

**Wells Fargo Bank Minnesota, N.A.
As Trustee Under that Certain
Indenture Dated as of August 20, 2003**

FORM 10-Q

This document is not required to be filed with the Securities and Exchange Commission. Pursuant to Section 4.03 (a) (1) of the Indenture it has been filed with the Trustee for delivery to the Holders of the Notes.

**QUARTERLY REPORT PURSUANT TO SECTION 4.03 (a) (1) of the Indenture
For the quarterly period ended September 30, 2003**

HAIGHTS CROSS COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

No. 13-4087416
(I.R.S. Employer Identification No.)

10 New King Street, Suite 102, White Plains, New York 10604
(Address of principal executive offices) (Zip Code)

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

HAIGHTS CROSS COMMUNICATIONS, INC.

**Quarterly Report for the
Quarter Ended September 30, 2003**

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	<i>(in thousands)</i>			
Revenue	\$ 42,216	\$ 42,152	\$ 124,644	\$ 125,421
Costs and expenses:				
Cost of goods sold	13,110	12,558	38,499	38,701
Marketing and sales	8,995	8,276	26,701	25,063
Fulfillment and distribution	3,165	2,736	8,829	7,874
General and administration	4,050	4,996	14,401	15,814
Restructuring charges	728	-	2,145	-
Amortization of pre-publication costs	2,235	1,809	6,253	5,105
Depreciation and amortization of property and equipment	611	541	1,652	1,463
Total costs and expenses	<u>32,894</u>	<u>30,916</u>	<u>98,480</u>	<u>94,020</u>
Income from operations	9,322	11,236	26,164	31,401
Other (income) expenses:				
Interest expense	8,527	4,548	17,387	13,581
Interest income	(64)	(32)	(155)	(32)
Amortization of deferred financing costs	432	357	1,408	1,102
Redemption premiums	9,236	-	9,236	-
Other (income) expense	18	(26)	124	6
Total other (income) expenses	<u>18,149</u>	<u>4,847</u>	<u>28,000</u>	<u>14,657</u>
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	(8,827)	6,389	(1,836)	16,744
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before discontinued operations and cumulative effect of accounting change	(8,827)	6,389	(1,836)	16,744
Discontinued operations:				
Income (loss) from operations of discontinued operations	233	590	6	1,832
Income (loss) on disposal of discontinued operations	<u>(49)</u>	<u>(1,678)</u>	<u>(979)</u>	<u>(1,678)</u>
Income (loss) before cumulative effect of accounting change	(8,643)	5,301	(2,809)	16,898
Cumulative effect of accounting change	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,610)</u>
Net income (loss)	(8,643)	5,301	(2,809)	(31,712)
Preferred stock dividends and accretion	(3,046)	(4,271)	(12,366)	(12,355)
Net income (loss) available to common stockholders	<u>\$ (11,689)</u>	<u>\$ 1,030</u>	<u>\$ (15,175)</u>	<u>\$ (44,067)</u>

See accompanying notes.

HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2003	December 31, 2002
	(Unaudited)	
	<i>(in thousands, except share data)</i>	
Assets		
Cash and cash equivalents	\$ 28,536	\$ 2,701
Accounts receivable, net	18,187	20,145
Inventory, net	21,789	21,792
Direct response advertising costs - current portion, net	3,604	2,022
Prepaid expenses and other current assets	2,646	2,921
Prepaid royalties	5,040	3,317
Assets of businesses held for sale	-	10,294
Total current assets	79,802	63,192
Pre-publication costs, net	27,016	23,255
Direct response advertising costs, net	6,444	6,364
Property and equipment, net	7,059	6,799
Goodwill	125,005	125,005
Deferred financing costs, net	13,999	3,701
Other assets	3,038	2,920
Total assets	\$ 262,363	\$ 231,236
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,761	\$ 22,222
Accrued interest	2,760	233
Deferred subscription revenue	13,631	13,661
Current portion of long term debt	1,000	-
Secured bank loan, current portion	-	14,250
Liabilities of businesses held for sale	-	2,867
Total current liabilities	37,152	53,233
Deferred management incentive	-	900
11¾% senior notes	140,000	-
Floating rate term loan	99,000	-
Secured bank loan	-	128,100
Subordinated notes, net	-	58,246
Series A Preferred Stock, redeemable, \$.001 par value, 30,000 authorized, 22,476 shares issued and outstanding (approximate aggregate liquidation value as of September 30, 2003 of \$30,391)	33,684	33,808
Series B Preferred Stock, redeemable, \$.001 par value, 6,000,000 authorized, 2,400,000 shares issued and outstanding (approximate aggregate liquidation value as of September 30, 2003 of \$109,065)	104,874	92,384
Commitments	-	-
Stockholders' deficit:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 20,000,000 shares issued and outstanding	20	20
Accumulated other comprehensive income	143	-
Accumulated deficit	(152,510)	(135,455)
Total stockholders' deficit	(152,347)	(135,435)
Total liabilities and stockholders' deficit	\$ 262,363	\$ 231,236

See accompanying notes.

