Voyager Learning CO
Form 10-K
December 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 29, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

common stock, $.001 par value per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 ¨ 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 aggregate market value of the registrant s voting stock held by non-affiliates (based upon the per share closing price of $5.45 on June 30, 2008) was approximately $142 million.

The number of shares of the registrant s common stock, $.001 par value, outstanding as of October 31, 2008 was 29,874,145.

Documents Incorporated By Reference: None

Part I

Voyager Learning Company

Safe Harbor for Forward-looking Statements.

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

Item 1. **Business.**

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 29, 2007.

Voyager Learning Company Business Overview

Voyager Learning Company (the Company , we , us , or our), previously known as ProQuest Company, has been a leading publisher of solutions for the education, automotive and power equipment markets. We have more than 50 years of experience in information aggregation and dissemination, content development, and educational publishing. Our predecessor company, Bell & Howell Company, was incorporated in Delaware in 1907. In 2001, we sold our legacy Imaging, Mail and Messaging Technologies and finance-related businesses and changed our name to ProQuest Company. On January 31, 2005, we completed the acquisition of Voyager Expanded Learning, Inc. (VEL) in support of our long-term strategy to grow our educational business for grades K-12. On October 28, 2005, we sold our periodical microfilm operation to National Archive Publishing Company (NAPC) for $21.9 million. On November 28, 2006, we sold ProQuest Business Solutions (PQBS) to Snap-on Incorporated (Snap-on) for $514 million and the assumption of approximately $19 million of PQBS debt by Snap-on. On February 9, 2007, we sold ProQuest Information and Learning (PQIL) and the ProQuest brand for $195.2 million. On June 30, 2007 ProQuest Company amended Article I of its Certificate of Incorporation solely to change the corporate name from ProQuest Company to Voyager

Learning Company . The name change and amendment were completed pursuant to Section 253(b) of the Delaware General Corporation Law through a merger of the Company s wholly-owned subsidiary, Voyager Learning Company, with and into the Company.

Our results from continuing operations are reported as a single business segment, Voyager Education (VED). As a result of the sale of PQBS in 2006, its results are reported as discontinued operations and assets related to discontinued operations. As a result of the sale of PQIL in 2007, its results are also reported as discontinued operations and assets related to discontinued operations. An overview of the Voyager Education segment follows.

Voyager Education Segment Overview

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

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

Our math and science programs include Vmath® ; a math intervention system for grades 3-8, ExploreLearning , a subscription-based online library of interactive simulations in math and science for grades 3-12, and ScienceA-Z.com , a new website introduced in 2007 aimed at the supplemental science market.

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

Voyager products have achieved acceptance across a broad, economically and geographically diverse customer base. Voyager intervention and other products currently serve over 700,000 students in more than 1,000 school districts in all 50 states. Learning A-Z serves approximately 190,000 teachers in all states and in 141 countries. ExploreLearning serves over 600,000 students in all states, with a growing presence in Canada, Australia and other foreign countries.

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

Our customers generally purchase our reading, math or professional development programs along with any necessary implementation services or training for a single school year. In subsequent school years, customers wishing to serve the same number of students generally need to purchase new student materials or renew access to online content but are not typically required to repurchase teacher materials or implementation services. Learning A-Z and ExploreLearning online subscriptions generally run for a calendar year. In 2007, VED generated approximately 79% of sales from reading programs, 10% of sales from math and science programs, 7% of sales from professional development programs, and 4% from other products and services.

Product Review VED

Reading Programs

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

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

In 2007, VED began offering an interactive web-based program called Ticket to Read (www.tickettoread.com) with its Passport and Universal Literacy System programs. Ticket to Read is designed to improve reading by allowing students to practice various aspects of reading skills. Instruction is leveled, self-paced and teacher monitored. Students are motivated by a leader board, virtual clubhouse that includes earning online tickets and other rewards, games and engaging self-selected passages on a variety of topics as they build vocabulary, fluency and reading comprehension skills. Approximately a third of the use takes place after school hours including weekends.

Passport Reading Journeys is a targeted intervention program designed to accelerate reading for struggling readers in middle school and high school. The lesson format integrates reading, comprehension, vocabulary, fluency and writing. Age-appropriate content, real-life journeys on DVDs, online interactive lessons, and captivating text hold student interest and motivate students to read for both information and enjoyment. The program targets the affective domain as much as the cognitive domain as many struggling readers have lost confidence and are close to dropping out. The program meets all of the instructional recommendations of the Reading Next Report and provides teachers with the tools necessary to help students become successful readers.

Voyager TimeWarp Plus is a summer reading intervention system which immerses K-9 students in reading adventures to build essential reading skills that can prevent summer learning loss and prepare students for the coming year. TimeWarp Plus is a balanced, research-based reading program offered as a two to four hour daily reading instruction focused around exciting, adventure-based themes and hands-on learning experiences. The four to six week series is an intervention program to help struggling students improve critical reading skills.

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

VED also sells online supplemental reading products under the Learning A-Z brand. There are three free web sites, (LearningPage , Sites for Teachers, and Sites for Parents), which aid in directing interested parents, teachers, schools and districts to its five subscription-based sites: Reading A-Z, Raz-Kids, Reading-Tutors, Vocabulary A-Z, and Writing A-Z (launched in 2007). Each of these websites offers products available for purchase through online subscriptions.

Learning A-Z s flagship product, Reading A-Z (www.readinga-z.com), offers thousands of research-based printable teacher materials to teach guided reading, phonological awareness, phonics, comprehension, fluency, letter recognition and formation, and vocabulary. The teaching resources include professionally developed downloadable leveled books, a phonics program, high frequency word books, poetry, lesson plans, worksheets, and reading assessments.

Raz-Kids (www.raz-kids.com) is a student centered online collection of interactive leveled books and quizzes designed to guide and motivate emergent and reluctant readers, as well as improve the skills of fluent readers. The program currently consists of 200 online books along with companion quizzes and worksheets spread over 27 levels of difficulty. The website also features a classroom management system for teachers to build rosters, assign books, and review student reading activity.

Reading-Tutors (www.reading-tutors.com) is a low-cost, easy-to-use collection of research-based resource packets for tutors. Each of the 400 packets contains items tutors need to help emerging readers gain key literacy skills in the alphabet, phonological awareness, phonics, high-frequency words, fluency and comprehension.

Vocabulary A-Z (www.vocabularya-z.com) provides customized vocabulary lessons for use by teachers to improve student vocabularies. Vocabulary A-Z has thousands of vocabulary words that can be used to generate custom vocabulary lessons and assessments. Word activities and worksheets are available based on the word lists the user generates. The Vocabulary A-Z lesson generator incorporates best practices from current educational research.

During 2007, Learning A-Z launched a new website called Writing A-Z (www.writinga-z.com). The website provides teachers with a comprehensive collection of resources to enhance the writing proficiency of students in grades K-6. The site provides core writing lessons grouped by genre including student packets with leveled materials, mini-lessons that target key writing processes and skills, and writing tools for organizing and improving writing.

Math and Science Programs

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

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

ExploreLearning supplies online simulations in math and science. ExploreLearning has won National Science Foundation funding, supports the tenets of the National Council of Teachers of Mathematics and has received positive mention in books published by the Association of Supervision and Curriculum Development and the National Science Teachers Association. ExploreLearning materials are correlated to state standards and over 90 math and science textbooks. Like Learning A-Z, ExploreLearning is an online subscription-based business.

The Learning A-Z website Science A-Z (www.sciencea-z.com) provides teachers with an online collection of resources to improve student skills in both science and reading. The website offers a customizable collection of downloadable lessons and materials in four scientific domains: life, earth, physical and process science. These resources are organized into units and individual materials to supplement a teacher s current curriculum.

Professional Development Programs

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

Business Development.

Curriculum Development. We continually seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. VED develops its products using a combination of employees and outside resources such as university professors, research experts, and topical experts. We generally conduct an extensive refresh of our products every three to five years to incorporate the latest research, bring images current, and update factual content. The web based products are enhanced continuously. Between the product refreshes, we often develop variations, expansions (i.e. more grade levels) and other basic enhancements of our products. As of December 29, 2007, we had 84 employees in curriculum development.

Sales and Marketing. We currently segment the marketing and sales force based on Voyager Expanded Learning, Learning A-Z and ExploreLearning products. Within these product lines, sales producers sell all available products and are generalist relationship managers. They are supported by product or subject matter experts as well as a corporate marketing team. As of December 29, 2007, our VED sales force consisted of 50 field and 52 inside sales representatives for a total of 102 direct sales representatives excluding sales management and marketing.

Restatement of Financial Statements

On February 9, 2006 the Company announced that during the assessment of its internal controls required by the Sarbanes-Oxley Act of 2002, the Company discovered material irregularities in its accounting. 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 its 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. The 2005 Form 10-K also reflected the restatement of selected consolidated financial data for the fiscal years ended 2001 and 2002. Further information on these adjustments and reclassifications can be found in the 2005 Form 10-K filed in August 2007.

Proprietary Rights

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

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

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

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

Seasonality

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

Competition

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

Government Regulations

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

Concentration Risk

We are not overly dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. In fiscal 2006 and 2007, no single customer represented more than 10% of our consolidated net sales on an annual basis for either year. The top five VED customers accounted for approximately 18% of the Company s net sales in 2007.

Employees

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

As of December 29, 2007, we had the following number of employees:

	Employees
VED	**399**
Corporate	**14**
Total	**413**

None of our employees are represented by collective bargaining agreements.

Website Access to Company Reports

We make available free of charge through our website, *www.voyagercompany.com*, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC).

We are providing the address to our website solely for the information of our investors. Our website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Code of Ethics

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

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

Item 1A. Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report for the year ended December 29, 2007.

The following risk factors are as of the date of this report and are not necessarily risk factors as of the December 29, 2007 financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends on our ability to attract and retain key personnel, and our key personnel, especially those holding multiple positions, may not be able to fulfill their roles effectively if we become understaffed.

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

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

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

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in our delivery of electronic content to customers and ultimately may cause us to lose customers.

Any delays or failures in the systems or errors in the software that we use for the technology based component of our products which include assessment and reporting tools could harm our business. We have occasionally suffered failures of the computer and telecommunication systems that we use to deliver electronic content to customers. The growth of our customer base, as well as the number of sites we provide, may strain our systems in the future. The systems we currently use to deliver our services to customers (except for external telecommunications systems) are located in our facilities in Dallas, Texas, Charlottesville, Virginia and Tucson, Arizona as well as in a third party data center in Allen, Texas. Although we maintain property insurance, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures associated with third party hosting providers or by failures of third party technology used in our products, and we could have no control over remedying these failures. Any failures or problems with our systems or software could force us to incur significant costs to remedy the failure or problem, decrease customer demand for our products, tarnish our reputation and thus harm our business.

Our systems face security risks and our customers have concerns about their privacy.

Our systems and websites may be vulnerable to unauthorized access by hackers, computer viruses and other disruptive problems. Any security breaches or problems could lead to misappropriation of our customers information, our websites, our intellectual property and other rights, as well as disruption in the use of our systems and websites. Unauthorized access to, as well as denial of, various internet and online services has occurred, and will likely occur again. Any security breach related to our websites could tarnish our reputation and expose us to damages and litigation. We may also incur significant costs to maintain our security precautions or to correct problems caused by security breaches. Further, to maintain these security measures, we are required to monitor our customers access to our websites which may cause disruption to our customers use of our systems and websites. These disruptions and interruptions could harm our business.

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

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

Our business may not grow as anticipated if we are not able to maintain and enhance our brands.

We believe that maintaining and enhancing our brands is important to attracting and retaining customers. Our success in growing brand awareness will depend in part on our ability to continually provide quality programs and solutions that enhance the learning process. Other entities may offer goods and services similar to those offered by us, which may diminish the value of our brand. In addition, some of our brand names are new or have changed, and we may not have success in maintaining and growing our brand equity.

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

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

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

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

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

The Company could incur additional and unexpected expense related to its internal control over financial reporting and the preparation of its financial statements.

During 2006, 2007 and continuing into 2008, the Company has devoted substantial internal and external resources to the restatement of its 2005 and prior financial statements and filing of its 2006 and 2007 financial statements. As a result of these efforts, along with efforts to complete its assessment of internal control over financial reporting as of December 29, 2007, as required by Section 404 of the Sarbanes-Oxley Act of 2002, the Company incurred significant incremental fees and expenses for additional auditor services, financial and other consulting services, and legal services. While the Company does not expect fees and expenses relating to the preparation of its financial results for future periods to remain at this level, the Company expects that these fees and expenses will remain significantly higher than historical fees and expenses through the end of 2008. These expenses, as well as the substantial time devoted by the Company s management towards addressing these weaknesses, could have a material and adverse effect on the Company s financial condition, results of operations, and cash flows.

Failure to timely file periodic reports with the SEC could limit our ability to access capital markets.

