Voyager Learning CO
Form 10-Q
January 09, 2009

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

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

For the quarterly period ended June 30, 2008
OR

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

For the transition period from __________ to __________.
Commission file number 001-07680
Voyager Learning Company
(Exact name of registrant as specified in its charter)

Delaware	**36-3580106**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1800 Valley View Lane, Suite 400, Dallas, Texas	**75234-8923**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(214) 932-9500**

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 o No þ

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

The number of shares of the registrant s common stock, $.001 par value, outstanding as of November 30, 2008 was 29,874,145.

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Voyager Learning Company and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net sales	$ 33,514	$ 36,330	$ 49,151	$ 56,389
Cost of sales (exclusive of depreciation and amortization shown separately below)	(11,348)	(10,519)	(17,881)	(17,240)
Gross profit	22,166	25,811	31,270	39,149
Research and development expense	(1,176)	(1,278)	(2,602)	(2,387)
Sales and marketing expense	(8,901)	(7,345)	(17,405)	(13,773)
General and administrative expense	(8,332)	(15,238)	(16,209)	(30,557)
Depreciation and amortization expense	(5,390)	(5,689)	(10,825)	(11,470)
Lease termination costs			(11,673)	
Loss from continuing operations before interest and income taxes	(1,633)	(3,739)	(27,444)	(19,038)
Net interest income (expense):				
Interest income	141	994	576	2,165
Interest expense	(105)	(469)	(154)	(2,958)
Net interest income (expense)	36	525	422	(793)
Sublease income and other	(4)	1,229	789	1,961
Loss from continuing operations before income taxes	(1,601)	(1,985)	(26,233)	(17,870)
Income tax benefit		756		6,830
Loss from continuing operations	(1,601)	(1,229)	(26,233)	(11,040)
Earnings from discontinued operations (less applicable income taxes of $0, $0, $0 and $1,491, respectively)				4,594
Gain on sale of discontinued operations (less applicable income taxes of $0, $0, $0, and $11,160, respectively)				46,572
Net earnings (loss)	$ (1,601)	$ (1,229)	$ (26,233)	$ 40,126

Net earnings (loss) per common share:								
Basic:								
Loss from continuing operations	**$**	**(0.05)**	**$**	**(0.04)**	**$**	**(0.88)**	**$**	**(0.37)**
Earnings from discontinued operations								**0.15**
Gain on sale of discontinued operations								**1.56**
Basic net earnings (loss) per common share	**$**	**(0.05)**	**$**	**(0.04)**	**$**	**(0.88)**	**$**	**1.34**
Diluted:								
Loss from continuing operations	**$**	**(0.05)**	**$**	**(0.04)**	**$**	**(0.88)**	**$**	**(0.37)**
Earnings from discontinued operations								**0.15**
Gain on sale of discontinued operations								**1.56**
Diluted net earnings (loss) per common share	**$**	**(0.05)**	**$**	**(0.04)**	**$**	**(0.88)**	**$**	**1.34**
Average number of common shares and equivalents outstanding:								
Basic		**29,871**		**29,858**		**29,871**		**29,852**
Diluted		**29,871**		**29,858**		**29,871**		**29,852**

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

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Voyager Learning Company and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	June 30, 2008 (Unaudited)	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,314	$ 53,868
Accounts receivable, net	21,982	9,266
Income tax receivable	64,421	65,600
Inventory	18,789	16,005
Other current assets	29,665	16,489
Total current assets	150,171	161,228
Property, equipment, and software at cost	14,653	23,925
Accumulated depreciation and amortization	(8,202)	(8,584)
Net property, equipment and software	6,451	15,341
Goodwill	142,858	142,858
Acquired curriculum intangibles, net	44,819	51,206
Other intangible assets, net	5,756	6,411
Developed curriculum, net	8,771	9,333
Other assets	1,359	16,350
Total assets	$ 360,185	$ 402,727
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of capital lease obligations	$ 202	$ 789
Accounts payable	6,411	4,403
Accrued expenses	37,586	25,315
Deferred revenue	18,328	19,822
Total current liabilities	62,527	50,329
Long-term liabilities:		
Capital lease obligations, less current maturities	154	810
Other liabilities	33,104	61,258
Total long-term liabilities	33,258	62,068

Commitments and contingencies (See Note 16)		
Shareholders equity:		
Common stock ($.001 par value, 50,000 shares authorized, 30,550 shares issued and 29,874 shares outstanding at June 30, 2008, and 30,552 shares issued and 29,883 shares outstanding at December 29, 2007)	**30**	**30**
Capital surplus	**357,293**	**356,683**
Accumulated earnings (deficit)	**(73,956)**	**(47,723)**
Treasury stock, at cost (676 shares at June 30, 2008 and 669 shares at December 29, 2007)	**(16,836)**	**(16,742)**
Other comprehensive income (loss):		
Pension and postretirement plans, net of tax	**(2,101)**	**(2,088)**
Net unrealized gain (loss) on securities, net of tax	**(30)**	**170**
Accumulated other comprehensive income (loss)	**(2,131)**	**(1,918)**
Total shareholders equity	**264,400**	**290,330**
Total liabilities and shareholders equity	**$ 360,185**	**$ 402,727**