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

	Nine Months Ended September 30,	
	2003	2002
	<i>(in thousands)</i>	
Operating activities		
Net (loss) income	\$ (2,809)	\$ (31,712)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Goodwill impairment charges	-	48,610
(Income) loss from discontinued operations – noncash	(188)	(3,783)
Depreciation and amortization of property and equipment and pre-publication costs	7,905	6,568
Amortization of deferred financing costs	1,408	1,102
Additions to pre-publications costs	(10,013)	(8,347)
Allowance for doubtful accounts	(84)	61
Loss on sale of businesses	979	1,678
Redemption premiums	9,236	-
Write-off of deferred financing cost – noncash	3,188	-
Interest expense on senior subordinated debt – noncash	5,431	5,883
Stock compensation expense – noncash	-	52
Other non-operating income – noncash	(81)	11
Changes in operating assets and liabilities:		
Accounts receivable	2,042	(3,052)
Inventory	3	(1,845)
Prepaid expenses, royalty advances and other current assets	(1,448)	188
Direct response advertising costs	(1,663)	(1,008)
Other assets	(150)	220
Accounts payable, accrued and other liabilities	(3,363)	(1,427)
Accrued interest	2,760	-
Deferred subscription revenue	(30)	(822)
Assets and liabilities held for sale, net	(55)	(413)
Net cash provided by operating activities:	13,068	11,964
Investing activities		
Additions to property and equipment	(2,355)	(1,645)
Proceeds from sale of assets	21	-
Proceeds from sale of businesses	7,482	-
Net cash provided by (used in) investing activities	5,148	(1,645)
Financing activities		
Proceeds from senior credit facility	12,000	6,000
Repayment of senior credit facility	(154,350)	(20,725)
Repayment of subordinated notes	(75,211)	-
Proceeds from 11¾% senior notes	140,000	-
Proceeds from floating rate term loan	100,000	-
Additions to deferred financing costs	(14,828)	(914)
Net cash provided by (used in) financing activities	7,611	(15,639)
Effect of exchange rate changes on cash	8	-
Net increase (decrease) in cash and cash equivalents	25,835	(5,320)
Cash and cash equivalents at beginning of period	2,701	7,484
Cash and cash equivalents at end of period	\$ 28,536	\$ 2,164
Supplemental disclosure		
Cash paid during the period for:		
Interest	\$ 5,799	\$ 7,698
Income taxes	\$ -	\$ -
Non-cash investing activity:		
Sale of business in exchange for note	\$ -	\$ 2,624

See accompanying notes.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The unaudited interim consolidated financial statements contained herein consist of the accounts of Hights Cross Communications, Inc. (the “Company”) a Delaware corporation, formed to create and build an education and library publishing business, and its subsidiaries. The Company is a holding company that conducts all of its operations through its direct and indirect subsidiaries.

The Company is a creator and publisher of high quality education and library materials. Products include K-12 curriculum-based student books, workbooks and study guides, test preparation publications, teacher materials, audiobooks, library books for children and young adults, and continuing professional education materials. The Company markets its products primarily to school administrators, educators, librarians and other professionals. Products are distributed via market-specific field and telesales representatives, direct mail and web/e-commerce to the North American market, and to the rest of the world via licensing and distribution arrangements.

Our business is subject to seasonal fluctuations. Our net revenue and income from operations have historically been higher during the second and third calendar quarters. In addition, our quarterly results of operations have fluctuated in the past, and can be expected to continue to fluctuate in the future, as a result of many factors, including general economic trends; the traditional cyclical nature of educational material sales; school, library, and consumer purchasing decisions, unpredictable funding of schools and libraries by Federal, state, and local governments, consumer preferences and spending trends; the need to increase inventories in advance of our primary selling season; and timing of introductions of new products.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. The consolidated results of operations of interim periods are not necessarily indicative of results for a full year. All material intercompany accounts and transactions have been eliminated upon consolidation. These financial statements should be read in conjunction with the consolidated financial statements and related notes for the fiscal year ended December 31, 2002. Certain prior year amounts have been reclassified to conform to the current year presentation.

The preparation of financial statements in conformity with accounting principles generally accepted 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. Recent Accounting Pronouncements

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (“SFAS No. 150”). SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Instruments that are indexed to and potentially settled in an issuer’s own shares that are not within the scope of SFAS No. 150 remain subject to existing guidance (e.g., EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to or Potentially Settled in, a Company’s Own Stock*, Accounting Series Release 268, *Redeemable Preferred Stocks*).

SFAS No. 150 is only the first phase of the FASB’s Liabilities and Equity Project. It represents a significant change in practice in the accounting for a number of financial instruments, including mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs.

SFAS No. 150 generally requires liability classification for two broad classes of financial instruments, including mandatorily redeemable equity instruments.

Many of the instruments within the scope of SFAS No. 150 previously were classified by the issuer as equity or temporary equity pursuant to Issue No. 00-19, Rule 5-02.28 of Regulation S-X, or ASR 268, (FRR Section 211), as interpreted by EITF Topic No. D-98, *Classification and Measurement of Redeemable Instruments*. Instruments that are indexed to and potentially settled in an issuer's own shares that are not within the scope of SFAS No. 150 remain subject to existing guidance.

SFAS No. 150 must be applied immediately to instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. Application to pre-existing instruments should be recognized as the cumulative effect of a change in accounting principle (application by retroactive restatement is precluded). The exception to the above transition requirements is for mandatorily redeemable instruments of certain nonpublic companies, to which the provisions of SFAS No. 150 have been deferred indefinitely. The indefinite deferral does not apply to SEC registrants, including a registrant who does not have public equity but has public debt registered with the SEC, such as Haight Cross Communications, Inc. For these companies, SFAS No. 150 must be applied in fiscal periods beginning after December 15, 2003. Early adoption of SFAS No. 150 is not permitted. The adoption of this statement will not have a material effect on the balance sheet presentation; however it will have a material effect on the consolidated statements of operations due to our Series A and Series B Preferred Stock, which are mandatorily redeemable instruments. The preferred stock dividends and accretion will be charged to net income upon adoption.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*, ("FIN No. 46"). FIN No. 46 significantly changes whether entities included in its scope are consolidated by their sponsors, transferors, or investors. FIN No. 46 introduces a new consolidation model—the variable interests model—which determines control (and consolidation) based on potential variability in gains and losses of the entity being evaluated for consolidation.

