) before interest and income taxes:				
ProQuest Information and Learning	**21,447**	**(2,834)**	**21,078**	**(660)**
ProQuest Business Solutions	**16,991**	**11,051**	**43,791**	**36,643**
Earnings from discontinued operations before interest and income taxes	**38,438**	**8,217**	**64,869**	**35,983**
Interest expense, net	**(5,563)**	**(3,669)**	**(14,867)**	**(10,797)**
Income tax expense	**(11,555)**	**(1,562)**	**(17,758)**	**(7,456)**
Earnings from discontinued operations, net of taxes	**$ 21,320**	**$ 2,986**	**$ 32,244**	**$ 17,730**

Note 4 Comprehensive Income

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

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

(Dollars in thousands)	Thirteen Weeks Ended September 30, 2006	Thirteen Weeks Ended October 1, 2005	Thirty-Nine Weeks Ended September 30, 2006	Thirty-Nine Weeks Ended October 1, 2005
Net earnings	**$ 12,933**	**$ 915**	**$ (4,916)**	**$ (6,110)**
Other comprehensive income (loss):				
Foreign currency translation adjustments	**3,250**	**(1,288)**	**10,920**	**(8,592)**
Unrealized gain (loss) on securities, net of tax	**150**	**168**	**(90)**	**354**
Comprehensive income (loss)	**$ 16,333**	**$ (205)**	**$ 5,914**	**$ (14,348)**

Note 5 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the thirty-nine weeks ended September 30, 2006 are as follows:

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(Dollars in thousands)	Total
Balance as of December 31, 2005	**$ 252,618**
Goodwill acquired (1)	**(32)**
Balance as of September 30, 2006	**$ 252,586**

(1) Goodwill consists of current year acquisitions as well as the finalization of our preliminary purchase price allocations for prior year acquisitions.

As of September 30, 2006 and December 31, 2005 our intangible assets and related accumulated amortization consisted of the following:

	Balance as of September 30, 2006		
(Dollars in thousands)	Gross	Accumulated Amortization	Net
Acquired curriculum	**$ 98,410**	**$ (28,827)**	**$ 69,583**
Developed curriculum	**8,951**	**(2,183)**	**6,768**
Customer relationships	**5,130**	**(934)**	**4,196**
Trademark	**3,860**	**(712)**	**3,148**
Non-compete agreements	**3,517**	**(2,015)**	**1,502**
Total intangibles, net	**$ 119,868**	**$ (34,671)**	**$ 85,197**

	Balance as of December 31, 2005		
(Dollars in thousands)	Gross	Accumulated Amortization	Net
Acquired curriculum	**$ 98,410**	**$ (16,634)**	**$ 81,776**
Developed curriculum	**6,356**	**(670)**	**5,686**
Customer relationships	**5,130**	**(524)**	**4,606**
Trademark	**3,860**	**(403)**	**3,457**
Non-compete agreements	**3,517**	**(1,091)**	**2,426**
Total intangibles, net	**$ 117,273**	**$ (19,322)**	**$ 97,951**

We recorded $5.2 million and $15.4 million of intangible amortization expense for the thirteen and thirty-nine weeks ended September 30, 2006, respectively compared to $5.4 million and $13.6 million during the thirteen and thirty-nine weeks ended October 1, 2005, respectively.

During the thirty-nine weeks ended September 30, 2006 there were no intangibles acquired.

Note 6 Other Current Assets

Other current assets at September 30, 2006 and December 31, 2005 consisted of the following:

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	As of	
(Dollars in thousands)	September 30, 2006	December 31, 2005
Short-term deferred tax asset	**$ 4,044**	**$ 4,044**
Prepaid commissions	**314**	
Available-for-sale securities	**4,098**	**8,948**
Maintenance agreements	**499**	**943**
Other	**3,565**	**3,060**
Total	**$ 12,520**	**$ 16,995**

Note 7 Other Assets

Other assets at September 30, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	September 30, 2006	December 31, 2005
Long-term deferred tax asset	**$ 9,872**	**$ 9,872**
Deferred financing costs, net	**1,919**	**2,613**
Insurance receivable	**15,000**	
Other	**147**	**169**
Total	**$ 26,938**	**$ 12,654**