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

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Voyager Learning Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Operating activities:		
Net earnings (loss)	$ (26,233)	$ 40,126
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	10,825	11,470
Non-cash lease termination costs	673	
Stock-based compensation (benefit)	479	(626)
Gain on sale of available for sale securities	(140)	(508)
Gain on sale of discontinued operations, net of tax		(46,572)
Deferred income taxes		(7,106)
Earnings from discontinued operations, net of tax		(4,594)
Amortization and write-off of deferred financing costs		2,236
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,716)	(55,159)
Inventory	(2,784)	(3,826)
Other current assets	2,015	54,319
Other assets	(8)	(1,404)
Accounts payable	2,008	3,875
Accrued expenses	(7,729)	(60,300)
Deferred revenue	(630)	(5,157)
Other long-term liabilities	(1,502)	(12,942)
Other, net	55	(15)
Net cash used in operating activities of continuing operations	(35,687)	(86,183)
Investing activities:		
Expenditures for property, equipment, curriculum development costs, and software	(3,634)	(4,934)
Purchases of equity investments available for sale	(595)	(7,656)
Proceeds from sales of equity investments available for sale	1,515	8,505
Proceeds from sale of discontinued operations, net		186,342
Net cash provided by (used in) investing activities of continuing operations	(2,714)	182,257
Financing activities:		
Repayment of debt		(58,225)
Principal payments under capital lease obligations	(153)	(393)

Debt issuance costs		**(302)**
Net cash used in financing activities of continuing operations	**(153)**	**(58,920)**
Increase (decrease) in cash and cash equivalents of continuing operations	**(38,554)**	**37,154**
Net cash used in discontinued operations:		
Net cash used in operating activities		**(19,891)**
Net cash used in investing activities		**(2,540)**
Net cash used in financing activities		**(730)**
Net cash used in discontinued operations		**(23,161)**
Increase (decrease) in cash and cash equivalents	**(38,554)**	**13,993**
Cash and cash equivalents, beginning of period	**53,868**	**39,902**
Cash and cash equivalents, end of period	**$ 15,314**	**$ 53,895**

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

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Voyager Learning Company and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Voyager Learning Company and its subsidiaries and are unaudited. All intercompany transactions are eliminated.

In December 2006, we announced the sale of ProQuest Information and Learning (PQIL) to Cambridge Scientific Abstracts, LP. The sale of PQIL was completed on February 9, 2007. The operating results and the gain on sale of PQIL have been segregated from our continuing operations for all periods presented in our Condensed Consolidated Financial Statements and are separately reported as discontinued operations (see Note 6 herein).

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. 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 29, 2007 (the 2007 10-K). Due to seasonality, the results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain reclassifications to the 2007 Consolidated Financial Statements have been made to conform to the 2008 presentation. In 2007 cost of sales includes expenses to print, handle and warehouse product and provide services and support to customers. Additionally, in 2007, cost of sales included amortization related to our acquired and developed curriculum and certain other operational assets. All depreciation and amortization for the periods presented herein have been segregated and shown separately.

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.

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With the sale of PQIL in February 2007, the Company had a business segment that was included in discontinued operations in 2007. The Company s management approach, organizational structure, operating performance measurement and reporting, and operational decision making are performed from a single company perspective, the Company operates as one reportable segment within the United States (U.S.) in fiscal 2007 and 2008, which includes all corporate operations.

Note 2 Change in Fiscal Year

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

Note 3 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 $1.3 million at both June 30, 2008 and December 29, 2007. The allowance for doubtful accounts is based on a review of the outstanding accounts receivable balances and historical collection experience. The allowance for sales returns is based on historical rates of return.

Note 4 Stock-Based Compensation

The total amount of pre-tax expense (benefit) for stock-based compensation recognized in general and administrative expense was $0.2 million and $0.4 million in the quarters ended June 30, 2008 and June 30, 2007, respectively, and $0.5 million and $(0.6) million in the six month periods ended June 30, 2008 and June 30, 2007, respectively. Additionally, a pre-tax benefit for stock-based compensation of $(0.1) million is recognized in earnings from discontinued operations for the six month period ended June 30, 2007.

In June 2008 the Company issued 15,714 cash-based restricted stock units to members of the Company s Board of Directors (2,619 units per board member). Under this grant, the cash based restricted stock units vest after six months. No actual shares will be issued in relation to this grant, but instead, the grant was intended to provide payment to the members of the Board of Directors in a form of compensation that is related to the price of the Company s stock. All cash settled restricted stock units related to this grant have been classified as liability awards based on their cash settlement provisions. Liability and expense amounts related to this grant are not material at June 30, 2008.

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Note 5 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 The Company s outstanding stock awards that are in-the-money were exercised, using the treasury stock method. A reconciliation of the weighted average number of common shares and equivalents outstanding used in the calculation of basic and diluted net earnings per common share are shown in the table below for the periods indicated:

	Three Months Ended		**Six Months Ended**	
(Shares in thousands)	**June 30, 2008**	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
Basic	**29,871**	**29,858**	**29,871**	**29,852**
Dilutive effect of awards				
Diluted	**29,871**	**29,858**	**29,871**	**29,852**

No awards were included in the computation of diluted net earnings (loss) per common share for the three and six months ended June 30, 2008 and June 30, 2007 because a loss from continuing operations occurred and to include them would be anti-dilutive.

