

10-K/A 1 y74159e10vkza.htm AMENDMENT NO.1 TO FORM 10-K

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
Amendment No. 1

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007
- Or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**
For the transition period from _____ to _____

Commission File Number: 333-109381

Hights Cross Communications, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation)*
10 New King Street, Suite 102
White Plains, NY
(Address of Principal Executive Offices)

13-4087398
*(I.R.S. Employer
Identification Number)*
10604
(Zip Code)

Registrant's telephone number, including area code:
(914) 289-9400

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

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

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

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

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

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.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

No established published market exists for the registrant's Common Stock, par value \$0.0003 per share.

The registrant had 9,958,112 shares of Common Stock, par value \$0.0003 per share, outstanding as of March 13, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Hights Cross Communications, Inc. (the “Company”) hereby amends, as set forth below, its Report on 2007 Form 10-K filed on March 31, 2008 (the “Original Report”) with regard to Item 8, Financial Statements and Supplementary Data, and Item 15, Exhibits, Financial Statements and Schedules, including certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Original Report.

Item 8 of the Original Report is hereby amended in its entirety, as set forth below. Item 15 of the Original Report is hereby amended as set forth below. The Company does not hereby make any other changes to the Original Report.

PART II**Item 8. *Financial Statements and Supplementary Data***

[Table of Contents](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
Hights Cross Communications, Inc.

We have audited the accompanying consolidated balance sheets of Hights Cross Communications, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hights Cross Communications, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1 to the Consolidated Financial Statements, the Company has substantial debt maturing in August 2008 and there is no certainty that the Company will be able to repay and/or refinance this debt. This uncertainty raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 14 to the Consolidated Financial Statements, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109, effective January 1, 2007. As discussed in Note 2 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share Based Payments, effective January 1, 2006 and the provisions of Financial Accounting Standards Board Staff Position 150-5, Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and other Similar Instruments on Shares that are Redeemable, effective July 1, 2005.

/s/ Ernst & Young LLP

New York, New York
March 28, 2008

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 61,784	\$ 69,847
Accounts receivable, net	26,504	22,462
Inventory, net	19,573	23,242
Direct response advertising costs — current portion, net	3,965	3,838
Prepaid royalties	6,342	6,135
Prepaid expenses and other current assets	2,994	2,658
Total current assets	<u>121,162</u>	<u>128,182</u>
Pre-publication costs, net	40,620	45,173
Direct response advertising costs, net	8,232	7,389
Property and equipment, net	10,638	11,279
Goodwill	135,566	135,566
Intangible assets, net	21,565	24,242
Deferred financing costs, net	6,499	10,347
Other assets	490	508
Total assets	<u>\$ 344,772</u>	<u>\$ 362,686</u>
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 33,607	\$ 30,862
Accrued interest	8,948	9,039
Deferred subscription revenue	15,275	14,140
Current portion of long term debt	124,850	1,300
Total current liabilities	<u>182,680</u>	<u>55,341</u>
Long term liabilities:		
Senior secured term loan	—	124,850
11 ³ / ₄ % senior notes	171,670	172,146
12 ¹ / ₂ % senior discount notes	118,362	104,847
Series B senior preferred stock, redeemable, \$.001 par value, 6,000,000 shares authorized, 2,000,230 shares issued and outstanding at December 31, 2006; 6,000,000 shares authorized, none outstanding at December 31, 2007	—	149,626
Deferred tax liability	18,474	14,905
Deferred gain on Series B cancellation and other long term liabilities	415	3,838
Total long term liabilities	<u>308,921</u>	<u>570,212</u>
Commitments (<i>Note 18</i>)		
Redeemable preferred stock:		
Series A preferred stock, redeemable, \$.001 par value, 30,000 shares authorized, 22,476 shares issued and outstanding at December 31, 2006; 30,000 shares authorized, none outstanding at December 31, 2007	—	39,196
Series C preferred stock, redeemable, \$.001 par value, 3,500 shares authorized, issued and outstanding at December 31, 2006; 3,500 shares authorized, none outstanding at December 31, 2007	—	1,855
Total redeemable preferred stock	<u>—</u>	<u>41,051</u>
Stockholders' deficit:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 20,012,914 shares issued and outstanding at December 31, 2006 and \$.0003 par value, 30,000,000 shares authorized, 9,966,229 shares issued and outstanding at December 31, 2007	3	20
Accumulated other comprehensive income	755	658
Accumulated deficit	<u>(147,587)</u>	<u>(304,596)</u>
Total stockholders' deficit	<u>(146,829)</u>	<u>(303,918)</u>
Total liabilities, redeemable preferred stock and stockholders' deficit	<u>\$ 344,772</u>	<u>\$ 362,686</u>

See accompanying notes.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)		
Revenue	\$ 231,946	\$222,004	\$210,485
Costs and expenses:			
Cost of goods sold	65,388	62,429	60,864
Marketing and sales	59,283	58,556	52,491
Fulfillment and distribution	19,003	18,027	16,083
General and administrative	35,610	28,719	25,953
Restructuring charges	2,632	407	—
Amortization of pre-publication costs	19,032	17,733	13,150
Goodwill impairment charges	—	34,812	—
Asset impairment charges	10,723	2,886	—
Depreciation expense and amortization of intangibles	5,782	5,499	5,038
Total costs and expenses	<u>217,453</u>	<u>229,068</u>	<u>173,579</u>
Income (loss) from operations	14,493	(7,064)	36,906
Other (income) expenses:			
Interest expense	61,772	65,787	59,328
Interest income	(3,173)	(2,921)	(1,872)
Amortization deferred financing costs	3,423	3,381	3,579
Gain on troubled debt restructuring	(115,489)	—	—
Other expense (income)	250	9	180
Total other expenses (income)	<u>(53,217)</u>	<u>66,256</u>	<u>61,215</u>
Income (loss) before income taxes, discontinued operations and cumulative effect of accounting change	67,710	(73,320)	(24,309)
(Provision) benefit for income taxes	<u>(4,038)</u>	<u>1,601</u>	<u>(4,952)</u>
Income (loss) before discontinued operations and cumulative effect of accounting change	63,672	(71,719)	(29,261)
Discontinued operations:			
Loss from operations of discontinued operations	—	—	(3,731)
Loss on disposal of discontinued operations	<u>(122)</u>	<u>(1,136)</u>	<u>(1,245)</u>
Income (loss) before cumulative effect of accounting change	63,550	(72,855)	(34,237)
Cumulative effect of accounting change	<u>—</u>	<u>—</u>	<u>2,213</u>
Net income (loss)	63,550	(72,855)	(32,024)
Gain on recapitalization	34,353	—	—
Preferred stock dividends and accretion	<u>(2,182)</u>	<u>(3,334)</u>	<u>(3,048)</u>
Net income (loss) available to common stockholders	<u>\$ 95,721</u>	<u>\$ (76,189)</u>	<u>\$ (35,072)</u>

See accompanying notes.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Common Stock		Accumulated Other Comprehensive Income (In thousands)	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance as of January 1, 2005	20,000	\$ 20	\$ 526	\$ (193,365)	\$ (192,819)
Comprehensive loss: Net loss	—	—	—	(32,024)	(32,024)
Foreign currency translation adjustment	—	—	(242)	—	(242)
Total comprehensive loss					(32,266)
Stock based compensation expense	—	—	—	3	3
Issuances pursuant to stock options	8	—	—	9	9
Preferred stock dividends and accretion	—	—	—	(3,048)	(3,048)
Balance as of December 31, 2005	20,008	20	284	(228,425)	(228,121)
Comprehensive loss: Net loss				(72,855)	(72,855)
Foreign currency translation adjustment				374	374
Total comprehensive loss					(72,481)
Stock based compensation expense	—	—	—	7	7
Issuances pursuant to stock options	5	—	—	11	11
Preferred stock dividends and accretion	—	—	—	(3,334)	(3,334)
Balance as of December 31, 2006	20,013	\$ 20	\$ 658	\$ (304,596)	\$ (303,918)
Comprehensive income: Net income	—	—	—	63,550	63,550
Foreign currency translation adjustment	—	—	97	—	97
Total comprehensive loss					63,647
Stock based compensation expense	—	—	—	4	4
Issuances of restricted stock	337	1	—	1,531	1,532
Recapitalization transactions	(10,384)	(11)	—	59,746	59,735
Gain on recapitalization	—	—	—	34,353	34,353
Change in par value of common stock	—	(7)	—	7	—
Preferred stock dividends and accretion	—	—	—	(2,182)	(2,182)
Balance as of December 31, 2007	9,966	\$ 3	\$ 755	\$ (147,587)	\$ (146,829)

See accompanying notes.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)		
Operating activities from Continuing Operations			
Net income (loss) from continuing operations	\$ 63,672	\$(71,719)	\$(29,261)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:			
Gain on troubled debt restructuring — non-cash	(115,489)	—	—
Non-cash interest expense	28,576	33,546	29,069
Allowance for doubtful accounts	2,942	4,078	3,831
Allowance for obsolescence	3,463	2,498	1,164
Depreciation and amortization of property and equipment, pre-publication costs and intangibles	24,814	23,232	18,188
Amortization of deferred financing costs	3,423	3,382	3,579
Amortization of premium on 11 ³ / ₄ % senior notes	(476)	(484)	(491)
Asset impairment charges	10,723	37,698	—
Deferred taxes — non-cash	3,569	(1,939)	4,640
Other non-operating income — non-cash	2,220	13	16
Changes in operating assets and liabilities:			
Accounts receivable	(6,995)	(5,238)	(5,235)
Inventory	(1,932)	(3,437)	(2,451)
Prepaid expenses, royalty advances and other current assets	(1,056)	790	(497)
Direct response advertising costs	(1,165)	(534)	(1,556)
Other assets	18	(18)	(21)
Accounts payable, accrued and other liabilities	2,878	2,384	2,938
Accrued interest	(91)	168	483
Deferred subscription revenue	1,135	1,510	95
Net cash provided by operating activities from continuing operations	<u>20,229</u>	<u>25,930</u>	<u>24,491</u>
Investing activities from Continuing Operations			
Additions to pre-publication costs	(21,778)	(22,852)	(21,877)
Additions to property and equipment	(2,976)	(2,759)	(3,831)
Additions to intangible assets	(55)	(39)	(20)
Acquisitions, net of cash acquired	—	907	(12,255)
Proceeds from sale of business	—	500	8,500
Proceeds from sale of assets	6	9	—
Net cash used in investing activities from continuing operations	<u>(24,803)</u>	<u>(24,234)</u>	<u>(29,483)</u>
Financing activities from Continuing Operations			
Transaction cost-troubled debt restructuring and recapitalization	(2,038)	—	—
Repayment of senior secured term loan	(1,300)	(1,300)	(1,300)
Proceeds from exercise of stock options	—	11	9
Additions to deferred financing costs	(88)	(104)	(511)
Net cash used in financing activities from continuing operations	<u>(3,426)</u>	<u>(1,393)</u>	<u>(1,802)</u>
Effect of exchange rates on cash	89	245	(154)
Cash flows of discontinued operations			
Operating cash flows	(152)	(293)	1
Investing cash flows	—	—	(2,042)
Net cash used in discontinued operations	<u>(152)</u>	<u>(293)</u>	<u>(2,041)</u>
Net (decrease) increase in cash and cash equivalents	(8,063)	255	(8,989)
Cash and cash equivalents at beginning of year	69,847	69,592	78,581
Cash and cash equivalents at end of year	<u>\$ 61,784</u>	<u>\$ 69,847</u>	<u>\$ 69,592</u>
Supplemental disclosure			
Cash paid during the year for:			
Interest	\$ 32,885	\$ 32,102	\$ 29,740
Income taxes	\$ 371	\$ 523	\$ 44

See accompanying notes.

[Table of Contents](#)**HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007****(In thousands)****1. Nature of Business and Organization**

Haights Cross Communications, Inc., a Delaware corporation (together with its subsidiaries, “we,” “our,” the “Company” or “Haights Cross Communications”), whose predecessor was formed in January 1997, is a holding company that conducts all of its operations through its direct and indirect subsidiaries, including, without limitation, its wholly-owned subsidiary Haights Cross Operating Company (“Haights Cross”). Between November 2007 and January 2008 we initiated a sale process for all of our operating businesses, and that process continues to be in progress. Our *Sundance/Newbridge* business was originally offered for sale in November 2007 and subsequently on March 17, 2008 the Board of Directors further authorized the orderly wind-down of this business. The business was not considered a discontinued operation at December 31, 2007 as it was not probable that a sale would be completed within the following twelve months. In January 2008, we initiated a sale process for all of our remaining operating businesses, and that process continues to be in progress.

The Company is a developer and publisher of products for the K-12 supplemental education, library and medical education markets. The Company’s products include supplemental reading books with a concentration on non-fiction content, state-specific test preparation materials, skills assessment and intervention books, unabridged audiobooks and continuing medical education products. The Company’s high quality products are sold primarily to schools, libraries and medical professionals.

The Company’s business is subject to moderate seasonal fluctuations as a result of many factors, including general economic trends; the traditional cyclical nature of educational material sales; school, library, and consumer purchasing decisions; the unpredictable funding of schools and libraries by Federal, state, and local governments; consumer preferences and spending trends; and the timing of introductions of new products. The Company’s revenue and income from operations have historically been higher during the second and third calendar quarters.