FIN No. 46's consolidation provisions apply immediately to variable interests in variable interest entities (VIEs) created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003 (July 1, 2003 for calendar year-end companies) to VIEs in which a public company holds a variable interest that it acquired before February 1, 2003. FIN No. 46's consolidation requirements also apply to nonpublic enterprises, but the consolidation provisions relating to pre-January 31, 2003 VIEs do not apply until the end of the first fiscal year that begins after June 15, 2003. FIN No. 46 has no grandfathering provisions. The adoption of FIN No. 46 will not have a material effect on our consolidated financial statements.

3. Discontinued Operations

The results of operations of discontinued operations have been classified as discontinued operations in the accompanying consolidated statements of operations. The assets and liabilities of businesses that were held for sale, which includes Andrews Communications, LLC, and Triumph Learning College, have been segregated and presented as held for sale in the accompanying consolidated balance sheet.

On March 31, 2003, and May 30, 2003, in two separate transactions, the Company sold the assets of its subsidiary Andrews Communications, LLC (including its divisions Oakstone Legal and Business and Andrews Publishing; collectively referred to herein as "Oakstone Legal") for a gross proceeds of \$7.9 million and net proceeds of \$7.5 million. On May 30, 2003, in conjunction with the second transaction, we recorded a loss on sale of approximately \$979,000. Oakstone Legal published legal newsletters, books, reports, and related publications to attorneys, law firms, employment professionals, and others.

For the three months ended September 30, 2003 and 2002, Oakstone Legal had no revenue and approximately \$2,038,000, respectively, and income (loss) from operations of discontinued operations of approximately \$(47,000) and \$351,000, respectively. For the nine months ended September 30, 2003 and 2002, Oakstone Legal had revenue of approximately \$2,007,000 and \$5,752,000, respectively, and income (loss) from operations of discontinued operations of approximately \$(227,000) and \$662,000, respectively. In early 2002, the Company recorded an

impairment charge on goodwill in Oakstone Legal of approximately \$6,667,000, which is presented as a cumulative effect of a change in accounting principle in the accompanying consolidated statements of operations (see Note 5 below for additional information regarding goodwill impairment charges).

On July 31, 2002, the Company sold its subsidiary Triumph Learning College (“Triumph College”), and recorded a loss on sale of approximately \$1,678,000. Triumph College was a publisher of SAT, ACT, and PSAT test preparation materials for high school students. For the three months ended September 30, 2002, Triumph College had revenue of approximately \$135,000 and income from operations of discontinued operations of approximately \$54,000. For the nine months ended September 30, 2002, Triumph College had revenue of approximately \$846,000 and a loss from operations of discontinued operations of approximately \$548,000.

In July 2002, the Company discontinued the operations of its subsidiary Triumph Learning Software (“Triumph Software”). Triumph Software was in the business of developing and selling state-specific test preparation software materials for 4th to 8th grade students. For the three months ended September 30, 2002, Triumph Software had no revenue and income from operations of discontinued operations of approximately \$85,000. For the nine months ended September 30, 2002, Triumph Software had no revenues and a loss from operations of discontinued operations of approximately \$2,182,000.

In April 2002, the Company discontinued the operations of its subsidiary The Coriolis Group (“Coriolis”). Coriolis published and distributed software certification training studyguides and technical references for web developers, programmers, and professionals. For the three and nine months ended September 30, 2003, Coriolis had no revenue and approximately \$233,000 in income from operations of discontinued operations due to a royalty recovery. For the three months ended September 30, 2002, Coriolis had revenue of approximately \$49,000 and income from operations of discontinued operations of approximately \$100,000. For the nine months ended September 30, 2002, Coriolis had revenue of approximately \$2,134,000 and income from operations of discontinued operations of approximately \$3,900,000. The 2002 income from operations of discontinued operations included the reversal of accrued liabilities related to the liquidation of the business, as certain contractual obligations and other liabilities were settled for less than estimated.

4. Comprehensive loss

Assets and liabilities of the Company’s wholly-owned international subsidiary, WF Howes located in the United Kingdom, are translated at their respective period-end exchange rates and revenues and expenses are translated at average currency exchange rates for the period. The resulting foreign currency translation adjustments from assets and liabilities are included as “Accumulated other comprehensive loss” and are reflected as a separate component of stockholders’ deficit. Total comprehensive loss, which is calculated by adding the foreign currency translation adjustment to net loss, for the three and nine month periods ended September 30, 2003 was approximately \$8,597,000 and \$2,666,000, respectively.

5. Goodwill

Goodwill represents the excess of net acquisition cost over the estimated fair value of net assets acquired of purchased companies. On January 1, 2002, the Company 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 but are periodically evaluated for impairment at the reporting unit level. Intangible assets with finite lives continue to be amortized over their remaining useful lives. In accordance with SFAS No. 142, on January 1, 2002 the Company ceased amortization of goodwill. Prior to the adoption of SFAS No. 142, goodwill was amortized over a period of 15 years.