We did not file our periodic reports with the SEC on a timely basis during fiscal years 2005, 2006, or 2007. Our ability to access the capital markets is subject to our timely filing of periodic reports with the SEC, and our failure to file certain reports on a timely basis limits our ability to access the capital markets using a short-form registration.

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

The Company is involved in legal actions and claims arising in the ordinary course of business. In addition, the Company may face exposure from parties claiming damages as a result of the restatement. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material effect on the Company s financial position and results of operations.

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

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

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

Until the existing litigation and regulatory investigations, any additional litigation or regulatory investigation, and any claims or issues that may arise in connection with the historical conduct of the business are resolved, it may be more difficult for us to raise additional capital or incur indebtedness or other obligations. If an unfavorable result occurred in any such action, our business and financial condition could be further adversely affected.

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

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

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

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

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

Our insurance providers may be unable to perform under their obligations.

We have insurance receivables of $16.2 million on our balance sheet at December 29, 2007, including $15 million for the settlement of litigation related to the restatement. Although we believe our insurance providers are creditworthy and that we will collect all amounts owed to us, the failure of these institutions to perform under their obligations could have a material adverse effect on the Company s financial condition, results of operations, and cash flows.

Item 1B. Unresolved Staff Comments.

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

<u>Item 2.</u> **<u>Properties.</u>**

Our principal corporate office is located in Ann Arbor, Michigan. Our principal operating office is located in Dallas, Texas. For our VED operations, we lease facilities in Dallas, Texas, Charlottesville, Virginia and Tucson, Arizona. We also previously leased facilities in Canada and the United Kingdom associated with discontinued operations which were assumed by the buyer of PQIL in February 2007.

At year end 2006, we leased 187,918 square feet of office space in Ann Arbor, Michigan for corporate and PQIL operations. The Company announced plans after the sale of PQBS and PQIL to transition all of its corporate functions from its Ann Arbor headquarters to Dallas during 2007 and 2008. From the date of the sale of PQIL, the Company subleased substantial space to the buyer of PQIL, and space used by corporate was reduced to just 31,953 square feet by year end 2007 in order to continue performing certain corporate functions. The Company, the owner of the leased buildings in Ann Arbor, and the buyer of PQIL reached an agreement in March 2008 whereby the buyer of PQIL took full responsibility for the lease of the corporate headquarters and former PQIL space in exchange for the Company paying $11 million to the buyer of PQIL. Under the terms of the March agreement, we terminated our Ann Arbor leases and signed a sublease for 13,090 square feet in Ann Arbor, which is sufficient to house our remaining corporate functions and certain VED operations.

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

	Total (sq ft)
Owned	
Leased	**172,603**
Total	**172,603**

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

<u>Item 3.</u> **<u>Legal Proceedings.</u>**

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 U.S. District Court for the Eastern District of Michigan against the Company and certain of its former and then-current officers and directors. The case was assigned to the Honorable Avern Cohn. Each of the substantially similar lawsuits alleged that the defendants violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as the associated Rule 10b-5, in connection with the Company s proposed restatement.

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

On January 14, 2008, plaintiffs filed a motion to certify a class of all persons who purchased shares of Company stock between February 21, 2001 and December 14, 2006, inclusive. Defendants opposed that motion on several grounds and 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 all claims related to the financial statements with remaining amounts to be paid by 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 U.S. District Court for the Eastern District of Michigan, purportedly on behalf of the Company against certain current and former officers and directors of the Company by certain of the Company s shareholders. Each lawsuit asserted claims against certain of the current and former officers and directors of the Company and one of its subsidiaries for, among other things, breaches of fiduciary duty, gross mismanagement and unjust enrichment. Both cases were assigned to Honorable Avern Cohn, who entered a stipulated Order staying the litigation pending completion of the Company s restatement and a special committee investigation into the restatement.

On January 29, 2008, the Court entered an order consolidating the two cases and approving co-lead and co-liaison counsel representing plaintiffs. Pursuant to a stipulated scheduling order entered on February 15, 2008, plaintiffs filed a consolidated amended complaint on March 20, 2008. The consolidated amended complaint purports to state claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, rescission, imposition of a constructive trust, violations of the Sarbanes-Oxley Act of 2002 and violations of the Securities Exchange Act of 1934 against current and former officers or directors of the Company and one of its subsidiaries. On December 3, 2008 the Company reached an agreement in principle to settle the shareholder derivative litigation law suit filed against it and certain officers and directors in the 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. 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 SEC (Commission) filed a settled enforcement action against the Company in the U.S. 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 was imposed. The settlement fully resolves the previously disclosed SEC investigation of the Company s restatement.

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

No matters have been submitted to a vote of shareholders since June 15, 2005.

Part II

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

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

As of October 31, 2008, there were 757 holders of record of our common stock.

The high and low closing sales prices of our common stock on the NYSE/Pink Sheets Electronic Quotation Service were as follows:

	2007		2006	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
First	**$ 12.14**	**$ 8.23**	**$ 29.75**	**$ 20.97**
Second	**10.36**	**8.32**	**22.46**	**10.66**
Third	**9.85**	**6.94**	**13.57**	**11.20**
Fourth	**8.20**	**4.75**	**14.20**	**9.26**

	2008	
Fiscal Quarter	**High**	**Low**
First	**$ 7.15**	**$ 5.95**
Second	**6.55**	**4.95**
Third	**5.20**	**3.93**

We made no share repurchases in the fiscal year ended December 29, 2007.

We have not declared or paid any cash dividends to our shareholders. We have no plans to declare or pay cash dividends in the near future. Any future determination to pay dividends will be at the discretion of our Board of Directors.

Item 6. Selected Financial Data.

The following selected consolidated financial and operating data for continuing operations have been derived from our Consolidated Financial Statements as of the end of and for each of the fiscal years in the five-year period ended December 29, 2007. With the sale of PQBS in November 2006 and the sale of PQIL in February 2007, fiscal years 2003 through 2007 have the results of these operations reclassified as discontinued operations. You should read Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the accompanying notes included elsewhere herein. Our historical financial data will not be indicative of our future performance as a result of these recent divestitures.

			Fiscal		
(Dollars in thousands, except per share data)	**2007**	**2006**	**2005**	**2004**	**2003**
Continuing Operations Data: [(1)] [(2)]					
Net sales	**$ 109,612**	**$ 115,051**	**$ 90,967**	**$ 1,837**	**$**
Cost of sales	**(55,720)**	**(57,279)**	**(48,474)**	**(360)**	
Gross profit	**53,892**	**57,772**	**42,493**	**1,477**	
Research and development expense	**(4,532)**	**(5,198)**	**(4,127)**		
Selling and administrative expense [(3)]	**(86,529)**	**(96,698)**	**(51,498)**	**(18,107)**	**(21,070)**
Goodwill impairment [(4)]	**(67,232)**	**(42,496)**			
Loss from continuing operations before interest and income taxes	**(104,401)**	**(86,620)**	**(13,132)**	**(16,630)**	**(21,070)**
Net interest income (expense)	**335**	**(27,464)**	**(18,915)**	**(378)**	**(100)**
Sublease income	**4,408**				
Income tax benefit (expense) [(5)]	**12,396**	**64,063**	**1,778**	**(25,097)**	**(7,909)**
Loss from continuing operations	**$ (87,262)**	**$ (50,021)**	**$ (30,269)**	**$ (42,105)**	**$ (29,079)**
Basic and diluted loss from continuing operations per common share	**$ (2.92)**	**$ (1.68)**	**$ (1.03)**	**$ (1.47)**	**$ (1.02)**

			At the End of Fiscal		
(Dollars in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Balance Sheet Data:					
Cash and cash equivalents	**$ 53,868**	**$ 39,902**	**$ 30,957**	**$ 4,313**	**$ 3,809**
Total assets	**402,727**	**833,531**	**917,114**	**535,968**	**715,390**
Long-term debt and capital leases, less current maturities [(6)]	**810**	**1,592**	**860**	**150,000**	**191,000**
Total debt and capital leases [(6)]	**1,599**	**60,664**	**516,149**	**154,185**	**191,300**
Total shareholders equity (deficit) [(7)]	**290,330**	**306,994**	**(48,447)**	**(51,073)**	**116,911**

Footnotes to the Selected Financial Data:

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

(2) The Company implemented a plan to sell its PQBS and PQIL operations during the second quarter of 2006. The sale of PQBS was completed in November 2006 and the sale of PQIL was completed in February 2007. Results of operations for PQBS and PQIL are reported as results from discontinued operations for all periods presented.

(3) In 2007 and 2006, respectively, selling and administrative expenses include corporate costs of $35.2 million and $47.3 million, the majority of which are associated with the closing of the Ann Arbor offices, financial restatements, and completion of the sale of PQBS and PQIL. The transition of corporate offices from Ann Arbor, MI to Dallas, TX is expected to be completed by year-end 2008.

(4) The required annual testing for impairment of goodwill disclosed that we experienced goodwill impairment for the VED business unit in 2007 and 2006. See Note 5 to our Consolidated Financial Statements included herein for further details.

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

(6) Upon closing on the sale of PQBS on November 28, 2006, we made a pro-rata payment of 89% of the principal then outstanding under our 2002 Notes, our 2005 Notes and our Credit Agreement. Upon closing on the sale of PQIL on February 9, 2007, we paid our remaining balances owed to our bank lenders and Noteholders and were released from all obligations under the 2002 Note Purchase Agreement, the 2005 Note Purchase Agreement, and the Credit Agreement.

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

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

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report for the year ended December 29, 2007.

Organization of Information

Management s Discussion and Analysis includes the following sections:

- Overview
- Critical Accounting Policies and Estimates
- Results of Continuing Operations
- Fiscal Year 2007 Compared to Fiscal Year 2006
- Fiscal Year 2006 Compared to Fiscal Year 2005

- Liquidity and Capital Resources
- Capital Expenditures and Outlook
- Commitments and Contractual Obligations
- Recently Issued Financial Accounting Standards

Overview

As of December 29, 2007, we provide products and services through one business segment, Voyager Education.

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

Prior to its sale in February 2007, the PQIL segment primarily served the education market. PQIL collected, organized, and published content from a wide range of sources including newspapers, periodicals, and books. On February 9, 2007, we sold PQIL for $195.2 million after final adjustments for working capital and assumed liabilities. As such, the results from operations for PQIL are included as discontinued operations and the assets and liabilities are classified as related to discontinued operations in the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

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

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

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

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

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

Discontinued Operations. We sold PQBS on November 28, 2006. Accordingly, the operating results of PQBS have been segregated from our continuing operations and are separately reported as discontinued operations and the assets and liabilities are shown as related to discontinued operations at estimated fair value in the Consolidated Financial Statements.

We sold PQIL on February 9, 2007. Accordingly, the operating results of PQIL have been segregated from our continuing operations and are separately reported as discontinued operations and the assets and liabilities are shown as related to discontinued operations at estimated fair value in the Consolidated Financial Statements.

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

Acquisitions. We acquired VEL on January 31, 2005, and acquired ExploreLearning on February 25, 2005. These businesses and Learning A-Z (formerly Reading A-Z), which we acquired on April 23, 2004, were combined to create the VED reporting segment. The results of VEL s and ExploreLearning s operations subsequent to the acquisition date are included in the Consolidated Financial Statements.

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

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

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

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

Reserve for Obsolete Inventory. We estimate a reserve for obsolete inventory. Inventory reserves are reviewed on a periodic basis and required adjustments, if any, are made.

Equity Securities. We classify our investments in equity securities as available-for-sale in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). Our available-for-sale securities represent assets held in a rabbi trust, related to an executive deferred compensation plan, that permits liquidation at will by the employee. Available-for-sale securities are carried at fair value with the unrealized gain or loss, net of tax, reported in Other comprehensive income (loss) on our Consolidated Balance Sheet. The estimated fair market values of investments are based on quoted market prices as of the end of the reporting period.

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

Other Contingencies. Other contingencies are recorded when it is probable that a liability exists and the value can be reasonably estimated.

Results of Continuing Operations

VEL and ExploreLearning were both acquired in 2005 and Learning A-Z was acquired in 2004. These operations together are Voyager Education and comprise our single reporting segment as of year end 2007. The continuing operations presented below include the operational activities for VED and the activities based in Ann Arbor, Michigan required to finalize the restatement efforts, transition the corporate office to Dallas, Texas, and complete the sale of PQIL.

We determined to sell PQBS and PQIL in the second quarter of 2006. PQBS was sold on November 28, 2006 and PQIL was sold on February 9, 2007 and therefore their results are classified as discontinued operations and excluded from the following discussion.

