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 April 1, 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 Incorporation or Organization)	**(I.R.S. Employer 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 ¨

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

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 Week Periods Ended April 1, 2006, and April 2, 2005

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended April 1, 2006	Thirteen Weeks Ended April 2, 2005
Net sales	**$ 127,231**	**$ 120,123**
Cost of sales	**(64,054)**	**(61,054)**
Gross profit	**63,177**	**59,069**
Research and development expense	**(6,062)**	**(8,270)**
Selling and administrative expense	**(66,477)**	**(48,251)**
Earnings (loss) before interest and income taxes	**(9,362)**	**2,548**
Net interest expense:		
Interest income	**1,046**	**504**
Interest expense	**(9,344)**	**(8,081)**
Net interest expense	**(8,298)**	**(7,577)**
Loss before income taxes	**(17,660)**	**(5,029)**
Income tax expense	**(2,415)**	**(2,373)**
Equity in earnings of affiliate, net of tax	**417**	**137**
Net loss	**$ (19,658)**	**$ (7,265)**
Net loss per common share:		
Basic net loss per common share	**$ (0.66)**	**$ (0.25)**
Diluted net loss per common share	**$ (0.66)**	**$ (0.25)**
Weighted average number of common shares and equivalents outstanding:		
Basic	**29,808**	**29,325**
Diluted	**29,808**	**29,325**

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 April 1, 2006 and December 31, 2005

(In thousands)

	April 1, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 22,518**	**$ 30,957**
Accounts receivable, net	**87,868**	**107,450**
Inventory, net	**14,551**	**15,244**
Other current assets	**41,433**	**42,723**
Total current assets	**166,370**	**196,374**
Property, plant, equipment, software and product masters, at cost	**519,897**	**504,297**
Accumulated depreciation and amortization	**(312,906)**	**(299,646)**
Net property, plant, equipment, software and product masters	**206,991**	**204,651**
Investment in affiliate	**2,548**	**2,131**
Long-term receivables	**13,221**	**12,924**
Goodwill	**365,199**	**364,482**
Acquired curriculum intangibles, net	**77,613**	**81,776**
Other intangible assets, net	**21,311**	**23,251**
Developed curriculum, net	**6,136**	**5,686**
Other assets	**41,752**	**25,839**
Total assets	**$ 901,141**	**$ 917,114**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ 538,049**	**$ 522,708**
Accounts payable	**69,541**	**82,847**
Accrued expenses	**53,715**	**50,534**
Current portion of monetized future billings	**15,366**	**17,058**
Deferred income	**145,247**	**155,984**
Total current liabilities	**821,918**	**829,131**
Long-term liabilities:		
Long-term debt, less current maturities	**9,948**	**11,317**
Monetized future billings, less current portion	**15,318**	**18,533**
Other liabilities	**118,770**	**106,580**
Total long-term liabilities	**144,036**	**136,430**
Shareholders equity (deficit):		
Common stock ($.001 par value, 50,000 shares authorized, 30,587 shares issued and 29,934 shares outstanding at April 1, 2006, and 30,563 shares issued and 29,910 shares outstanding at December 31, 2005)	**30**	**30**

Capital surplus	**353,735**	**354,879**
Unearned compensation on restricted stock		**(3,122)**
Accumulated deficit	**(395,644)**	**(375,986)**
Treasury stock, at cost (653 shares at April 1, 2006 and 653 shares at December 31, 2005)	**(16,550)**	**(16,550)**
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment	**13,169**	**11,697**
Minimum pension liability, net of tax	**(20,045)**	**(20,045)**
Net unrealized gain on securities, net of tax	**492**	**650**
Accumulated other comprehensive income (loss)	**(6,384)**	**(7,698)**
Total shareholders equity (deficit)	**(64,813)**	**(48,447)**
Total liabilities and shareholders equity	**$ 901,141**	**$ 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 Thirteen Week Periods Ended April 1, 2006 and April 2, 2005