Note 6 Discontinued Operations

In the second quarter of 2006, the Company determined to sell parts of its operations 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 February 9, 2007, the Company sold PQIL and all of its remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. The Company used a portion of the proceeds from that sale to pay down all its remaining debt, excluding capital leases.

The operating results of sold businesses have been segregated from continuing operations. The Condensed Consolidated Statements of Operations separately reflect the earnings of PQIL and the gain on sale of PQIL as discontinued operations. Interest expense of $0.8 million for the six month period ended June 30, 2007 was allocated to discontinued operations based on the ratio of sold assets to total net assets of the consolidated company.

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Results from discontinued operations, all of which occurred in the first quarter of 2007 and relate to the PQIL business, are shown below:

(Dollars in thousands)

Net sales from discontinued operations	**$ 26,062**
Earnings from discontinued operations before interest and income taxes	**6,932**
Interest expense, net	**(847)**
Income tax expense	**(1,491)**
Earnings from discontinued operations, net of taxes	**$ 4,594**

The gain on sale of discontinued operations recorded in the first quarter of 2007, which relates to the PQIL business, was derived as follows**:**

(Dollars in thousands)

Sale price	**$ 195,249**
Net assets, related liabilities, and selling costs [(1)]	**(137,517)**
Gain on sale	**57,732**
Income tax expense	**(11,160)**
Gain on sale of discontinued operations, net of tax	**$ 46,572**

[(1)] **Net assets sold includes goodwill of $68.0 million**

Note 7 Comprehensive Income

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

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net earnings (loss)	$ (1,601)	$ (1,229)	$ (26,233)	$ 40,126
Other comprehensive income (loss):				
Foreign currency translation adjustments				(1,313)
Pension and postretirement plans	(6)	7	(13)	15
Unrealized gain (loss) on securities	(20)	11	(200)	(444)
Comprehensive income (loss)	$ (1,627)	$ (1,211)	$ (26,446)	$ 38,384

Note 8 Other Current Assets

Other current assets at June 30, 2008 and December 29, 2007 consisted of the following:

	As of	
(Dollars in thousands)	June 30, 2008	December 29, 2007
Short-term deferred tax asset	$ 2,566	$ 2,566
Deferred costs	1,437	1,434
Available for sale securities	2,642	3,629
Insurance receivable	17,165	1,217
Other	5,855	7,643
Total	$ 29,665	$ 16,489

See Note 16 for further description of the legal contingency accrual related to the putative securities class actions and the related receivable from the Company s insurance providers. This liability and related receivable were classified as long-term as of December 29, 2007.

Note 9 Other Assets

Other assets at June 30, 2008 and December 29, 2007 consisted of the following:

	As of	
(Dollars in thousands)	June 30, 2008	December 29, 2007
Insurance receivable	$	$ 15,000
Other	1,359	1,350
Total	$ 1,359	$ 16,350

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Note 10 Accrued Expenses

Accrued expenses at June 30, 2008 and December 29, 2007 consisted of the following:

(Dollars in thousands)	As of June 30, 2008	As of December 29, 2007
Salaries, bonuses and benefits	$ 11,070	$ 12,231
Corporate transition costs	1,820	2,466
Legal contingency accrual	20,000	5,400
Other	4,696	5,218
Total	$ 37,586	$ 25,315

See Note 14 for further description of our corporate transition costs.

See Note 16 for further description of the legal contingency accrual related to the putative securities class actions and the related receivable from the Company s insurance providers. This liability and related receivable were classified as long-term as of December 29, 2007.

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

Note 11 Other Liabilities

Other liabilities at June 30, 2008 and December 29, 2007 consisted of the following:

(Dollars in thousands)	As of June 30, 2008	As of December 29, 2007
Pension benefits, long-term portion	$ 18,505	$ 18,843
Long-term deferred tax liability	4,453	4,454
Long-term income tax payable	645	777
Legal contingency accrual		20,000
Long-term deferred compensation	4,717	5,713
Deferred rent	136	7,639
Long-term deferred revenue	2,181	1,317
Other	2,467	2,515
Total	$ 33,104	$ 61,258

Note 12 Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Three Months Ended			
	U.S. Defined Benefit Pension Plan		Other Postretirement Benefits	
(Dollars in thousands)	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Service cost	$	$	$	$
Interest cost	310	297	2	2
Amortization of prior service cost				
Recognized net actuarial (gain) loss	18	34	(24)	(26)
Net pension and other postretirement benefit cost (income)	$ 328	$ 331	$ (22)	$ (24)

	Six Months Ended			
	U.S. Defined Benefit Pension Plan		Other Postretirement Benefits	
(Dollars in thousands)	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Service cost	$	$	$	$
Interest cost	621	594	3	4
Amortization of prior service cost				
Recognized net actuarial (gain) loss	36	68	(49)	(52)
Net pension and other postretirement benefit cost (income)	$ 657	$ 662	$ (46)	$ (48)

Note 13 Capital Lease Obligations

The following table summarizes our capital lease obligations as of the dates indicated:

	As of	
(Dollars in thousands)	June 30, 2008	December 29, 2007
Capital lease obligations:		
Capital lease obligations	$ 354	$ 1,596
Termination costs	2	3
Total capital lease obligations	356	1,599
Less: current maturities	(202)	(789)

Capital lease obligations, less current maturities	**$**	**154**	**$**	**810**

Upon closing on the sale of PQIL on February 9, 2007, the Company paid the remaining balances owed to its lenders and noteholders and the Company was released from all obligations under the 2002 Senior Notes due 10/01/12, 2005 Senior Notes due 01/31/15, and the 2005 Revolving Credit Agreement.
Interest expense for the first half of 2007 includes $2.2 million for amortization and the write-off of unamortized deferred financing fees related to the extinguished debt balances.

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Note 14 Corporate Transition and Lease Termination Costs

On February 12, 2007, after the sale of ProQuest Business Solutions (PQBS) and PQIL, the Company s Board of Directors approved and announced to employees the closing of the corporate office in Ann Arbor, Michigan. The transition plan, which was completed by year-end 2008, included the elimination of redundant positions and transitioning the performance of certain operational activities to Dallas, Texas. The Company expects to incur approximately $4.4 million in severance and retention expense related to the transition plan, all of which has been accrued as of June 30, 2008. Related costs are included in general and administrative expense. The change in the accruals for corporate transition costs related to severance and retention payments for the six month period ended June 30, 2008 is as follows:

(Dollars in thousands)

Balance as of January 1, 2007	**$**	
Accruals		**4,338**
Payments made		**(1,372)**
Balance as of December 29, 2007	**$**	**2,966**
Accruals		**103**
Payments made		**(371)**
Balance as of June 30, 2008	**$**	**2,698**
Current portion	**$**	**1,820**
Long-term portion	**$**	**878**

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

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

Note 15 Uncertain Tax Positions

There were no material changes in the Company s uncertain tax positions during the quarter or year to date period. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various U.S. state jurisdictions. The Company is currently under examination by the IRS for 2006 and 2007.

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Note 16 Contingent Liabilities

Putative Securities Class Actions

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

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs counsel. 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 July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action lawsuit 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 $4.5 million in fees and settlement amounts to settle all claims related to the financial statements with remaining amounts to be paid by insurers. A Stipulation and Agreement of Settlement was signed by the parties and the Court granted preliminary approval of such agreement. The Company paid $4.0 million into an escrow account on January 9, 2009. The final settlement is subject to final Court approval and the participation of a sufficient percentage of the putative class. There is no assurance that a final 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 U.S. District Court for the Eastern District of Michigan (the Court), purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company s shareholders. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated order staying the litigation pending completion of the Company s restatement and a special committee investigation into the restatement.

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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 December 3, 2008, the Company reached an agreement in principle to settle the shareholder derivative litigation lawsuit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan. Under the terms of the agreement, the Company and its insurers would pay an amount not to exceed $650,000 in attorneys fees and agree to maintain or adopt additional corporate governance standards. The Company s portion of this amount is equal to $500,000. The settlement is subject to completion of a Stipulation of Settlement to be signed by the parties, preliminary and final court approval and the provision of notice to shareholders. There is no assurance that a final Stipulation of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. If the derivative litigation settlement arrangement is not finalized, the Company intends to defend itself vigorously.

Securities and Exchange Commission Investigation

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company s announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company s restatement. On July 22, 2008, the SEC (Commission) filed a settled enforcement action against the Company in the U.S. District Court for the Eastern District of Michigan. Pursuant to that settlement, the terms of which were disclosed previously by the Company, without admitting or denying the allegations in the Complaint, the Company consented to the filing by the Commission of a Complaint, and to the imposition by the Court of a final judgment of permanent injunction against the Company. The Complaint alleges civil violations of the reporting, books and records and internal controls provisions of the Securities Exchange Act of 1934. The final judgment was signed by the Court on July 28, 2008 and permanently enjoins the Company from future violations of those provisions. No monetary penalty was imposed. The settlement resolves fully the previously disclosed SEC investigation of the Company s restatement.

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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 all lawsuits with prejudice. EdSoft also executed a release of arbitration award. The Company accrued $5.4 million related to this settlement as of year end of 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.

We have letters of credit in the amount of $1.0 million outstanding as of June 30, 2008 to support workers compensation insurance coverage as well as collateral for the Company s credit card and Automated Clearinghouse (ACH) programs.

Note 17 Retirement Plans (Subsequent Event)

During the fourth quarter of 2008, the Company provided an opportunity for participants in its replacement benefit plan (RBP) and its defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. The RBP, which represented a liability of $5.4 million as of June 30, 2008, includes a small number of terminated and retired executives and one current executive. The defined benefit pension plan, which represented a liability of $20.6 million as of June 30, 2008, covers certain terminated and retired former domestic employees. Prior to the distribution opportunity, both plans were frozen, with no participants entitled to make additional contributions or earn additional service years. Based on the responses received, the Company expects that it will pay cash out of approximately $7.9 million in January 2009 related to these lump sum payments. The Company is still assessing the impact of the partial settlement on its financial statements, but currently expects to record a gain of approximately $3 to $5 million.