Note 8 Accrued Expenses

Accrued expenses at September 30, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	September 30, 2006	December 31, 2005
Salaries, wages and bonuses	**$ 6,273**	**$ 3,642**
Current portion of deferred compensation	**2,256**	**2,256**
Current portion of pension benefits	**1,960**	**1,960**
Profit sharing	**2,177**	**2,901**
Accrued interest	**3,304**	**6,646**
Other	**14,879**	**10,862**
Total	**$ 30,849**	**$ 28,267**

Note 9 Other Liabilities

Other liabilities at September 30, 2006 and December 31, 2005 consisted of the following:

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	As of	
(Dollars in thousands)	September 30, 2006	December 31, 2005
Pension benefits	$ 21,017	$ 21,524
Long-term deferred tax liability	6,290	6,501
Long-term income tax payable	7,761	7,523
Legal contingency accrual	20,000	
Deferred compensation	12,858	19,846
Post-retirement medical benefits	362	444
Other	9,385	3,925
Total	$ 77,673	$ 59,763

Note 10 Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Thirteen Weeks Ended			
	U.S. Plans Pension Benefits		Other Postretirement Benefits	
(Dollars in thousands)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Service cost	$	$	$	$ 2
Interest cost	307	318	3	8
Amortization of prior service cost				(375)
Recognized net actuarial (gain) loss	34	21	(27)	(15)
Net pension and other postretirement benefit cost (income)	$ 341	$ 339	$ (24)	$ (380)

	Thirty-nine Weeks Ended			
	U.S. Plans Pension Benefits		Other Postretirement Benefits	
(Dollars in thousands)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Service cost	$	$	$	$ 6
Interest cost	921	954	9	24
Amortization of prior service cost				(1,125)
Recognized net actuarial (gain) loss	102	63	(81)	(45)
Net pension and other postretirement benefit cost (income)	$ 1,023	$ 1,017	$ (72)	$ (1,140)

Note 11 Debt and Lines of Credit

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

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	As of	
(Dollars in thousands)	September 30, 2006	December 31, 2005
Long-term debt:		
2002 Senior notes due 10/01/12	**$ 150,000**	**$ 150,000**
2005 Senior notes due 01/31/15	**175,000**	**175,000**
2005 Revolving credit agreement	**210,900**	**189,900**
Capital lease obligations	**2,840**	**1,241**
Termination costs	**6**	**8**
Long-term debt	**538,746**	**516,149**
Less: current maturities	**(536,942)**	**(515,289)**
Long-term debt, less current maturities	**$ 1,804**	**$ 860**

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 will amortize 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 is fixed at 5.45% and is 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 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 are due until January 31, 2010. We are 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 is fixed at 5.38% and will be 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

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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 is 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 is 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 the London Interbank Offered Rate (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.

A portion of our availability under the 2005 Revolving Credit Agreement has been utilized to issue letters of credit to support our insurance coverage, leases and certain customer contracts. At December 30, 2006, the total of the face amounts of the outstanding letters of credit was $0.7 million. The letters of credit renew either annually or automatically with the face amount adjusted.

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.

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Subsequent Events

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.

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 Credit Agreements.

Note 12 Contingent Liabilities

Putative Securities Class Actions

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

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

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On January 14, 2008, plaintiffs filed a motion to certify a class of all persons who purchased shares of Company stock between February 21, 2001 and December 14, 2006, inclusive. Defendants have opposed that motion on several grounds and initial briefing is complete, with an oral argument on lead plaintiffs motion rescheduled for July 31, 2008.

On July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action law suit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan for $20 million. The settlement will be funded largely by insurance. Under the terms of the agreement, the Company would pay approximately $5 million in fees and settlement amounts to settle the class action lawsuit with remaining amounts to be paid by the insurers. The settlement is subject to completion of a Stipulation and Agreement of Settlement to be signed by the parties, preliminary and final court approval and the participation of a sufficient percentage of the putative class. There is no assurance that a final Stipulation and Agreement of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. 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 United States 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 April 21, 2008, the Company filed a motion to dismiss the consolidated

amended complaint. As of the date of this report, the Court has not conducted a hearing on the Company s motion to dismiss the consolidated amended complaint. The Company intends to defend itself vigorously. It is not yet possible to determine the ultimate outcome of this action.