Under SFAS No. 142, goodwill is subject to an annual impairment test, and an interim test, if an event occurs or circumstances change between annual tests indicating that the asset might be impaired. The 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 recorded for the difference. For purposes of estimating the fair value of the reporting unit, the Company uses a discounted cash flow approach. In accordance with SFAS No. 142, all goodwill must be tested for impairment within the first six months of adoption of the standard. Any impairment losses on goodwill recognized during this transition period are excluded from operations and are reported as a cumulative effect of a change in accounting principle. Subsequent goodwill impairment losses are reported as a reduction of income from operations. Prior to the adoption of SFAS No. 142, impairment of goodwill was recognized when the future undiscounted cash flows from operations were less than the carrying value of the related assets.

In accordance with the transition requirements of SFAS No. 142, the Company performed a goodwill impairment test on its reporting units as of January 1, 2002. Pursuant to that test, the Company determined that the carrying value of goodwill in its Chelsea House, Triumph Learning, and Oakstone Legal units was impaired. Accordingly, in January 2002 the Company recorded goodwill impairment charges of approximately \$29,753,000 in Chelsea House, \$12,190,000 in Triumph Learning, and \$6,667,000 in Oakstone Legal. In accordance with the transition rules for recognizing goodwill impairment in SFAS No. 142, the combined approximately \$48,610,000 of goodwill impairment charge is presented in the accompanying consolidated statement of operations as a cumulative effect of a change in accounting principle.

A summary of the change in the Company's goodwill, excluding the approximately \$6,667,000 charge for Oakstone Legal which was reported as a held for sale business, for the year ended December 31, 2002 is as follows:

Goodwill, January 1, 2002	\$ 167,133,000
Less:	
Goodwill impairment writedown—Chelsea House	29,753,000
Goodwill impairment writedown—Triumph Learning	12,190,000
Other	185,000
Goodwill, December 31, 2002	<u>\$ 125,005,000</u>

The Company performed a goodwill impairment test on its reporting units as of September 30, 2003. The Company determined that the carrying value of its goodwill was not impaired.

6. Inventory

The following table sets forth the components of inventory for the periods indicated:

	September 30, 2003	December 31, 2002
	(Unaudited)	
Supplies	\$ 826,000	\$ 882,000
Work-in-process	758,000	865,000
Finished goods	22,581,000	22,330,000
	<u>24,165,000</u>	<u>24,077,000</u>
Less allowance for obsolescence	2,376,000	2,285,000
	<u>\$ 21,789,000</u>	<u>\$ 21,792,000</u>

7. Financing Arrangements

On August 20, 2003, the Company entered into a \$30.0 million four-year and nine-month senior secured revolving credit facility, and a \$100.0 million five-year senior secured term loan and issued \$140.0 million of 11¾% senior notes due 2011. The Company used the net proceeds of these transactions to repay indebtedness under its old senior secured credit facility and to redeem its then outstanding 13.0% senior subordinated notes due 2009. In connection with this refinance, the Company incurred an early redemption premium of approximately \$9,236,000 which was paid to the senior subordinated note holders which is included in other (income) expense on the accompanying consolidated statements of operations. As part of the redemption transaction, the Company also cancelled 1,880

warrants for Series A Preferred stock with an assigned value of approximately \$1,880,000 and 1,692,169 warrants for common stock held by the senior subordinated note holders.

The Company wrote-off approximately \$3,188,000 of deferred financing costs associated with the repayment of the previous indebtedness which includes approximately \$562,000 of costs incurred in the current year. The Company incurred an additional approximately \$14,266,000 in fees associated with the August 20, 2003 refinancing transactions which is included in deferred financing costs in the accompanying consolidated balance sheets.

8. Restructuring Charges

Restructuring charges generally consist of employee termination benefits, costs incurred to consolidate facilities or relocate employees, or costs to terminate contracts, such as operating leases. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS No. 146"), which prescribes the accounting for exit and disposal activities, to include restructuring costs.

Under SFAS No. 146, a liability for costs associated with exit or disposal activities is recognized at fair value when the liability is incurred. Specifically, a liability for employee termination benefits is recognized either (i) at the communication date if the employee is not required to render service beyond a minimum retention period, or (ii) is recognized ratably over the employee's future service period if the employee is required to render service beyond the minimum retention period. The minimum retention period is 60 days unless defined by statute. A liability to terminate an operating lease before its term ends is recognized at its fair value when the contract is terminated in accordance with the contract terms or in a negotiated settlement. However, if the entity ceases use of the property (the "cease-use" date), but costs will continue to be incurred without economic benefit, then the fair value of the liability recorded at the cease-use date should be reduced by estimated subrentals that could reasonably be obtained for the property, even if the entity does not intend to sublease the property.

SFAS No. 146 is effective for all exit and disposal activities initiated after December 31, 2002, but the Company chose to early adopt the statement, which is permitted. Prior to the adoption of SFAS No. 146, the Company accounted for restructuring costs in accordance with Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity, Including Certain Costs Incurred in a Restructuring* ("EITF No. 94-3"). Under EITF No. 94-3, all liabilities related to exit or disposal activities were recognized at the date the Company's management committed to a plan.

During 2001, the Company streamlined its operating units with the objective of reducing operating costs. In connection with this objective, the Company recorded a restructuring charge of approximately \$3,088,000 in accordance with EITF 94-3 for (i) the severance of approximately 86 employees, (ii) the integration of recently acquired Audio Adventures with the operations of Recorded Books and (iii) consulting costs incurred relating to the development of plans to consolidate various subsidiary warehouses and other corporate synergy initiatives. As of December 31, 2001, approximately \$1,500,000 of the charge remained unpaid, which represented unpaid severance and lease commitments. During 2002, approximately \$1,339,000 was paid and \$125,000 of the accrual was reversed. As of December 31, 2002, approximately \$36,000 of the accrued liability remained unpaid. During 2003, approximately \$18,000 was paid and the remaining accrual was reversed.