The following summarizes the Company’s four segments:

- *K-12 Supplemental Education:* The Company publishes supplemental reading materials for the kindergarten through eighth grade, or PreK-8, marketed under the well-recognized imprints *Sundance Publishing* and *Newbridge Educational Publishing*, and the Company also offers non-proprietary supplemental reading and literature products for the K-12 market. A sale process for *Sundance/Newbridge business* began in November 2007, and on March 17, 2008 the Board of Directors resolved to initiate a phased wind-down of the operations of *Sundance/Newbridge*.
- *Test-prep and Intervention:* The Company publishes state-specific test preparation materials for K-12 competency tests under our well-recognized imprints and brands such as *Triumph Learning*, *Coach* and *Buckle Down*. The Company also offers skills assessment products and intervention materials for struggling math and reading students under the widely known *Options Publishing* imprint.
- *Library:* The Company publishes unabridged audiobooks and other products for adults and children, under the *Recorded Books* imprint, and markets these titles, as well as selected non-proprietary audiobooks and other products, primarily to public libraries and schools.
- *Medical Education:* The Company publishes audio and video-based continuing medical education, or CME, materials for doctors and other health care professionals under the *Oakstone Publishing* imprint and self-study CME courses under the Company’s *CMEinfo* brand. The Company also publishes personal wellness information products for companies seeking to improve employee awareness of health and wellness issues under the *Top Health* and *Personal Best* brands.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Basis of Presentation***Going Concern Considerations***

We have prepared the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. These principles contemplate our continuation as a going concern. The Term Loans are due on August 15, 2008, and therefore have been reclassified from long-term to current based on their maturity date. As a result, as of December 31, 2007, we had a working capital deficiency of \$61.5 million. Although we cannot predict the effects of our sale announcements on our businesses, based on our current level of operations, we believe that cash flow from operations and available cash will be adequate to meet our future liquidity needs until the obligation to repay our Term Loans on August 15, 2008. We expect that cash on hand and generated from operations will be insufficient to fund the repayment of the Term Loans when due. We have initiated a sales process for our businesses and/or our entire company and therefore have not sought to extend our Term Loans at this time. If we are unable to receive sufficient net proceeds from this sales process by the due date of our Term Loans, or we are otherwise unable to extend or refinance a substantial portion of our obligations under our Term Loans, our existing capital resources will not enable us to meet our obligations under the Term Loans or continue operations beyond August 2008. Moreover, non-payment of our Term Loans when due would trigger a cross-default under our indentures governing the Senior Notes and Senior Discount Notes, which could require us to make an immediate payment under such indentures and obligations at a time when we would not have the funds to do so. We cannot assure that we will be able to enter into a sale transaction that allows us to repay our Term Loans or to refinance our Term Loans when due. Accordingly, as a result of the foregoing uncertainties, substantial doubt exists about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to the amount or classification of assets and liabilities to reflect this uncertainty.

As of December 31, 2007, we had total indebtedness outstanding of \$414.9 million, including our Term Loans in the aggregate principal amount of \$124.9 million, Senior Notes in the aggregate principal amount of \$170.0 million and Senior Discount Notes in the aggregate accreted amount of \$118.4 million. See Note 15 to our Consolidated Financial Statements. The Term Loans are secured obligations of our subsidiary, Hights Cross, are guaranteed by our other subsidiaries and Hights Cross Communications, and secured by substantially all of our property and assets. The Senior Notes are general unsecured obligations of our subsidiary, Hights Cross, and are also guaranteed by our other subsidiaries and Hights Cross Communications. The Senior Notes are effectively subordinated to the Term Loans to the extent of the collateral securing the Term Loans. The Senior Discount Notes are general unsecured obligations of Hights Cross Communications, ranking equally with all of Hights Cross Communications' senior debt. However, the Senior Discount Notes are structurally subordinated to all existing and future liabilities of our subsidiaries, including the Term Loans and the Senior Notes, and are effectively subordinated to the Term Loans to the extent of the value of the collateral securing the Term Loans. Our loan agreements for our Term Loans and our indentures for our Senior Notes and Senior Discount Notes generally allow us to sell our assets provided that at least 75% of the total consideration we receive is in the form of cash (as defined), such consideration is at least equal to the fair market value of the assets or equity interests sold as determined in good faith by our board of directors, and certain other conditions relating to the application of the net proceeds are met. The indentures governing our senior notes and senior discount notes require us to apply net proceeds from any significant asset sales that are not applied to certain specified purposes within 365 days, including capital expenses or the repayment of the senior secured term loans (and under the senior discount notes indentures, repayment of the senior notes), to offer to repurchase the senior notes and senior discount notes at a price equal to the principal amount plus accrued interest and accreted value plus accrued interest, respectively. Certain changes in beneficial ownership interest in us or a sale of all or substantially all of our assets through our proposed sales process or otherwise would constitute a change of control under our senior secured term loans and the indentures governing the

senior notes and senior discount notes, and would require our successor, if applicable, to assume the obligations under our senior secured term loans, our senior notes and our senior discount notes to the extent that such debt remains outstanding, and would require a change of control offer as described below. In addition we or our successor, as applicable, would be required to satisfy the limitation on additional indebtedness covenants contained

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

in the debt agreements. Failure to satisfy these conditions would result in an event of default under one or more of our outstanding debt agreements. Any such event of default could trigger a cross-default under one or more of our other debt agreements and, in any event, could require us to make an immediate payment under such agreements at a time when we may not have the funds to do so. Upon a change of control we or our successor would be required to offer to make a change of control offer to repurchase all of our then outstanding senior secured term loans, senior notes and senior discount notes at a price of 101% of principal amount, or accreted value with respect to the senior discount notes, plus accrued interest.

Upon realizing sufficient net proceeds from the sales process of our businesses, we would generally anticipate that such proceeds would be applied to redeem our debt in the order of seniority in our capital structure described above, with the Term Loans effectively ranking first, the Senior Notes effectively ranking second and the Senior Discount Notes, as a result of their structural subordination, effectively ranking third. However, depending upon the timing, structure and net proceeds, if any, received from our sales process, the timing and payment of our debt could vary from that anticipated above. Our Term Loans are redeemable at their principal amount, plus any accrued and unpaid interest, through their maturity date of August 15, 2008. Our Senior Notes may be redeemed by us beginning on August 15, 2008 at a price of 105.875% of principal, plus any accrued and unpaid interest. As of February 15, 2008, our Senior Discount Notes may be redeemed by us at a price of 106.25% of accreted value plus accrued interest. The premiums payable for the voluntary redemption of the Senior Notes and Senior Discount Notes are reduced over time to zero.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiaries. The Company acquired *Scott Publishing* in April 2005, and *CMEInfo* in June 2005. Therefore, results of operations for each of the acquired entities have been included in the consolidated results of operations since their respective acquisition dates. All material intercompany accounts and transactions have been eliminated upon consolidation. During 2005, the Company sold the assets of its *Chelsea House* imprint. As a result of the disposition, the results of *Chelsea House* have been reclassified as a discontinued operation for all periods presented in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions include management's judgment related to the collectability of accounts receivable, sales returns reserves, inventory obsolescence reserves, the lives and recoverability of direct response advertising costs, the lives and recoverability of pre-publication costs, deferred tax valuation allowances, useful lives of fixed assets and long-lived assets and impairments of goodwill and long lived assets. Actual results may differ from those estimates.

Concentrations of Credit Risk

Concentrations of credit risk with respect to trade accounts receivable are diversified due to the number of entities comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers' financial condition and does not require collateral. The Company maintains reserves for credit losses, and such losses have been within management's expectations.

Customers are concentrated in the educational and professional markets of the United States of America. No single customer accounted for more than 4% of revenue and 4% of accounts receivable.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value and Credit Risk of Financial Instruments

All current assets and liabilities are carried at cost, which approximates fair value due to the short-term maturities of those instruments. The fair value of the Company's 11³/₄% Senior Notes and 12¹/₂% Senior Discount Notes are estimated based on market quotes. The Company's Senior Secured Term Loan is a floating rate instrument and fair value is equal to carrying value.

Estimated fair values of the Company's long term debt instruments are as follows:

	December 31, 2007	
	Carrying Value	Fair Value
Senior secured term loan	\$ 124,850	\$124,850
11 ³ / ₄ % senior notes	171,670	175,961
12 ¹ / ₂ % senior discount notes	118,362	113,400

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Revenue and Expense Recognition

We recognize revenue from books and other non-subscription sales when the product is shipped to the customer. Product shipment terms are FOB shipping point and collectability is reasonably assured at the time of shipment. Subscription revenue is deferred and recognized as the subscription is fulfilled. Short term rental revenue for audiobooks is recognized at the time of the rental and audiobook lease revenue is deferred and recognized ratably over the term of the lease. Revenue is recognized net of provisions for estimated returns. These estimated return provisions are based upon historical experience and other company and specific customer factors including management's expectations. Actual return experience is monitored and any significant change from management's expectations results in an adjustment in the reserve rates utilized to estimate returns.

Cost of goods sold is recognized when the related revenue is recognized and primarily consists of paper, media, printing, binding and duplication and author royalty expenses.

Shipping and Handling

Shipping and handling costs are included in fulfillment and distribution expenses, while fees charged to customers for shipping and handling are included in revenue in the accompanying consolidated statements of operations. The Company incurred \$7.5 million, \$6.9 million and \$6.4 million in shipping and handling costs for the years ended December 31, 2007, 2006 and 2005, respectively.

Inventory and Related Obsolescence

Inventory consists primarily of books, CDs and audiocassettes, which are valued at the lower of cost or market, as determined by the first-in, first-out method. Obsolescence reserves on slow-moving or excess merchandise are recorded, where applicable, based upon regular reviews of inventories on-hand and estimated future demand. If a book is taken out of print, superseded by a later version or ceases to sell, it is considered obsolete and all related inventory amounts are written-off. If quantities of a book exceed expected future demand based on historical sales of that title, the excess inventory is also written off.

Prepaid Royalties

Royalty advances are recorded as cash is advanced to authors and are expensed as related revenues are earned by authors or when future recovery appears doubtful.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Advertising

Advertising expenses relating to book and non-subscription publishing operations are expensed as incurred. The Company incurred \$0.8 million, \$0.8 million and \$0.9 million in advertising expenses for the years ended December 31, 2007, 2006 and 2005, respectively, which is included in marketing and sales expenses in the accompanying consolidated statements of operations. The Company incurred \$13.8 million, \$16.8 million and \$13.8 million for amortization of direct response advertising costs for the years ended December 31, 2007, 2006 and 2005, respectively. Amortization of direct response advertising costs is included in marketing and sales expense in the accompanying consolidated statements of operations.

Direct response advertising costs are incurred to solicit sales from potential new customers who can be shown to have responded specifically to an advertising campaign that results in probable future economic benefits. We have two types of direct response advertising costs: direct mail and catalogs. We are able to track the revenue, costs and profitability from these advertising efforts at the campaign level. Both the direct mail and catalog campaign costs are capitalized and the net recoverability is evaluated on a product-by-product basis at the campaign level. The life and amortization rate are determined by historical experience with similar products at the same business. Generally, greater than 80% of direct mail costs are amortized in the first year, with all costs being amortized over lives ranging from 12-18 months. The sole exception to this policy is the direct mail costs relating to the *Oakstone Publishing* subscription business, which are amortized on an accelerated basis over the estimated life of the subscriber for up to five years. For these subscription products, the life is based on the original subscription period plus anticipated subsequent renewal periods. The rate of amortization is based on the expiration and cancellation rate of subscribers for similar subscription products.

Catalog costs are amortized over the estimated life of the catalog, generally between one and eighteen months with greater than 90% of catalog costs being amortized in the first year. The estimated life and amortization rate are based on the sales experience of similar catalogs at the same business segment. If a direct mail solicitation or catalog is determined to be unprofitable, all remaining capitalized costs are written-off at that time.

Prepaid marketing materials include printed promotional marketing pieces which are initially capitalized and expensed upon mailing and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Pre-Publication Costs

We capitalize the costs associated with the development of our new products. These costs primarily include author fees under work-for-hire agreements (excluding royalties), the costs associated with artwork, photography and master tapes, other external creative costs, internal editorial staff costs and pre-press costs that are directly attributable to the products. These costs are tracked at the product title or product series level and are amortized beginning in the month the product is introduced to market. These costs are amortized over the estimated life cycle of the book or product, based upon the sales performance of similarly existing products that are sold in the same business segment, for periods ranging from eighteen months to five years. The amortization rate is determined by the expected annual performance during the life cycle and, accordingly, in many cases an accelerated amortization method is utilized. Costs determined to be unrecoverable are written off. A write-off occurs most often when sales of a product are lower than anticipated or when a later version of the product is released. In addition, life cycles are periodically monitored for changes in length or rate of sales during the life cycle. When changes are significant, the amortization rate and period are adjusted.

Property and Equipment

Furniture, equipment and leasehold improvements are stated at cost and are depreciated using the

straight-line method over their estimated useful lives, generally ranging from three to seven years. Maintenance and repairs are charged to operations as incurred. Buildings are depreciated over 30 years, and leasehold improvements are

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

amortized over the shorter of their estimated useful life or the remaining term of the lease. The Company capitalizes internal use software in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Such costs are amortized over an estimated useful life ranging from two to five years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of net acquisition cost over the estimated fair value of net assets acquired of purchased companies. On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under SFAS No. 142, intangible assets considered to have indefinite lives, such as goodwill, are no longer amortized to expense but are periodically evaluated for impairment at the reporting unit level. Intangible assets with finite lives continue to be amortized to expense over their useful lives.