(Dollars in thousands)	2007		Fiscal 2006		2005	
	Amount	% of sales	Amount	% of sales	Amount	% of sales
Net sales	$ 109,612	100.0	$ 115,051	100.0	$ 90,967	100.0
Cost of sales	(55,720)	(50.8)	(57,279)	(49.8)	(48,474)	(53.3)
Gross profit	53,892	49.2	57,772	50.2	42,493	46.7
Research and development expense	(4,532)	(4.1)	(5,198)	(4.5)	(4,127)	(4.5)
Selling and administrative expense	(86,529)	(78.9)	(96,698)	(84.1)	(51,498)	(56.6)
Goodwill impairment	(67,232)	(61.4)	(42,496)	(36.9)		
Loss from continuing operations before interest and income taxes	(104,401)	(95.2)	(86,620)	(75.3)	(13,132)	(14.4)
Net interest income (expense)	335	0.3	(27,464)	(23.8)	(18,915)	(20.8)
Sublease income	4,408	4.0				
Income tax benefit (expense)	12,396	11.3	64,063	55.6	1,778	1.9
Loss from continuing operations	$ (87,262)	(79.6)	$ (50,021)	(43.5)	$ (30,269)	(33.3)

Fiscal Year 2007 Compared to Fiscal Year 2006

Net Sales.

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

Total net sales from continuing operations decreased $5.5 million, or 4.8%, to $109.6 million in 2007. In 2007, the Company deferred a larger percentage of sales than in 2006 as we continue the trend of including more service and technology in our products. On-line access and service elements are delivered over time rather than immediately shipped to customers like printed materials. The Company defers the revenue associated with those services and on-line access and recognizes the revenue over the period they are delivered.

Gross Profit.

(Dollars in millions)	2007	2006
VED	**$ 53.9**	**$ 57.8**

Cost of sales includes expenses to print, purchase, handle and warehouse product and to provide services and support to customers. Additionally, cost of sales includes amortization related to our acquired and developed curriculum and certain other operational assets. Our gross profit percentage for 2007 decreased one percentage point to 49.2% compared to 50.2% for 2006. The decrease is due to the deferral of a larger percentage of sales in 2007 versus 2006, which reduced net sales but had less impact on cost of sales. The higher deferral percentages are primarily due to increased revenue attributed to our online materials, which are recognized over the period access is provided. VED sales and, therefore, its gross profit are subject to seasonality with the first and fourth quarters being the weakest.

Research and Development.

(Dollars in millions)	2007	2006
VED	**$ 4.5**	**$ 5.2**

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for fiscal 2007 decreased $0.7 million to $4.5 million compared to fiscal 2006, but remained relatively flat as a percentage of revenues, representing 4.1% of revenues in fiscal 2007 versus 4.5% in fiscal 2006.

Selling and Administrative.

(Dollars in millions)	2007	2006
VED	**$ 51.3**	**49.4**
Corporate	**35.2**	**47.3**
Total	**$ 86.5**	**$ 96.7**

Selling and administrative expenses decreased $10.2 million, or 10.5%, to $86.5 million compared to fiscal 2006. Selling and administrative activities include $35.2 million in fiscal 2007 and $47.3 million in fiscal 2006 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 $12.1 million, or 25.6%, as a result of higher professional fees incurred in fiscal 2006 related to the restatement efforts.

Excluding the corporate costs, selling and administrative expenses increased $1.9 million, or 3.8%, year over year, and represented 46.8% and 42.9% as a percentage of revenues in fiscal 2007 and 2006, respectively. The increase is the result of higher spending for sales resources and activities in an increasingly competitive market.

Net Interest Income (Expense).

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

Net interest income (expense) totaled $0.3 million in fiscal 2007 versus $(27.5) million in fiscal 2006. On November 28, 2006, we sold PQBS to Snap-on Incorporated and used the proceeds to reduce outstanding debt. In December 2006, we announced the sale of PQIL including all remaining foreign subsidiaries to Cambridge Scientific Abstracts, LP. This sale closed on February 9, 2007, and we used a portion of the proceeds from that sale to pay off all remaining debt, excluding capital leases. The result of this activity was to eliminate interest expense associated with long-term debt other than capital leases effective February 2007. Additionally, higher cash balances during 2007, primarily as a result of the proceeds, increased earnings on cash balances and investments.

Sublease Income.

The Company announced plans after the sale of PQBS and PQIL to transition all of its corporate functions from its Ann Arbor headquarters to Dallas during 2007 and 2008. From the date of the sale of PQIL in February 2007, the Company subleased substantial space to the buyer of PQIL through March 2008 resulting in sublease income totaling $4.4 million in fiscal 2007.

Income Tax Expense.

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

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

The above factors are summarized below:

(Dollars in millions)	2007	2006
Taxes at statutory federal income tax rate	**$ (34.9)**	**$ (39.9)**
Non-deductible goodwill impairment	**23.5**	**14.9**
Change of intent for investment basis difference		**(37.5)**
Other	**(1.0)**	**(1.6)**
Total tax benefit from continuing operations	**$ (12.4)**	**$ (64.1)**

Discontinued Operations.

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

In December 2006, we announced the sale of our PQIL businesses. The sale was completed in February 2007 for $195.2 million after final adjustments for working capital and assumed liabilities. Accordingly, the operating results of the PQIL businesses have been segregated from our continuing operations and reported as earnings from discontinued operations. The assets and liabilities were reported at estimated fair value as assets and liabilities related to discontinued operations as of December 30, 2006. We recognized a gain on the sale of discontinued operations of $46.6 million (net of tax) due to the sale of PQIL in fiscal 2007.

Goodwill Impairment.

For fiscal 2007, we performed our annual impairment testing of goodwill and impairment testing of long-lived assets as of December 29, 2007. As a result of this testing, we recorded an impairment to goodwill of VED totaling $67.2 million. In conducting our annual goodwill impairment testing, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED using a discounted cash flow method.

These estimates of fair market are dependent on multiple assumptions and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2007, the estimated fair market value of VED was estimated to have fallen below the book value as a result of lower future cash flow projections, driven by 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.

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

Fiscal Year 2006 Compared to Fiscal Year 2005

Net Sales.

(Dollars in millions)	2006	2005
Reading programs	**$ 91.6**	**$ 81.3**
Math and science programs	**8.1**	**1.6**
Professional development	**9.0**	**4.3**
Other	**6.4**	**3.8**
TOTAL	**$ 115.1**	**$ 91.0**

Total Company net sales from continuing operations increased $24.1 million to $115.1 million in 2006.

The increase in net sales is primarily the result of increased sales in our reading and math and science programs and reporting a full year s activity in 2006 for Voyager Expanded Learning and ExploreLearning.

Gross Profit.

(Dollars in millions)	2006	2005
VED	$ 57.8	$ 42.5

Our gross profit percentage for 2006 increased 3.5 percentage points to 50.2% compared to 46.7% for 2005.

Research and Development.

(Dollars in millions)	2006	2005
VED	$ 5.2	$ 4.1

Our research and development expenditures include investments for curriculum and software development, net of capitalization. Research and development expense for fiscal 2006 increased to $5.2 million compared to $4.1 million for fiscal 2005.

Selling and Administrative.

(Dollars in millions)	2006	2005
VED	$ 49.4	$ 34.4
Corporate	47.3	17.1
Total	$ 96.7	$ 51.5

Selling and administrative expense on a consolidated basis was $96.7 million for 2006 and $51.5 million for 2005. VED expense increased $15.0 million or 43.6% mainly as a result of increased sale activity. Corporate expense increased $30.2 million or 176.6% as a result of professional fees incurred to complete the restatement of prior year financial results.

Net Interest Expense.

(Dollars in millions)	2006	2005
Interest income	$ 1.1	$ 0.4
Debt	(28.1)	(18.7)
Other	(0.5)	(0.6)
Total	$ (27.5)	$ (18.9)

Net interest expense increased to $27.5 million in 2006, compared to $18.9 million in 2005 as a result of higher interest rates imposed by our lenders as a result of being in default of our loan covenants.

The Company used the proceeds from the sale of the PQBS businesses on November 28, 2006 and PQIL businesses on February 9, 2007 to fully repay all of its outstanding debt balances.

Income tax expense.

In 2005, the Company attributed an income tax benefit of $1.8 million to continuing operations. Pre-tax losses at statutory tax rates provided a tax benefit of approximately $11.2 million. However the income tax benefit was less than what would typically be expected because the benefit was limited to the income tax expense attributable to discontinued domestic operations.

Discontinued Operations.

With the sale of PQBS in November 2006 and the announced sale of PQIL in December 2006, results of operations for these two entities have been classified as discontinued operations for 2006 and 2005. We recognized a gain on the sale of discontinued operations of $347.7 million (net of tax) due to the sale of PQBS in fiscal 2006.

Acquisitions.

On January 31, 2005, we acquired all the outstanding ownership interest in VEL. The total consideration paid for all the issued and outstanding common stock of VEL was approximately $370 million. The consideration included $20.4 million in restricted common stock consisting of approximately 683,000 shares, as well as a $10.7 million working capital adjustment paid in the second quarter of 2005. The number of restricted common stock shares was determined based on the closing price of our common stock on January 31, 2005 as stated in the agreement and plan of merger. The value of the restricted common stock shares was determined using the average of the closing price over a reasonable period of time before and after the terms of the acquisition were agreed to and announced on December 14, 2004. We also agreed to pay up to an additional $20 million in the aggregate to the shareholders of VEL based upon VEL s revenue performance during the period from April 1, 2005 through March 31, 2006. The revenue performance targets were not achieved; therefore, no additional consideration was paid.

On February 25, 2005, we completed the acquisition of ExploreLearning for an aggregate cash consideration of $2.9 million and the assumption of certain liabilities.

Liquidity and Capital Resources

As of December 29, 2007, the Company did not have any debt with the exception of certain capital leases. We used the proceeds from the sale of the PQBS businesses on November 28, 2006 and PQIL businesses on February 9, 2007 to fully repay all of our outstanding debt balances, excluding capital leases. Cash and cash equivalents increased to $53.9 million at December 29, 2007 compared to $39.9 million at December 30, 2006.

In 2007, cash used in operating activities from continuing operations was $82.2 million, which includes net tax payments of $66.6 million. Additionally, operating cash outflows include expenditures related to personnel and 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, as well as contributions made to legacy employee benefit plans. Excluding these items, operating cash flows from continuing operations was positive.

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

Other significant uses of cash for continuing operations during fiscal 2007 included:

$58.5 million for debt repayment and debt-related costs including fees and required make-whole premiums;

$8.8 million of expenditures related to property, plant, equipment, curriculum development costs, and software; and

$0.8 million for principal payments on capital leases.

The sale of PQIL generated $186.3 million net of selling costs. Net proceeds generated from the sale or maturity of marketable securities were $1.1 million.

Net cash used in discontinued operations in fiscal 2007 was $23.2 million. We made payments of $22.9 million in early 2007 to the United Kingdom (U.K.) pension plan concurrent with the sale of PQIL in February 2007. As a result of the sale of PQIL in 2007, the obligation for our U.K. pension plan was assumed by the buyer of PQIL and as of February 2007 we have no further obligation to make U.K. pension contributions.

Capital Expenditures and Outlook

(Dollars in millions)	**2007**	**2006**	**2005**
Curriculum development costs	**$ 5.4**	**$ 3.6**	**$ 5.9**
Fixed capital	**0.6**	**9.2**	**3.4**
Software	**2.8**	**1.6**	
Total expenditures for property, equipment, curriculum development costs, and software	**$ 8.8**	**$ 14.4**	**$ 9.3**

Capital spending for continuing operations in 2007 was approximately $8.8 million.

Capital spending in 2008 is expected to decline relative to 2007. Capital expenditures for 2008 will be concentrated primarily on ongoing and new product development which management believes will generate future sales growth.

As of October 31, 2008, we have cash, cash equivalents, and short-term investments totaling $70.0 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 VED operations will be adequate to fund the working capital and capital expenditures necessary to support our currently expected sales for the foreseeable future.

Commitments and Contractual Obligations

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

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

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 CSA relating to certain obligations regarding the capital and operating leases for certain property and equipment used at its 777 and 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, the Company conveyed, assigned, transferred and delivered to CSA all of its right, title and interest and benefit of certain property and equipment, such as office furniture, phone and power supply systems, and video equipment. The Company was released from all obligations relating to those leases. Relational, as lessor consented to such assignments. The release of the Company through assignment of these capital and operating leases from Relational resulted in a reduction of future lease payment obligations of $1.3 million and $0.3 million for capital and operating leases, respectively.

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. The Company paid CSA $11.0 million, a portion of which was distributed to Transwestern for termination of the lease relating to 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 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. The release of the Company from these two long term operating leases results in a reduction of future lease payment obligations of $47.8 million.

Pursuant to a Sublease Agreement entered into between the Company and CSA effective March 7, 2008, the Company subleased certain space located in the 789 Facility under operating leases. The term of such sublease (i) is for six months from the Closing Date of March 7, 2008, with month to month extensions thereafter but not past December 31, 2008, for approximately 10,030 square feet to be utilized by the Company s remaining corporate functions in such facility, and (ii) runs from the Closing Date until December 31, 2008, with optional semi-annual extensions thereafter but not past December 31, 2010, for approximately 3,060 square feet to be utilized by the Company for certain technology related functions in the 789 Facility. Future lease payment obligations related to the Sublease Agreement total $0.2 million for fiscal 2008.