(In thousands)

(Unaudited)

	Thirteen Weeks Ended	
	April 1, 2006	April 2, 2005
Operating activities:		
Net loss	**$ (19,658)**	**$ (7,265)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in earnings of affiliate	**(417)**	**(217)**
Depreciation and amortization	**19,900**	**18,415**
Amortization of deferred financing costs	**163**	**146**
Stock-based compensation	**1,388**	**178**
Deferred income taxes	**(27)**	**863**
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	**19,944**	**33,606**
Inventory, net	**694**	**(142)**
Other current assets	**(3,195)**	**327**
Long-term receivables	**(295)**	**(393)**
Other assets	**(15,949)**	**1,669**
Accounts payable	**(13,513)**	**(13,987)**
Accrued expenses	**3,099**	**(17,002)**
Deferred income	**(10,907)**	**(20,532)**
Other long-term liabilities	**11,952**	**(3,276)**
Other, net	**(400)**	**67**
Net cash used in operating activities	**(7,221)**	**(7,543)**
Investing activities:		
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	**(16,119)**	**(14,119)**
Acquisitions, net of cash acquired		**(340,597)**
Purchases of equity investments available for sale	**(4,038)**	**(2,160)**
Proceeds from disposals of equity investments available for sale	**8,976**	**1,374**
Expenditures associated with sales of discontinued operations, net		**(27)**
Net cash used in investing activities	**(11,181)**	**(355,529)**
Financing activities:		
Payments of current portion of monetized future billings	**(1,692)**	**(1,759)**
Proceeds from debt	**247,515**	**399,650**
Repayment of debt	**(232,600)**	**(39,558)**
Principal payments under capital lease obligations	**(1,244)**	**(1,319)**
Debt issuance costs	**(50)**	**(2,071)**
Long-term monetized future billings	**36**	**271**
Payments of long-term monetized future billings	**(3,251)**	**(5,294)**
Proceeds from exercise of stock options	**589**	**7,845**

Net cash provided by financing activities		**9,303**		**357,765**
Effect of exchange rate changes on cash		**660**		**(214)**
Decrease in cash and cash equivalents		**(8,439)**		**(5,521)**
Cash and cash equivalents, beginning of period		**30,957**		**4,313**
Cash and cash equivalents, end of period	**$**	**22,518**	**$**	**(1,208)**
Non-cash financing and investing activities:				
Common / Treasury stock issued in connection with acquisitions			**$**	**20,362**
Acquisition of equipment through capital leases	**$**	**343**	**$**	**1,773**

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 ProQuest Information & Learning (PQIL), Voyager Expanded Learning (VED) and ProQuest Business Solutions (PQBS), and are unaudited.

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 first quarter 2006 Form 10-Q to first quarter 2005 results are to the restated amounts.

As a result of the restatement, the Company is delinquent in filing its required financial statements. As a result of trying to become current, the Company has already filed its 2006 annual report on Form 10-K (the 2006 10-K). Quarterly results shown in the 2006 10-K differ from results shown in this first quarter 2006 10-Q as the accounts of PQBS and PQIL are shown as discontinued operations in the 2006 10-K as the Company decided to sell these two entities during the second quarter of 2006 and closed the sales in the fourth quarter of 2006 and the first quarter of 2007, respectively.

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

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December 31, 2005. Due to seasonality, the results of operations for the twelve weeks ended April 1, 2006 are not necessarily indicative of the results to be expected for the year ending December 30, 2006.

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 $3.4 million and $1.6 million at April 1, 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 for PQIL and PQBS include material, labor, and overhead. Inventory costs for VED 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.

The components of inventory are shown in the table below as of the dates indicated:

(Dollars in thousands)	April 1, 2006	December 31, 2005
Finished products	$ 12,912	$ 13,578
Products in process and materials	1,639	1,666
Total inventory, net	$ 14,551	$ 15,244

Property and Equipment. We recognized depreciation and amortization expense on property and equipment of $10.9 million and $11.4 million during the thirteen weeks ended April 1, 2006 and April 2, 2005, respectively.