Under SFAS No. 142, goodwill and other indefinite lived intangible assets are subject to an annual impairment test as well as an interim test if an event occurs or circumstances change between annual tests indicating that the asset might be impaired. The goodwill impairment test is a two-step process. First, the fair value of the reporting unit is compared to its carrying value. If the fair value is less than the carrying value, a second step is performed. In the second step, an implied goodwill value is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of the goodwill, as calculated, is less than the carrying amount of the goodwill, an impairment charge is taken for the difference. The Company tests the goodwill of each of its reporting units annually, and more frequently if impairment indicators exist.

Long-Lived Assets

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). Under SFAS No. 144, impairment is recognized for long-lived assets when the carrying value exceeds the long-lived asset's estimated future undiscounted cash flows. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. In addition, the Company performs an annual evaluation of the recoverability of its pre-publication and direct response advertising costs.

Stock-Based Compensation

Prior to the recapitalization pursuant to the Recapitalization Agreement, we administered a stock option plan, pursuant to which we granted stock options to employees that vested both over time and based on the achievement of performance criteria.

Prior to January 1, 2006, we accounted for stock options by following the minimum value method under SFAS No. 123. Under the minimum value method, compensation expense for options is measured at the grant date based on the value of the award, as determined using the minimum value option valuation model, and is recognized over the vesting period of the grant. In December 2004, the FASB issued SFAS No. 123(R), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees," and amends SFAS 95, "Statement of Cash Flows." Generally, SFAS No. 123(R) requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the SEC delayed the effective adoption to January 1, 2006 for calendar year-end companies. The Company adopted SFAS No. 123 effective January 1, 2002, and will continue to expense the previously granted options using the values determined under the minimum-value method to awards outstanding prior to January 1, 2006, which is

the date upon which the Company adopted SFAS 123(R). Effective January 1, 2006 the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the prospective transition method to account for all awards granted, modified or settled after the date of adoption.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
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In connection with the recapitalization pursuant to the Recapitalization Agreement (Note 3), our stock option plan was terminated and all outstanding options canceled. We do not intend at this time to grant stock options in the future.

Income Taxes

We account for income taxes pursuant to the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under SFAS No. 109, deferred tax assets and liabilities are recorded to reflect the future tax consequences attributable to the effects of differences between carrying amounts of existing assets and liabilities for financial reporting and for income tax purposes. A history of generating taxable income is required in order to substantiate the recording of a net tax asset.

Foreign Currency Translation

The Company has determined that the functional currency of its foreign subsidiary is the subsidiary's local currency. The assets and liabilities of this subsidiary are translated at the applicable exchange rate as of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss). Gains and losses on inter-company transactions are recorded in operating expenses and have not been material for the periods presented. The assets and liabilities of the Company's foreign subsidiary were immaterial as of December 31, 2007 and 2006.

Redeemable Capital Stock

We previously accounted for our outstanding Preferred B, which was mandatorily redeemable, in accordance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). Our Preferred A and Preferred C, on the other hand, which were redeemable at the option of the holders thereof and were not mandatorily redeemable, were not subject to SFAS No. 150 and were instead classified as mezzanine equity. The Preferred Warrants were also required to be classified as a liability and recorded at fair value, because under FSP No. 150-5, "Issuer's Accounting Under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable," ("FSP No. 150-5"), the Preferred Warrants were deemed to embody obligations on the Company to issue securities that had a redemption right.

Upon the closing of the Recapitalization Agreement (Note 3), all outstanding shares of Preferred A, Preferred B and Preferred C were converted to common stock at agreed upon rates, and the Preferred Warrants were converted into warrants to acquire common stock at an agreed upon rate. As a result, we no longer have outstanding any redeemable capital stock, or any securities convertible into or exercisable or exchangeable for redeemable capital stock.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. During 2005, the Company sold the assets of its *Chelsea House* imprint. As a result of the disposition, the results of *Chelsea House* have been reclassified as a discontinued operation for all periods presented.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement 157, *Fair Value Measurement* ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources

to be used to estimate fair value. Statement 157 also expands financial statement disclosures about fair value measurements. On February 6, 2008, the FASB issued FASB Staff Position (FSP) 157-b which delays the effective date of Statement 157 for one year for all

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Statement 157 and FSP 157-b are effective for financial statements issued for fiscal years beginning after November 15, 2007. We have elected a partial deferral of Statement 157 under the provisions of FSP 157-b related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The impact of partially adopting Statement 157 effective January 1, 2008 is not expected to be material to our consolidated financial statements.

In February 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS 115* (“Statement 159”), which permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As we have not elected to fair value any of our financial instruments under the provisions of Statement 159, the adoption of this statement will not have any impact to our consolidated financial statements.

3. Recapitalization Transaction

On August 10, 2007, we consummated the recapitalization pursuant to the Recapitalization Agreement. The recapitalization simplified the Company’s capital structure and resolved litigation between certain Preferred B holders of the Company and the Company. As a result of the recapitalization, the preference related to the Company’s outstanding shares of preferred stock including the Company’s Preferred B shares, which had a mandatory redemption feature, were extinguished improving the Company’s financial position and the former holders of the Company’s Preferred B shares received approximately 82% of the outstanding shares of Common Stock and thus voting control of the Company.

Under the terms of the Recapitalization Agreement, holders of our previously outstanding Preferred B converted their shares of Preferred B into approximately 82% of our outstanding shares of common stock, holders of our previously outstanding Preferred A, Preferred C and Preferred Warrants converted their shares and warrants into shares of common stock and common stock warrants representing approximately 15% of our outstanding shares of common stock, and certain members of management acquired new shares of common stock for \$0.001 per share under the terms of management stock purchase agreements representing approximately 3% of our outstanding common stock. In connection with the foregoing, all previously outstanding shares of common stock were effectively eliminated through the reclassification into one share of common stock in a reverse split and all outstanding Common Warrants and options to purchase common stock were similarly effectively eliminated by the reverse split of the common stock. As a result of the closing of the transactions contemplated by the Recapitalization Agreement, the Company has only outstanding common stock and common stock warrants, and no shares of Preferred A, Preferred B or Preferred C, or stock options, remain outstanding.

In connection with the recapitalization, each Preferred A share and Preferred C share was reclassified into shares of Common Stock at the rate of one share of Common Stock for each \$31.481 of accrued liquidation value of Preferred A share or Preferred C share as of June 30, 2007. Each Preferred B share was converted into approximately 4.09953 shares of Common Stock.

Pursuant to the management stock purchase agreements, management paid \$0.001 per share to acquire the shares of common stock (See Note 17 “Stock Based Compensation”).

All of the Company’s previously outstanding warrants to purchase its Preferred A shares were automatically adjusted to become exercisable to purchase 70,301 shares of the Company’s Common Stock at a purchase price of \$0.0003 per share of Common Stock. All of such rights were currently

exercisable at the time of the closing of the recapitalization and have expiration dates of December 10, 2011.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At the closing of the Recapitalization Agreement, certain of our beneficial holders entered into a shareholders agreement whereby the only voting provisions contained in such agreement require the parties thereto to vote for the director nominees of certain of the parties. The Company reconstituted its Board of Directors into a new six member Board of Directors composed of Mr. Peter J. Quandt, our then Chairman and Chief Executive Officer, and five persons designated by various former Preferred B and Preferred A holders. Mr. Quandt subsequently resigned his positions with the Company. Effective September 17, 2007, Mr. Christopher Gaffney also resigned from his position on the Board of Directors of the Company, though his shareholder group reserved their right to nominate a board member in the future. On September 21, 2007, Mr. Paul J. Crecca was elected to the Board of Directors. Mr. Crecca also serves as President and Chief Executive Officer of the Company.

Also in connection with the closing of the Recapitalization Agreement, the Company and certain former Preferred B holders entered into a release agreement, pursuant to which, among other things, such holders dismissed a pending legal action filed by them against the Company that asserted claims under 8 Del. Code. § 220 and under a certain Investors Agreement, dated December 10, 1999, seeking access to Haight's Cross Communications' books and records.

The closing of the Recapitalization Agreement was subject to the satisfaction of certain stated conditions, including the waiver by the requisite holders of our Term Loans, Senior Notes and Senior Discount Notes of applicable "change of control" covenants that, absent such waiver, might have applied in connection with the conversion of the Preferred C, Preferred B, and Preferred A into common stock. All required waivers were obtained.

In connection with the recapitalization, the Company recorded a gain on troubled debt restructuring of \$115.5 million during the year ended December 31, 2007, based on the difference in carrying value of the Preferred B compared to the fair value, based on an independent appraisal, of the common shares exchanged. The gain includes approximately \$1.9 million in transaction costs and a \$2.8 million benefit from consequential balance sheet write offs, primarily, the unamortized portion of the deferred gain on Preferred B. The recapitalization of the Preferred A and Preferred C also resulted in gains based on their carrying value compared to the fair value of the common shares exchanged, but because of their classification as equity instruments, the gains of \$33.0 million and \$1.3 million, respectively, are reflected as Gain on Recapitalization in the calculation of net income available to common stockholders.

The independent appraisal of the Company's Common Stock was conducted utilizing three approaches: (i) a multi-period income approach, specifically a discounted cash flow method, (ii) a review of industry guideline companies and (iii) a review of industry acquisitions.

The significant assumptions in the discounted cash flow method include the discount rates used, which range from 15 to 17%, the terminal value multiples used and the projected revenues and profits of the Company based on management's estimates and historical performance. The significant assumptions in the industry guideline approach included the selection of similar entities for market value and the determination that earnings multiples were the most indicative measure of value. Under the industry acquisition approach the significant assumptions include the determination of similar transactions for similar entities and a determination of the appropriate valuation multiples.

Once the value from each method was determined and weighted, a range of value was determined and a discount factor based on lack of marketability of 20% was applied to the values.

The adjustment of \$59,746 to the accumulated deficit in our statement of changes in stockholders' deficit for 2007 was calculated based on the fair value of shares issued in the recapitalization less the related legal fees and less the par value of the cancelled Common Stock.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
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4. Acquisitions***Scott Publishing***

In April 2005, the Company acquired all of the outstanding shares of capital stock of *Scott Publishing, Inc. d/b/a Personal Best® Communications, Inc.* (“*Scott Publishing*”). The Company reported the acquisition using the purchase method of accounting and the acquired business has been included in our Medical Education segment since completion of the acquisition. *Scott Publishing* creates employee wellness newsletters, calendars and web-based products that provide information and guidance on individual and family issues related to health, wellness, nutrition, and safety. The Company acquired *Scott Publishing* to extend its wellness product offerings. To acquire *Scott Publishing* the Company paid \$3.1 million in cash to the prior owners, and paid an additional \$0.3 million and \$0.4 million, respectively, to retire *Scott Publishing’s* existing debt obligations and to cover acquisition costs. The Company received \$0.1 million in cash on hand, resulting in a net acquisition cost of \$3.6 million. The net cost exceeded the fair value of net assets acquired, resulting in goodwill of \$2.2 million.

The following table summarizes the fair value of the assets acquired and the liabilities assumed on the acquisition date:

	<u>As of April 15, 2005</u>
Working capital, net (excluding cash acquired)	\$ 176
Intangibles	1,560
Deferred tax	<u>(296)</u>
Net assets acquired	1,440
Goodwill recorded	<u>2,187</u>
Net cost	<u>\$ 3,627</u>

CMEinfo

In June 2005, the Company acquired all of the outstanding shares of capital stock of *CMEinfo.com, Inc.* (“*CMEinfo*”). The Company reported the acquisition using the purchase method of accounting, and the acquired business has been included in our Medical Education segment since completion of the acquisition. *CMEinfo* publishes self-study continuing medical education (“*CME*”) courses. The Company acquired *CMEinfo* to increase the scope of its *CME* product offerings. To acquire *CMEinfo*, the Company paid \$7.2 million in cash to the prior owners, and paid an additional \$0.1 million and \$1.4 million, respectively, to retire *CMEinfo’s* existing debt obligations and to cover acquisition costs. The \$7.2 million in cash paid to the prior owners included \$1.7 million that was placed in an escrow account to cover revenue shortfalls and indemnification obligations. Thereafter, the Company recorded a \$1.0 million receivable in the fourth quarter of 2005. During the quarter ended June 30, 2006, the Company received \$1.0 million from the escrow account due to *CMEinfo’s* failure to meet revenue projections. The net acquisition cost of \$7.6 million exceeded the fair value of net assets acquired, resulting in goodwill of \$2.9 million.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed as a result of the acquisition:

	<u>As of June 15,</u> <u>2005</u>
Working capital, net (excluding cash acquired)	\$ (168)
Pre-publication costs	890
Property and equipment	60
Intangibles	4,420
Deferred tax	<u>(532)</u>
Net assets acquired	4,670
Goodwill recorded	<u>2,891</u>
Net cost	<u>\$ 7,561</u>

Pro-forma statements of operations are not presented for *CMEinfo* and *Scott Publishing* as the effects of these acquisitions are not material to the Company's consolidated financial statements.