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 29, 2007 (the 2007 Form 10-K), as well as the accompanying interim financial statements for the three and six month periods ending June 30, 2008.

Safe Harbor for Forward-looking Statements

Except for the historical information and discussions contained herein, statements contained in this document may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors, which could cause actual results to differ materially. In some cases, you can identify forward-looking statements by terminology such as may , should , expects , plans , anticipates , believes , estimates , predicts , potential , continue , projects , intends , prospects , negative of such terms or similar terminology. These factors may cause our actual results to differ from any forward-looking statements. We undertake no obligation to update any of our forward-looking statements.

Results of Continuing Operations

Learning A-Z was acquired in 2004 and Voyager Expanded Learning and ExploreLearning were both acquired in 2005. These operations together are Voyager Education (VED) and comprise our single reporting segment. The continuing operations presented below include the operational activities for VED and the activities based in Ann Arbor, Michigan required to finalize the restatement efforts and transition the corporate office to Dallas, Texas.

We determined to sell ProQuest Business Solutions (PQBS) and ProQuest Information and Learning (PQIL) in the second quarter of 2006. PQBS was sold on November 28, 2006 and PQIL was sold on February 9, 2007 and therefore its results were classified as discontinued operations and are excluded from the following discussion.

Adverse developments in the education funding environment, including the reductions in Reading First funding effective 2008 and reductions in available state and local funds as property taxes decline, have impacted our operations during the current year and may continue to have an impact on our future sales, profits, cash flows and carrying value of assets.

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Second Quarter of Fiscal 2008 Compared to the Second Quarter of Fiscal 2007

	Three Months Ended					
	June 30, 2008		June 30, 2007		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	Amount	% of sales	Amount	% of sales	$	%
Net sales	$ 33.5	100.0	$ 36.3	100.0	$ (2.8)	(7.7)
Cost of sales (exclusive of depreciation and amortization shown separately below)	(11.3)	(33.7)	(10.5)	(28.9)	(0.8)	(7.6)
Gross profit	22.2	66.3	25.8	71.1	(3.6)	(14.0)
Research and development expense	(1.2)	(3.6)	(1.3)	(3.6)	0.1	7.7
Sales and marketing expense	(8.9)	(26.6)	(7.3)	(20.1)	(1.6)	(21.9)
General and administrative expense	(8.3)	(24.8)	(15.2)	(41.9)	6.9	45.4
Depreciation and amortization expense	(5.4)	(16.1)	(5.7)	(15.7)	0.3	5.3
Loss from continuing operations before interest and income taxes	(1.6)	(4.8)	(3.7)	(10.2)	2.1	56.8
Net interest income			0.5	1.4	(0.5)	(100.0)
Sublease income and other			1.2	3.3	(1.2)	(100.0)
Income tax benefit			0.8	2.2	(0.8)	(100.0)
Loss from continuing operations	$ (1.6)	(4.8)	$ (1.2)	(3.3)	$ (0.4)	(33.3)

Net Sales.
Our total net sales from continuing operations decreased $2.8 million, or 7.7%, to $33.5 million in the second quarter of 2008. The decrease was primarily driven by lower order volume and higher revenue deferral rates in fiscal 2008 compared to fiscal 2007. We experienced weakness in markets and products that have heavy reliance on federal, state and local funding sources. Our reading intervention for middle school students and its online offerings continue to grow, but growth was not enough to offset declines in products with heavy reliance on federal funding. In 2008, we deferred a larger percentage of sales compared to 2007 as we continue the trend of including more service and technology in our products. On-line access and service elements are delivered over time rather than immediately shipped to customers like printed materials. We defer the revenue associated with those services and on-line access and recognize the revenue over the period they are delivered.
Gross Profit.
Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Our gross profit percentage for the second quarter of 2008 decreased 4.8 percentage points to 66.3% compared to 71.1% for the second quarter of 2007. The decrease is primarily due to the deferral of a larger percentage of sales in 2008 versus 2007, which reduced net sales but did not have an offsetting and corresponding decrease in

cost of sales.

Research and Development.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the second quarter of 2008 remained relatively flat.

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Sales and Marketing.
Sales and marketing expenditures include all costs related to selling efforts and marketing. Sales and marketing expense for the second quarter of 2008 increased $1.6 million to $8.9 million compared to the second quarter of 2007, as we sought to maintain sales volumes in an increasingly challenging market and due to costs associated with our participation in several 2008 state adoptions.
General and Administrative.

	Three Months Ended		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	**June 30, 2008**	**June 30, 2007**	**$**	**%**
VED	**$ 3.0**	**$ 3.1**	**$ 0.1**	**3.2**
Corporate	**5.3**	**12.2**	**6.9**	**56.6**
Total	**$ 8.3**	**$ 15.3**	**$ 7.0**	**45.8**

General and administrative expenses decreased $7.0 million, or 45.8%, to $8.3 million compared to the second quarter of fiscal 2007. General and administrative activities include $5.3 million in the second quarter of 2008 and $12.2 million in the second quarter of 2007 related to activities based in Ann Arbor, Michigan required to finalize the restatement efforts and transition the corporate office to Dallas, Texas. These corporate expenses decreased $6.9 million, or 56.6%, as a result of lower professional fees incurred in fiscal 2008 related to the restatement efforts as these activities were brought closer to conclusion.
Excluding the corporate costs, general and administrative expenses decreased $0.1 million, or 3.2%, year over year, and represented 9.0% and 8.5% as a percentage of net sales for the second quarter of fiscal 2008 and 2007, respectively.