Securities and Exchange Commission Investigation

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company s announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company s restatement. The Company continues to cooperate in the ongoing SEC investigation. On July 22, 2008, the Securities and Exchange Commission (SEC or Commission) filed a settled enforcement action against the Company in the United States District Court for the Eastern District of Michigan (the Court). 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 is imposed. The settlement resolves fully the previously disclosed SEC investigation of the Company s restatement.

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

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

Effective on or about January 24, 2008, VEL, the individual respondents and EdSoft executed a mutual release and settlement agreement. VEL subsequently paid EdSoft $5.4 million in connection with that settlement. In addition to providing mutual releases between EdSoft, on one hand, and VEL and the individual respondents, on the other hand, the parties agreed to dismiss any lawsuits with prejudice. EdSoft also executed a release of arbitration award. The Company has accrued $5.4 million as of September 30, 2006.

Other Contingent Liabilities

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

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Item 2.

Management s Discussion and Analysis of

Financial Condition and Results of Operations

This section should be read in conjunction with the Consolidated Financial Statements of Voyager Learning Company and Subsidiaries (collectively the Company) and the notes thereto included in the annual report on Form 10-K for the year ended December 31, 2005 (the 2005 Form 10-K), as well as the accompanying interim financial statements for the thirteen and thirty-nine week period ending September 30, 2006. The Company has already filed its annual report on Form 10-K for the year ended December 30, 2006 (the 2006 Form 10-K). This section should also be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in the 2006 Form 10-K.

Safe Harbor for Forward-looking Statements

Some of the statements contained herein constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our markets actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks and other factors you should specifically consider include, among other things, the Company s ability to successfully integrate acquisitions and reduce costs, global economic conditions, product demand, financial market performance, and other risks listed under Risk Factors in our regular filings with the Securities and Exchange Commission. In some cases, you can identify forward-looking statements by terminology such as may , should , expects , plans , anticipates , believes , estimates potential , continue , projects , intends , prospects , priorities , or the negative of such terms or other comparable terminology. These statemer only predictions. Actual events or results may differ materially. We undertake no obligation to update any of these forward-looking statements.

Restatement of Financial Statements

On February 9, 2006, the Company announced that during a review related to its 2005 internal controls assessment required by the Sarbanes-Oxley Act of 2002, the Company discovered material irregularities in its accounting for 2005 and prior periods. The Audit Committee promptly initiated an investigation and retained Skadden, Arps, Slate, Meagher & Flom LLP, who in turn retained Chicago Partners LLC to assist in the investigation of the irregularities.

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In August 2006, the Company announced that the Audit Committee had completed the Audit Committee Investigation. The Company s financial statements for fiscal years 2003 and 2004 included in the 2005 Form 10-K were restated to reflect adjustments to previously reported information on Form 10-K. As part of the restatement, the first three quarters of 2005 were also restated. Comparisons in this third quarter 2006 Form 10-Q to 2005 results are to the restated amounts.

Results of Operations

Previously, we reported our results of operations in three business segments: Voyager Education (VED), ProQuest Business Solutions (PQBS), and ProQuest Information and Learning (PQIL). In the second quarter of 2006, the Company determined to sell PQBS and PQIL to raise capital to repay its outstanding debt. The Board authorized the plan of sale and investment bankers were retained to assist the Company in the sales. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. 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 down all remaining debt.

The operating results of PQBS and PQIL have been segregated from our results of operations. The Consolidated Statements of Operations separately reflect the earnings of PQBS and PQIL as discontinued operations.