The following table summarizes our significant operational and contractual obligations and commercial commitments at December 29, 2007 showing the future periods in which such obligations are expected to be settled in cash, which includes the net effect of reducing certain obligations associated with the assignment, sublease or termination of certain capital and operating leases as described above:

(Dollars in millions)	Total	2008	2009 & 2010	2011 & 2012	After 2012
Capital lease obligation as of December 29, 2007	**$ 1.8**	**$ 0.9**	**$ 0.8**	**$ 0.1**	**$**
Lease obligation assigned to CSA	**(1.3)**	**(0.6)**	**(0.6)**	**(0.1)**	
Capital lease obligation as of December 29, 2007, including 2008 lease assignment	**$ 0.5**	**$ 0.3**	**$ 0.2**	**$**	**$**
Operating lease obligation as of December 29, 2007	**$ 52.4**	**$ 4.8**	**$ 8.9**	**$ 6.9**	**$ 31.8**
Lease obligation terminated or assigned to CSA	**(48.5)**	**(2.9)**	**(6.9)**	**(6.9)**	**(31.8)**
Operating lease obligation as of December 29, 2007, including 2008 lease termination and assignments	**$ 3.9**	**$ 1.9**	**$ 2.0**	**$**	**$**

We also have $21.0 million in obligations with respect to our pension and post-retirement medical benefit plans. For further information see Note 13 to our Consolidated Financial Statements included herein.

We have letters of credit in the amount of $1.0 million outstanding as of December 29, 2007 to support workers compensation insurance coverage as well as collateral for the Company s credit card and Automated Clearinghouse (ACH) programs.

As of December 29, 2007, the Company had approximately $0.8 million of long-term income tax liabilities that have a high degree of uncertainty regarding the timing of the future cash outflows. The Company is unable to reasonably estimate the years when settlement will occur with the respective tax authorities.

Recently Issued Financial Accounting Standards

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

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

Interest Rate Risk

At December 29, 2007 and as of the date of this filing, we did not have any interest rate forwards or option contracts outstanding.

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, excluding capital leases, the Company no longer has any material interest rate risk.

Foreign Currency Risk

At December 29, 2007 and as of the date of this filing, we had no outstanding foreign currency forwards or option contracts.

As a result of the divestiture of PQBS on November 28, 2006 and PQIL on February 9, 2007 and subsequent payment of all its outstanding debt, the Company no longer has any material exposure to changes in foreign currency rates.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Voyager Learning Company

We have audited Voyager Learning Company and subsidiaries (the Company , formerly known as ProQuest Company) internal control over financial reporting as of December 29, 2007 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 29, 2007, and the related consolidated statements of operations, shareholders equity and comprehensive loss, and cash flows for the fiscal year then ended, and our report dated December 4, 2008, expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ Whitley Penn LLP

Dallas, Texas
December 4, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Voyager Learning Company

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

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 4, 2008 expressed an unqualified opinion.

/s/ Whitley Penn LLP

Dallas, Texas
December 4, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Voyager Learning Company

We have audited the accompanying consolidated balance sheet of Voyager Learning Company (formerly known as ProQuest Company) (the Company) and subsidiaries as of December 30, 2006, and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for each of the fiscal years in the two-year period ended December 30, 2006. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule II for the fiscal years ended December 30, 2006 and December 31, 2005. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Voyager Learning Company and subsidiaries as of December 30, 2006, and the results of their operations and their cash flows for each of the fiscal years in the two-year period ended December 30, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the fiscal years ended December 30, 2006 and December 31, 2005, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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

/s/ KPMG LLP

Detroit, Michigan
September 17, 2008

Voyager Learning Company and Subsidiaries

Consolidated Statements of Operations

For the fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(In thousands, except per share data)	2007	2006	2005
Net sales	$ 109,612	$ 115,051	$ 90,967
Cost of sales	(55,720)	(57,279)	(48,474)
Gross profit	53,892	57,772	42,493
Research and development expense	(4,532)	(5,198)	(4,127)
Selling and administrative expense	(86,529)	(96,698)	(51,498)
Goodwill impairment	(67,232)	(42,496)	
Loss from continuing operations before interest and income taxes	(104,401)	(86,620)	(13,132)
Net interest income (expense):			
Interest income	3,682	1,080	430
Interest expense	(3,347)	(28,544)	(19,345)
Net interest income (expense)	335	(27,464)	(18,915)
Sublease income	4,408		
Loss from continuing operations before income taxes	(99,658)	(114,084)	(32,047)
Income tax benefit	12,396	64,063	1,778
Loss from continuing operations	(87,262)	(50,021)	(30,269)
Earnings from discontinued operations (less applicable income tax expense of $1,491, $23,776, and $12,665, respectively)	5,460	44,926	20,019
Gain on sale of discontinued operations (less applicable income tax expense of $11,160, $66,321, and $0, respectively)	46,572	347,708	
Net earnings (loss)	$ (35,230)	$ 342,613	$ (10,250)
Net earnings (loss) per common share:			
Basic:			
Loss from continuing operations	$ (2.92)	$ (1.68)	$ (1.03)
Earnings from discontinued operations	0.18	1.51	0.68
Gain on sale of discontinued operations	1.56	11.66	
Basic net earnings (loss) per common share	$ (1.18)	$ 11.49	$ (0.35)
Diluted:			
Loss from continuing operations	$ (2.92)	$ (1.68)	$ (1.03)
Earnings from discontinued operations	0.18	1.51	0.68
Gain on sale of discontinued operations	1.56	11.66	
Diluted net earnings (loss) per common share	$ (1.18)	$ 11.49	$ (0.35)
Average number of common shares and equivalents outstanding:			
Basic	29,858	29,816	29,650
Diluted	29,858	29,816	29,650

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

Voyager Learning Company and Subsidiaries

Consolidated Balance Sheets

As of December 29, 2007 and December 30, 2006

(Dollars and shares in thousands)	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,868	$ 39,902
Accounts receivable, net	9,266	15,333
Income tax receivable	65,600	9,858
Inventory	16,005	12,601
Other current assets	16,489	69,552
Assets related to discontinued operations, current		70,712
Total current assets	161,228	217,958
Property, equipment, and software at cost:		
Buildings and improvements	10,666	10,590
Machinery and equipment	5,975	5,788
Software	7,284	4,536
Total property, equipment, and software at cost	23,925	20,914
Accumulated depreciation and amortization	(8,584)	(5,124)
Net property, equipment and software	15,341	15,790
Goodwill	142,858	210,090
Acquired curriculum intangibles, net	51,206	65,625
Other intangible assets, net	6,411	8,323
Developed curriculum, net	9,333	6,997
Other assets	16,350	18,145
Assets related to discontinued operations, noncurrent		290,603
Total assets	$ 402,727	$ 833,531

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

Voyager Learning Company and Subsidiaries

Consolidated Balance Sheets

As of December 29, 2007 and December 30, 2006

(Dollars and shares in thousands)	2007	2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 789	$ 59,072
Accounts payable	4,403	10,056
Accrued expenses	25,315	83,773
Deferred revenue	19,822	17,705
Liabilities related to discontinued operations, current		215,264
Total current liabilities	50,329	385,870
Long-term liabilities:		
Long-term debt, less current maturities	810	1,592
Other liabilities	61,258	96,653
Liabilities related to discontinued operations, noncurrent		42,422
Total long-term liabilities	62,068	140,667
Commitments and contingencies (See Note 17)		
Shareholders equity:		
Common stock ($.001 par value, 50,000 shares authorized, 30,552 shares issued and 29,883 shares outstanding at the end of fiscal 2007, and 30,565 shares issued and 29,910 shares outstanding at the end of fiscal 2006)	30	30
Capital surplus	356,683	356,655
Accumulated earnings (deficit)	(47,723)	(33,373)
Treasury stock, at cost (669 shares at the end of fiscal 2007 and 655 shares at the end of fiscal 2006)	(16,742)	(16,577)
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment, net of tax expense of zero and $2,739, respectively		25,989
Pension and postretirement plans, net of tax benefit of $713 in each year	(2,088)	(26,401)
Net unrealized gain on securities, net of tax expense of $39 in each year	170	671
Accumulated other comprehensive income (loss)	(1,918)	259
Total shareholders equity	290,330	306,994
Total liabilities and shareholders equity	$ 402,727	$ 833,531

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

Voyager Learning Company and Subsidiaries

Consolidated Statements of Cash Flows

For the fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(Dollars in thousands)	2007	2006	2005
Operating activities:			
Net earnings (loss)	$ (35,230)	$ 342,613	$ (10,250)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:			
Goodwill and long-lived asset impairment	67,232	42,496	
Gain on sale of discontinued operations, net of tax	(46,572)	(347,708)	
Earnings from discontinued operations, net of tax	(5,460)	(44,926)	(20,019)
Depreciation and amortization	23,190	23,865	20,513
Amortization and write-off of deferred financing costs	2,286	9,003	632
Stock-based compensation	137	4,309	1,166
Excess tax benefit realized related to stock-based compensation		(92)	
Gain on sale of available for sale securities	(508)	(405)	(49)
Deferred income taxes	(12,671)	(64,105)	(2,484)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(49,675)	5,723	(7,686)
Inventory	(3,404)	371	(5,192)
Other current assets	52,009	2,890	(711)
Other assets	(1,205)	(14,970)	1,086
Accounts payable	661	(2,295)	7,159
Accrued expenses	(61,113)	(3,623)	9,091
Deferred revenue	3,385	3,685	8,096
Other long-term liabilities	(15,217)	32,455	(9,638)
Other, net	(4)	(133)	(245)
Net cash used in operating activities of continuing operations	(82,159)	(10,847)	(8,531)
Investing activities:			
Expenditures for property, equipment, curriculum development costs, and software	(8,755)	(14,408)	(9,275)
Acquisitions, net of cash acquired			(346,129)
Purchases of equity investments available for sale	(7,777)	(6,664)	(3,684)
Proceeds from sales of equity investments available for sale	8,843	11,521	2,135
Proceeds from (expenditures associated with) sale of discontinued operations, net	186,342	501,231	(211)
Net cash provided by (used in) investing activities of continuing operations	178,653	491,680	(357,164)
Financing activities:			
Proceeds from debt		561,059	538,950
Repayment of debt	(58,225)	(1,015,798)	(178,613)
Principal payments under capital lease obligations	(840)	(746)	(267)
Debt issuance costs	(302)	(8,379)	(2,071)
Proceeds from exercise of stock options, net		589	8,904
Excess tax benefit realized related to stock-based compensation		92	
Net cash provided by (used in) financing activities of continuing operations	(59,367)	(463,183)	366,903
Effect of exchange rate changes on cash		(7,148)	(662)
Increase in cash and cash equivalents of continuing operations	37,127	10,502	546
Net cash provided by (used in) discontinued operations:			

Net cash provided by (used in) operating activities	**(19,891)**	**66,716**	**110,927**
Net cash used in investing activities	**(2,540)**	**(47,510)**	**(48,408)**
Net cash used in financing activities	**(730)**	**(20,763)**	**(36,421)**
Net cash provided by (used in) discontinued operations	**(23,161)**	**(1,557)**	**26,098**
Increase in cash and cash equivalents	**13,966**	**8,945**	**26,644**
Cash and cash equivalents, beginning of year	**39,902**	**30,957**	**4,313**
Cash and cash equivalents, end of year	**$ 53,868**	**$ 39,902**	**$ 30,957**
Non-cash financing and investing activities:			
Common/Treasury stock issued in connection with acquisitions	**$**	**$**	**$ 20,362**
Acquisition of equipment through capital leases	**$**	**$ 1,937**	**$ 948**

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

Voyager Learning Company and Subsidiaries

Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss)

For the fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(Dollars and shares in thousands)	Common Stock Issued	Common Stock Treasury	Capital Surplus	Unearned Compensation on Restricted stock	Notes Receivable for Stock Purchases	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, at the end of fiscal 2004 (Common stock, 29,354 shares issued; treasury stock, 615 shares)	$ 29	$ (15,176)	$ 318,927	$ (236)	$ (194)	$ (365,736)	$ 11,313	$ (51,073)
Comprehensive income (loss):								
Net loss						(10,250)		(10,250)
Foreign currency translation adjustments							(10,772)	(10,772)
Pension and postretirement plans (net of tax benefit of $3,099)							(8,495)	(8,495)
Unrealized gain on securities, net							256	256
Total comprehensive income (loss)								(29,261)
Restricted stock grant, net of cancellations, 121 shares			4,052	(4,052)				
Restricted stock amortization				1,166				1,166
Voyager Purchase, 683 shares	1		20,362					20,363
Stock options exercised, net 354 shares			8,904					8,904
Stock option swaps/reloads, 51 shares, 32 treasury shares		(1,148)	1,013					(135)
Tax benefit from stock options exercised			1,621					1,621
Notes receivable settlement, 6 treasury shares		(226)			194			(32)
Balance, at the end of fiscal 2005 (Common stock, 30,563 shares issued; treasury stock, 653 shares)	$ 30	$ (16,550)	$ 354,879	$ (3,122)	$	$ (375,986)	$ (7,698)	$ (48,447)
Comprehensive income (loss):								
Net earnings						342,613		342,613
Foreign currency translation adjustments (net of tax expense of $2,739)							14,292	14,292
Pension and postretirement plans (net of tax expense of $7,059)							(6,163)	(6,163)
Unrealized gain on securities							21	21
Total comprehensive income (loss)								350,763
Adoption of SFAS 158							(193)	(193)
Restricted stock grant, 2 shares			(60)	60				
Restricted stock amortization, net of cancellations, 29 shares			1,259					1,259
Stock-based compensation expense			3,050					3,050
Stock options exercised, net 29 shares			589					589
Reclassification of unearned compensation on restricted stock			(3,062)	3,062				