Purchased and Developed Software. Amortization of capitalized software costs during the thirteen weeks ended April 1, 2006 and April 2, 2005 totaled $2.5 million and $2.4 million, 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 $20.8 million and $16.6 million as of April 1, 2006 and December 31, 2005, respectively. Amortization of acquired curriculum for thirteen weeks ended April 1, 2006 and April 2, 2005 was $4.2 million and $2.9 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. Curriculum development costs are presented net of accumulated amortization of $1.1 million and $0.7 million as of April 1, 2006 and December 31, 2005, respectively. Amortization of curriculum development costs for thirteen weeks ended April 1, 2006 and April 2, 2005 was $0.4 million and zero, respectively.

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

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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 operations before income taxes was $1.1 million higher than had we continued to account for stock-based employee compensation under APB No. 25. Basic and diluted net loss per share for the thirteen weeks ended April 1, 2006 would have been $(0.62) and $(0.62), respectively, had we not adopted SFAS No. 123R, compared to reported basic and diluted net loss per share of $(0.66) and $(0.66), respectively.

The following table illustrates the effect on net loss and loss per share as if we had applied the fair value recognition provisions of SFAS No. 123 for the thirteen weeks ended April 2, 2005.

(Dollars in thousands except per share amounts)		Thirteen Weeks Ended April 2, 2005
Net loss, as reported	$	(7,265)
Add: Stock-based compensation, as reported		178
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects		(1,858)
Pro forma net loss	$	(8,945)
Earnings (loss) per share:		
Basic - as reported	$	(0.25)
Basic - pro forma	$	(0.31)
Diluted - as reported	$	(0.25)
Diluted - pro forma	$	(0.31)

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%

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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 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 weeks ended April 1, 2006, and April 2, 2005, we issued 2,067 and 108,652 shares, respectively.

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 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 options that are in-the-money were exercised, using the treasury stock method. Under the treasury stock method, the tax-effected 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	
(Shares in thousands)	April 1, 2006	April 2, 2005
Basic	**29,808**	**29,325**
Dilutive effect of stock options and non-vested restricted stock		
Diluted	**29,808**	**29,325**

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No options or unvested restricted shares were included in the computation of diluted net earnings (loss) per common share for the thirteen weeks ended April 1, 2006 and April 2, 2005 because a loss from operations occurred and to include them would be anti-dilutive.

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. We have corrected the 2005 results being presented in the 2006 financial statements. The correction decreased net loss for the quarter ended April 2, 2005 by $0.5 million, decreased accrued liabilities at the end of the first quarter 2005 $0.5 million, and decreased shareholder s deficit by $0.5 million at the end of the first quarter 2005. A summary of the impact of this change on previously filed 2005 quarterly results is as follows:

	Thirteen week period ended April 2, 2005		
(In thousands except per share amounts)	**Uncorrected**	**Error Correction**	**As corrected**
Net earnings (loss)	$ (7,800)	$ 535	$ (7,265)
Net earnings (loss) per common share			
Basic and Diluted:	$ (0.27)	$ 0.02	$ (0.25)
Average number of common shares and equivalents outstanding:			
Basic and Diluted	29,325	29,325	29,325

Note 3 - Comprehensive Income

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

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

(Dollars in thousands)	Thirteen Weeks Ended April 1, 2006	April 2, 2005
Net loss	$ (19,658)	$ (7,265)
Other comprehensive income (loss):		
Foreign currency translation adjustment	1,472	(1,675)
Unrealized gain (loss) on securities, net of tax	(158)	61
Comprehensive income (loss)	$ (18,344)	$ (8,879)

Note 4 Segment Reporting

Information concerning our reportable business segments is shown in the tables below for the periods indicated:

(Dollars in thousands)	As of and for the Thirteen Weeks Ended April 1, 2006 VED	PQIL	PQBS	Corporate	Total
Net sales	$ 22,708	$ 59,608	$ 44,915	$	$ 127,231
Earnings (loss) before interest and income taxes	$ (3,685)	$ (1,834)	$ 12,515	$ (16,358)	$ (9,362)
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	$ 1,487	$ 14,193	$ 339	$ 100	$ 16,119
Depreciation and amortization	$ 5,652	$ 12,729	$ 1,317	$ 202	$ 19,900
Total assets	$ 377,591	$ 331,514	$ 126,671	$ 65,365	$ 901,141

(Dollars in thousands)	As of and for the Thirteen Weeks Ended April 2, 2005 VED	PQIL	PQBS	Corporate	Total
Net sales	$ 7,075	$ 68,070	$ 44,978	$	$ 120,123
Earnings (loss) before interest and income taxes	$ (4,905)	$ (35)	$ 12,118	$ (4,630)	$ 2,548
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	$ 1,882	$ 11,807	$ 56	$ 374	$ 14,119
Depreciation and amortization	$ 3,469	$ 13,547	$ 1,320	$ 79	$ 18,415
Total assets	$ 367,132	$ 364,415	$ 115,502	$ 30,028	$ 877,077

Note 5 Investment in Affiliate

On December 4, 2000 we entered into a Limited Liability Company Agreement with General Motors Corporation, DaimlerChrysler Corporation, and Ford Motor Company (the OEM Members) to form OEConnection (OEC). We contributed our product, CollisionLink, and seconded a 15 person management and development team, while each of the OEM Members contributed cash. OEC extends the established electronic parts catalog business by providing dealers and their wholesale customers a comprehensive, secure e-commerce portal. OEC has established and maintains this portal with the primary objective of facilitating the sale of original equipment automotive parts delivered through the franchised automotive dealership channel.

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Profits and losses of OEC are allocated to all members as defined in the Limited Liability Company Agreement. For reporting purposes, the investment in OEC is accounted for using the equity method of accounting. We record our investment in OEC as Investment in Affiliate in our Consolidated Balance Sheets. The income of OEC is reported as Equity in Earnings of Affiliate in our Consolidated Statements of Operations. Beginning January 1, 2003 until January 31, 2007, we also earn a royalty on OEC s net revenues which is recorded in Net sales , on our Combined Statement of Operations

Note 6 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the thirteen weeks ended April 1, 2006, are as follows:

(Dollars in thousands)	**PQED**	**PQIL**	**PQBS**	**Total**
Balance as of December 31, 2005	**$ 252,618**	**$ 61,573**	**$ 50,291**	**$ 364,482**
Goodwill acquired (1)	**(32)**			**(32)**
Goodwill adjustment for foreign currency translation		**670**	**79**	**749**
Balance as of April 1, 2006	**$ 252,586**	**$ 62,243**	**$ 50,370**	**$ 365,199**

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

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As of April 1, 2006 and December 31, 2005 our intangible assets and related accumulated amortization consisted of the following:

	Balance as of April 1, 2006		
(Dollars in thousands)	Gross	Accumulated Amortization	Net
Acquired curriculum	**$ 98,410**	**$ (20,797)**	**$ 77,613**
Developed curriculum	**7,241**	**(1,105)**	**6,136**
Customer relationships	**25,303**	**(11,711)**	**13,592**
Trademark	**8,235**	**(3,569)**	**4,666**
Acquired and developed software	**491**	**(277)**	**214**
Non-compete agreement	**5,329**	**(2,490)**	**2,839**
Total intangibles	**$ 145,009**	**$ (39,949)**	**$ 105,060**

	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	**25,577**	**(10,587)**	**14,990**
Trademark	**8,234**	**(3,235)**	**4,999**
Acquired and developed software	**211**	**(182)**	**29**
Non-compete agreement	**5,329**	**(2,096)**	**3,233**
Total intangibles	**$ 144,117**	**$ (33,404)**	**$ 110,713**

We recorded $6.5 million and $4.6 million of intangible amortization expense for the thirteen weeks ended April 1, 2006, and April 2, 2005, respectively.