Third Quarter of Fiscal 2006 Compared to the Third Quarter of Fiscal 2005

	Thirteen Weeks Ended					
	September 30, 2006		October 1, 2005		Favorable / (Unfavorable)	
(Dollars in millions)	Amount	% of sales	Amount	% of sales	$	%
Net sales	**$ 33.6**	**100.0**	**$ 33.3**	**100.0**	**$ 0.3**	**0.9**
Cost of sales	**(15.2)**	**(45.2)**	**(16.1)**	**(48.3)**	**0.9**	**5.6**
Gross profit	**18.4**	**54.8**	**17.2**	**51.7**	**1.2**	**7.0**
Research and development expense	**(1.4)**	**(4.2)**	**(1.4)**	**(4.2)**		
Selling and administrative expense	**(20.6)**	**(61.3)**	**(12.9)**	**(38.8)**	**(7.7)**	**(59.7)**
Earnings (loss) from continuing operations before interest and income taxes	**(3.6)**	**(10.7)**	**2.9**	**8.7**	**(6.5)**	**(224.1)**
Net interest expense	**(7.7)**	**(22.9)**	**(5.1)**	**(15.3)**	**(2.6)**	**(51.0)**
Income tax benefit	**2.9**	**8.6**	**0.1**	**0.3**	**2.8**	**nm**
Loss from continuing operations	**$ (8.4)**	**(25.0)**	**$ (2.1)**	**(6.3)**	**$ (6.3)**	**(300.0)**

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Net Sales.

Our net sales from continuing operations increased $0.3 million, or 0.9%, to $33.6 million in the third quarter of 2006. Revenue is seasonal, with the second and third quarters being the strongest.

Gross Profit.

Our gross profit margin increased from 51.7% for the third quarter of fiscal 2005 to 54.8% for the third quarter of fiscal 2006. The sales increase in third quarter of fiscal 2006 was driven by online products, which have lower costs of sale than printed product, resulting in a slightly higher gross profit margin for the fiscal 2006 quarter.

Research and Development.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization.

Selling and Administrative.

	Thirteen Weeks Ended		Favorable / (Unfavorable)	
(Dollars in millions)	**September 30, 2006**	**October 1, 2005**	**$**	**%**
VED	**$ 11.3**	**$ 9.8**	**$ (1.5)**	**(15.3)**
Corporate	**9.3**	**3.1**	**(6.2)**	**(200.0)**
Total	**$ 20.6**	**$ 12.9**	**$ (7.7)**	**(59.7)**

The increase at VED is primarily due to additional sales and marketing efforts, as well as legal costs incurred in the third quarter. The increase at Corporate is primarily due to increased professional and consulting fees as a result of the restatement of 2005 and prior year financials.

Net Interest Expense.

	Thirteen Weeks Ended		Favorable / (Unfavorable)	
(Dollars in millions)	**September 30, 2006**	**October 1, 2005**	**$**	**%**
Interest income	**$ 0.1**	**$ 0.1**		
Interest expense	**(7.8)**	**(5.2)**	**(2.6)**	**(50.0)**
Total	**$ (7.7)**	**$ (5.1)**	**$ (2.6)**	**(51.0)**

Interest expense increased $2.6 million as a result of fees and higher interest rates imposed by the lenders as a result of the failure to meet certain covenants of the debt agreements.

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Income Tax Expense.

For the thirteen weeks ended September 30, 2006, the income tax benefit for continuing operations was recorded at an effective rate of 25.6%, compared to an effective rate of 5.5% for the thirteen weeks ended October 1, 2005.

Results of Operations

Thirty-Nine week period ended September 30, 2006 Compared to the Thirty-Nine week period ended October 1, 2005