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Net Interest Income.

	Three Months Ended		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	June 30, 2008	June 30, 2007	$	%
Interest income	$ 0.1	$ 1.0	$ (0.9)	(90.0)
Interest expense	(0.1)	(0.5)	0.4	80.0
Total	$	$ 0.5	$ (0.5)	100.0

Net interest income decreased $0.5 million in the second quarter of fiscal 2008 versus the comparable prior year quarter. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. In December 2006, we announced the sale of PQIL including all remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. This sale closed on February 9, 2007, and we used a portion of the proceeds from that sale to pay off all remaining debt, excluding capital leases. The result of this activity was to eliminate interest expense associated with long-term debt other than capital leases effective February 2007. Additionally, lower cash balances and a change in the mix of investments and related interest rates during 2008 relative to 2007 decreased earnings on cash balances and investments.

Sublease Income and Other.

The Company announced plans after the sale of PQBS and PQIL to transition all of our corporate functions from the Ann Arbor headquarters to Dallas during 2007 and 2008. From the date of the sale of PQIL in February 2007, the Company subleased substantial space to the buyer of PQIL through March 2008 resulting in sublease income totaling $1.2 million for the second quarter of fiscal 2007.

Income Tax Benefit.

For the second quarter of 2008, the Company recorded no income tax benefit or expense for the loss from continuing operations as we cannot assume future taxable income. For the second quarter of fiscal 2007, the Company attributed an income tax benefit to continuing operations of $0.8 million, which represents an effective tax rate of 38.1%.

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Results of Operations
First Half 2008 Compared to the First Half 2007

	Six Months Ended						
	June 30, 2008		June 30, 2007		Year Over Year Change Favorable / (Unfavorable)	
(Dollars in millions)	Amount	% of sales	Amount	% of sales	$	%
Net sales	**$ 49.2**	**100.0**	**$ 56.4**	**100.0**	**$ (7.2)**	**(12.8)**
Cost of sales (exclusive of depreciation and amortization shown separately below)	**(17.9)**	**(36.4)**	**(17.3)**	**(30.7)**	**(0.6)**	**(3.5)**
Gross profit	**31.3**	**63.6**	**39.1**	**69.3**	**(7.8)**	**(19.9)**
Research and development expense	**(2.6)**	**(5.3)**	**(2.4)**	**(4.3)**	**(0.2)**	**(8.3)**
Sales and marketing expense	**(17.4)**	**(35.4)**	**(13.8)**	**(24.5)**	**(3.6)**	**(26.1)**
General and administrative expense	**(16.2)**	**(32.9)**	**(30.5)**	**(54.1)**	**14.3**	**46.9**
Depreciation and amortization expense	**(10.8)**	**(21.9)**	**(11.4)**	**(20.1)**	**0.6**	**5.3**
Lease termination costs	**(11.7)**	**(23.8)**			**(11.7)**	**(100.0)**
Loss from continuing operations before interest and income taxes	**(27.4)**	**(55.7)**	**(19.0)**	**(33.7)**	**(8.4)**	**(44.2)**
Net interest income (expense)	**0.4**	**0.8**	**(0.8)**	**(1.4)**	**1.2**	**150.0**
Sublease income and other	**0.8**	**1.6**	**2.0**	**3.5**	**(1.2)**	**(60.0)**
Income tax benefit			**6.8**	**12.1**	**(6.8)**	**(100.0)**
Net loss from continuing operations	**$ (26.2)**	**(53.3)**	**$ (11.0)**	**(19.5)**	**$ (15.2)**	**(138.2)**

Net Sales.
Our total net sales from continuing operations decreased $7.2 million, or 12.8%, to $49.2 million in the first half of 2008. The decrease was primarily driven by lower order volume and higher revenue deferral rates in fiscal 2008 compared to fiscal 2007. We experienced weakness in markets and products that have heavy reliance on federal, state and local funding sources. Our reading intervention for middle school students and its online offerings continue to grow, but growth was not enough to offset declines in products with heavy reliance on federal funding. In 2008, we deferred a larger percentage of sales compared to 2007 as we continue the trend of including more service and technology in our products. On-line access and service elements are delivered over time rather than immediately shipped to customers like printed materials. We defer the revenue associated with those services and on-line access and recognize the revenue over the period they are delivered.
Gross Profit.

Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Our gross profit percentage for the first half of 2008 decreased 5.7 percentage points to 63.6% compared to 69.3% for the first half of 2007. The decrease is primarily due to the deferral of a larger percentage of sales in 2008 versus 2007, which reduced net sales but did not have an offsetting and corresponding decrease on cost of sales. VED sales and, therefore, its gross profit are subject to seasonality with the first and fourth quarters being the weakest.