5. Accounts Receivable

Accounts receivable consists of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Accounts receivable	\$28,909	\$25,629
Less allowance for doubtful accounts	<u>2,405</u>	<u>3,167</u>
Accounts receivable, net	<u>\$26,504</u>	<u>\$22,462</u>

6. Inventory

Inventory consists of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Supplies	\$ 1,354	\$ 1,371
Work-in-process	599	1,013
Finished goods	<u>24,593</u>	<u>24,541</u>
	26,546	26,925
Less allowance for obsolescence	<u>6,973</u>	<u>3,683</u>
Inventory, net	<u>\$19,573</u>	<u>\$23,242</u>

During the fourth quarter of 2007 the Company recorded an additional inventory obsolescence allowance of \$2.1 million related to its K-12 Supplemental Education segment which consists of *Sundance/Newbridge* due to declines in anticipated demand for its products.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Pre-publication Costs

Pre-publication costs consists of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Pre-publication costs	\$106,421	\$92,851
Less accumulated amortization	65,801	47,678
Pre-publication costs, net	<u>\$ 40,620</u>	<u>\$45,173</u>

Amortization of pre-publication costs for the years ended December 31, 2007, 2006 and 2005 was \$19.0 million, \$17.7 million and \$13.1 million, respectively. See Note 13 for impairment charges related to pre-publication costs.

8. Property and Equipment

Property and equipment consists of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Furniture and fixtures	\$ 2,276	\$ 2,429
Office equipment and software	13,852	12,509
Land and building	4,041	4,784
Leasehold improvements	2,569	2,768
	<u>22,738</u>	<u>22,490</u>
Less accumulated depreciation	12,100	11,211
Property and equipment, net	<u>\$10,638</u>	<u>\$11,279</u>

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 was \$3.1 million, \$2.8 million and \$2.5 million, respectively.

During 2007, in the process of restructuring *Options Publishing* (See Note 12) the Company tested the land and building assets of *Options Publishing* for impairment and determined based on an independent appraisal that carrying value of these asset were in excess of the fair market value. The valuation resulted in an asset impairment charge of \$0.6 million that was recorded to "asset impairment charges" in the income from operations for its Test-prep and Intervention segment for the year ended December 31, 2007 (See Note 13).

9. Goodwill

Goodwill and other intangible assets with indefinite lives are tested for impairment annually, as required by SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). First, the fair value of the reporting unit is compared to its carrying value. If the fair value is less than the carrying value, a second step is performed. In the second step, an implied goodwill value is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of the goodwill as calculated is less than the carrying amount of the goodwill, an impairment charge is recorded for the difference. In 2007 no impairment was indicated in the step one test.

During the second quarter of 2006, an indication of impairment existed in the Company's K-12 Supplemental Education segment, which consists of *Sundance/Newbridge*, due to decline in revenues and operating profits and increased and unanticipated competition. Based on this indication of impairment, a goodwill impairment test was

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

performed and during the second quarter of 2006 the Company recorded a \$24.4 million goodwill impairment charge to Income from Operations for its K-12 Supplemental Education Segment.

As indicated above, the goodwill impairment assessment is a two step process. When the Company performed the annual goodwill impairment testing as of October 1, 2006. The value determined in step one of the assessment process indicated that the carrying value of the assets net of liabilities of the *Options Publishing* business was in excess of the fair market value of that reporting unit. The Company completed step two of the impairment process during the fourth quarter of 2006 and recorded a \$10.4 million goodwill impairment charge to Income from Operations for its Test-prep and Intervention Segment.

A summary of the change in the Company's goodwill for the years ended December 31, 2007 and 2006 is as follows:

Goodwill, December 31, 2005	<u>\$170,252</u>
CMEinfo acquisition	126
Goodwill impairment charge- <i>Sundance/Newbridge</i>	(24,393)
Goodwill impairment charge- <i>Options Publishing</i>	<u>(10,419)</u>
Goodwill, December 31, 2006 and 2007	<u>\$135,566</u>

The full value assigned to goodwill for the *Scott Publishing* and *CMEinfo* acquisitions will not be deductible for income tax purposes as these acquisitions were treated as a stock purchase for income tax purposes.

10. Intangibles

Intangible assets consist primarily of customer relationships, non-compete agreements and trademarks. Intangible assets with finite lives are amortized on a straight-line basis to expense over their useful lives of three to ten years. The Company reassesses the estimated remaining useful lives of these assets in accordance with SFAS No. 142 and has determined that such estimated lives are appropriate. A summary of intangible assets is as follows:

<u>Definite Life Assets</u>	<u>Lives</u>	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Customer list	10 years	\$ 23,240	\$ 23,240
Non-compete agreements	3-5 years	1,900	1,900
Other	5 years	<u>167</u>	<u>171</u>
		25,307	25,311
Less: accumulated amortization		<u>(8,597)</u>	<u>(5,898)</u>
		16,710	19,413
Trademarks	Indefinite	<u>4,855</u>	<u>4,829</u>
Net intangible assets		<u>\$ 21,565</u>	<u>\$ 24,242</u>

Amortization expense for the years ended December 31, 2007, 2006 and 2005 was \$2.7 million, \$2.7 million and \$2.5 million, respectively. Accumulated amortization amounts by asset type as of December 31, 2006 were \$5.0 million for customer list, \$0.7 million for non-compete agreements and \$0.2 million for other intangible assets. Accumulated amortization by asset class as of December 31, 2007 was \$7.4 million for customer lists, \$1.1 million for non-compete agreements and \$0.1 million for other intangible assets.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows:

	<u>Total</u>
Amortization of intangibles:	
2008	2,733
2009	2,671
2010	2,425
2011	2,327
2012	2,325
Thereafter	4,229
	<u>\$16,710</u>

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consists of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Trade accounts payable	\$10,916	\$13,175
Accrued liabilities	12,011	9,371
Accrued management incentive	5,595	4,963
Accrued compensation and related taxes and benefits	3,070	3,168
Accrued restructuring costs	1,965	105
Accrued disposition costs	50	80
Accounts payable and accrued liabilities	<u>\$33,607</u>	<u>\$30,862</u>

12. Restructuring Charges

During the first quarter of 2006, the Company initiated a restructuring project under which it consolidated the Iowa-based warehousing, customer service and order fulfillment functions of its *Buckle Down Publishing* business with our existing shared service facility in Northborough, Massachusetts. The objective of the warehouse consolidation was to reduce payroll costs and avoid expected increases in lease costs, while providing faster and more accurate order and delivery services. The restructuring project resulted in costs associated with the severance of seven employees based in Iowa, the movement of inventory to the new facility and net lease payments that are being made through the end of the lease term. The Company completed the restructuring process during the second quarter of 2006 and incurred a total restructuring charge of approximately \$0.4 million in connection with this effort. Restructuring activity for the warehouse and order fulfillment consolidation relates to *Buckle Down Publishing* and is therefore reported within the Test-prep and Intervention segment.

On September 28, 2007, the Board of Directors authorized a restructuring of *Options Publishing* and *Triumph Learning*, whereas the management of *Options Publishing* was merged into *Triumph Learning* and the warehouse functions of *Options Publishing* would be consolidated into the shared services division; the accounting functions will be taken over by the *Triumph Learning* general accounting group located in New York City; customer services, warehousing and fulfillment will be incorporated in to the shared service facility in Northborough, MA; and the manufacturing and product purchasing functions will be consolidated into a new shared manufacturing group that is being formed in our Iowa City location. The purpose of this restructuring is to save operational costs and to improve the product development process. Furthermore, certain functions of *Triumph Learning* will be moved to other

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

locations to improve processes, leverage shared resources and take advantage of lower cost facilities. The accounts receivable and cash applications functions will be relocated to Northborough, MA; and the manufacturing functions located in NY will be moved into the previously discussed shared manufacturing function in Iowa City. Additionally, as of January 1, 2008, the *Triumph Learning* accounting group took over certain accounting functions from *Sundance/Newbridge* related to the shared service facility in Northborough, MA. The Company completed the restructuring process during the first quarter of 2008 and expects to incur a total restructuring charge of approximately \$1.0 million in connection with this effort.

On September 28, 2007 the Board of Directors also authorized a restructuring of *Sundance/Newbridge* whereas the Company would reduce its workforce by approximately 30 employees and would refocus its distributed product line over the subsequent months. The plan was to have all remaining operations retrenched or modified to maximize asset value and generate positive cash flow. The purpose of this effort was to save operational costs and to respond to the issues in the marketplace while improving the business' financial performance.

On November 5, 2007 the Board of Directors authorized a plan to sell the *Sundance/Newbridge* business and on March 17, 2008, the Board of Directors further authorized the orderly wind-down of the business. As a result, the *Sundance/Newbridge* restructuring was expanded to include the severance of the remaining *Sundance/Newbridge* employees and the full absorption of the shared service function by the *Triumph* business. The Company expects to complete the restructuring process by the end of the second quarter of 2008 and expects to incur a total restructuring charge of approximately \$2.8 million in connection with this effort.

Restructuring activity related to the *Options* merger with *Buckle Down* relates to *Options Publishing* and is therefore reported within the Test-prep and Intervention segment. Restructuring activity related to *Sundance/Newbridge* will be reported within our K-12 Supplemental Education segment.

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The cost of the restructuring activity by type of cost for the years ended December 31, 2006 and 2007 is as follows:

	<u>Severance and Related</u>	<u>Lease Terminations Costs</u>	<u>Relocation and Other</u>	<u>Total Consolidation</u>
Buckle Down — Warehouse and Order Fulfillment Consolidation				
Amount expected to be incurred	\$ 65	\$ 180	\$ 162	\$ 407
Accrued restructuring liability as of December 31, 2005	—	—	—	—
Restructuring expense	65	180	162	407
Cash paid	(65)	(75)	(162)	(302)
Accrued restructuring liability as of December 31, 2006	—	105	—	105
Restructuring expense	—	75	—	75
Cash paid	—	(109)	—	(109)
Accrued restructuring liability as of December 31, 2007	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 71</u>
Options Publishing — Consolidation with Buckle Down				
Amount expected to be incurred	\$ 954	\$ —	\$ 61	\$ 1,015
Accrued restructuring liability as of December 31, 2006	—	—	—	—
Restructuring expense	845	—	61	906
Cash paid	(219)	—	(61)	(280)
Accrued restructuring liability as of December 31, 2007	<u>\$ 626</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 626</u>
Abandonment of Sundance/Newbridge business				
Amount expected to be incurred	\$ 2,730	\$ —	\$ 51	\$ 2,781
Accrued restructuring liability as of December 31, 2006	—	—	—	—
Restructuring expense	1,409	—	51	1,460
Cash paid	(141)	—	(51)	(192)
Accrued restructuring liability as of December 31, 2007	<u>\$ 1,268</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,268</u>

In addition to the severance and related, relocation and other cash expenses incurred in connection with the *Options Publishing* consolidation with *Buckle Down*, an additional \$0.2 million restructuring expense was incurred due to the write off accumulated product development costs associated with projects abandoned with the merger.

13. Asset Impairment Charges

During the second quarter 2007 the Company completed an impairment test of the pre-publication assets of *K-12 Supplemental Education* segment, which is consist of *Sundance/Newbridge* business, at the series level, due to continued declines in revenues and operating profits, which resulted in a \$2.2 million charge. On November 5, 2007 the Board of Directors authorized a plan to sell the *Sundance/Newbridge* business and subsequently authorized the orderly wind-down of this business. A valuation of the business at fair value was prepared in connection with the plan to divest the *Sundance/Newbridge* business and as a result an impairment charge of \$7.9 million was recorded in the fourth quarter of 2007.

In addition, the fourth quarter of 2007 included a restructuring of our *Test-prep and Intervention* segment with the consolidating of our *Options Publishing* business into our *Triumph Learning* business. In connection with the

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consolidation, our building located in Merrimack, New Hampshire was abandoned and offered for sale resulting in a \$0.6 million impairment charge from a fair value assessment of the building.

14. Income Taxes

Effective January 1, 2007, the Company adopted FASB Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company did not recognize a liability for unrecognized tax benefits. The Company does not have any accrued interest or penalties associated with unrecognized tax benefits. The Company's continuing policy is to recognize interest and penalties related to income tax matters as tax expense. There was no significant interest and penalty expense related income tax matters for the years ended December 31, 2007 and 2006.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2001 through 2007 tax years generally remain subject to examination by their respective tax authorities.

The benefit (provision) for income taxes consists of the following:

	<u>December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Restated Note 2)		
Current income tax expense:			
Foreign	\$ (469)	\$ (338)	\$ (312)
Deferred income tax expense:			
U.S. Federal	<u>(3,569)</u>	<u>1,939</u>	<u>(4,640)</u>
Total benefit (provision for) income taxes	<u><u>\$ (4,038)</u></u>	<u><u>\$ 1,601</u></u>	<u><u>\$ (4,952)</u></u>

Foreign income tax expense is based on taxable UK earnings, of \$1.1 million, \$1.1 million and \$1.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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Deferred tax assets (liabilities) consist of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 53,225	\$ 44,697
Goodwill	6,323	8,095
Interest on 12 ¹ / ₂ % Senior Discount Note	13,126	9,423
Allowance for doubtful accounts and notes	1,805	2,102
Inventory reserves	2,377	1,156
Other definite life intangible assets	1,574	610
Restructuring	766	—
Other	<u>200</u>	<u>249</u>
Total deferred tax assets	79,396	66,332
Deferred tax liabilities:		
Goodwill and other indefinite life assets	(18,474)	(14,905)
Direct response advertising	(4,758)	(4,491)
Depreciation	<u>(356)</u>	<u>(630)</u>
Total deferred tax liabilities	<u>(23,588)</u>	<u>(20,026)</u>
Net deferred tax assets before valuation allowance	55,808	46,306
Less valuation allowance	<u>(74,282)</u>	<u>(61,211)</u>
Net deferred tax liabilities	<u><u>\$(18,474)</u></u>	<u><u>\$(14,905)</u></u>

The net deferred tax liability of \$18.5 million at December 31, 2007 and \$14.9 million at December 31, 2006 relates to the Company's goodwill and other indefinite life assets. Goodwill and indefinite life assets are amortizable over 15 years in accordance with tax law but are not amortized for book purposes in accordance with SFAS 142. This deferred tax liability is not offset against the Company's deferred tax assets when determining the amount of required valuation allowance under U.S. generally accepted accounting principles since it relates to indefinite-lived asset and, therefore, we cannot anticipate when it will reverse.