During the thirteen weeks ended April 1, 2006 there were no intangibles acquired.

Note 7 Other Current Assets

Other current assets at April 1, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	April 1, 2006	December 31, 2005
Short-term deferred tax asset	**$ 4,044**	**$ 4,044**
Prepaid royalties	**15,660**	**15,984**
Commissions	**4,717**	**4,311**
Available-for-sale securities	**4,383**	**8,948**
Maintenance agreements	**5,423**	**4,862**
Other	**7,206**	**4,574**
Total	**$ 41,433**	**$ 42,723**

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Note 8 Other Assets

Other assets at April 1, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	April 1, 2006	December 31, 2005
Long-term deferred tax asset	$ 9,872	$ 9,872
Licenses, net	5,519	5,782
Long-term commissions	5,472	5,432
Deferred financing costs, net	2,496	2,613
Insurance receivable	15,000	
Other	3,393	2,140
Total	$ 41,752	$ 25,839

Note 9 Accrued Expenses

Accrued expenses at April 1, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	April 1, 2006	December 31, 2005
Salaries, wages and bonuses	$ 18,920	$ 18,794
Current portion of deferred compensation	2,256	2,256
Current portion of pension benefits	1,960	1,960
Profit sharing	3,681	2,901
Accrued income taxes	4,005	3,898
Accrued interest	7,108	6,646
Other	15,785	14,079
Total	$ 53,715	$ 50,534

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Note 10 Other Liabilities

Other liabilities at April 1, 2006 and December 31, 2005 consisted of the following:

	As of	
(Dollars in thousands)	April 1, 2006	December 31, 2005
Pension benefits	$ 48,787	$ 48,867
Long-term deferred tax liability	6,474	6,501
Long-term income tax payable	7,523	7,523
Legal contingency accrual	20,000	
Deferred compensation	13,017	19,846
Post-retirement medical benefits	395	444
Other	22,574	23,399
Total	$ 118,770	$ 106,580

Note 11 Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Thirteen Weeks Ended					
	U.S. Plans Pension Benefits		Non-U.S. Plans Pension Benefits		Other Postretirement Benefits	
(Dollars in thousands)	April 1, 2006	April 2, 2005	April 1, 2006	April 2, 2005	April 1, 2006	April 2, 2005
Service cost	$	$	$ 41	$ 45	$	$ 2
Interest cost	307	318	920	896	3	8
Expected return on plan assets			(736)	(775)		
Amortization of prior service cost				4		(375)
Recognized net actuarial (gain) loss	34	21	406	161	(27)	(15)
Net pension and other postretirement benefit cost (income)	$ 341	$ 339	$ 631	$ 331	$ (24)	$ (380)

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Note 12 Debt and Lines of Credit

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

(Dollars in thousands)	As of April 1, 2006	As of 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**
Revolving credit agreement	**205,900**	**189,900**
Capital lease obligations	**10,530**	**11,356**
Termination costs	**5,802**	**6,329**
Other	**765**	**1,440**
Long-term debt	**547,997**	**534,025**
Less: current maturities	**(538,049)**	**(522,708)**
Long-term debt, less current maturities	**$ 9,948**	**$ 11,317**

5.45% Senior Notes

On January 31, 2005, we entered into a first amendment to the 2002 Note Purchase Agreement dated as of October 1, 2002, 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. The first amendment, among other things, amended the financial covenants under the 2002 Note Purchase Agreement to give effect to the acquisition of Voyager. 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.