During the fourth quarter of 2002, the Company initiated an operations consolidation project under which it will consolidate the warehousing and order fulfillment functions of its Triumph Learning, Chelsea House, Sundance/Newbridge subsidiaries at a new warehouse facility. The customer service functions of Triumph Learning, Sundance/Newbridge were also combined. The objective of the consolidation is to reduce payroll costs and avoid expected increases in lease costs, while providing faster and more accurate order and delivery services. In January 2003, the Company signed the lease for the new warehouse facility and overall completion of the project is expected in 2003. In connection with this effort, the Company expects to record a total restructuring charge of approximately \$2,430,000. In accordance with SFAS No. 146, these costs were not accrued as of December 31, 2002. Of the total \$2,430,000 in estimated costs, (i) \$600,000 is for severance and related compensation costs for 25 employees; (ii) \$810,000 is due to the early termination of four existing warehouse and office leases; and (iii) \$1,020,000 is for moving, employee relocation, consulting, and other related expenses.

Operations consolidation project restructuring activity by type for the three months ended September 30, 2003 (unaudited) is as follows:

	Accrued Restructuring Liability as of June 30, 2003	Restructuring Expense in 2003	Cash Paid in 2003	Reversals	Accrued Restructuring Liability as of September 30, 2003
Severance and related.....	\$ 53,000	\$ 270,000	\$ 157,000	\$ 1,000	\$ 165,000
Lease terminations costs.....	344,000	196,000	161,000	68,000	311,000
Relocation and other	—	262,000	247,000	—	15,000
	<u>\$ 397,000</u>	<u>\$ 728,000</u>	<u>\$ 565,000</u>	<u>\$ 69,000</u>	<u>\$ 491,000</u>

Operations consolidation project restructuring activity by segment for the three months ended September 30, 2003 (unaudited) is as follows:

	Accrued Restructuring Liability as of June 30, 2003	Restructuring Expense in 2003	Cash Paid in 2003	Reversals	Accrued Restructuring Liability as of September 30, 2003	Headcount Reduction
Sundance/Newbridge	\$ 203,000	\$ 61,000	\$ 110,000	\$ 13,000	\$ 141,000	2
Chelsea House	—	625,000	335,000	—	290,000	11
Triumph Learning.....	164,000	42,000	91,000	55,000	60,000	—
Corporate	30,000	—	29,000	1,000	—	—
	<u>\$ 397,000</u>	<u>\$ 728,000</u>	<u>\$ 565,000</u>	<u>\$ 69,000</u>	<u>\$ 491,000</u>	<u>13</u>

Operations consolidation project restructuring activity by type for the nine months ended September 30, 2003 (unaudited) is as follows:

	Amount Expected To Be Incurred	Accrued Restructuring Liability as of December 31, 2002	Restructuring Expense in 2003	Cash Paid in 2003	Reversals	Accrued Restructuring Liability as of September 30, 2003
Severance and related.....	\$ 600,000	\$ —	\$ 534,000	\$ 368,000	\$ 1,000	\$ 165,000
Lease terminations costs.....	810,000	—	607,000	228,000	68,000	311,000
Relocation and other	1,020,000	—	1,004,000	989,000	—	15,000
	<u>\$ 2,430,000</u>	<u>\$ —</u>	<u>\$ 2,145,000</u>	<u>\$ 1,585,000</u>	<u>\$ 69,000</u>	<u>\$ 491,000</u>

Operations consolidation project restructuring activity by segment for the nine months ended September 30, 2003 (unaudited) is as follows:

	Amount Expected To Be Incurred	Accrued Restructuring Liability as of December 31, 2002	Restructuring Expense in 2003	Cash Paid in 2003	Reversals	Accrued Restructuring Liability as of September 30, 2003	Headcount Reduction
Sundance/Newbridge	\$ 750,000	\$ —	\$ 624,000	\$ 470,000	\$ 13,000	\$ 141,000	3
Chelsea House.....	1,000,000	—	870,000	580,000	—	290,000	11
Triumph Learning	560,000	—	531,000	416,000	55,000	60,000	10
Corporate.....	120,000	—	120,000	119,000	1,000	—	1
	<u>\$ 2,430,000</u>	<u>\$ —</u>	<u>\$ 2,145,000</u>	<u>\$ 1,585,000</u>	<u>\$ 69,000</u>	<u>\$ 491,000</u>	<u>25</u>

9. Segment Reporting

The Company is a creator, publisher and marketer of products for the education and library publishing markets. The Company has five operating business segments which are regularly reviewed by the chief operating decision-maker in making decisions about allocating resources and assessing performance.

The information presented below includes certain expense allocations between the corporate parent and the operating business segments and is therefore not necessarily indicative of the results that would be achieved had these been stand-alone businesses. Corporate general and administrative expense consists of general corporate administration expense not allocated to the operating business segments. Capital expenditures include expenditures for property and equipment. Corporate capital expenditures includes capital expenditures of discontinued and held for sale operations.