As of December 31, 2007, the Company had federal net operating loss carryforwards of approximately \$136.5 million expiring through 2027.

The Company provided a full valuation allowance for the net deferred tax assets exclusive of the goodwill related deferred tax liability noted above, as a result of management's uncertainty as to the realization of such assets. The valuation allowance increased \$13.2 million and \$16.4 million for the years ended December 31, 2007 and 2006, respectively.

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon facts and circumstances known to the Company. The Company's effective rate is based on expected pretax loss, statutory tax rates, changes in the deferred tax asset valuation allowance and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
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A reconciliation of the statutory Federal income tax rate to the effective rate is as follows:

	December 31,		
	2007	2006	2005
Statutory rate	34%	34%	34%
State and local income taxes (net of federal benefit)	5%	6%	6%
Change in valuation allowance	20%	(22)%	(15)%
Non-deductible interest expense	11%	(13)%	(31)%
Gain on troubled debt restructuring	(67)%	—%	—%
Other	3%	(3)%	(12)%
Effective tax rate	<u>6%</u>	<u>2%</u>	<u>(18)%</u>

Under Section 382 of the Internal Revenue Service Code, based on the change of control discussed in Note 12, there could be limitations on the utilization of the Company's NOL deductions in future periods. The annual limitation on utilization of NOL's is expected to be approximately \$20 million. The Company has evaluated the impact of this change of control on the utilization of our NOL's and believes the impact of the 382 limitation will not be significant as built-in gains relating to businesses sold within 5 years of the change in control serve to increase the annual section 382 limitation.

15. Financing Arrangements

Senior Secured Revolving Credit Facility, Term Loans, 11³/₄% Senior Notes

On August 20, 2003, Hights Cross entered into a \$30.0 million Senior Secured Revolving Credit Facility (the "Facility") and a \$100.0 million Senior Secured Term Loan (the "First Term Loan"), and also issued \$140.0 million aggregate principal amount of its 11³/₄% Senior Notes due 2011 ("Senior Notes").

On August 15, 2007, we terminated the Facility, which Hights Cross had never drawn upon and which was scheduled to expire by its terms in May 2008.

The First Term Loan matures on August 15, 2008, and is secured by a lien on all of the Company's property and assets (tangible and intangible), including all capital stock of existing and future subsidiaries (except future excluded subsidiaries). The First Term Loan contains customary restrictive covenants and debt incurrence tests. The First Term Loan bears interest at a variable rate based on the Eurodollar (subject to a 2% floor), plus an applicable margin based on a graduated rate schedule. As of December 31, 2007, the effective interest rate on all borrowings under the First Term Loan was 9.37%. Beginning on November 15, 2003 and continuing through maturity, the Company is required to make principal payments on the First Term Loan of \$250,000 per quarter. (See Note 1 "Basis of Presentation- Going Concern Considerations").

The Senior Notes mature on August 15, 2011, and are effectively subordinated to the Term Loans (as defined below) to the extent of the collateral securing the Term Loans. The Senior Notes contain customary restrictive covenants and debt incurrence tests. The Senior Notes bear interest at a fixed rate of 11³/₄% with payments due semi-annually on February 15 and on August 15. Interest payments commenced on February 15, 2004. (See Note 1 "Basis of Presentation — Going Concern Considerations")

On December 10, 2004, Hights Cross issued an additional \$30.0 million aggregate principal amount of its Senior Notes under its existing indenture. These Senior Notes are *pari passu* with, of the same series as and vote on any matter submitted to bondholders, the original Senior Notes. In connection with the issuance of the additional Senior Notes, Hights Cross entered into a new \$30.0 million Senior Secured Term Loan (the "Second Term Loan" and, together with the First Term Loan, the "Term Loans"). Amounts borrowed under the Second Term Loan rank equally with the

amounts borrowed under the First Term Loan. The Second Term Loan also matures on August 15, 2008. As of December 31, 2007, the effective interest rate on all borrowings under the Second Term Loan was

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8.37%. As of December 31, 2007, the Company had \$170.0 million aggregate principal amount of outstanding Senior Notes and \$124.9 million aggregate principal amount of indebtedness outstanding under the Term Loans. The balance of the Term Loans is classified as short-term liability. (See Note 1 “Basis of Presentation- Going Concern Considerations”).

The Term Loans and the Senior Notes have been fully and unconditionally guaranteed, jointly and severally, by the Company and each of Hights Cross’ existing and future restricted subsidiaries. (See Note 22.)

12¹/₂% Senior Discount Notes

On February 2, 2004, Hights Cross Communications issued \$135.0 million aggregate principal amount at maturity of its 12¹/₂% Senior Discount Notes due 2011 (the “Senior Discount Notes”), for which it received net proceeds of \$73.7 million. The Senior Discount Notes mature on August 15, 2011, with each Senior Discount Note having an accreted value of \$1,000 at maturity. The Senior Discount Notes will not begin to accrue cash interest until February 1, 2009, after which the Company will be required to make cash interest payments every six months in arrears on February 1 and August 1, commencing August 1, 2009. The Senior Discount Notes are general unsecured obligations of Hights Cross Communications and rank equally with all of Hights Cross Communications’ existing and future unsecured senior indebtedness and are senior to all of its future subordinated indebtedness. The Senior Discount Notes are effectively subordinated to all of Hights Cross Communications’ existing and future secured indebtedness, to the extent of the collateral securing such indebtedness. The Senior Discount Notes rank *pari passu* in right of payment to Hights Cross Communications’ guarantee of the Term Loans and the Senior Notes. The Company can redeem the Senior Discount Notes on or after February 15, 2008. The Senior Discount Notes contain customary restrictive covenants and debt incurrence tests. (See Note 1 “Basis of Presentation — Going Concern Considerations”).

The following table is a summary of the Company’s current outstanding debt as of December 31, 2007 (in thousands):

<u>Instrument</u>	<u>Issuance Date</u>	<u>Due Date</u>	<u>Face Amount</u>	<u>Premium (Discount) At Issuance</u>	<u>Interest Rate As of December 31, 2007</u>	<u>Book Value As of December 31, 2007</u>
Hights Cross:						
First Term Loan	08/20/03	08/15/08	\$100,000	—	9.37%	\$ 95,750
Second Term Loan	12/10/04	08/15/08	\$ 30,000	—	8.37%	29,100
						124,850
11 ³ / ₄ % Senior notes	08/20/03	08/15/11	\$140,000	—	11.75%	140,000
11 ³ / ₄ % Senior notes	12/10/04	08/15/11	\$ 30,000	\$ 3,150	11.75%	31,670
						171,670
Hights Cross Communications:						
12 ¹ / ₂ % Senior discount notes	02/02/04	08/15/11	\$135,000	\$ (61,347)	12.5%	118,362
Total debt						<u>\$ 414,882</u>

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The following table shows the required future repayments under the Company's current financing arrangements as of December 31, 2007 (in thousands):

2008	\$124,850
2009	—
2010	—
2011	305,000
2012	—
Total	<u>429,850</u>
Less: Unamortized discounts and other	<u>(14,968)</u>
	<u><u>\$414,882</u></u>

16. Equity and Redeemable Preferred Stock

On December 10, 1999, the Company issued 22,476 shares of voting Series A preferred stock (the "Preferred A"). The Preferred A had a liquidation value of \$1,000 per share, plus any accrued but unpaid dividends, accrued quarterly cumulative dividends at an annual rate of 8%, and was redeemable at the option of the holders thereof beginning on December 31, 2019 at a redemption price equal to \$1,000 per share, plus any accrued but unpaid dividends. Upon the closing of the Recapitalization Agreement, all outstanding shares of Preferred A were converted to common stock at an agreed upon rate, and no shares of Preferred A remain outstanding.

On December 10, 1999, the Company issued 2,400,000 shares of nonvoting Series B senior preferred stock (the "Preferred B"). The Preferred B had a liquidation value of \$25 per share, plus any accrued but unpaid dividends accrued quarterly cumulative dividends at an annual rate of 16%, and was mandatorily redeemable by the Company on December 10, 2011 at a redemption price equal to its liquidation value, plus any accrued but unpaid dividends. Upon the closing of the Recapitalization Agreement, all outstanding shares of Preferred B were converted to common stock at an agreed upon rate, and no shares of Preferred B remain outstanding.

In connection with the issuance of the Preferred B on December 10, 1999, the Company also issued warrants to acquire common stock (the "Common Warrants"), and warrants to acquire Preferred A (the "Preferred Warrants"). Upon the closing of the Recapitalization Agreement, all outstanding Common Warrants were canceled and all outstanding Preferred Warrants were converted into warrants to acquire common stock at an agreed upon rate.

On April 15, 2004, in connection with the acquisition of *Buckle Down Publishing*, the Company issued 3,500 shares of Series C preferred stock (the "Preferred C"). The Preferred C had a liquidation value of \$1,000 per share, plus any accrued but unpaid dividends, accrued quarterly cumulative dividends at an annual rate of 5%, was automatically convertible into common stock upon the consummation of the Company's initial public offering, was redeemable at the option of the holder thereof beginning on April 15, 2012 at a redemption price equal to \$1,000 per share plus any accrued but unpaid dividends, and was redeemable at the option of the Company at a redemption price equal to 101% of the per share liquidation value plus any accrued but unpaid dividends. Upon the closing of the Recapitalization Agreement, all outstanding shares of Preferred C were converted to common stock at an agreed upon rate, and no shares of Preferred C remain outstanding.

See Note 3 for a description of the Recapitalization Agreement referred to above.

17. Stock Based Compensation

Total stock-based compensation expense is recognized as a "general and administrative expense" in the consolidated statements of operations on a ratable basis over the vesting period for each option. The Company did not issue any form of Stock Options for the year ended December 31, 2007. For the

years ended December 31, 2007,

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2006 and 2005, compensation expense recorded relating to the grant of stock options was *de minimus*. However as described below Restricted Shares were issued to the directors and related compensation expense was recorded.

On August 10, 2007, we consummated a recapitalization agreement (the “Recapitalization Agreement”) (See Note 3). In connection with the consummation of the Recapitalization Agreement, our stock option plan was terminated and all outstanding options canceled. We do not intend at this time to grant stock options in the future.

Additionally, pursuant to Management Stock Purchase Agreements dated August 10, 2007, Messrs. Crecca and Quandt purchased for \$0.001 a share 75,000 and 225,000 shares of restricted stock, respectively. Mr. Quandt’s 225,000 shares of common stock were deemed to be fully vested at the time of his resignation. Mr. Crecca’s restricted shares are subject to a three year vesting period. Each non-employee member of the Board of Directors received a restricted stock award of 8,117 shares of our common stock with the Chairman receiving 12,175 shares. The restricted stock granted pursuant to all of these awards was to vest in February 2008. During the year ended December 31, 2007 for \$0.001 per share director Eugene I. Davis purchased 12,175 shares of restricted stock, and directors John A. McKenna, Jr., Curry E. Ford and T.J. Vigliotta have purchased 8,117 shares of restricted stock each. In January 2008, prior to the vesting of his restricted stock, Mr. Vigliotta elected to forfeit all of his restricted stock. In January 2008, prior to the vesting of his restricted stock, Mr. Curry elected to forfeit all of his restricted stock in exchange for an issuance by the Company to Glenview Capital Management, LLC, of an equivalent amount under the same terms and conditions. Subsequently, we issued to Glenview Capital Management, LLC, which has designated Mr. Ford to serve as our director, a restricted stock award of 8,117 shares. All outstanding restricted stock awards fully vested on February 10, 2008 for issuances to Mr. Davis and Glenview Capital Management, LLC and February 21, 2008 for the issuance to Mr. McKenna. Total stock-based compensation expense is recognized as a “general and administrative expense” in the consolidated statements of operations on a ratable basis over the vesting period. The compensation expense recorded for these restricted shares was \$1.5 million for the year ended December 31, 2007.

18. Commitments

The Company has leased facilities in the states of New York, Alabama, Maryland, Massachusetts, Pennsylvania, Iowa, Texas, New Jersey and the United Kingdom. The aggregate future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2007 are as follows:

	<u>Occupancy Space</u>	<u>Equipment</u>
Year ending December 31:		
2008	\$ 2,984	\$ 226
2009	2,463	191
2010	1,325	112
2011	781	104
2012	<u>779</u>	<u>6</u>
Total minimum payments	<u>\$ 8,332</u>	<u>\$ 639</u>

Rent expense on the occupied space for the years ended December 31, 2007, 2006 and 2005 was \$2.5 million, \$2.4 million and \$2.3 million, respectively. Expenses relating to equipment leases for the years ended December 31, 2007, 2006 and 2005 was \$0.3 million, \$0.4 million and \$0.4 million, respectively.

From time to time, the Company may be involved in various litigation relating to claims which have arisen in the ordinary course of its business. We are not presently involved in any legal

proceedings that we expect individually or in the aggregate to have a material adverse effect on our financial condition, results of operations or liquidity.