	Thirty-Nine Weeks Ended					
	September 30, 2006		October 1, 2005			
		% of		% of	Favorable / (Unfavorable)	
(Dollars in millions)	**Amount**	**sales**	**Amount**	**sales**	**$**	**%**
Net sales	**$ 93.9**	**100.0**	**$ 60.8**	**100.0**	**$ 33.1**	**54.4**
Cost of sales	**(44.5)**	**(47.4)**	**(34.3)**	**(56.4)**	**(10.2)**	**(29.7)**
Gross profit	**49.4**	**52.6**	**26.5**	**43.6**	**22.9**	**86.4**
Research and development expense	**(4.1)**	**(4.4)**	**(3.2)**	**(5.3)**	**(0.9)**	**(28.1)**
Selling and administrative expense	**(73.9)**	**(78.7)**	**(34.5)**	**(56.7)**	**(39.4)**	**(114.2)**
Loss from continuing operations before interest and income taxes	**(28.6)**	**(30.5)**	**(11.2)**	**(18.4)**	**(17.4)**	**(155.4)**
Net interest expense	**(19.3)**	**(20.5)**	**(14.0)**	**(23.0)**	**(5.3)**	**(37.9)**
Income tax expense	**10.8**	**11.5**	**1.4**	**2.3**	**9.4**	**nm**
Loss from continuing operations	**$ (37.1)**	**(39.5)**	**$ (23.8)**	**(39.1)**	**(13.3)**	**(55.9)**

Net Sales.

Our net sales from continuing operations increased $33.1 million, or 54.4%, to $93.9 million in the thirty-nine week period ended September 30, 2006. Revenue was driven by sales of our Voyager Passport, Summer School and Universal Literacy System programs. In addition, year to date 2005 reflects the acquisition of VEL in February 2005. Revenue is seasonal, with the second and third quarters being the strongest. The first and fourth quarters are generally the lowest.

Gross Profit.

Our gross profit margin increased from 43.6% for the thirty-nine week period ended October 1, 2005 to 52.6% for the thirty-nine week period ended September 30, 2006. The gross profit increase was driven primarily by the $33.1 million increase in sales. The gross profit margin increase from the thirty-nine week period ended October 1, 2005 to the thirty-nine week period ended September 30, 2006 is due to amortization of curriculum costs, which are not impacted by sales and, accordingly, represented a much higher percentage of the lower 2005 sales versus the higher 2006 sales.

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Research and Development.

Research and development expenditures increased $0.9 million to $4.1 million and includes costs to research, evaluate and develop educational products, net of capitalization.

Selling and Administrative.

(Dollars in millions)	Thirty-Nine Weeks Ended September 30, 2006	Thirty-Nine Weeks Ended October 1, 2005	Favorable / (Unfavorable) $	Favorable / (Unfavorable) %
VED	**$ 34.3**	**$ 22.6**	**$ (11.7)**	**(51.8)**
Corporate	**39.6**	**11.9**	**(27.7)**	**(232.8)**
Total	**$ 73.9**	**$ 34.5**	**$ (39.4)**	**(114.2)**

The increase at VED is primarily due to the increase in sales. The increase at Corporate is primarily due to increased professional and consulting fees as a result of the restatement of 2005 and prior year financials.

Net Interest Expense.

(Dollars in millions)	Thirty-Nine Weeks Ended September 30, 2006	Thirty-Nine Weeks Ended October 1, 2005	Favorable / (Unfavorable) $	Favorable / (Unfavorable) %
Interest income	**$ 0.8**	**$ 0.1**	**0.7**	**700.0**
Interest expense	**(20.1)**	**(14.1)**	**(6.0)**	**(42.6)**
Total	**$ (19.3)**	**$ (14.0)**	**$ (5.3)**	**(37.9)**

Interest expense increased $6.0 million as a result of additional debt issued in the first quarter 2005 being outstanding for the entire period of 2006 and fees and higher interest rates imposed by the lenders as a result of the failure to meet certain covenants of the debt agreements. The increase in interest expense was partially offset by a $0.7 million increase in interest income resulting from higher cash balances in the 2006 period. As a result, net interest expense increased $5.3 million or 37.9% year to date 2006 over year to date 2005.

Income Tax Expense.

For the thirty-nine weeks ended September 30, 2006, the income tax benefit for continuing operations was recorded at an effective rate of 25.6%, compared to an effective rate of 5.5% for the thirty-nine weeks ended October 1, 2005. The income tax

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benefit recognized in 2005 and 2006 was limited to income tax expense recognized by the company s US domestic discontinued operations. The company also recognized a $0.8 million deferred income tax benefit in the 2Q of 2006 due to the enactment of the Texas Gross Margin tax legislation.