Restricted stock utilized to pay taxes		**(27)**						**(27)**
Balance, at the end of fiscal 2006								
(Common stock, 30,565 shares issued; treasury stock, 655 shares)	**$ 30**	**$ (16,577)**	**$ 356,655**	**$**	**$**	**$ (33,373)**	**$ 259**	**$ 306,994**
Comprehensive income (loss):								
Net earnings						**(35,230)**		**(35,230)**
Foreign currency translation adjustments							**(1,313)**	**(1,313)**
Pension and postretirement plans							**1,029**	**1,029**
Unrealized gain on securities							**(501)**	**(501)**
Total comprehensive income (loss)								**(36,015)**
Adoption of FIN 48						**20,880**		**20,880**
Write off foreign currency translation adjustments upon sale of PQIL							**(24,676)**	**(24,676)**
Write off accumulated other comprehensive income (loss) related to PQIL pension plan							**23,284**	**23,284**
Restricted stock amortization, net of cancellations, 13 shares			**369**					**369**
Stock-based compensation expense			**(506)**					**(506)**
Restricted stock utilized to pay taxes		**(165)**	**165**					
Balance, at the end of fiscal 2007								
(Common stock, 30,552 shares issued; treasury stock, 669 shares)	**$ 30**	**$ (16,742)**	**$ 356,683**	**$**	**$**	**$ (47,723)**	**$ (1,918)**	**$ 290,330**

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

Voyager Learning Company and Subsidiaries

Notes to the Consolidated Financial Statements

Note 1 Significant Accounting Policies

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

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

Our math and science programs include Vmath®; a math intervention system for grades 3-8, ExploreLearning , a subscription-based online library of interactive simulations in math and science for grades 3-12, and ScienceA-Z.com , a new website introduced in 2007 aimed at the supplemental science market.

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

The Company has been a leading publisher of solutions for the education, automotive and power equipment markets. We have more than 50 years of experience in information aggregation and dissemination, content development, and educational publishing. Our predecessor company, Bell & Howell Company, was incorporated in Delaware in 1907. In 2001, we changed our name to ProQuest Company. In 2005, we acquired Voyager Expanded Learning (VEL). In 2007, we changed our name to Voyager Learning Company.

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

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Subsequent actual results may differ from those estimates.

Principles of Consolidation. The Consolidated Financial Statements include the accounts of Voyager Learning Company and its majority owned subsidiaries. All intercompany transactions are eliminated.

On January 31, 2005, we completed our acquisition of VEL. On February 25, 2005, we completed the acquisition of ExploreLearning. The results of these acquisitions subsequent to the acquisition dates are included in the results of continuing operations in the Consolidated Financial Statements.

Assets and Liabilities of Businesses Held for Sale. The Company considers businesses to be held for sale when management approves and commits to a formal plan to actively market a business for sale. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. We cease to record depreciation and amortization expense associated with assets held for sale at that time.

On November 28, 2006, we sold our PQBS businesses to Snap-on Incorporated. In December 2006, we announced the sale of our PQIL businesses to Cambridge Scientific Abstracts, LP. The sale was completed on February 9, 2007. The operating results and the gain on sale of PQBS and PQIL have been segregated from our continuing operations for all periods presented in our Consolidated Financial Statements and are separately reported as discontinued operations (see Note 4 to our Consolidated Financial Statements included herein for additional information on discontinued operations).

Fiscal Year. Our fiscal year ends on the Saturday nearest to December 31 each calendar year. References to fiscal year 2007 or fiscal 2007 are for the 52 weeks ended December 29, 2007, references to fiscal year 2006 or fiscal 2006 are for the 52 weeks ended December 30, 2006 and references to fiscal year 2005 or fiscal 2005 are for the 52 weeks ended December 31, 2005.

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. The change will be effective for the fiscal year ending on December 31, 2008. The two-day transition period between the 2007 annual fiscal year, which ended on December 29, 2007, and the 2008 annual fiscal year, which began on January 1, 2008 and will end on December 31, 2008, will be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The first report to be filed by the Company for the newly adopted fiscal year will be its Quarterly Report on Form 10-Q for the period ended March 31, 2008.

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

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

The amount of service revenues are less than 10% of total revenues in both fiscal 2007 and 2006.

For our discontinued operations, PQIL s published products provided users with access to comprehensive databases, including historical newspapers, Early English Books Online (EEBO), e-dissertations, and topic specific products on either a subscription basis that normally covers twelve months, or through a perpetual access license. PQIL followed the guidance under SAB No. 104 for all subscription products. Revenue from subscription agreements was recognized ratably over the term of the subscription, including any free before or after periods, using the straight-line method. For sales of perpetual access licenses, revenue was recognized over the greater of one year or the applicable period if the perpetual access license was associated with a subscription or data access agreement.

Accounts Receivable. Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled $1.3 million and $1.8 million at year end 2007 and 2006, respectively. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The allowance for sales returns is based on historical rates of return.

Foreign Currency Translation. The financial position and results of operations of each of our foreign subsidiaries which are included in discontinued operations, are measured using the local currency as the functional currency. Revenues and expenses are translated at average exchange rates prevailing during the respective fiscal periods. Assets and liabilities are translated into U.S. dollars using the exchange rates at the end of the respective fiscal periods. Balance sheet translation adjustments arising from differences in exchange rates from period to period are included in the determination of our other comprehensive income (loss) which is reflected as a component of shareholders equity.

Net Earnings (Loss) per Common Share. Basic net earnings/ (loss) per common share are computed by dividing net earnings/ (loss) by the weighted average number of common shares outstanding during the period. Diluted net earnings/(loss) per common share is computed by dividing net earnings/(loss) by the weighted average number of common shares outstanding during the period, including the potential dilution that could occur if all of our outstanding stock awards that are in-the-money were exercised, using the treasury stock method. A reconciliation of the weighted average number of common shares and equivalents outstanding used in the calculation of basic and diluted net earnings per common share are shown in the table below for the periods indicated:

(Shares in thousands)	**2007**	**2006**	**2005**
Basic	**29,858**	**29,816**	**29,650**
Dilutive effect of awards			
Diluted	**29,858**	**29,816**	**29,650**

The following were not included in the computation of diluted net income per share because their effect would have been antidilutive: options to purchase shares of 1.4 million, 3.0 million, and 3.6 million for fiscal years 2007, 2006, and 2005, respectively; nonvested restricted stock of 16,000, 85,000, and 131,000 for fiscal years 2007, 2006, and 2005, respectively; and a stock appreciation right with respect to 0.3 million shares in fiscal year 2007.

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

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

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

We recognized depreciation and amortization expense on property and equipment of $2.3 million, $2.1 million and $0.9 million for fiscal 2007, 2006 and 2005, respectively.

Purchased and Developed Software. Purchased and developed software includes the costs to purchase third party software and to develop internal-use software and software for sale. Amortization of purchased software costs in fiscal 2007, 2006 and 2005 totaled $0.5 million, $0.7 million, and $0.5 million, respectively. The Company follows the guidance in Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1) for capitalizing software projects. Software costs are amortized over the expected economic life of the product, generally three to five years. Amortization of developed software costs in fiscal 2007, 2006 and 2005 totaled $1.0 million, $0.5 million, and $0.1 million, respectively. At December 29, 2007 and 2006, unamortized capitalized software was $3.2 million and $2.6 million, respectively, which included software under development of $0 and $0.2 million, respectively.

Acquired Curriculum. Acquired curriculum represents curriculum acquired in the acquisitions of VEL and ExploreLearning in 2005 and Learning A-Z in 2004 and is the initial purchase accounting value placed on the past development and refinement of the core methodologies, processes and measurement techniques by which VED structures curriculum. Acquired curriculum is being amortized using an accelerated method over ten years, as it has an economic benefit declining over the estimated useful life. Acquired curriculum is presented net of accumulated amortization of $47.2 million and $32.8 million as of fiscal year end 2007 and 2006, respectively. Amortization of acquired curriculum for fiscal 2007, 2006 and 2005 was $14.4 million, $16.2 million and $16.4 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. Developed curriculum costs are presented net of accumulated amortization of $6.0 million and $2.9 million as of fiscal year end 2007 and 2006, respectively. Amortization of curriculum development costs for fiscal year 2007, 2006, and 2005 was $3.1 million, $2.2 million, and $0.7 million, respectively.

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

Impairment of Long Lived Assets. We review the carrying value of long lived assets for impairment whenever events or changes in circumstances indicate net book value may not be recoverable from the estimated undiscounted future cash flows, which is based on the requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). If our review indicates any assets are impaired, the impairment of those assets is measured as the amount by which the carrying amount exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal. The determination whether these assets are impaired involves significant judgment based on projections of future performance. In fiscal year 2005 we recognized a long lived asset impairment of $0.6 million which is now included in discontinued operations. For fiscal years 2006 and 2007, no impairment was indicated.

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

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

Advertising Costs. The Company, from time to time, ships products to prospective customers as samples. Samples costs are expensed upon shipment and totaled $1.6 million, $0.8 million, and $1.1 million in 2007, 2006,and 2005 respectively. Other costs of advertising, which include advertising, print, and photography expenses and are expensed as incurred, totaled $0.7 million, $0.3 million, and $0.2 million in 2007, 2006, and 2005 respectively.

Correction of an Immaterial Error. While preparing for adoption of FIN 48 and also preparation of the 2007 tax provision, we discovered errors in the amount of income tax expense (benefit) recognized in 2006. These errors were primarily related to the calculation of U.S. tax basis of foreign and domestic subsidiaries. These tax errors, while immaterial to the previously issued 2006 financial statements, could distort the 2007 financial results. As such, we have corrected the 2006 results as presented in the 2007 financial statements. A summary of the impact of this change on previously filed 2006 results is as follows:

(In thousands, except per share data)	2006 as Originally Filed	Error Correction	2006 as Corrected
Loss from continuing operations before income taxes	$ (114,084)	$	$ (114,084)
Income tax benefit	65,032	(969)	64,063
Loss from continuing operations	(49,052)	(969)	(50,021)
Earnings from discontinued operations (less applicable income tax expense of $22,164 and $23,776 as corrected)	46,538	(1,612)	44,926
Gain on sale of discontinued operations (less applicable income tax expense of $59,631 and $66,321 as corrected)	354,398	(6,690)	347,708
Net earnings	$ 351,884	$ (9,271)	$ 342,613
Net earnings (loss) per common share:			
Basic and Diluted:			
Loss from continuing operations	$ (1.65)	$ (0.03)	$ (1.68)
Earnings from discontinued operations	1.56	(0.05)	1.51
Gain on sale of discontinued operations	11.89	(0.23)	11.66
Basic and diluted net earnings (loss) per common share	$ 11.80	$ (0.31)	$ 11.49
Average number of common shares and equivalents outstanding:			
Basic and Diluted	29,816	29,816	29,816

(Dollars and shares in thousands)	2006 as Originally Filed	Error Correction	2006 as Corrected
Assets:			
Other current assets	$ 72,162	$ (2,610)	$ 69,552
Total current assets	220,568	(2,610)	217,958
Total assets	836,141	(2,610)	833,531
Liabilities:			
Accrued expenses	85,269	(1,496)	83,773
Total current liabilities	387,366	(1,496)	385,870
Other liabilities	88,341	8,312	96,653
Total long-term liabilities	132,355	8,312	140,667
Shareholders equity (deficit):			
Accumulated deficit	(24,102)	(9,271)	(33,373)
Other comprehensive income (loss):			
Accumulated foreign currency translation adjustment, net of tax expense of $2,423 and $2,739 as corrected	26,305	(316)	25,989
Pension and postretirement plans, net of tax benefit of $544 and $713 as corrected	(26,570)	169	(26,401)
Net unrealized gain on securities, net of tax expense of $31 and $39 as corrected	679	(8)	671
Accumulated other comprehensive income (loss)	414	(155)	259
Total shareholders equity (deficit)	316,420	(9,426)	306,994

Total liabilities and shareholders equity	**836,141**	**(2,610)**	**833,531**

Net cash used in operating activities of continuing operations for 2006 decreased $1.1 million from $11.9 million to $10.8 million as a result of changes to the allocation of deferred income taxes between operating activities of continuing operations and operating activities of discontinued operations.