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19. Savings Plan

The Company has a defined contribution plan for eligible employees under Section 401(k) of the internal revenue code. The Hights Cross Communications, Inc. 401(k) Savings Plan (“Savings Plan”) provides for eligible employees to contribute up to 15% of eligible compensation with a Company match of 50% of the first 6% of employee contributions. All employees are eligible to participate in the Savings Plan after one year of service, reaching age 21, and completing 1,000 hours of service within a calendar year. The Company may, at its discretion, make additional contributions to the Savings Plan, on a pro rata basis. Participants vest under five-year graded vesting in the Company match and 100% in their own contributions to the Savings Plan. Distributions can be paid either in a lump sum or monthly installments.

The Company’s contributions and administrative fees for the years ended December 31, 2007, 2006 and 2005 were \$0.7 million, \$0.7 million and \$0.6 million, respectively.

20. Discontinued Operations***Triumph Learning College***

On March 29, 2002, the Company adopted a formal plan to sell its subsidiary Triumph Learning College (“Triumph College”). The sale of Triumph College was completed on July 31, 2002, in the form of an asset purchase agreement. In consideration of the sale the Company received a \$3.0 million Senior Secured Promissory Note (the “Note”), which is payable on July 31, 2012, together with any accrued interest, with the interest payments commencing July 2004. None of the required interest has been paid to date. During 2004, based on the results of operations, management concluded a reserve was required against the note and a reserve of \$1.8 million was calculated based on the fair value of the underlying assets determined utilizing comparable market values for the business. During 2005 based on the results of operations this reserve was increased to \$2.3 million. During 2006 based on the results of operations this reserve was increased again to \$3.6 million and the note has a net carrying value of \$0 as of December 31, 2006 and 2007. Interest income from this note will not be recognized until collected.

Chelsea House Publishers

In August 2005, the Company sold all the assets that comprised its *Chelsea House Publishers* business, the financial results of which were previously reported within the Company’s K-12 Supplemental Education segment. Management believes that the sale of this business allowed the Company to focus on market segments with more attractive growth opportunities. *Chelsea House Publishers* created and published hard-cover, non-fiction books for children and young adults that were sold to public and school libraries located throughout the United States. As of June 30, 2005, based on negotiations regarding the disposition of *Chelsea House Publishers* it was clear that the fair value of the assets to be sold, less the liabilities to be assumed, was less than the current net book value of such assets. The Company adjusted the carrying amounts of the assets and liabilities of *Chelsea House Publishers* to reflect a \$3.2 million impairment of pre-publication costs. This loss was presented as a component of operating income for *Chelsea House Publishers*. The results of operations of *Chelsea House Publishers* have been classified as discontinued operations in the accompanying consolidated financial statements for all periods presented.

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The operating results of Chelsea House for the years ended December 31, 2005 (through sale date of August 9th).

	<u>2005</u>
Revenue	\$ 6,594
Cost of goods sold	2,061
Marketing and sales	1,622
Fulfillment and distribution	606
General and administrative	988
Amortization of pre-publication costs	1,770
Impairment loss — pre-publication costs	3,211
Depreciation expense	<u>68</u>
Loss from operations	<u>\$(3,732)</u>

As a result of the sale of *Chelsea House Publishers*, the Company realized gross proceeds of \$9.0 million, which consisted of \$8.5 million in cash and \$0.5 million that was placed in escrow that was released to the Company in February 2006. The Company recorded a loss of \$0.9 million on the sale during the fiscal year 2005, resulting from accruals for disposal costs consisting primarily of accrued lease costs and severance, which is presented as a loss on disposal of discontinued operations. At December 31, 2007, \$0.05 million of this accrual remained. The carrying amounts of *Chelsea House Publishers*' assets and liabilities as of August 8, 2005 were as follows:

	<u>August 8, 2005</u>
Assets and liabilities:	
Working capital, net (excluding cash)	\$ 4,904
Pre-publication costs, net	3,897
Property and equipment, net	<u>156</u>
Net assets on date of sale	<u>\$ 8,957</u>
Calculation of loss on sale:	
Proceeds	\$ 9,000
Less: book value of net assets sold	<u>(8,957)</u>
	43
Less: accrued transaction costs	<u>(935)</u>
Loss on disposal of <i>Chelsea House Publishers</i>	<u>\$ (892)</u>

During the year ended December 31, 2005, in addition to the \$0.9 million loss on the disposal of *Chelsea House Publishers* a \$0.1 million expense for Coriolis was recorded for a total loss on disposal for the period of \$1.1 million. Coriolis was discontinued during 2002. During the year ended December 31, 2006, a total loss on disposal for the year was \$1.1 million, which included an additional \$0.1 million loss on the disposal of *Chelsea House Publishers* and \$1.0 million expense for Triumph College, as discussed in the previous section. During the year ended December 31, 2007, a total loss on disposal for the year was \$0.1 million, which represents loss on the disposal of *Chelsea House Publishers*.

21. Segment Reporting

The Company's operating segments are regularly reviewed by the chief operating decision maker for purposes of allocating resources and assessing performance.

[Table of Contents](#)**HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company's financial reporting is organized into four business segments: K-12 Supplemental Education, Test-prep and Intervention, Library and Medical Education. The results of operations of *Chelsea House Publishers*, which was divested in the third quarter of 2005, have been eliminated from the K-12 Supplemental Education segment for all periods presented.

Our K-12 Supplemental Education segment is comprised of our *Sundance/Newbridge* business. Our Test-Prep and Intervention segment is comprised of our *Triumph Learning*, *Buckle Down Publishing* and *Options Publishing* businesses, which have been aggregated due to the similarity of their economic and business characteristics. Our Library segment is comprised of our *Recorded Books* business. Our Medical Education segment is comprised of our *Oakstone Publishing* business, which includes the *Scott Publishing* and *CMEinfo* businesses since the dates of their respective acquisitions.

The information presented below includes certain expense allocations between the corporate office and the operating business segments. The information is presented after all intercompany and intersegment eliminations and is therefore not necessarily indicative of the results that would be achieved had the business segments been stand-alone businesses. Corporate general and administrative expenses consist of general corporate administration expenses that are not allocated to the operating business segments.

The results of operations and other data for the four operating segments and corporate for the years ending December 31, 2007, 2006 and 2005 are as follows:

	K-12 Supplemental Education	Test-Prep & Intervention	Library	Medical Education	Corporate	Consolidated
2007						
Revenue	\$ 27,293	\$ 86,074	\$ 84,529	\$ 34,050	\$ —	\$ 231,946
Cost of good sold	8,842	16,734	29,873	9,939	—	65,388
Marketing and sales	11,201	23,725	14,626	9,731	—	59,283
Fulfillment and distribution	3,350	6,427	5,841	3,385	—	19,003
General and administrative	2,983	8,379	7,768	3,523	12,957	35,610
Restructuring charges	1,460	1,172	—	—	—	2,632
Asset impairment charges	10,158	565	—	—	—	10,723
Amortization of pre-publication costs	3,505	8,891	5,388	1,248	—	19,032
Depreciation expense and amortization of intangibles	907	2,879	794	1,148	54	5,782
Income (loss) from operations	<u>\$ (15,113)</u>	<u>\$ 17,302</u>	<u>\$ 20,239</u>	<u>\$ 5,076</u>	<u>\$ (13,011)</u>	<u>\$ 14,493</u>
Interest expense	\$ 3,635	\$ 17,317	\$ 4,878	\$ 5,276	\$ 30,666	\$ 61,772
Capital expenditures — property and equipment	660	734	731	771	80	2,976
Capital expenditures — pre-publication costs	2,612	11,940	6,045	1,181	—	21,778
Goodwill	—	50,488	64,513	20,565	—	135,566
Total assets	8,737	117,476	107,353	42,851	68,355	344,772

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	K-12 Supplemental Education	Test-Prep & Intervention	Library	Medical Education	Corporate	Consolidated
2006						
Revenue	\$ 34,296	\$ 73,909	\$ 81,328	\$ 32,471	\$ —	\$ 222,004
Cost of good sold	9,824	14,666	28,239	9,700	—	62,429
Marketing and sales	14,702	19,982	14,644	9,228	—	58,556
Fulfillment and distribution	3,683	5,171	5,923	3,250	—	18,027
General and administrative	3,775	7,957	7,172	3,480	6,335	28,719
Restructuring charges	—	407	—	—	—	407
Amortization of pre-publication costs	4,536	7,212	4,831	1,154	—	17,733
Asset impairment charges	2,886	—	—	—	—	2,886
Goodwill impairment charges	24,393	10,419	—	—	—	34,812
Depreciation expense and amortization of intangibles	829	2,800	834	974	62	5,499
Income (loss) from operations	<u>\$ (30,332)</u>	<u>\$ 5,295</u>	<u>\$ 19,685</u>	<u>\$ 4,685</u>	<u>\$ (6,397)</u>	<u>\$ (7,064)</u>
Interest expense	\$ 2,684	\$ 14,399	\$ 5,355	\$ 4,443	\$ 38,906	\$ 65,787
Capital expenditures — property and equipment	452	438	1,059	801	9	2,759
Capital expenditures — pre-publication costs	4,649	11,709	5,399	1,095	—	22,852
Goodwill	—	50,488	64,513	20,565	—	135,566
Total assets	19,869	118,274	103,972	41,995	78,576	362,686

	K-12 Supplemental Education	Test-Prep & Intervention	Library	Medical Education	Corporate	Consolidated
2005						
Revenue	\$ 43,096	\$ 64,501	\$76,626	\$ 26,262	\$ —	\$ 210,485
Cost of good sold	10,927	13,521	28,623	7,793	—	60,864
Marketing and sales	13,461	17,787	13,591	7,652	—	52,491
Fulfillment and distribution	4,074	4,040	5,236	2,733	—	16,083
General and administrative	3,046	6,884	5,796	3,426	6,801	25,953
Amortization of pre-publication costs	3,731	4,706	4,139	574	—	13,150
Depreciation expense and amortization of intangibles	825	2,727	717	642	127	5,038
Income (loss) from operations	<u>\$ 7,032</u>	<u>\$ 14,836</u>	<u>\$18,524</u>	<u>\$ 3,442</u>	<u>\$ (6,928)</u>	<u>\$ 36,906</u>
Interest expense	\$ 2,576	\$ 13,167	\$ 6,009	\$ 3,504	\$ 34,072	\$ 59,328
Capital expenditures — property and equipment	817	831	1,164	943	76	3,831
Capital expenditures — pre-publication costs	5,236	10,086	5,384	1,171	—	21,877
Goodwill, restated	24,393	60,906	64,513	20,440	—	170,252
Total assets	52,634	123,342	99,360	42,230	83,753	401,319

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. Condensed Consolidated Financial Statements

On August 20, 2003, Hights Cross Operating Company (“HCOC”), a subsidiary of the Company, issued \$140.0 million of 11³/₄% senior notes due 2011. HCOC and the guarantor subsidiaries are 100% owned, directly or indirectly, by the Company. These notes have been fully and unconditionally, jointly and severally guaranteed by Holdings and each of the existing and future restricted subsidiaries of HCOC. Subject to certain exceptions, HCOC is restricted in its ability to make funds available to the Company. The following unaudited interim condensed consolidating financial information of the Company is being provided pursuant to Article 3-10(d) of Regulation S-X.

Condensed Consolidating Statements of Operations:

	Year Ended December 31, 2007				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue	\$ —	\$ —	\$ 231,946	\$ —	\$ 231,946
Costs and expenses	265	12,747	204,441	—	217,453
Income (loss) from operations	(265)	(12,747)	27,505	—	14,493
Equity in the income (loss) of subsidiaries	(18,835)	(10,548)	—	29,383	—
Loss from discontinued operations	—	(122)	—	—	(122)
Other (income)/expenses	(82,650)	(4,582)	38,053	—	(49,179)
Net income (loss)	<u>\$ 63,550</u>	<u>\$(18,835)</u>	<u>\$ (10,548)</u>	<u>\$ 29,383</u>	<u>\$ 63,550</u>

	Year Ended December 31, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue	\$ —	\$ —	\$ 222,004	\$ —	\$ 222,004
Costs and expenses	125	6,272	222,671	—	229,068
Income (loss) from operations	(125)	(6,272)	(667)	—	(7,064)
Equity in the income (loss) of subsidiaries	(40,788)	(33,624)	—	74,412	—
Loss from discontinued operations	—	(1,136)	—	—	(1,136)
Other (income)/expenses	31,942	(244)	32,957	—	64,655
Net income (loss)	<u>\$(72,855)</u>	<u>\$(40,788)</u>	<u>\$ (33,624)</u>	<u>\$ 74,412</u>	<u>\$ (72,855)</u>

	Year Ended December 31, 2005				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue	\$ —	\$ —	\$ 210,485	\$ —	\$ 210,485
Costs and expenses	787	6,140	166,652	—	173,579
Income (loss) from operations	(787)	(6,140)	43,833	—	36,906
Equity in the income (loss) of subsidiaries	608	4,900	—	(5,508)	—
Loss from discontinued operations	—	(1,245)	(3,731)	—	(4,976)
Other (income)/expenses	31,845	(3,093)	35,202	—	63,954
Net income (loss)	<u>\$(32,024)</u>	<u>\$ 608</u>	<u>\$ 4,900</u>	<u>\$ (5,508)</u>	<u>\$ (32,024)</u>

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Consolidating Balance Sheets:

	As of December 31, 2007				
	Parent Guarantor	HCOC	Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Current assets	\$ 3,872	\$ 56,759	\$ 60,531	\$ —	\$ 121,162
Investment in subsidiaries	(15,313)	231,094	—	(215,781)	—
Long term assets	1,448	6,276	215,886	—	223,610
Total assets	<u>\$ (9,993)</u>	<u>\$294,129</u>	<u>\$ 276,417</u>	<u>\$ (215,781)</u>	<u>\$ 344,772</u>
Liabilities, Redeemable Preferred Stock and Stockholders' Deficit					
Current liabilities	\$ —	\$137,554	\$ 45,126	\$ —	\$ 182,680
Long term liabilities	136,836	171,888	197	—	308,921
Stockholders' deficit:					
Common stock	3	—	—	—	3
Accumulated deficit	(146,832)	(15,313)	231,094	(215,781)	(146,832)
Total stockholders' deficit	<u>(146,829)</u>	<u>(15,313)</u>	<u>231,094</u>	<u>(215,781)</u>	<u>(146,829)</u>
Total liabilities, redeemable preferred stock and stockholders' deficit	<u>\$ (9,993)</u>	<u>\$294,129</u>	<u>\$ 276,417</u>	<u>\$ (215,781)</u>	<u>\$ 344,772</u>

	As of December 31, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Current assets	\$ 3,718	\$ 64,437	\$ 60,027	\$ —	\$ 128,182
Investment in subsidiaries	4,193	241,564	—	(245,757)	—
Long term assets	2,127	8,295	224,082	—	234,504
Total assets	<u>\$ 10,038</u>	<u>\$314,296</u>	<u>\$ 284,109</u>	<u>\$ (245,757)</u>	<u>\$ 362,686</u>
Liabilities, Redeemable Preferred Stock and Stockholders' Deficit					
Current liabilities	\$ —	\$ 13,107	\$ 42,234	\$ —	\$ 55,341
Long term liabilities	272,905	296,996	311	—	570,212
Redeemable preferred stock	41,051	—	—	—	41,051
Stockholders' deficit:					
Common stock	20	—	—	—	20
Accumulated deficit	(303,938)	4,193	241,564	(245,757)	(303,938)
Total stockholders' deficit	<u>(303,918)</u>	<u>4,193</u>	<u>241,564</u>	<u>(245,757)</u>	<u>(303,918)</u>
Total liabilities, redeemable preferred stock and stockholders' deficit	<u>\$ 10,038</u>	<u>\$314,296</u>	<u>\$ 284,109</u>	<u>\$ (245,757)</u>	<u>\$ 362,686</u>

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Consolidating Statements of Cash Flows:

	Year Ended December 31, 2007				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash provided by (used in):					
Operating activities of continuing operations	\$ (110)	\$ (2,722)	\$ 23,061	\$ —	\$ 20,229
Investing activities from continuing operations:					
Additions to pre-publication costs	—	—	(21,778)	—	(21,778)
Additions to property and equipment	—	(80)	(2,896)	—	(2,976)
Additions to intangibles	—	—	(55)	—	(55)
Intercompany activity	2,303	(3,411)	1,108	—	—
Proceeds from sale of businesses and assets	—	—	6	—	6
Net cash used in investing activities	2,303	(3,491)	(23,615)	—	(24,803)
Financing activities of continuing operations:					
Transaction cost- troubled debt restructuring and recapitalization	(2,038)	—	—	—	(2,038)
Repayment of senior secured term loan	—	(1,300)	—	—	(1,300)
Additions to deferred financing costs	—	(88)	—	—	(88)
Net cash provided by financing activities	(2,038)	(1,388)	—	—	(3,426)
Effect of exchange rates on cash	—	—	89	—	89
Net cash provided by discontinued operations	—	(152)	—	—	(152)
Net change in cash and cash equivalents	155	(7,753)	(465)	—	(8,063)
Cash and cash equivalents at beginning of period	3,717	63,990	2,140	—	69,847
Cash and cash equivalents at end of period	<u>\$ 3,872</u>	<u>\$ 56,237</u>	<u>\$ 1,675</u>	<u>\$ —</u>	<u>\$ 61,784</u>

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash provided by (used in):					
Operating activities of continuing operations	\$ 21	\$(3,668)	\$ 29,577	\$ —	\$ 25,930
Investing activities from continuing operations:					
Additions to pre-publication costs	—	—	(22,852)	—	(22,852)
Additions to property and equipment	—	(9)	(2,750)	—	(2,759)
Additions to intangibles	—	—	(39)	—	(39)
Intercompany activity	115	4,213	(4,328)	—	—
Acquisitions, net of cash acquired	—	—	907	—	907
Proceeds from sale of businesses and assets	—	500	9	—	509
Net cash provided by (used in) investing activities	115	4,704	(29,053)	—	(24,234)
Financing activities of continuing operations:					
Proceeds from exercise of stock options	10	—	—	—	11
Repayment of senior secured term loan	—	(1,300)	—	—	(1,300)
Additions to deferred financing costs	—	(103)	—	—	(104)
Net cash provided by (used in) financing activities	10	(1,403)	—	—	(1,393)
Effect of exchange rates on cash	—	—	245	—	245
Net cash used in discontinued operations	—	(293)	—	—	(293)
Net change in cash and cash equivalents	146	(660)	769	—	255
Cash and cash equivalents at beginning of period	3,571	64,650	1,371	—	69,592
Cash and cash equivalents at end of period	<u>\$ 3,717</u>	<u>\$63,990</u>	<u>\$ 2,140</u>	<u>\$ —</u>	<u>\$ 69,847</u>

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31, 2005				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash provided by (used in):					
Operating activities of continuing operations	\$ (694)	\$ 712	\$ 24,473	\$ —	\$ 24,491
Investing activities from continuing operations:					
Additions to pre-publication costs	—	—	(21,877)	—	(21,877)
Additions to property and equipment	—	(76)	(3,755)	—	(3,831)
Additions to intangibles	—	—	(20)	—	(20)
Intercompany activity	796	(2,872)	2,076	—	—
Acquisitions, net of cash acquired	—	(12,255)	—	—	(12,255)
Proceeds from sale of businesses and assets	—	8,500	—	—	8,500
Net cash provided by (used in) investing activities	796	(6,702)	(23,577)	—	(29,483)
Financing activities of continuing operations:					
Repayment of senior secured term loan	—	(1,300)	—	—	(1,300)
Proceeds from exercise of stock options	9	—	—	—	9
Additions to deferred financing costs	—	(511)	—	—	(511)
Net cash provided by (used in) financing activities	9	(1,811)	—	—	(1,802)
Effect of exchange rates on cash	—	—	(154)	—	(154)
Net cash used by discontinued operations	—	(1,488)	(553)	—	(2,041)
Net change in cash and cash equivalents	111	(9,290)	190	—	(8,989)
Cash and cash equivalents at beginning of period	3,460	73,940	1,181	—	78,581
Cash and cash equivalents at end of period	<u>\$ 3,571</u>	<u>\$ 64,650</u>	<u>\$ 1,371</u>	<u>\$ —</u>	<u>\$ 69,592</u>

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

23. Related Party Transaction

On August 24, 2007, Peter J. Quandt, our then Chairman and Chief Executive Officer, and the Company entered into a Separation and Release Agreement. Pursuant to the agreement, the Company agreed to pay Mr. Quandt a lump sum of \$2.5 million in connection with the termination of his Employment Agreement and \$62,500 each month for twenty (20) months in accordance with the terms of a previously executed Noncompetition Agreement between Mr. Quandt and the Company. The full amount payable to Mr. Quandt in accordance with the terms of his Noncompetition Agreement has been accrued for and recorded in “general and administrative expense” in the year ended December 31, 2007. Additionally, Mr. Quandt’s 225,000 shares of common stock of the Company purchased for \$0.001 a share pursuant to a Management Stock Purchase Agreement dated August 10, 2007 were deemed to be fully vested resulting in additional compensation of \$1.4 million that has been recorded during the year ended December 31, 2007.

Additionally, pursuant to Management Stock Purchase Agreements dated August 10, 2007, Messrs. Crecca and Quandt purchased for \$0.001 a share 75,000 and 225,000 shares of restricted stock, respectively. Mr. Quandt’s 225,000 shares of common stock were deemed to be fully vested at the time of his resignation. Mr. Crecca’s restricted shares are subject to a three year vesting period. Each non-employee member of the Board of Directors received a restricted stock award of 8,117 shares of our common stock with the Chairman receiving 12,175 shares. The restricted stock granted pursuant to all of these awards was to vest in February 2008. During the year ended December 31, 2007 for \$0.001 per share director Eugene I. Davis purchased 12,175 shares of restricted stock, and directors John A. McKenna, Jr., Curry E. Ford and T.J. Vigliotta have purchased 8,117 shares of restricted stock each. In January 2008, prior to the vesting of his restricted stock, Mr. Vigliotta elected to forfeit all of his restricted stock. In January 2008, prior to the vesting of his restricted stock, Mr. Curry elected to forfeit all of his restricted stock in exchange for an issuance by the Company to Glenview Capital Management, LLC, of an equivalent amount under the same terms and conditions. Subsequently, we issued to Glenview Capital Management, LLC, which has designated Mr. Ford to serve as our director, a restricted stock award of 8,117 shares. All outstanding restricted stock awards fully vested on February 10, 2008 for issuances to Mr. Davis and Glenview Capital Management, LLC and February 21, 2008 for the issuance to Mr. McKenna. Total stock-based compensation expense is recognized as a “general and administrative expense” in the consolidated statements of operations on a ratable basis over the vesting period. The compensation expense recorded for these restricted shares was \$1.5 million for the year ended December 31, 2007.

Monarch Alternative Capital LP (“Monarch Capital”), Deephaven Distressed Opportunities Trading Ltd. and New York Life Investment Management LLC each may be deemed to beneficially own more than 5% of our outstanding stock. See “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.” Each of these entities or their affiliates also own positions in one or more of our Term Loans, Senior Notes or Senior Discount Notes. In 2007, these entities received their pro rata portion of any interest or consent fees we paid related to our debt. Mr. Vigliotta, a director, is a Principal at Monarch Capital and has served as a member of our Board of Directors since August 2007. Monarch Capital acquired its debt positions prior to Mr. Vigliotta’s appointment to our Board.

24. Subsequent Events

On January 28, 2008 the Company announced that it has completed a comprehensive strategic review and has finalized plans to offer for sale all of its business assets. Included in the sale are the company’s three remaining operating units *Triumph Learning*, *Recorded Books* and *Oakstone Publishing*. A sale process for *Sundance/Newbridge* business began in November 2007 and subsequently on March 17, 2008 the Board of Directors further authorized the orderly wind-down of the business.

[Table of Contents](#)**HAIGHTS CROSS COMMUNICATIONS, INC. — PARENT COMPANY****Schedule I — Condensed Financial Information****Condensed Balance Sheets**

	<u>As of December 31,</u>	
	<u>2007</u>	<u>2006</u>
	(Restated)	
	(In thousands)	
ASSETS		
Current assets	\$ 3,872	\$ 3,718
Investment in subsidiary	(15,313)	4,193
Long term assets	<u>1,448</u>	<u>2,127</u>
Total assets	<u>\$ (9,993)</u>	<u>\$ 10,038</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities	\$ —	\$ —
Long term debt	118,362	254,473
Other long term liabilities	18,474	18,432
Redeemable preferred stock	—	41,051
Stockholders' deficit:		
Common stock	3	20
Accumulated deficit	<u>(146,832)</u>	<u>(303,938)</u>
Total stockholders' deficit	<u>(146,829)</u>	<u>(303,918)</u>
Total liabilities and stockholders' deficit	<u>\$ (9,993)</u>	<u>\$ 10,038</u>

Condensed Statements of Operations

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)		
Revenues	\$ —	\$ —	\$ —
General and administrative expenses	<u>265</u>	<u>125</u>	<u>787</u>
Operating loss	(265)	(125)	(787)
Equity in net (loss) income of subsidiary	(18,835)	(40,788)	608
Other income (expense)	<u>82,650</u>	<u>(31,942)</u>	<u>(31,845)</u>
Net income (loss)	<u>\$ 63,550</u>	<u>\$ (72,855)</u>	<u>\$ (32,024)</u>

[Table of Contents](#)**Condensed Statements of Cash Flows**

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)		
Cash provided by (used in):			
Operating activities	\$ (110)	\$ 21	\$ (694)
Investing activities	2,303	115	796
Financing activities	<u>(2,038)</u>	<u>10</u>	<u>9</u>
Net change in cash	155	146	111
Cash at beginning of period	<u>3,717</u>	<u>3,571</u>	<u>3,460</u>
Cash at the end of the year	<u>\$ 3,872</u>	<u>\$3,717</u>	<u>\$3,571</u>

1. Basis of Presentation

Hights Cross Communications, Inc. is a holding company, the principal asset of which consists of 100% of the outstanding capital stock of Hights Cross Operating Company ("HCOC"), our wholly-owned subsidiary. In the accompanying parent-company-only financial statements, our investment in HCOC is stated at cost plus equity in undistributed earnings (losses) of HCOC. Our share of net loss of HCOC is included in the condensed statements of operations using the equity method. These parent-company-only financial statements should be read in conjunction with our Consolidated Financial Statements.