The results of operations and other data for the five operating segments and the corporate parent for the three months and nine months ended September 30, 2003 and 2002 are as follows:

	Sundance/ Newbridge	Triumph Learning	Oakstone	Total Education Publishing Group	Recorded Books	Chelsea House	Total Library Publishing Group	Corporate	Consolidated
<i>(in thousands)</i>									
Three Months Ended September 30, 2003 (unaudited)									
Revenue	\$ 13,661	\$ 6,455	\$ 3,933	\$ 24,049	\$ 15,241	\$ 2,926	\$ 18,167	\$ -	\$ 42,216
Cost of goods sold	3,803	1,656	1,103	6,562	5,802	746	6,548	-	13,110
Marketing and sales	3,212	1,337	1,275	5,824	2,463	708	3,171	-	8,995
Fulfillment and distribution	1,121	506	394	2,021	866	278	1,144	-	3,165
General and administrative	509	741	557	1,807	1,016	974	1,990	981	4,778
Amortization of pre- publication costs	614	399	23	1,036	704	495	1,199	-	2,235
Depreciation and amortization on property and equipment	154	26	182	362	173	28	201	48	611
Income (loss) from operations	<u>\$ 4,248</u>	<u>\$ 1,790</u>	<u>\$ 399</u>	<u>\$ 6,437</u>	<u>\$ 4,217</u>	<u>\$ (303)</u>	<u>\$ 3,914</u>	<u>\$ (1,029)</u>	<u>\$ 9,322</u>
Capital expenditures	\$ 17	\$ 9	\$ 50	\$ 76	\$ 380	\$ 47	\$ 427	\$ 12	\$ 515
Three Months Ended September 30, 2002 (unaudited)									
Revenue	\$ 11,539	\$ 5,855	\$ 4,291	\$ 21,685	\$ 17,270	\$ 3,197	\$ 20,467	\$ -	\$ 42,152
Cost of goods sold	2,702	1,262	1,062	5,026	6,766	766	7,532	-	12,558
Marketing and sales	2,698	1,366	1,135	5,199	2,488	589	3,077	-	8,276
Fulfillment and distribution	731	413	405	1,549	932	255	1,187	-	2,736
General and administrative	405	707	448	1,560	934	581	1,515	1,921	4,996
Amortization of pre- publication costs	510	287	67	864	506	439	945	-	1,809
Depreciation and amortization on property and equipment	113	28	155	296	144	21	165	80	541
Income (loss) from operations	<u>\$ 4,380</u>	<u>\$ 1,792</u>	<u>\$ 1,019</u>	<u>\$ 7,191</u>	<u>\$ 5,500</u>	<u>\$ 546</u>	<u>\$ 6,046</u>	<u>\$ (2,001)</u>	<u>\$ 11,236</u>
Capital expenditures	\$ 37	\$ 6	\$ 172	\$ 215	\$ 208	\$ 42	\$ 250	\$ 5	\$ 470

	Sundance/ Newbridge	Triumph Learning	Oakstone	Total Education Publishing Group	Recorded Books	Chelsea House	Total Library Publishing Group	Corporate	Consolidated
<i>(in thousands)</i>									
Nine Months Ended September 30, 2003 (unaudited)									
Revenue	\$ 37,808	\$ 18,362	\$ 12,144	\$ 68,314	\$ 46,225	\$ 10,105	\$ 56,330	\$ -	\$ 124,644
Cost of goods sold	9,825	4,532	3,372	17,729	18,299	2,471	20,770	-	38,499
Marketing and sales	8,949	4,119	3,595	16,663	7,955	2,083	10,038	-	26,701
Fulfillment and distribution	2,690	1,545	1,150	5,385	2,576	868	3,444	-	8,829
General and administrative	2,868	2,874	1,538	7,280	3,463	2,439	5,902	3,364	16,546
Amortization of pre- publication costs	1,599	1,089	205	2,893	1,969	1,391	3,360	-	6,253
Depreciation and amortization on property and equipment	406	79	426	911	494	78	572	169	1,652
Income (loss) from operations	<u>\$ 11,471</u>	<u>\$ 4,124</u>	<u>\$ 1,858</u>	<u>\$ 17,453</u>	<u>\$ 11,469</u>	<u>\$ 775</u>	<u>\$ 12,244</u>	<u>\$ (3,533)</u>	<u>\$ 26,164</u>
Capital expenditures	\$ 1,227	\$ 30	\$ 172	\$ 1,429	\$ 777	\$ 113	\$ 890	\$ 36	\$ 2,355
Total assets	51,011	31,450	25,774	108,235	93,359	16,579	109,938	44,190	262,363
Nine Months Ended September 30, 2002 (unaudited)									
Revenue	\$ 35,781	\$ 15,860	\$ 13,437	\$ 65,078	\$ 48,831	\$ 11,512	\$ 60,343	\$ -	\$ 125,421
Cost of goods sold	8,650	4,167	3,618	16,435	19,289	2,977	22,266	-	38,701
Marketing and sales	8,086	4,074	3,451	15,611	7,604	1,848	9,452	-	25,063
Fulfillment and distribution	2,072	1,324	1,182	4,578	2,509	787	3,296	-	7,874
General and administrative	2,022	1,738	1,299	5,059	3,059	1,524	4,583	6,172	15,814
Amortization of pre- publication costs	1,445	754	190	2,389	1,501	1,215	2,716	-	5,105
Depreciation and amortization on property and equipment	333	69	367	769	406	52	458	236	1,463
Income (loss) from operations	<u>\$ 13,173</u>	<u>\$ 3,734</u>	<u>\$ 3,330</u>	<u>\$ 20,237</u>	<u>\$ 14,463</u>	<u>\$ 3,109</u>	<u>\$ 17,572</u>	<u>\$ (6,408)</u>	<u>\$ 31,401</u>
Capital expenditures	\$ 97	\$ 152	\$ 234	\$ 483	\$ 914	\$ 61	\$ 975	\$ 187	\$ 1,645
Total assets	47,437	31,003	26,017	104,457	93,736	14,083	107,819	20,458	232,734