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

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

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

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

As a result of adopting SFAS No. 123R, our loss from continuing operations before income taxes in fiscal 2006 was $1.9 million higher than had we continued to account for stock-based employee compensation under APB No. 25. Basic and diluted net earnings per share for 2006 would have each been $11.59 had we not adopted SFAS No. 123R, compared to reported basic and diluted net earnings per share of $11.49.

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

(Dollars in thousands, except per share data)	**2005**
Net loss, as reported	**(10,250)**
Add: Stock-based compensation as reported	**1,166**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	**(7,924)**
Pro forma net loss	**(17,008)**
Net loss per share:	
Basic-as reported	**(0.35)**
Basic-pro forma	**(0.57)**
Diluted-as reported	**(0.35)**
Diluted-pro forma	**(0.57)**

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. For fiscal 2007 and 2006, there were not any derivative instruments held by VED.

Interest Rate Risk. We did not have any interest rate forwards or option contracts outstanding at December 29, 2007 or December 30, 2006.

Foreign Exchange Risks. Historically, a portion of revenue, earnings, and net investment in foreign affiliates has been exposed to changes in foreign exchange rates, primarily related to the discontinued operations. Substantially all foreign exchange risks are managed through operational means. However, we believe that from time to time some foreign exchange risks related to certain transactions are better managed by utilizing foreign currency forwards or option contracts. These contracts are reported at fair value and any changes in fair value are recognized currently in earnings. These contracts are not designated for hedging treatment under SFAS No. 133, as amended. We did not have any foreign currency forwards or option contracts outstanding at December 29, 2007 or December 30, 2006.

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 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 141R applies prospectively and is effective for business combinations made by the Company beginning January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be recognized in earnings at each subsequent reporting date. Generally, the fair value option may be applied instrument by instrument and is irrevocable unless a new election date occurs. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, 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 or cash flows.

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 are currently evaluating whether adoption of this statement will result in a change to our fair value measurements and disclosures.

Note 2 Business Segments

With the sale of PQBS in November 2006 and the sale of PQIL in February 2007, the Company had business segments that were included in discontinued operations in fiscal years 2006 and 2005. Because the Company s management approach, organizational structure, operating performance measurement and reporting, and operational decision making are performed from a single company perspective, the Company operates as one reportable segment within the U.S. in fiscal 2007, which includes all corporate operations. The corporate operations continue to be shown separately below for comparability with prior years.

Information concerning our operating business segments for fiscal 2007, 2006, and 2005 for our continuing operations is as follows:

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

		2006	
(Dollars in thousands)	VED	Corporate	Total
Net sales	$ 115,051	$	$ 115,051
Earnings (loss) from continuing operations before interest and income taxes	$ (39,315)	$ (47,305)	$ (86,620)
Capital expenditures	$ 5,860	$ 8,548	$ 14,408
Depreciation and amortization	$ 22,777	$ 1,088	$ 23,865
Total assets [(1)]	$ 322,131	$ 150,085	$ 472,216

		2005	
	VED	Corporate	Total
Net sales	$ 90,967	$	$ 90,967
Earnings (loss) from continuing operations before interest and income taxes	$ 3,964	$ (17,096)	$ (13,132)
Capital expenditures	$ 8,685	$ 590	$ 9,275
Depreciation and amortization	$ 20,213	$ 300	$ 20,513
Total assets [(1)]	$ 383,804	$ 79,524	$ 463,328

(1) Total assets includes assets from continuing operations only.

Note 3 Income Taxes

Earnings from continuing operations before income taxes in fiscal year 2007, 2006, and 2005 were all attributable to the U.S.

Total income taxes for the fiscal years 2007, 2006 and 2005 were allocated as follows:

(Dollars in thousands)	2007	2006	2005
Income from continuing operations	$ (12,396)	$ (64,063)	$ (1,778)
Income from discontinued operations	1,491	23,776	12,665
Gain on sale of discontinued operations	11,160	66,321	
Shareholders equity, for stock compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes			(1,621)
Shareholders equity, for minimum pension liability		7,059	(3,099)
Shareholders equity, for currency translation adjustment on unremitted foreign earnings		2,739	
Goodwill		(54)	
Long-lived intangibles		(413)	(324)
	$ 255	$ 35,365	$ 5,843

Income tax expense attributable to income from continuing operations in fiscal 2007, 2006, and 2005 included the following:

(Dollars in thousands)	2007	2006	2005
Current income tax expense:			
United States federal	$	$	$
State and local	275	42	706
Current income tax expense	275	42	706
Deferred income tax benefit			
United States federal	(12,183)	(62,268)	(1,435)
State and local	(488)	(1,837)	(1,049)
Deferred income tax benefit	(12,671)	(64,105)	(2,484)
Income tax expense (benefit)	$ (12,396)	$ (64,063)	$ (1,778)

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

(Dollars in thousands)	2007	2006	2005
Deferred income tax benefit, exclusive of Allocation of valuation allowance reducing goodwill items listed below:	$ (3,692)	$ (45,829)	$ 246
Benefits of gain from sale and discontinued operation allocated to continuing operations	(8,979)	(18,276)	(2,730)
Deferred income tax benefit	$ (12,671)	$ (64,105)	$ (2,484)

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

(Dollars in thousands)	2007	2006	2005
Statutory federal income tax rate	$ (34,880)	$ (39,930)	$ (11,216)
Increase (reduction) in taxes resulting from: State income taxes, net of federal benefit	(214)	(1,795)	(343)
Change of intent for investment basis difference		(37,525)	
Non-deductible goodwill	23,531	14,874	
Changes in valuation allowance			9,635

Other	**(833)**	**313**	**146**
Income tax benefit	**$ (12,396)**	**$ (64,063)**	**$ (1,778)**

Deferred income taxes are primarily provided for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. The tax effects of each type of temporary difference and carryforward (for both continuing and discontinued operations) that give rise to a significant portion of deferred tax assets (liabilities) at the end of fiscal 2007 and 2006 were as follows:

(Dollars in thousands)	**2007**	**2006**
Deferred tax assets are attributable to:		
Deferred compensation & pension benefits	**$ 11,219**	**$ 14,173**
Tax credit carryforwards	**10,176**	**10,025**
Net operating loss carryforwards	**822**	**17,694**
Property and equipment	**146**	
Deferred intercompany transactions		**47,233**
Investment basis difference in domestic subsidiary		**40,364**
Goodwill		**14,032**
Net capital loss carryforwards		**3,255**
Other assets	**2,575**	**7,834**
Other	**5,115**	**14,628**
Total gross deferred tax assets	**30,053**	**169,238**
Valuation allowance	**(11,154)**	**(37,995)**
Net deferred tax assets	**18,899**	**131,243**
Deferred tax liabilities are attributable to:		
Curriculum costs	**(17,320)**	**(21,977)**
Intangibles	**(2,148)**	**(6,833)**
State taxes	**(890)**	**(1,540)**
Other liabilities	**(429)**	
Investment basis differences in foreign subsidiaries		**(25,253)**
Property and equipment		**(14,797)**
Total gross deferred tax liabilities	**(20,787)**	**(70,400)**
Net deferred tax asset (liability)	**$ (1,888)**	**$ 60,843**

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

(Dollars in thousands)	**2007**	**2006**
Short-term deferred tax asset	**$ 2,566**	**$ 61,153**
Long-term deferred tax asset		**1,016**
Long-term deferred tax liability	**(4,454)**	**(1,326)**
Net deferred tax asset (liability)	**$ (1,888)**	**$ 60,843**

The net decrease in the valuation allowance in 2006 was $59.2 million. The valuation allowance decreased during 2006 primarily as a result of utilization of valuation allowances established on capital loss carryforwards, tax credits and net operating loss carryforwards. As of December 30, 2006, the amount of worldwide valuation allowance that existed was $38.0 million. The net U.S. domestic deferred tax assets and liabilities before valuation allowance was approximately $93.0 million. The amount of valuation allowance attributable to the U.S. federal and state jurisdictions was $33.0 million. As of December 30, 2006, the amount of the valuation allowance for which subsequently recognized benefits will be allocated to reduce goodwill or other intangible assets is $2.7 million.

The net decrease in the valuation allowance in 2007 was $26.8 million. The valuation allowance decreased during 2007 primarily as a result of selling PQIL. Deferred tax assets associated with PQIL that had valuation allowances were divested. As of December 29, 2007, the amount of valuation allowance that existed was $11.2 million. The amount of valuation allowance is all attributable to the U.S. federal and state jurisdictions. The net U.S. domestic deferred tax assets and liabilities before valuation allowance was approximately $9.3 million. As of December 29, 2007, there is not any amount of the valuation allowance for which subsequently recognized benefits will be allocated to reduce goodwill or other intangible assets.

During 2006, the Company recognized a deferred tax asset of $40.4 million for outside basis difference of its domestic subsidiary PQIL because the temporary difference was expected to reverse in the first quarter of 2007 when the PQIL sale transaction to CSA was anticipated to close. The tax benefit recognized for the PQIL outside basis difference was allocated to discontinued operations. The Company also recognized a deferred tax liability of $25.3 million on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries. The tax expense for the foreign investment difference was also allocated to discontinued operations.

Prior to the impending PQIL sale to CSA, PQIL transferred its investment in VEL and assets of Learning A-Z and ExploreLearning within the consolidated group. As of December 30, 2006, the Company recognized a $47.2 million deferred tax asset on the intercompany transactions. After consideration of a valuation allowance, a net federal benefit of $37.5 million was recognized in continuing operations during the year for the change in intent about the expected manner of recovery of the investment in VEL.

During 2007, the Company realized capital losses on the sale of PQIL and transfer of its investment in VEL for which the Company had recognized substantially all of the tax benefit in 2006. The Company carried back the capital losses to its 2006 federal tax return and requested federal tax refunds for substantially all the federal taxes paid in 2007 attributable to the 2006 tax year.

At December 29, 2007, the amounts and expiration dates of loss and tax credit carryforwards were as follows:

(Dollars in thousands)	Amount as of year ended 2007	Expire or start expiring at the end of:
State net operating loss carryforward (net):		
State tax net operating losses	**$ 822**	**2012 - 2026**
Tax credits:		
Foreign tax credit	**2,879**	**2011 - 2016**
Minimum tax credit	**6,549**	**Carry forward indefinitely**
Research and development tax credit	**748**	**2014 - 2021**

Income taxes paid, net of refunds, for fiscal years 2007, 2006, and 2005 were $66.6 million, $0.3 million, and $14.5 million, respectively. The Company has refunds receivable from taxing authorities of $65.6 million and $9.9 million as of fiscal year end 2007 and 2006, respectively.

As of December 29, 2007, the Company is under examination by the IRS for fiscal years 2003, 2004, 2005, and 2006. These years under examination contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they related to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The Company has established a liability for those matters where it is not probable that the position will be sustained. The amount of the liability is based on management s best estimate given the Company s history with similar matters and interpretations of current laws and regulations.

Under the sale agreements with Snap-On Incorporated and Cambridge Scientific Abstracts, LP (CSA), the Company is liable to indemnify Snap-On Incorporated or CSA for any income taxes assessed against PQBS or PQIL for periods prior to the sale of PQBS or PQIL. The Company has established a liability for those matters where it is not probable that the position will be sustained. The amount of the liability is based on management s best estimate given the Company s history with similar matters and interpretations of current laws and regulations.

As of December 30, 2006, the Company was no longer permanently reinvested and therefore recognized the associated deferred tax liability on the excess of the amount of financial reporting over tax basis of the investments in foreign subsidiaries.

Uncertain Tax Positions

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

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

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

During the fiscal year ended December 29, 2007, the Company recorded a decrease to its liability for unrecognized tax benefits of approximately $4.2 million, which primarily relates to positions taken during prior periods that are moved to a guarantor liability account or the gain on disposition of a subsidiary.

Included in the balance of unrecognized tax benefits at December 29, 2007 are approximately $0.6 million of tax benefits that, if recognized, would affect the effective tax rate. Because of the impact of deferred tax accounting and the availability of tax attributes, the majority of the tax positions would ordinarily not affect the effective tax rate or the payment of cash to the taxing authorities. However, due to the limited evidence to support the realization of these tax assets a valuation allowance is required.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company recognized penalties of zero and interest (gross) of approximately $0.1 million during 2007 and, as of December 29, 2007, has a liability for penalties of zero and interest (gross) of approximately $0.1 million.

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

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various U.S. state jurisdictions. The tax years which remain subject to examination by major tax jurisdictions as of December 29, 2007 include 2002 - 2007.

Note 4 Discontinued Operations

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

The operating results of sold or to be sold businesses have been segregated from our continuing operations. The Consolidated Statements of Operations separately reflect the gains on sale and the earnings of PQBS and PQIL as discontinued operations. Interest expense of $0.8 million, $18.3 million and $9.8 million for 2007, 2006 and 2005, respectively, was allocated to discontinued operations based on the ratio of net assets of sold or to be sold businesses to total net assets of the consolidated company.