[Table of Contents](#)**HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES****Schedule II — Valuation and Qualifying Account Summary****For the Years ended December 31, 2007, 2006 and 2005:**

Description	Balance at Beginning of Year (Credit)	Additions			Deductions Debit	Balance at End of Year (Credit)
		Charged to Costs and Expenses (Credit)	Acquisitions	Charged to Other Accounts Debit/(Credit)		
Year ended						
December 31, 2007:						
Allowance for doubtful accounts and returns	\$ (3,167)	(2,942)	—	—	3,704(3)	\$ (2,405)
Allowance for senior secured promissory note (5)	\$ (3,604)	(341)	—	—	—	\$ (3,945)
Allowance for valuation of deferred tax asset	\$ (61,211)	(13,071)	—	—	—	\$ (74,282)
Allowance for inventory obsolescence	\$ (3,683)	(5,600)	—	—	2,310(4)	\$ (6,973)
Year ended						
December 31, 2006:						
Allowance for doubtful accounts and returns	\$ (3,487)	(4,078)	—	—	4,398(3)	\$ (3,167)
Allowance for senior secured promissory note (5)	\$ (2,282)	(1,322)	—	—	—	\$ (3,604)
Allowance for valuation of deferred tax asset	\$ (44,860)	(16,351)	—	—	—	\$ (61,211)
Allowance for inventory obsolescence	\$ (2,749)	(2,499)	—	—	1,565(4)	\$ (3,683)
Year ended						
December 31, 2005:						
Allowance for doubtful accounts and returns	\$ (3,351)	(3,831)	53(1)	—	3,642(3)	\$ (3,487)
Allowance for senior secured promissory note (5)	\$ (1,780)	(502)	—	—	—	\$ (2,282)
Allowance for valuation of deferred tax asset	\$ (40,684)	(4,176)	—	—	—	\$ (44,860)
Allowance for inventory obsolescence	\$ (2,032)	(1,163)	(47)(2)	—	493(4)	\$ (2,749)

(1) Relates to an adjustment to the valuation of *Options Publishing* and reserves added with the *Scott Publishing* and *CMEinfo* acquisitions

(2) Relates to reserves added with the acquisitions of *Scott Publishing* and *CMEinfo*.

(3) Primarily relates to return of products.

(4) Relates to the destruction of obsolete inventory.

(5) Relates to sale of Triumph College (see Note 20 in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.)

PART IV

Item 15. *Exhibits*

(a) Documents filed as a part of this report.

1. *Financial Statements*. The following financial statements are filed as a part of this report.

<u>Report of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Operations</u>	5
<u>Consolidated Statements of Changes in Stockholders' Deficit</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<i>2. Financial Statement Schedules</i>	
<u>Schedule I — Condensed Financial Information</u>	40
<u>Schedule II — Valuation and Qualifying Account Summary</u>	42
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32.1: CERTIFICATION</u>	
<u>EX-32.2: CERTIFICATION</u>	

All other financial statement schedules are not required under related instructions or are inapplicable and therefore have been omitted.

3. *Exhibits*. Hights Cross Communications, Inc. has filed the following Exhibits as part of this Report.

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Asset Purchase Agreement, dated as of March 6, 2004, by and among Haight Cross Communications, Inc., Buckle Down Publishing Company and the other parties named therein, incorporated by reference to Exhibit 2.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed April 20, 2004
2.2	Asset Purchase Agreement, dated as of November 11, 2004, by and among Haight Cross Communications, Inc., Haight Cross Operating Company, Options Publishing, LLC, Options Publishing, Inc., and certain stockholders of Options Publishing, Inc. named therein, incorporated by reference to Exhibit 2.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed December 6, 2004
2.3	Purchase and Sale Agreement, dated as of November 11, 2004, by and between Options Publishing, LLC and Merrimack M&R Realty LLC, incorporated by reference to Exhibit 2.2 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed December 6, 2004
3.1	Second Amended and Restated Certificate of Incorporation of Haight Cross Communications, Inc., incorporated by reference to Exhibit 3.1 of Haight Cross Communications, Inc.'s Special Report on Form 10-K filed April 19, 2004
3.1(a)	Certificate of Amendment dated August 10, 2007 to Second Amended and Restated Certificate of Incorporation of Haight Cross Communications, Inc., incorporated by reference to Exhibit 3.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed August 16, 2007
3.1(b)	Certificate of Amendment dated June 28, 2007 to Second Amended and Restated Certificate of Incorporation of Haight Cross Communications, Inc., incorporated by reference to Exhibit 3.1(a) of Haight Cross Communications, Inc.'s Quarterly Report on Form 10-Q filed November 14, 2007
3.1(c)	Certificate of Amendment dated January 29, 2008 to Second Amended and Restated Certificate of Incorporation of Haight Cross Communications, Inc., incorporated by reference to Exhibit 3.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed January 31, 2008
3.1(d)	Certificate of Elimination of Shares of Haight Cross Communications, Inc. Designated as Series C Preferred Stock dated January 30, 2008, incorporated by reference to Exhibit 3.2 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed January 31, 2008
3.2	Bylaws of Haight Cross Communications, Inc., incorporated by reference to Exhibit 3.2 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.2(a)	Amendment to the Bylaws of Haight Cross Communications, Inc. dated August 10, 2007, incorporated by reference to Exhibit 3.2 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed August 16, 2007
3.2(b)	Amendment to the Bylaws of Haight Cross Communications, Inc. dated September 21, 2007, incorporated by reference to Exhibit 3.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed September 27, 2007
3.3	Certificate of Incorporation of Haight Cross Operating Company, incorporated by reference to Exhibit 3.3 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.4	Bylaws of Haight Cross Operating Company, incorporated by reference to Exhibit 3.4 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.5	Certificate of Formation of Triumph Learning, LLC, incorporated by reference to Exhibit 3.7 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.6	Amended and Restated Limited Liability Company Agreement of Triumph Learning, LLC, incorporated by reference to Exhibit 3.8 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
3.7	Certificate of Formation of Oakstone Publishing, LLC, incorporated by reference to Exhibit 3.9 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.8	Amended and Restated Limited Liability Company Agreement of Oakstone Publishing, LLC, incorporated by reference to Exhibit 3.10 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.9	Certificate of Formation of Recorded Books, LLC, incorporated by reference to Exhibit 3.11 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.10	Amended and Restated Limited Liability Company Agreement of Recorded Books, LLC, incorporated by reference to Exhibit 3.12 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.11	Certificate of Formation of Sundance/ Newbridge Educational Publishing, LLC, incorporated by reference to Exhibit 3.13 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.12	Amended and Restated Limited Liability Company Agreement of Sundance/ Newbridge Educational Publishing, LLC, incorporated by reference to Exhibit 3.14 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.13	Articles of Association of W F Howes Limited, incorporated by reference to Exhibit 3.17 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
3.14	Memorandum of Association of W F Howes Limited, incorporated by reference to Exhibit 3.18 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
4.1	Indenture, dated as of August 20, 2003, by and between Haight Cross Operating Company and Wells Fargo Bank Minnesota, N.A., as Trustee, incorporated by reference to Exhibit 4.1 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
4.2	Form of Haight Cross Operating Company 11 ³ / ₄ % Senior Note due 2011, incorporated by reference to Exhibit 4.2 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
4.3	Indenture, dated as of February 2, 2004, by and between Haight Cross Communications, Inc. and Wells Fargo Bank Minnesota, N.A., as Trustee, incorporated by reference to Exhibit 4.4 of Haight Cross Communications, Inc.'s Special Report on Form 10-K filed April 19, 2004
4.4	Form of Haight Cross Communications, Inc. 12 ¹ / ₂ % Senior Discount Note due 2011, incorporated by reference to Exhibit 4.5 of Haight Cross Communications, Inc.'s Special Report on Form 10-K filed April 19, 2004
4.5	Supplemental Indenture, dated as of December 10, 2004, by and among Options Publishing, LLC, Haight Cross Operating Company, the guarantors signatory thereto, and Wells Fargo Bank, N.A., as trustee, supplementing the Indenture, dated as of August 20, 2003, among Haight Cross Operating Company, the guarantors named therein and Wells Fargo Bank, N.A., as trustee, incorporated by reference to Exhibit 4.2 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed December 15, 2004
4.6	Form of Warrant for the Purchase of Shares of Common Stock of Haight Cross Communications, Inc., incorporated by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K filed March 31, 2008
10.1	Lease Agreement, dated as of January 15, 2003, by and between Sundance Publishing, LLC and LIT Industrial Limited Partnership, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.2	Investors Registration Rights Agreement, dated as of December 10, 1999, by and among Haight Cross Communications, Inc., Haight Cross Operating Company and the Holders (as defined therein), incorporated by reference to Exhibit 10.6 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
10.3+	Haight Cross Communications, Inc. 401(k) Savings Plan, incorporated by reference to Exhibit 10.9 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
10.4	Term Loan Agreement, dated as of August 20, 2003, by and among Haight Cross Operating Company, the Several Lenders from time to time parties thereto and Bear Stearns Corporate Lending Inc., as Administrative Agent, incorporated by reference to Exhibit 10.10 of Haight Cross Communications, Inc.'s Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003
10.5	Term Loan Agreement, dated as of December 10, 2004, by and among Haight Cross Operating Company, Bear Stearns & Co. Inc., as lead arranger, Bear Stearns Corporate Lending Inc., as Administrative Agent, and the lenders party thereto, incorporated by reference to Exhibit 1.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed December 15, 2004
10.6+	Description of the Haight Cross Communications, Inc. Annual Management/ Employee Bonus Plan for fiscal year 2007, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed April 6, 2007
10.7+	Description of the Haight Cross Communications, Inc. Annual Management/ Employee Bonus Plan for fiscal year 2008, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed February 11, 2008
10.8+	Description of the Haight Cross Communications, Inc. 2006 Expense Savings Incentive Plan, incorporated by reference to Exhibit 99.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed April 6, 2007
10.9+	Employment Agreement, dated January 31, 2007, by and between Haight Cross Communications, Inc. and Paul J. Crecca, incorporated by reference to Exhibit 10.3 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed February 2, 2007
10.10+	Amendment dated December 11, 2007 to the Employment Agreement between Haight Cross Communications, Inc. and Paul J. Crecca, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed December 11, 2007
10.11+	Noncompetition Agreement, dated January 31, 2007, by and between Haight Cross Communications, Inc. and Paul J. Crecca, incorporated by reference to Exhibit 10.4 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed February 2, 2007
10.12	Recapitalization Agreement, dated June 29, 2007 by and among Haight Cross Communications, Inc. and the Investors named therein, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report on Form 8-K filed July 6, 2007
10.13	Shareholders' Agreement by and among Haight Cross Communications, Inc. and the Investors named therein dated August 10, 2007, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report of Form 8-K filed August 16, 2007
10.14	Amendment dated January 29, 2008 to Shareholders Agreement dated August 10, 2007, incorporated by reference to Exhibit 10.1 of Haight Cross Communications, Inc.'s Current Report of Form 8-K filed January 31, 2008
10.15	Indemnification Agreement by and between Haight Cross Communications, Inc. and Eugene Davis dated August 10, 2007, incorporated by reference to Exhibit 10.2 of Haight Cross Communications, Inc.'s Current Report of Form 8-K filed August 16, 2007

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.16	Indemnification Agreement by and between Hights Cross Communications, Inc. and T.J. Vigliotta dated August 10, 2007, incorporated by reference to Exhibit 10.3 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed August 16, 2007
10.17	Indemnification Agreement by and between Hights Cross Communications, Inc. and Curry Ford dated August 10, 2007, incorporated by reference to Exhibit 10.4 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed August 16, 2007
10.18	Indemnification Agreement by and between Hights Cross Communications, Inc. and John A. McKenna, Jr., dated August 21, 2007, incorporated by reference to Exhibit 10.1 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed August 22, 2007
10.19	Release and Settlement Agreement by and among Hights Cross Communications, Inc. and the other parties named therein dated August 10, 2007, incorporated by reference to Exhibit 10.6 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed August 16, 2007
10.20+	Separation and Release Agreement dated August 24, 2007 by and between Peter J. Quandt and Hights Cross Communications, Inc., incorporated by reference to Exhibit 10.1 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed August 27, 2007
10.21+	Noncompetition Agreement, dated January 31, 2007, by and between the Company and Peter J. Quandt, incorporated by reference to Exhibit 10.1 of Hights Cross Communications, Inc.'s Current Report on Form 8-K filed February 2, 2007
10.22	Indemnification Agreement by and between Hights Cross Communications, Inc. and Paul J. Crecca dated September 21, 2007, incorporated by reference to Exhibit 10.1 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed September 27, 2007
10.23+	Hights Cross Communications, Inc. Transaction Bonus Plan, incorporated by reference to Exhibit 10.1 of Hights Cross Communications, Inc.'s Current Report of Form 8-K filed October 15, 2007
12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges, incorporated by reference to Exhibit 12.1 of the Company's Annual Report on Form 10-K filed March 31, 2008
14.1	Code of Business Conduct and Ethics, incorporated by reference to Exhibit 14 of Hights Cross Communications, Inc.'s Current Report on Form 8-K filed September 28, 2004
21.1	Subsidiaries of Hights Cross Communications, Inc. and Subsidiaries of Hights Cross Operating Company, incorporated by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K filed March 31, 2008
24.1	Power of Attorney (Included in signature page), incorporated by reference to Exhibit 24.1 of the Company's Annual Report on Form 10-K filed March 31, 2008
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Paul J. Crecca
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Mark Kurtz
32.1*	Certification of Paul J. Crecca pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Mark Kurtz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ Indicates a management contract or any compensatory plan, contract or arrangement

* Filed herewith