Liquidity

For the thirty-nine weeks ended September 30, 2006, we used cash in operating activities for continuing operations of $5.6 million compared to $12.8 million for the thirty-nine week period ended October 1, 2005, a decrease of $7.2 million. The decrease in cash used in operating activities for continuing operations is primarily due to the following:

	Inc/ (Dec) vs. 2005 (Dollars in millions)
Net earnings	**$ 1.2**
Earnings from discontinued operations, net of tax	**(14.5)**
Depreciation & amortization	**3.1**
Deferred income taxes	**22.5**
Stock-based compensation	**3.3**
Accounts receivable, net	**9.3**
Other assets	**(15.7)**
Accrued expenses	**(18.5)**
Deferred income	**(7.9)**
Other long-term liabilities	**23.7**

Other assets and other long-term liabilities both increase primarily for the accrual of amounts related to settlement of the shareholder lawsuits and expected recovery from the Company s insurers. Accrued expenses increased as a result of the costs incurred for the restatement of 2005 and prior results.

We used $7.4 million of cash in our investing activities for the thirty-nine weeks ended September 30, 2006, decrease of $346.9 million compared to the thirty-nine week period ended October 1, 2005. This change is primarily due to the acquisition of Voyager Expanded Learning in the first quarter of 2005 as detailed in the following:

	Inc/ (Dec) vs. 2005 (Dollars in millions)
Acquisitions, net of cash acquired	**$ 346.1**
Purchases of equity investments available for sale	**(2.6)**
Proceeds from disposal of equity investments available for sale	**9.4**
Property, plant, equipment, curriculum development costs, and software	**(6.0)**

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For the thirty-nine weeks ended September 30, 2006, we generated cash from financing activities of $20.2 million compared to generating cash of $426.6 million in the thirty-nine week period ended October 1, 2005, a decrease of $406.4 million. This decrease is primarily due to the following:

	Inc/ (Dec) vs. 2005 (Dollars in millions)
Proceeds from debt	**$ 45.7**
Repayment of debt	**(443.0)**
Proceeds from exercise of stock options, net	**(7.8)**
Debt issuance costs	**(0.9)**

We believe that current cash balances, cash generated from operations, cash proceeds from the potential sale of assets, and cash borrowing availability under our superpriority credit facility will be adequate to fund the working capital and capital expenditures needs and meet our on-going obligations for at least the next 12 months.

Financial Condition

Selected Balance Sheet information September 30, 2006 compared to December 31, 2005

	As of		Inc/ (Dec)	
(Dollars in millions)	**September 30 2006**	**December 31, 2005**	**$**	**%**
Accounts receivable, net	**$ 15.0**	**$ 12.0**	**$ 3.0**	**25.0**
Income tax receivable	**11.4**	**18.9**	**(7.5)**	**(39.7)**
Other current assets	**12.5**	**17.0**	**(4.5)**	**(26.5)**
Other assets	**26.9**	**12.7**	**14.2**	**111.8**
Accounts payable	**10.6**	**12.4**	**(1.8)**	**(14.5)**
Accrued expenses	**30.8**	**28.3**	**2.5**	**8.8**
Deferred income	**13.9**	**14.0**	**(0.1)**	**(0.7)**
Other liabilities	**77.7**	**59.8**	**17.9**	**29.9**

Accounts receivable, net increased $3.0 million due to seasonality. Sales are seasonal, with the second and third quarters being the strongest. The first and fourth quarters are generally the lowest.

Income tax receivable decreased $7.5 million as a result of receiving refunds of taxes previously paid.

Other current assets decreased by $4.5 million primarily due to decreases in equity securities held at the end of the period.

Other assets increased by $14.2 million primarily due to the recognition of a $15.0 million receivable from the company s insurers related to the agreement in principle reached 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.

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Accounts payable decreased by $1.8 million due to timing of payments.

Accrued expenses increased by $2.5 million due to the accrual of additional legal settlement costs in 2006 related to the settlement of the D2 Data Driven Software Corporation f/k/a EdSoft Software Corporation (EdSoft) v. Voyager Expanded Learning, Inc. case.

Deferred income decreased minimally by $0.1 million.