The major classes of assets and liabilities related to discontinued operations at fiscal year ended December 30, 2006 included in our Consolidated Balance Sheets, all of which relate to the ProQuest Information and Learning businesses, were as follows:

(Dollars in thousands)	Fiscal Year Ended December 31, 2006
Assets related to discontinued operations:	
Accounts receivable, net	$ 46,456
Other current assets	24,256
Total current assets related to discontinued operations	70,712
Property, plant, equipment, and software, net	206,171
Long-term receivables	3,173
Goodwill, net	68,398
Other intangible assets, net	6,946
Other assets	5,915
Total assets related to discontinued operations	$ 361,315
Liabilities related to discontinued operations:	
Current maturities of long-term debt	$ 5,945
Accounts payable	51,284
Accrued expenses	11,629
Deferred income	146,406
Total current liabilities related to discontinued operations	215,264
Long-term debt, less current maturities	5,019
Other liabilities	37,403
Total liabilities related to discontinued operations	$ 257,686

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

	Fiscal Years Ended		
(Dollars in thousands)	December 29, 2007	December 30, 2006	December 31, 2005
Net sales by business segment:			
ProQuest Information and Learning	$ 26,062	$ 259,103	$ 271,461
ProQuest Business Solutions		172,813	183,485

Net sales from discontinued operations	**26,062**	**431,916**	**454,946**
Earnings (loss) before interest and income taxes:			
ProQuest Information and Learning	**7,798**	**37,591**	**(4,354)**
ProQuest Business Solutions		**51,533**	**51,140**
Earnings from discontinued operations before interest and income taxes	**7,798**	**89,124**	**46,786**
Interest expense, net	**(847)**	**(20,422)**	**(14,102)**
Income tax expense	**(1,491)**	**(23,776)**	**(12,665)**
Earnings from discontinued operations, net of taxes	**$ 5,460**	**$ 44,926**	**$ 20,019**

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

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

(1) Net assets sold in fiscal 2007 and 2006 includes goodwill of $68.0 million and $52.2 million, respectively.

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

Note 5 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the fiscal years ended December 29, 2007 and December 30, 2006 are as follows:

(Dollars in thousands)	
Balance as of December 31, 2005	**$ 252,618**
Goodwill acquired in fiscal 2006 [(1)]	**(32)**
Goodwill impairment	**(42,496)**
Balance as of December 30, 2006	**210,090**
Goodwill impairment	**(67,232)**
Balance as of December 29, 2007	**$ 142,858**

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

Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* , (SFAS No. 142), goodwill and other indefinite-lived intangible assets are no longer amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. The Company s annual impairment testing is performed during the fourth fiscal quarter. In 2007, the first step of impairment testing showed that the book value of the VED reporting unit exceeded its fair value; therefore, a second step of testing was required under SFAS No. 142. The second step requires the allocation of fair value of a reporting unit to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination. The fair value was determined using the income approach based on the forecasted operating results. As a result of the second step of our 2007 impairment test, the goodwill balance for the VED reporting unit as of the measurement date was determined to be partially impaired. An impairment charge of $67.2 million related to the VED segment was recorded in 2007.

In conducting our annual goodwill impairment testing for fiscal 2007, we compared the book value of goodwill attributed to VED with the estimated fair market value of VED. These estimates of fair market are dependent on multiple assumptions and inputs, including industry fundamentals such as the state of educational funding and the actual performance and future projections of the Company. As of year end 2007, the estimated fair market value of VED was estimated to have fallen below the book value as a result of lower future cash flow projections, driven by 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.

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

No impairment was indicated in 2005.

As of December 29, 2007 and December 30, 2006, our intangible assets and related accumulated amortization consisted of the following:

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

	Balance as of December 30, 2006		
	Gross	Accumulated Amortization	Net
Acquired curriculum	$ 98,410	$ (32,785)	$ 65,625
Developed curriculum	9,892	(2,895)	6,997
Customer relationships	5,130	(1,068)	4,062
Trademark	3,860	(812)	3,048
Non-compete agreements	3,517	(2,304)	1,213
Total intangibles, net	$ 120,809	$ (39,864)	$ 80,945

We recorded $19.4 million, $20.5 million, and $19.0 million of intangible amortization expense during 2007, 2006, and 2005, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years and thereafter is as follows: 2008 $17.7 million; 2009 $14.4 million; 2010 $11.8 million; 2011 $8.8 million; 2012 $6.6 million; all years thereafter $7.6 million.

There were no intangibles acquired in 2007 or 2006.

Note 6 Other Current Assets

Other current assets at the end of fiscal 2007 and 2006 consist of the following:

(Dollars in thousands)	2007	2006
Short-term deferred tax asset	$ 2,566	$ 61,153
Deferred costs	1,434	1,394
Available for sale securities	3,629	4,677

Other	**8,860**	**2,328**
Total	**$ 16,489**	**$ 69,552**

Available-for-sale securities represent assets, invested in equity and fixed income securities, held in a rabbi trust, related to an executive deferred compensation plan.

Note 7 Other Assets

Other assets at the end of fiscal 2007 and 2006 consist of the following:

(Dollars in thousands)	2007	2006
Long-term deferred tax asset	$	$ 1,016
Deferred financing costs, net		1,984
Insurance receivable	15,000	15,000
Other	1,350	145
Total	$ 16,350	$ 18,145

Note 8 Accrued Expenses

Accrued expenses at the end of fiscal 2007 and 2006 consist of the following:

(Dollars in thousands)	2007	2006
Accrued income taxes	$	$ 56,513
Salaries, bonuses and benefits	12,231	15,510
Corporate transition costs	2,466	
Other	10,618	11,750
Total	$ 25,315	$ 83,773

On February 12, 2007, 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 is expected to be 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, of which $4.3 million was accrued during fiscal 2007. Costs are included in selling, general, and administrative expense. The change in accruals for corporate transition costs related to severance and retention payments for the fiscal year ended December 29, 2007 is as follows:

(Dollars in thousands)	
Balance as of December 30, 2006	$
Accruals	4,338
Payments made	(1,372)
Balance as of December 29, 2007	$ 2,966
Current portion	$ 2,466
Long-term portion	$ 500

At the beginning of fiscal 2008, the Company entered into a lease termination agreement in connection with the corporate transition plan. See Note 12 for further description of the lease termination agreement.

Note 9 Other Liabilities

Other liabilities at the end of fiscal 2007 and 2006 consist of the following:

(Dollars in thousands)	2007	2006
Pension benefits, long-term portion	$ 18,843	$ 20,853
Long-term deferred tax liability	4,454	1,326
Long-term income tax payable	777	28,092
Legal contingency accrual	20,000	20,000
Long-term deferred compensation	5,713	11,592
Post-retirement medical benefits, long-term portion	114	137
Deferred rent	7,639	7,303
Long-term deferred revenue	1,317	50
Other	2,401	7,300
Total	$ 61,258	$ 96,653

See Note 13 for further description of our pension benefits.

Note 10 Debt and Lines of Credit

Debt at the end of fiscal 2007 and 2006 consist of the following:

(Dollars in thousands)	2007	2006
Long-term debt:		
2002 Senior Notes due 10/01/12	$	$ 16,605
2005 Senior Notes due 01/31/15		19,373
2005 Revolving Credit Agreement		22,247
Capital lease obligations	1,596	2,433
Termination costs	3	6
Long-term debt	1,599	60,664
Less: Current maturities of long-term debt	(789)	(59,072)
Long-term debt, less current maturities	$ 810	$ 1,592

Upon closing on the sale of PQIL on February 9, 2007, we paid our remaining balances owed to our lenders and noteholders and were released from all obligations under the 2002 Senior Notes due 10/01/12, 2005 Senior Notes due 01/31/15, and the 2005 Revolving Credit Agreement.

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

Cash paid for interest on Company debt, lines of credit and capital leases for continuing and discontinued operations in fiscal 2007, 2006, and 2005 was $1.1 million, $43.9 million, and $25.2 million, respectively.

2002 Senior Notes

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

2005 Senior Notes

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

2005 Revolving Credit Agreement

On January 31, 2005, we replaced our previous revolving credit agreement with a new variable interest rate facility (the 2005 Revolving Credit Agreement). The 2005 Revolving Credit Agreement was a five-year, unsecured revolving credit facility in an amount up to $275 million, with a sub-facility for letters of credit (in an amount not to exceed $20 million) and a sub-facility for swingline loans (in an amount not to exceed $15 million). The final maturity date of the 2005 Revolving Credit Agreement was January 31, 2010 with no principal payments due until that date. Borrowings and letters of credit under the 2005 Revolving Credit Agreement originally bore interest, at our option, at either the London Interbank Offered Rate (LIBOR) plus a spread ranging from 0.75% to 1.75% or 0.0% to 0.25% over an alternative base rate. The alternative base rate is the greater of the LaSalle Bank Midwest National Association prime rate or the Federal Funds rate plus 0.50% (Base Rate). The Waiver Agreement (defined below) modified the interest rate as of May 2, 2006 to give the lenders the option of LIBOR plus 2.5% or the Base Rate plus 1.0%. The interest rate in effect as of December 30, 2006 was LIBOR + 2.5%, which was 7.85% on $22.2 million outstanding at December 30, 2006.

A portion of our availability under the 2005 Revolving Credit Agreement was utilized to issue letters of credit to support our insurance coverage, leases and certain customer contracts. At December 30, 2006, the total of the face amounts of the outstanding letters of credit was $0.7 million.

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

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

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

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

- the Credit Agreements were amended to provide that the covenants, events of default and other provisions were substantially the same among those agreements, the Credit Agreements were amended to provide that the financial covenants contained in the Credit Agreements were replaced by monthly EBITDA and capital expenditures covenants,

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

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

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

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

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

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

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

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

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

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

Capital Lease Obligations

Voyager Learning Company leases certain facilities and equipment for selling and administrative purposes under capital lease agreements with original lease terms up to 5 years. These capital leases expire no later than 2010.

See Note 12 for further description of our capital lease obligations.

Note 11 Fair Value of Financial Instruments

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

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The book value of cash equivalents and investments available-for-sale reflect fair market value because these investments are recorded based on quoted market prices as of the end of the reporting period. We believe the book value of accounts receivable and accounts payable approximates fair value due to their short-term nature.

The fair value of long-term debt is based on quoted market prices for the same or similar issues or the current rates offered to us for debt with the same or similar maturities and terms. At December 30, 2006 long-term debt was recorded at $60.7 million.

The Company used proceeds from the sale of PQIL to repay all its remaining debt, excluding capital leases, on February 9, 2007, along with accrued interest, fees, and required make-whole premiums.

At December 30, 2006, $22.2 million of the long-term debt was borrowed under our revolving credit agreements.

At December 30, 2006, the 2002 Senior Notes and the 2005 Senior Notes were assumed to approximate fair value as they bore variable interest rates comparable to current market rates for similar debt instruments.

Note 12 Leases

Real Estate and Facility Leases

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

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

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. The Company paid CSA $11.0 million, a portion of which was distributed to Transwestern for termination of the lease relating to 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 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. The release of the Company from these two long term operating leases results in a reduction of future lease payment obligations of $47.8 million. The Company recorded a charge to expense in fiscal 2008 totaling $11.7 million for the termination of facility leases and the associated write-off of certain assets fully assigned to CSA.

Pursuant to a Sublease Agreement entered into between the Company and CSA, the Company subleased certain space located in the 789 Facility under an operating lease. The term of such sublease (i) is for six months from the Closing Date of March 7, 2008, with month to month extensions thereafter but not past December 31, 2008, for approximately 10,030 square feet to be utilized by the Company s remaining corporate functions in such facility, and (ii) runs from the Closing Date until December 31, 2008, with optional semi-annual extensions thereafter but not past December 31, 2010, for approximately 3,060 square feet to be utilized by the Company for certain technology related functions in the 789 Facility. Future lease payment obligations related to the Sublease Agreement total $0.2 million for fiscal 2008.

Property and Equipment Leases

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 CSA relating to certain obligations regarding the capital and operating leases for certain property and equipment used at its 777 and 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, the Company conveyed, assigned, transferred and delivered to CSA all of its right, title and interest and benefit of certain property and equipment, such as office furniture, phone and power supply systems, and video equipment. The Company was released from any and all obligations relating to certain leases. Relational, as lessor consented to such assignments. The release of the Company through assignment of these capital and operating leases from Relational results in a reduction of future lease payment obligations of $1.3 million and $0.3 million for capital and operating leases, respectively.

Capital Leases

The gross value of leased capital assets was $3.5 million and $3.4 million at December 29, 2007 and December 30, 2006, respectively, which are included in Machinery and Equipment on the Consolidated Balance Sheet. The gross value of leased capital assets from Relational was reduced by $1.9 million as of the beginning of fiscal 2008 due to the assignment of certain property and equipment leases to CSA. The accumulated amortization of leased capital assets was $1.6 million and $0.8 million at December 29, 2007 and December 30, 2006, respectively. Amortization of capital lease assets is recognized over the term of the lease on a straight line basis and included in depreciation expense.