5.38% Senior Notes

On January 31, 2005, we entered into the 2005 Note Purchase Agreement providing for, among other things, the issue and sale by us to the 2005 Note Purchasers of the Company s 5.38% Senior Notes due January 31, 2015, in the aggregate principal amount of $175 million (the 2005 Senior Notes). We are required to make six equal annual principal payments on the 2005 Notes commencing on January 31, 2010. The applicable annual interest on the 2005 Notes will be payable semi-annually in arrears calculated on the basis of a 360-day year of twelve 30-day months.

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

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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 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.

Subsequent Events

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,

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- 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.

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.

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Note 13 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.

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.

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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 April 1, 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 December 31, 2005 (the 2005 Form 10-K), as well as the accompanying interim financial statements and the notes thereto for the thirteen week period ending April 1, 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. Quarterly results shown in the 2006 10-K differ from results shown in this first quarter 2006 10-Q as the accounts of PQBS and PQIL are shown as discontinued operations in the 2006 10-K as the Company decided to sell these two entities during the second quarter of 2006 and closed the sales in the fourth quarter of 2006 and the first quarter of 2007, respectively.

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.

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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.

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 first quarter Form 2006 10-Q to 2005 results are to the restated amounts.

Results of Operations

Prior to 2005 we reported our results in two business segments: PQIL and PQBS. As a result of the Voyager Expanded Learning (VEL) acquisition completed on January 31, 2005, we report our results in three business segments: Voyager Education (VED), ProQuest Business Solutions (PQBS), and ProQuest Information and Learning (PQIL).

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

(Dollars in millions)	Thirteen Weeks Ended April 1, 2006		April 2, 2005		Favorable / (Unfavorable)	
	Amount	% of sales	Amount	% of sales	$	%
Net sales	**$ 127.2**	**100.0**	**$ 120.1**	**100.0**	**$ 7.1**	**5.9**
Cost of sales	**(64.0)**	**(50.3)**	**(61.0)**	**(50.8)**	**(3.0)**	**(4.9)**
Gross profit	**63.2**	**49.7**	**59.1**	**49.2**	**4.1**	**6.9**
Research and development expense	**(6.1)**	**(4.8)**	**(8.3)**	**(6.9)**	**2.2**	**26.5**
Selling and administrative expense	**(66.5)**	**(52.3)**	**(48.3)**	**(40.2)**	**(18.2)**	**(37.7)**
Earnings (loss) before interest and income taxes	**(9.4)**	**(7.4)**	**2.5**	**2.1**	**(11.9)**	**(476.0)**
Net interest expense	**(8.3)**	**(6.5)**	**(7.5)**	**(6.3)**	**(0.8)**	**(10.7)**
Income tax expense	**(2.4)**	**(1.9)**	**(2.4)**	**(2.0)**		
Equity in earnings of affiliate	**0.4**	**0.3**	**0.1**	**0.1**	**0.3**	**nm**
Net loss	**$ (19.7)**	**(15.5)**	**$ (7.3)**	**(6.1)**	**$ (12.4)**	**(169.9)**

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Net Sales.

(Dollars in millions)	Thirteen Weeks Ended April 1, 2006	Thirteen Weeks Ended April 2, 2005	Favorable / (Unfavorable) $	Favorable / (Unfavorable) %
VED	**$ 22.7**	**$ 7.1**	**$ 15.6**	**219.7**
PQIL	**59.6**	**68.0**	**(8.4)**	**(12.4)**
PQBS	**44.9**	**45.0**	**(0.1)**	**(0.2)**
Total net sales	**$ 127.2**	**$ 120.1**	**$ 7.1**	**5.9**

Our total net sales from operations increased $7.1 million, or 5.9%, to $127.2 million in the first quarter of 2006 as compared to the first quarter of 2005. An $8.4 million decrease in net sales at PQIL as a result of the sale of the periodical microfilm and coursepack operations to NAPC in October 2005 was offset by the $15.6 million increase at VED as a result of a full quarter of operating activity for Voyager Expanded Learning acquired in January 2005. Net sales at PQBS remained relatively flat, decreasing $0.1 million year over year.