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Research and Development.
Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the first half of 2008 remained relatively flat, increasing $0.2 million to $2.6 million compared to the first half of 2007.
Sales and Marketing.
Sales and marketing expenditures include all selling effort and marketing costs. Sales and marketing expense for the first half of 2008 increased $3.6 million to $17.4 million compared to the first half of 2007, as we sought to maintain sales volumes in an increasingly challenging market and due to costs associated with our participation in several 2008 state adoptions.
General and Administrative.

	Six Months Ended		Year Over Year Change	
	June 30,	**June 30,**	**Favorable / (Unfavorable)**	
(Dollars in millions)	**2008**	**2007**	**$**	**%**
VED	**$ 5.9**	**$ 5.8**	**$ (0.1)**	**(1.7)**
Corporate	**10.3**	**24.7**	**14.4**	**58.3**
Total	**$ 16.2**	**$ 30.5**	**$ 14.3**	**46.9**

General and administrative expenses decreased $14.3 million, or 46.9%, to $16.2 million compared to the first half of fiscal 2007. General and administrative activities include $10.3 million in the first half of 2008 and $24.7 million in the first half of 2007 related to activities based in Ann Arbor, Michigan required to finalize the restatement efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL. These corporate expenses decreased $14.4 million, or 58.3%, as a result of lower professional fees incurred in fiscal 2008 related to the restatement efforts, as these activities were brought closer to conclusion in 2008, and completing the sale of PQIL in fiscal 2007. Excluding the corporate costs, selling and administrative expenses increased $0.1 million, or 1.7%, year over year, and represented 12.0% and 10.3% as a percentage of net sales for the first half of fiscal 2008 and 2007, respectively.

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Net Interest Income (Expense).

(Dollars in millions)	Six Months Ended June 30, 2008	June 30, 2007	Year Over Year Change Favorable / (Unfavorable) $	%
Interest income	**$ 0.6**	**$ 2.2**	**$ (1.6)**	**(72.7)**
Interest expense	**(0.2)**	**(3.0)**	**2.8**	**93.3**
Total	**$ 0.4**	**$ (0.8)**	**$ 1.2**	**150.0**

Net interest income (expense) totaled $0.4 million in the first half of fiscal 2008 versus $(0.8) million in the first half of fiscal 2007. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. On February 9, 2007, we sold PQIL and all of our remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. We used a portion of the proceeds from that sale to pay off all remaining debt, excluding capital leases. The result of this activity was to eliminate interest expense associated with long-term debt other than capital leases effective February 2007. Additionally, lower cash balances and a change in the mix of investments and related interest rates during 2008 relative to 2007 decreased earnings on cash balances and investments.

Sublease Income and Lease Termination Costs.

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

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

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

Income Tax Benefit.

For the first half of 2008, we recorded no income tax benefit or expense for the loss from continuing operations as we cannot assume future taxable income. For the first half of fiscal 2007, we attributed an income tax benefit to continuing operations of $6.8 million, which represents an effective tax rate of 38.2%.

Discontinued Operations.

In December 2006, we announced the sale of our PQIL business. The sale was completed in February 2007 for $195.2 million after final adjustments for working capital and assumed liabilities. Accordingly, the operating results of the PQIL business have been segregated from our continuing operations and reported as earnings from discontinued operations. We recognized a gain on the sale of discontinued operations of $46.6 million (net of tax) due to the sale of PQIL in the first quarter of fiscal 2007.

Liquidity

As of June 30, 2008, we did not have any debt with the exception of certain capital leases. Cash and cash equivalents decreased to $15.3 million at June 30, 2008 compared to $53.9 million at December 29, 2007.

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During the first half of fiscal 2008, cash used in operating activities from continuing operations was $35.7 million. The decrease in cash is primarily due to expenditures related to personnel and activities based in Ann Arbor, Michigan required to finalize past due financial reporting and transition the corporate office to Dallas, Texas, as well as contributions made to legacy employee benefit plans.

Cash from continuing operations is seasonal with more cash generated in the second half of the year than in the first half of the year. Cash is historically generated during the second half of the year because the buying cycle of school districts generally starts at the beginning of each new school year in the fall.

Other significant uses of cash for continuing operations during the first half of fiscal 2008 included:

- $3.6 million of expenditures related to property, equipment, curriculum development costs, and software; and
- $0.2 million for principal payments on capital leases.

Net proceeds generated from the sale or maturity of marketable securities were $0.9 million.

As of November 30, 2008, we have cash, cash equivalents, and short-term investments totaling $75.2 million with no outstanding debt. We believe that current cash, cash equivalents and short term investment balances, expected income tax refunds, and cash generated from operations will be adequate to fund the working capital and capital expenditures necessary to support our currently expected sales for the foreseeable future.

During the fourth quarter of 2008, the Company provided an opportunity for participants in its replacement benefit plan (RBP) and its defined benefit pension plan to receive a discounted lump sum distribution to settle retirement obligations. The RBP, which represented a liability of $5.4 million as of June 30, 2008, includes a small number of terminated and retired executives and one current executive. The defined benefit pension plan, which represented a liability of $20.6 million as of June 30, 2008, covers certain terminated and retired former domestic employees. Prior to the distribution opportunity, both plans were frozen, with no participants entitled to make additional contributions or earn additional service years. Based on the responses received, the Company expects that it will pay cash out of approximately $7.9 million in January 2009 related to these lump sum payments. The Company is still assessing the impact of the partial settlement on its financial statements, but currently expects to record a gain of approximately $3 to $5 million.