Other liabilities increased $17.9 million primarily due to the recognition of the gross amount payable related to the agreement in principle reached to settle the consolidated shareholder securities class action law suit filed against the Company and certain officers and directors in the U.S. District Court for the Eastern District of Michigan.

Recently Issued Financial Accounting Standards

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

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, *Employer s Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements 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*

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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 are 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 SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using both a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 is effective for the first annual period ending after November 15, 2006. The adoption of SAB No. 108 did not have any material impact on our consolidated financial position, results of operations and cash flows.

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

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (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 de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. While adoption of this standard will require balance sheet reclassifications of the accruals for uncertain tax positions and a cumulative adjustment for the application of the standard, at the time of this filing the Company is unable to determine the impact of any reclassifications or to determine whether the cumulative adjustment is material.

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The Company currently classifies interest income from tax refunds as interest income and interest expense accrued on uncertain tax positions as interest expense. Penalties, if any, accrued on uncertain tax positions are classified as general and administrative expenses. The Company is reviewing this accounting policy as part of its overall implementation of FIN 48. FIN 48 clarifies that changes in facts subsequent to a reporting date do not confirm the existence of a condition that previously existed; rather it alters the judgment about whether an enterprise should continue to recognize the economic benefits of a tax position. For purposes of the December 30, 2006 financial statements, the Company continued its historic policy of considering certain changes in facts subsequent to a reporting date as confirming the existence of a condition that previously existed.

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Item 3.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As a result of our financing activities we are exposed to changes in interest rates which may adversely affect our results of operations and financial position.

In December 2004, in anticipation of our debt refinancing, we entered into Treasury Rate Locks (2004 Locks) with a notional amount of $125 million and a seven year term. At January 1, 2005, the unrealized marked-to-market gain of the 2004 Locks in the amount of $0.1 million (net of tax) was recorded in interest income in our Consolidated Statement of Operations. These 2004 Locks effectively fixed the underlying treasury rate for the pricing of our 2005 Senior Notes at 4.04% and settled on January 14, 2005, the same day our 2005 Senior Notes were priced. Upon settlement, a $0.5 million loss was incurred which was recorded in interest expense in our Consolidated Statement of Operations. At September 30, 2006 and as of the date of this filing, we did not have any interest rate forwards or option contracts outstanding.

Interest expense related to debt outstanding under the 2002 Note Purchase Agreement, the 2005 Note Purchase Agreement and the 2005 Revolving Credit Agreement was based on LIBOR. As a result of the divestiture of PQBS on November 28, 2006 and PQIL on February 9, 2007 and subsequent payment of all of our outstanding debt, the Company no longer has any material interest rate risk.

Foreign Currency Risk

As a result of our global operations, we are exposed to changes in foreign currency rates. At September 30, 2006 and as of the date of this filing, we had no outstanding foreign currency forwards or option contracts.

Item 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

During a review related to its 2005 internal controls assessment required by the Sarbanes-Oxley Act of 2002, the Company discovered material irregularities in its accounting for 2005 and prior periods. The Company s Audit Committee promptly initiated an investigation and retained Skadden, Arps, Slate, Meagher & Flom LLP, who in turn retained Chicago Partners LLC to assist in the

investigation of the irregularities. In August 2006, the Company announced that the Audit Committee had completed the Audit Committee Investigation. The Company s financial statements for fiscal years 2003 and 2004 included in the 2005 Form 10-K were restated to reflect adjustments to previously reported information on Form 10-K. The 2005 Form 10-K also reflects the restatement of Selected Consolidated Financial Data for the fiscal years ended 2001 and 2002. As part of the restatement, the first three quarters of 2005 were also restated.

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

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of September 30, 2006 due to material weaknesses in internal control over financial reporting, as described in the 2005 Form 10-K.

Changes in Internal Control over Financial Reporting.

As the material weaknesses disclosed in the 2005 Form 10K for the year ended December 31, 2005 were identified during and after the quarter ending September 30, 2006, the Company did not have the ability to remediate many of the control deficiencies identified in the 2005 Form 10K. Deficiencies in internal controls existing at year end 2005 continued to be deficiencies as of September 30, 2006 with the exception of the following which were remediated during the third quarter of 2006:

Deficiency The Company s finance and accounting employees were insufficiently trained and/or educated, insufficiently assessed for competency, and were given overreaching authority and responsibility.