Operating Leases

Other facilities and equipment are leased under arrangements that are accounted for as operating leases. Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial term of the lease. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the initial lease term. Total rental expense for fiscal 2007, 2006, and 2005 was $6.2 million, $2.2 million, and $1.6 million, respectively. In fiscal 2007, $3.9 million of sublease income was received from CSA associated with operating leases.

Future minimum capital lease, lease termination, and operating lease payments under long-term non-cancelable leases, and the related present value of capital lease payments at December 29, 2007 were as follows (in millions), which includes the net effect of reducing certain obligations associated with the assignment, sublease or termination of certain capital and operating leases as described above:

(Dollars in thousands)

Capital Leases	As of 12/29/2007	Lease Assignment	As of 12/29/2007 including 2008 lease assignment
2008	**$ 931**	**$ (643)**	**$ 288**
2009	**553**	**(395)**	**158**
2010	**266**	**(169)**	**97**
2011	**84**	**(84)**	
2012			
Subsequent to 2012			
Total minimum lease payments	**1,834**	**(1,291)**	**543**
Less: Amount representing interest	**(235)**	**201**	**(34)**
Present value of net minimum lease payments	**1,599**	**(1,090)**	**509**
Less: current portion	**(789)**	**525**	**(264)**
Obligations under capital leases, less current portion	**$ 810**	**$ (565)**	**$ 245**

Operating Leases	As of 12/29/2007	Lease Termination and Assignments	As of 12/29/2007 including 2008 lease termination and assignments
2008	**$ 4,815**	**$ (2,872)**	**$ 1,943**
2009	**4,581**	**(3,509)**	**1,072**
2010	**4,360**	**(3,439)**	**921**
2011	**3,411**	**(3,411)**	
2012	**3,483**	**(3,483)**	
Subsequent to 2012	**31,798**	**(31,798)**	
Total minimum lease payments	**52,448**	**(48,512)**	**3,936**
Less: Maintenance	**(16)**		**(16)**
Net lease commitments	**$ 52,432**	**$ (48,512)**	**$ 3,920**

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

Defined Contribution Plans

Eligible employees of our domestic operations and, in prior years, Canadian operations who elect to do so can participate in our defined contribution profit-sharing retirement plans. As the Company is not obligated to continue these defined contribution plans in future years, the Company expenses its annual contributions to these plans but does not record a liability for these plans. The amounts charged to earnings for fiscal 2007, 2006 and 2005 related to these plans were $0.8 million, $3.0 million, and $3.2 million, respectively.

The Company also has contractual obligations under a frozen replacement benefit plan (RBP) for a small number of terminated and retired executives and one current employee. Because the RBP is frozen, no participant can make or is entitled to additional contributions. Instead the Company has accrued a liability totaling $6.7 million as of year end 2007 to reflect its estimated future obligation for RBP. The current portion of the RBP liability, which was $1.4 million at year end 2007, is included on the line Salaries, bonus and benefits in Note 8 to these financial statements. The long term portion of the RBP liability, which was $5.3 million at year end 2007, is included on the line Long-term deferred compensation in Note 9 of these financial statements.

Defined Benefit Plan and Other Postretirement Benefit Plan

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

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

As a result of the sale of PQIL, the obligation for our United Kingdom (U.K.) pension plan was assumed by the buyer of PQIL and as of February 2007 the Company has no further obligation to make U.K. pension contributions. The Company made payments of $22.9 million in early 2007 to its U.K. pension plan concurrent with the sale of PQIL in February 2007.

In addition, we have contributory and non-contributory postretirement medical benefit plans and a non-contributory postretirement life insurance benefit plan covering certain domestic employees. All of these other postretirement benefit plans are unfunded.

In November 2004, we announced that effective January 1, 2006 we will no longer offer a retiree medical program. This resulted in a negative plan amendment which was recognized ratably in 2005.

The net cost of our defined benefit pension plan and other postretirement benefit plan for fiscal 2007, 2006, and 2005 were as follows:

(Dollars in thousands)	U.S. Defined Benefit Pension Plan 2007	2006	2005	Other Postretirement Benefits 2007	2006	2005
Service cost	$	$	$	$	$	$ 9
Interest cost	1,189	1,227	1,271	8	11	30
Amortization of negative prior service cost						(1,500)
Recognized net actuarial loss/(gain)	135	138	84	(104)	(107)	(60)
Net pension and other postretirement benefit cost (income)	$ 1,324	$ 1,365	$ 1,355	$ (96)	$ (96)	$ (1,521)

Obligation and Funded Status

The funded status of our defined benefit pension plan and other postretirement benefit plan at the end of fiscal 2007 and 2006 were as follows:

(Dollars in thousands)	U.S. Defined Benefit Pension Plan 2007	2006	Other Postretirement Benefits 2007	2006
<u>Change in Benefit Obligation</u>				
Benefit obligation, beginning of year	$ 22,569	$ 23,256	$ 194	$ 313
Service cost				
Interest cost	1,189	1,227	8	11
Actuarial (gain)/loss	(933)	(12)	(66)	(132)
Benefits paid	(1,922)	(1,902)	(2)	2
Benefit obligation, end of year	$ 20,903	$ 22,569	$ 134	$ 194
<u>Change in Plan Assets</u>				
Fair value, beginning of year	$	$	$	$
Company contributions	1,922	1,902	2	(2)
Benefits paid	(1,922)	(1,902)	(2)	2
Fair value, end of year	$	$	$	$
Funded/(unfunded) status	$ (20,903)	$ (22,569)	$ (134)	$ (194)

Accrued benefit cost	**$ (20,903)**	**$ (22,569)**	**$ (134)**	**$ (194)**
<u>Amounts Recognized in the Consolidated Balance Sheets</u>				
Current accrued benefit liability	**(2,060)**	**(1,872)**	**(41)**	**(57)**
Non-current accrued benefit liability	**(18,843)**	**(20,697)**	**(93)**	**(137)**
Net amount recognized	**$ (20,903)**	**$ (22,569)**	**$ (134)**	**$ (194)**

At December 29, 2007, we had a net actuarial loss (gain) of $3.1 million and ($0.3 million) for our U.S. pension and other postretirement benefits, respectively. These amounts are included in Accumulated Other Comprehensive Income (Loss) on our Consolidated Balance Sheets. Of these amounts, we expect $0.1 million and ($0.1 million) to be recognized as a component of net pension and other postretirement benefit cost (income) during 2008.

Plan Assumptions

	U.S. Defined Benefit Pension Plan		Other Postretirement Benefits	
	2007	2006	2007	2006
Discount rate	**6.25%**	**5.50%**	**5.00%**	**5.00%**

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

Additional Information

For our pension plan, the projected benefit obligation and accumulated benefit obligation at the end of fiscal 2007 and 2006 were as follows:

(Dollars in thousands)	U.S. Defined Benefit Pension Plan	
	2007	2006
Projected benefit obligation	**$ 20,903**	**$ 22,569**
Accumulated benefit obligation	**$ 20,903**	**$ 22,569**

Assumed Health Care Cost Trend Rates

	2007	2006
Health care cost trend rate assumed for next year	**9.00%**	**9.50%**
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**6.00%**	**6.00%**
Year that the rate reaches the ultimate trend rate	**2014**	**2014**

Assumed future health care cost trend rates do not have a significant effect on postretirement medical benefit costs. A one percentage point change in the assumed health care cost trend rates would have less than a four thousand dollar impact on the benefit plan obligation at year end 2006 or 2007 and less than a six thousand dollar impact on the net postretirement benefit cost for 2006 or 2007.

Future Contributions

Total contributions expected to be paid under our frozen U.S. retirement plans or to the beneficiaries thereof during fiscal 2008 are $3.5 million, consisting of $2.1 million to our U.S. defined benefit plan and $1.4 million to RBP.

Gross benefit payment obligations under our continuing defined benefit plans for the next ten years, which reflect expected future service as appropriate, are anticipated to be as follows:

(Dollars in thousands)	U.S. Retirement Plans (SRP and RBP)	Other Postretirement Benefits
2008	**$ 3,500**	**$ 41**
2009	**3,166**	**34**
2010	**3,045**	**28**
2011	**2,836**	**25**
2012	**2,332**	**16**
2013 - 2017	**9,716**	**5**

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

Note 14 Common Stock

We have 50,000,000 authorized shares of common stock, ($.001 par value per share), 30,552,129 shares issued and 29,882,559 shares outstanding as of December 29, 2007 and 30,564,733 shares issued and 29,910,339 shares outstanding as of December 30, 2006. On January 31, 2005 we issued 683,000 shares of our $.001 par value common stock as part of the acquisition of Voyager Expanded Learning.

In September 2004, the Board of Directors approved an additional authorization to acquire up to $40 million of Voyager Learning Company stock. This authorization was valid through September 2007. We did not purchase any shares in the open market in fiscal 2006 or 2007.

Note 15 Stock-Based Compensation

As of December 29, 2007, the Company has one stock-based compensation plan, which is described below. The total amount of pre-tax expense for stock-based compensation recognized in selling, general and administrative expense in fiscal 2007 and 2006 was $0.1 million and $3.1 million, respectively. Additionally, ($0.1) million and $1.2 million in pre-tax expense (benefit) for stock-based compensation is recognized in earnings from discontinued operations in 2007 and 2006, respectively. The total income tax benefit recognized for book purposes in the consolidated statement of operations related to stock-based compensation was zero, $0.4 million, and zero for fiscal 2007, 2006, and 2005, respectively. The total tax benefit realized was $0.2 million, $0.2 million, and $1.6 million for fiscal 2007, 2006, and 2005, respectively.

Stock Option Plan

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

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

Long Term Incentive Performance (LTIP) Grants

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

Under these grants, the options vest after seven years and expire in ten years. However, if certain stock price thresholds are met during the initial seven year period, the vesting of the options is accelerated. These stock price thresholds represent 8% to 10% compounded annual stock price growth rates for 3 to 5 years.

The following table outlines the stock price thresholds and the number of options accelerated at each target stock price.

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

Even though these options may vest early, the executives will only be allowed to exercise one-third of the vested options after December 31, 2006, two-thirds of vested options after December 29, 2007 and all vested options after December 31, 2008. In addition to the above vesting requirements, each executive must retain 50% of all after-tax gains in shares of the Company until their retirement or termination of employment at Voyager Learning Company.

On December 31, 2005, 170,500 options granted in 2004 were cancelled due to the departure of one of our senior executives. On November 28, 2006, an additional 260,000 options granted in 2004 were cancelled due to the sale of PQBS and the subsequent termination of certain PQBS executives. On February 9, 2007, an additional 750,000 options granted in 2004 and 100,000 options granted in 2005 were cancelled due to the sale of PQIL and the subsequent termination of certain PQIL executives. Also, in 2007, an additional 341,000 options granted in 2004 and 175,000 options granted in 2005 were cancelled due to voluntary forfeiture of these options and the departure of one of our senior executives.

Stock Appreciation Right (SAR) Grant

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

Executive Stock Option Grants

At the end of fiscal 2007, we had options outstanding for 843,809 shares granted to key executives. The term for these options is six or ten years, vesting in equal annual increments over either a three-year or a five-year period.

Nonvested Restricted Stock Grants

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

During fiscal 2007 the Company issued 11,158 cash-based restricted stock units to members of the Company s Board of Directors (1,594 units per board member). Under this grant, the cash based restricted stock units vest after six months. As of December 29, 2007, each director was entitled to receive a cash payment equal to the product of the 1,594 units multiplied by the closing stock price on December 28, 2007. No actual shares were 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 and are valued at the settlement amount of approximately $0.1 million at year end 2007.

Fair Value of Stock Option and SAR Grants

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

We have utilized a binomial model to estimate the fair value of the options granted under the 2004 LTIP plan based on the complexity of that plan, utilizing the following assumptions:

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

All other stock option and SAR grants are calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2007	**2006**	**2005**
Expected stock volatility	35.30%	39.00%	36.71%
Risk-free interest rate (weighted average for fiscal year)	3.06%	5.19%	3.82%
Expected years until exercise	3	3	4
Dividend yield	0.00%	0.00%	0.00%

Summary of Stock Option and SAR Activity

A summary of the stock option and stock appreciation right transactions for fiscal 2005, 2006, and 2007 is as follows:

	Executive Grantees		**Director Grantees**		**LTIP Grantees**		**SAR Grantee**	
	Shares (000s)	**Weighted Average Exercise Price**	**Shares (000s)**	**Weighted Average Exercise Price**	**Shares (000s)**	**Weighted Average Exercise Price**	**Shares (000s)**	**Weighted Average Exercise Price**
Balance at the end of fiscal 2004	2,087	$ 26.41	69	$ 29.20	1,962	$ 30.97		$
2005:								
Granted	30	33.64	20	32.76	275	32.99		
Exercised	(381)	24.30	(13)	27.65				
Forfeited/cancelled	(304)	34.29	(10)	26.80	(171)	30.97		
Awards outstanding at the end of fiscal 2005	1,432	$ 25.53	66	$ 30.20	2,066	$ 31.24		$