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Recently Issued Financial Accounting Standards

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the impact, if any, that FAS 142-3 will have on its consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, (SFAS No. 160). Currently, the Company does not have an outstanding noncontrolling interest in one or more subsidiaries, nor does it deconsolidate any subsidiaries. SFAS No. 160 will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 to have a material effect on the Company s consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer accounts for business combinations. SFAS No. 141R includes guidance for the recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any noncontrolling or minority interest in the acquiree. It also provides guidance for the measurement of goodwill, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies and acquisition-related transaction costs, and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141R applies prospectively and is effective for business combinations made by the Company beginning January 1, 2009.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be recognized in earnings at each subsequent reporting date. Generally, the fair value option may be applied instrument by instrument and is irrevocable unless a new election date occurs. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We adopted the provisions of SFAS No. 159, related to recurring financial and non-financial assets and liabilities, on January 1, 2008. The adoption had no impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Pension and Other Postretirement Plans an amendment of SFASs No. 87, 88, 106 and 132(R), (SFAS No. 158). SFAS No. 158 requires the recognition of the funded status of a benefit plan in the statement of financial position. It also requires the recognition as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions (SFAS No. 87) or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pension (SFAS No. 106). The statement also has new provisions regarding the measurement date as well as certain disclosure requirements. The recognition provisions of the statement were effective for our 2006 year end, and the measurement date requirements are effective for our 2008 year end. The adoption of the recognition and disclosure provisions of SFAS No. 158 had a minimal impact on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP), and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. Certain provisions of this statement are effective for fiscal years beginning after November 15, 2007. We adopted the provisions of SFAS No. 157 related to recurring financial and non-financial assets and liabilities on January 1, 2008. The adoption had no impact on our consolidated financial statements. All financial assets and financial liabilities are valued using level 1 inputs. The Company is currently evaluating the potential impact that the adoption of the deferred portion of SFAS No. 157 will have on our consolidated financial position, results of operation or cash flows.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company does not have material interest rate risk. As of June 30, 2008, the Company does not have any interest rate forwards or option contracts outstanding.

Foreign Currency Risk

The Company does not have material exposure to changes in foreign currency rates. As of June 30, 2008, the Company does not have any outstanding foreign currency forwards or option contracts.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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. The Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is communicated to management, including the Chief Executive Officer, Chief Financial Officer and its Board of Directors to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2008.

Changes in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15 (f) and 15d-15 (f) under the Exchange Act) during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

Putative Securities Class Actions

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

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs counsel. 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 July 22, 2008, the Company reached an agreement in principle to settle the consolidated shareholder securities class action lawsuit 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 $4.5 million in fees and settlement amounts to settle all claims related to the financial statements with remaining amounts to be paid by insurers. A Stipulation and Agreement of Settlement was signed by the parties and the Court granted preliminary approval of such agreement. The final settlement is subject to final Court approval and the participation of a sufficient percentage of the putative class. There is no assurance that a final 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 U.S. District Court for the Eastern District of Michigan (the Court), purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company s shareholders. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated order staying the litigation pending completion of the Company s restatement and a special committee investigation into the restatement.

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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 December 3, 2008, the Company reached an agreement in principle to settle the shareholder derivative litigation lawsuit filed against it and certain officers and directors in the U.S. District Court for the Eastern District of Michigan. Under the terms of the agreement, the Company and its insurers would pay an amount not to exceed $650,000 in attorneys fees and agree to maintain or adopt additional corporate governance standards. The Company s portion of this amount is equal to $500,000. The settlement is subject to completion of a Stipulation of Settlement to be signed by the parties, preliminary and final court approval and the provision of notice to shareholders. There is no assurance that a final Stipulation of Settlement will be completed, court approval will be obtained or putative class member participation will be sufficient. If the derivative litigation settlement arrangement is not finalized, the Company intends to defend itself vigorously.

Securities and Exchange Commission Investigation

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company s announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company s restatement. On July 22, 2008, the SEC (Commission) filed a settled enforcement action against the Company in the U.S. District Court for the Eastern District of Michigan. Pursuant to that settlement, the terms of which were disclosed previously by the Company, without admitting or denying the allegations in the Complaint, the Company consented to the filing by the Commission of a Complaint, and to the imposition by the Court of a final judgment of permanent injunction against the Company. The Complaint alleges civil violations of the reporting, books and records and internal controls provisions of the Securities Exchange Act of 1934. The final judgment was signed by the Court on July 28, 2008 and permanently enjoins the Company from future violations of those provisions. No monetary penalty was imposed. The settlement 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 29, 2007.

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Item 6. Exhibits

(a) Exhibits:

The following exhibits are filed as part of this Quarterly Report.

Index Number	Description
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 Bradley C. Almond, 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: January 9, 2009

VOYAGER LEARNING COMPANY

/s/ Richard J. Surratt
President and CEO

/s/ Bradley C. Almond
Vice President and Chief Financial Officer

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