Gross Profit.

(Dollars in millions)	Thirteen Weeks Ended April 1, 2006	Thirteen Weeks Ended April 2, 2005	% of Sales April 1, 2006	% of Sales April 2, 2005
VED	**$ 10.2**	**$ 1.0**	**44.9**	**14.1**
PQIL	**24.9**	**30.0**	**41.8**	**44.1**
PQBS	**28.1**	**28.1**	**62.6**	**62.4**
Total	**$ 63.2**	**$ 59.1**	**49.7**	**49.2**

Our gross profit margin increased 50 basis points to 49.7% compared to the first quarter of 2005.

At VED, the gross profit margin increased from 14.1% to 44.9% driven primarily by the $15.6 million increase in sales. As a large number of sales occurred late in the quarter in 2006, costs other than product inventory costs did not experience a commensurate increase, resulting in a higher margin for the quarter. Additionally, amortization of curriculum costs, which are not impacted by sales, is included in the gross profit amount. Accordingly, the amortization expense represented a much higher percentage of sales in 2005 versus 2006.

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At PQIL, the gross profit margin decreased from 44.1% in the first quarter of 2005 compared to 41.8% in the first quarter of 2006. This decrease is primarily due to increased cost of sales related to facility lease costs as a result of selling the Zeeb Road property as part of the NAPC sale in late 2005.

At PQBS, the gross profit margin remained relatively the same at 62.6% for the first quarter 2006 as compared to 62.4% for the first quarter of 2005.

Research and Development.

	Thirteen Weeks Ended		Favorable/(Unfavorable)	
(Dollars in millions)	April 1, 2006	April 2, 2005	%	%
VED	**$ 1.5**	**$ 0.6**	**$ (0.9)**	**(150.0)**
PQIL	**2.3**	**5.1**	**2.8**	**54.9**
PQBS	**2.3**	**2.6**	**0.3**	**11.5**
Total	**$ 6.1**	**$ 8.3**	**$ 2.2**	**26.5**

Our research and development expenditures include costs for database and software development, information delivery systems, and other electronic products. The increase at VED reflects the acquisition of Voyager Expanded Learning in January 2005. The decrease at PQIL reflects the sale of the periodical microfilm and coursepack operations to NAPC in October 2005.

Selling and Administrative.

	Thirteen Weeks Ended		Favorable / (Unfavorable)	
(Dollars in millions)	April 1, 2006	April 2, 2005	$	%
VED	**$ 12.5**	**$ 5.2**	**$ (7.3)**	**(140.4)**
PQIL	**23.7**	**24.5**	**0.8**	**3.3**
PQBS	**13.3**	**13.6**	**0.3**	**2.2**
Corporate	**17.0**	**5.0**	**(12.0)**	**(240.0)**
Total	**$ 66.5**	**$ 48.3**	**$ (18.2)**	**(37.7)**

The increase at VED is primarily due to the acquisition of Voyager Expanded Learning in the first quarter of 2005. The increase at Corporate is primarily due to legal and professional fees and settlement costs incurred related to the restatement of 2005 and prior years financial results.

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Net Interest Expense.

	Thirteen Weeks Ended		Favorable / (Unfavorable)	
(Dollars in millions)	April 1, 2006	April 2, 2005	$	%
Interest income	$ (1.0)	$ (0.5)	$ 0.5	100.0
Interest expense	9.3	8.0	(1.3)	(16.3)
Total	$ 8.3	$ 7.5	$ (0.8)	(10.7)

Interest expense increased $1.3 million as a result of additional debt issued in the first quarter 2005 being outstanding for the entire 2006 first quarter 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 $0.5 million increase in interest income resulting from higher cash balances in the 2006 first quarter. As a result, net interest expense increased $0.8 million or 10.7% quarter over quarter.

Income Tax Expense.

For the thirteen weeks ended April 1, 2006, income taxes expense was $2.4 million compared to $2.4 million for the thirteen weeks ended April 2, 2005. Income tax expense for both periods is mainly attributed to foreign source income.