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement. This quarterly report contains "forward-looking statements". Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future sales or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends and other information that is not historical information. When used in this quarterly report, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts" and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will result or be achieved.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this quarterly report, including, among others, the following:

- market acceptance of new education and library products, particularly reading, literature, language arts, mathematics, science and social studies programs;
- the seasonal and cyclical nature of education and library sales;
- changes in funding in school systems throughout the nation, which may result in cancellation of planned purchases of education and library products and shifts in timing of purchases;
- changes in the competitive environment, including those which could adversely affect our cost of sales;
- changes in the relative profitability of products sold;
- regulatory changes that could affect the purchase of education and library products;
- changes in the strength of the retail market for audiobooks and market acceptance of newly-published titles;
- delays and unanticipated expenses in developing new programs and other products or in developing new technology products, and market acceptance and use of online instruction and assessment materials;
- the potential effect of a continued weak economy on sales of education and library products;
- the risk that our well-known authors will depart and write for our competitors; and
- the effect of changes in accounting, regulatory and/or tax policies and practices.

There may be other factors not presently known to us or which we currently consider to be immaterial that may cause our actual results to differ materially from the forward-looking statements. The forward-looking statements in this quarterly report are made as of the date of this quarterly report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - UNAUDITED

Operating Groups

We have organized our businesses into two operating groups: the Education Publishing Group and the Library Publishing Group.

Education Publishing Group. Our Education Publishing Group publishes supplemental reading materials for the kindergarten through 9th grade market, state-specific test preparation materials for K-12 high stakes competency tests and continuing medical education products for doctors. Our Education Publishing Group also markets non-proprietary, supplemental reading products and literature for the K-12 market. This group is comprised of three segments: Sundance/Newbridge, Triumph Learning and Oakstone.

Library Publishing Group. Our Library Publishing Group publishes audiobooks for adults and children as well as literary, biographical and topical books published in series for public and school libraries. Our Library Publishing Group also markets non-proprietary audiobooks to public and school libraries. This group is comprised of two segments: Recorded Books and Chelsea House.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Changes in facts, circumstances and market conditions may result in revised estimates.

The critical accounting policies described herein are those that are, in management's opinion, most important to the presentation of our consolidated financial condition and results of operations.

Revenue and Expense Recognition

In accordance with industry practice, we recognize revenue from books and other non-subscription sales when the product is shipped to the customer. Product shipment terms are free on board shipping point and collectability is reasonably assured. Subscription revenue is deferred and recognized as the subscription is fulfilled. Revenue is recognized net of provisions for estimated returns. These estimated return provisions are based upon historical experience and other industry factors including management's expectations. Actual return experience is monitored and any significant change from management's expectations resulting in an adjustment in the reserve rate utilized to estimate returns.

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

Pre-publication Costs

We capitalize the costs associated with the development of our new products. These 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 two 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 constantly monitored for changes in length or rate of sales during the life cycle. When changes are significant the amortization rate and period are adjusted.

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." 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. In accordance with SFAS No. 142, on January 1, 2002, we ceased amortization of goodwill. Prior to the adoption of SFAS No. 142, goodwill was amortized to expense over a period of 15 years.

Under SFAS No. 142, goodwill is 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 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 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. For purposes of estimating the fair value of the reporting unit, we use a discounted cash flow approach, since our common stock is not publicly traded and a quoted market price is unavailable.

Direct Response Advertising Costs

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. Generally, 80% of these costs are amortized in the first two years. Direct mail costs relating to our Oakstone subscription business are amortized on an accelerated basis over the estimated life of the subscriber for up to five years. The life and amortization rate are determined by historical experience from similar subscription products at the same business. For subscription products, the life is based on the original subscription period plus 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 on an accelerated basis over the estimated life of the catalog, generally between one and 18 months. The life and amortization rate are based on the sales experience of similar catalogs at the same business segment. Amortization of direct response advertising costs is included in selling, general and administrative expense. If a direct mail solicitation or catalog is determined to be unprofitable, all remaining capitalization costs are written-off at that time.

Inventory and Related Obsolescence

Inventory consists primarily of books, 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.

Stock-Based Compensation

The Company has a stock option plan, pursuant to which stock options for a fixed number of shares of common stock are granted to employees with an exercise price equal to or greater than the fair value of the shares at the date

of grant. The exercise price of options issued under the plan are determined by the Company's board of directors using commonly employed valuation methods. Awards under the plan generally vest over three years, although vesting may also be on performance.

On January 1, 2002, we adopted the fair value method of accounting for stock options under Statements of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," prospectively to all new awards granted to employees beginning on January 1, 2002. Under the fair 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. Prior to the adoption of the fair value method under SFAS No. 123, we did not record compensation expense for stock options since we accounted for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, recognition of the compensation expense for stock options is not required as long as the exercise price of employee stock options equals the value of the underlying stock on the date of the grant.

Income Taxes

We account for income taxes pursuant to the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." 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. Because we have not yet generated taxable income, we have placed a 100% valuation allowance on our net tax benefits. We will re-evaluate the deferred tax valuation allowance based on future earnings.