During the second and third quarters of 2006, a new vice president, controller and a vice president tax were hired as part of corporate finance staff. Corporate finance staff took over responsibility for the accuracy of the financial results of the operating divisions and reviewed the work of the divisional finance staff. At the PQIL unit, a new assistant controller was hired and additional staff was brought in on a temporary basis from a third party provider to assist in the restatement and closing of the 2006 books. This material weakness was remediated during the third quarter of 2006.

Deficiency Management did not have sufficient controls in place to ensure the appropriate selection/use of and modifications to accounting policies.

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During the third quarter of 2006, corporate staff took on the responsibility for documenting the accounting policies to be followed by both corporate and divisional finance staff. Management implemented procedures that all accounting policies for new or unusual transactions or changes to existing policies had to be documented by the appropriate corporate staff and approved by the corporate controller. This material weakness was remediated during the third quarter of 2006.

Deficiency Inadequate review and approval controls in place to ensure that manual journal entries contained adequate support and were recorded for appropriate business reasons.

During the third quarter of 2006, the company implemented new controls company wide on the use of manual journal entries. Division CFO s are now precluded from making manual journal entries. All manual journal entries are to include appropriate supporting documentation to allow a second person to be able to understand the purpose of the entry and to verify the amounts. All manual journal entries now require second level review and approval and based on dollar magnitude require additional approvals of the corporate Controller and CFO. This material weakness was remediated during the third quarter of 2006.

Part II. Other Information

Item 1. Legal Proceedings

Putative Securities Class Actions

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

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

On January 14, 2008, plaintiffs filed a motion to certify a class of all persons who purchased shares of Company stock between February 21, 2001 and December 14, 2006, inclusive. Defendants have opposed that motion on several grounds and initial briefing is complete, with an oral argument on lead plaintiffs motion rescheduled for July 31, 2008.

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

Shareholder Derivative Lawsuits

On April 18, 2006 and December 19, 2006, respectively, two shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Michigan, purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company s shareholders. Each lawsuit asserted claims against certain of the current and former officers and directors of the Company and one of its subsidiaries for, among other things, breaches of fiduciary duty, gross mismanagement and unjust enrichment. 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 April 21, 2008, the Company filed a motion to dismiss the consolidated

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amended complaint. As of the date of this report, the Court has not conducted a hearing on the Company s motion to dismiss the consolidated amended complaint. The Company intends to defend itself vigorously. It is not yet possible to determine the ultimate outcome of this action.

Securities and Exchange Commission Investigation

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company s announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company s restatement. On July 22, 2008, the Securities and Exchange Commission (SEC or Commission) filed a settled enforcement action against the Company in the United States District Court for the Eastern District of Michigan (the Court). 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 is imposed. The settlement resolves fully the previously disclosed SEC investigation of the Company s restatement.

Item 1A. Risk Factors.

For a discussion of the Company s risk factors, please refer to Part 1, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

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

Index Number	Description
*2.3	Asset Purchase Agreement, dated August 9, 2006 by and between the Company and Dealer Computer Services, Inc., is incorporated by reference to the Company s Form 8-K filed August 15, 2006, File No. 001-07680.
*+10.36	Compensation agreements dated August 8, 2006 between ProQuest Company and David Prichard, dated August 9, 2006 between ProQuest Company and Andrew Wyszkowski is incorporated by reference to Voyager Learning Company s Form 10-K dated August 31, 2007, File No. 001- 07680.
*+10.37	2006 Performance Goals dated September 6, 2006 is incorporated by reference to Voyager Learning Company s Form 10-K dated August 31, 2007, File No. 001-07680.
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Certification of Richard J. Surratt, President and CEO of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of David W. Asai, Senior Vice President, Chief Financial Officer, and Assistant Secretary of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

Date: November 20, 2008

VOYAGER LEARNING COMPANY

/s/ Richard J. Surratt
President and CEO

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