Liquidity

For the first thirteen weeks of fiscal 2006, we had a use of cash from operations of $7.2 million compared to a use of $7.5 million for the first thirteen weeks of 2005. The decrease in cash used by operations is primarily due to a $12.4 million higher net loss for the period offset by changes in working capital as detailed in the following table:

	Inc/(Dec) vs. 2005 *(Dollars in millions)*
Net loss	$ (12.4)
Depreciation & amortization	1.5
Other assets	(17.6)
Accounts receivable, net	(13.7)
Accrued expenses	20.1
Deferred income taxes	(0.9)
Deferred income	9.6
Other long-term liabilities	15.2

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.

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We used $11.2 million of cash in our investing activities for the first thirteen weeks of fiscal 2006, compared to the $355.5 million of cash used in the first thirteen weeks of fiscal 2005. This change is primarily due to the acquisition of VEL in the first quarter of 2005 as detailed in the following:

	Inc/(Dec) vs. 2005 *(Dollars in millions)*
Acquisitions, net of cash acquired	**$ (340.6)**
Property, plant, equipment, product masters, curriculum development costs, and software	**(2.0)**

For the first thirteen weeks of fiscal 2006, we generated cash from financing activities of $9.3 million compared to a generation of $357.8 million in the first thirteen weeks of fiscal 2005, a decrease of $348.5 million. This decrease is primarily due to the following:

	Inc/(Dec) vs. 2005 *(Dollars in millions)*
Net increase in debt	**$ (345.2)**
Proceeds from exercise of stock options, net	**(7.3)**
Monetized future billings	**1.9**
Debt issuance costs	**2.0**

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   April 1, 2006 compared to December 31, 2005

	As of		Inc/(Dec)	
(Dollars in millions)	April 1, 2006	December 31, 2005	$	%
Accounts receivable, net	**$ 87.9**	**$ 107.5**	**$ (19.6)**	**(18.2)**
Other current assets	**41.4**	**42.7**	**(1.3)**	**(3.0)**
Other assets	**41.8**	**25.8**	**16.0**	**62.0**
Accounts payable	**69.5**	**82.8**	**(13.3)**	**(16.1)**
Accrued expenses	**53.7**	**50.5**	**3.2**	**6.3**
Deferred income	**145.2**	**156.0**	**(10.8)**	**(6.9)**
Other liabilities	**118.8**	**106.6**	**12.2**	**11.4**

Accounts receivable decreased $19.6 million primarily due to seasonality as the first quarter is the low point in sales and the receipt of a $7.3 million income tax refund.

Other current assets decreased $1.3 million primarily due to decreases in equity securities from year end 2005.

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Other assets increased $16.0 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.

Accounts payable decreased $13.3 million primarily due to a reduction in royalties payable due to seasonality.

Accrued expenses increased $3.2 million primarily due to an increase in accrued taxes.

Deferred income decreased $10.8 million primarily due to seasonality.

Other liabilities increased $12.2 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 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

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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.

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 April 1, 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 is 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 April 1, 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

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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 April 1, 2006 due to material weaknesses in internal control over financial reporting, as described in the 2005 Form 10K.

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 April 1, 2006, the Company did not have the ability to remediate any 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 April 1, 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.

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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.

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.

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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. 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.

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Item 6. Exhibits

(a) Exhibits:

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

Index Number	Description
* 3.3	Amendment to Bylaws of ProQuest Company adopted on March 1, 2006 is incorporated by reference to ProQuest Company s Form 8-K dated March 7, 2006, File No. 001-07680.
* 10.34	2006 IBM agreement dated February 15, 2006 between ProQuest Company and International Business Machines Corporation 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 and Chief Financial Officer of Voyager Learning Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

Date: November 20, 2008

VOYAGER LEARNING COMPANY

/s/ Richard J. Surratt
President and CEO

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