Long-term Debt and Redeemable Capital Stock

We have had and continue to have significant obligations pursuant to which interest and/or dividends are accrued and not paid in cash. These obligations consist of the existing senior subordinated notes and our Series A preferred stock and Series B senior preferred stock. The accretion of interest on the existing senior subordinated notes is included with interest expense and the accretion of dividends on the preferred stock is shown below net income on our consolidated statements of operations.

We issued warrants to purchase shares of our common stock and Series A preferred stock in connection with the issuance of our old senior subordinated notes and our Series B preferred stock. Accounting Principles Board Opinion No. 14 *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, requires that the portion of the proceeds of the old senior subordinated notes that is allocable to the warrants should be accounted for as paid-in capital. The allocation is based on the relative fair values of the old senior subordinated notes, Series B senior preferred stock, common stock warrants and Series A preferred stock warrants at the time of issuance. The resulting discounts on the old senior subordinated notes were recorded initially as a reduction to the carrying amount of the old senior subordinate notes and were amortized as a component of interest expense over the life of such notes. In connection with the refinancing, all outstanding warrants to purchase shares of Series A preferred stock and warrants to purchase shares of common stock issued with such notes were canceled.

Results of Operations

Three Months Ended September 30, 2003 Compared To Three Months Ended September 30, 2002

Revenue

Revenue was \$42.2 million for the three months ended September 30, 2003, equivalent to the \$42.2 million for the three months ended September 30, 2002.

Education Publishing Group. Revenue from the Education Publishing Group increased \$2.3 million, or 10.9%, to \$24.0 million for the three months ended September 30, 2003, from \$21.7 million for the three months ended September 30, 2002. Sundance/Newbridge's revenue increased \$2.1 million, or 18.4%, to \$13.7 million for

the three months ended September 30, 2003 compared to the three months ended September 30, 2002. This revenue increase was primarily the result of a large single order for the quasi-adoption of both Sundance and Newbridge science titles. Revenue at Triumph Learning increased \$0.6 million, or 10.3%, to \$6.5 million for the three months ended September 30, 2003 from \$5.9 million for the three months ended September 30, 2002. This increase was due to strong sales in two new states: Mississippi and Tennessee. Oakstone's revenue decreased \$0.4 million, or 8.3%, to \$3.9 million due to a shift in the fulfillment schedule of our subscription products and lower revenue from the MKSAP product due to its tri-annual release schedule.

Library Publishing Group. Revenue from the Library Publishing Group decreased \$2.3 million, or 11.2%, to \$18.2 million for the three months ended September 30, 2003, from \$20.5 million for the three months ended September 30, 2002. Revenue at Recorded Books decreased \$2.0 million, or 11.7%, to \$15.2 million for the three months ended September 30, 2003 from \$17.2 million for the three months ended September 30, 2002 resulting from a strong 2002 performance in the retail channel of our Lord of the Rings audiobook trilogy, and a decline in the Audio Adventures channel resulting from the loss of a significant distributor early in 2003. Revenue at Chelsea House decreased \$0.3 million, or 8.5%, for the three months ended September 30, 2003 compared to the three months ended September 30, 2002 due to the continued softness in library spending on traditional materials.

Cost of Goods Sold

Cost of goods sold increased \$0.5 million, or 4.4%, to \$13.1 million for the three months ended September 30, 2003 from \$12.6 million for the three months ended September 30, 2002. The gross margin for the three months ended September 30, 2003 decreased to 68.9% from 70.2% for the three months ended September 30, 2002.

Education Publishing Group. Cost of goods sold for the Education Publishing Group increased \$1.6 million, or 30.6%, to \$6.6 million for the three months ended September 30, 2003 from \$5.0 million for the three months ended September 30, 2002, while the gross margin declined to 72.7% from 76.8% period over period. At Sundance/Newbridge, the cost of goods sold increased \$1.1 million, or 40.8%, to \$3.8 million from \$2.7 million and the gross margin declined to 72.2% from 76.6% quarter over quarter. This margin decline primarily resulted from a favorable inventory reserve adjustment of \$0.5 million reported during the three months ended September 30, 2002 as the reserves were adjusted to reflect improving obsolescence experience. Cost of goods sold for Triumph Learning increased \$0.4 million, or 31.2%, to \$1.7 million from \$1.3 million due to the revenue increase and increased inventory reserve provisions and a favorable \$0.2 million royalty rebate received in the third quarter of 2002. The gross margin at Triumph Learning declined to 74.4% from 78.4% quarter over quarter. Cost of goods sold at Oakstone was \$1.1 million for both periods, although, with the revenue decline, the gross margin declined from 75.2% in the 2002 quarter to 72.0% for the quarter ended September 30, 2003.

Library Publishing Group. Cost of goods sold for the Library Publishing Group decreased \$1.0 million, or 13.1%, to \$6.5 million for the three months ended September 30, 2003 from \$7.5 million for the three months ended September 30, 2002, while the gross margin increased to 64.0% from 63.2% period over period. The cost of goods sold for Recorded Books decreased \$1.0 million, or 14.2%, to \$5.8 million from \$6.8 million while the gross margin for Recorded Books increased to 61.9% from 60.8%. This was due to a decline in sales of the lower margin retail products partially offset by declines in the margin from rental products where amortized product costs were fixed and the related rental revenue declined. Cost of goods sold for Chelsea House remained unchanged at \$0.8 million for both periods and the gross margin dropped from 76.0% to 74.5% period over period as inventory obsolescence reserves were increased due to slowing sales.

Selling, General & Administrative Expense

Selling, general and administrative expense increased \$0.9 million, or 5.8%, to \$16.9 million for the three months ended September 30, 2003 from \$16.0 million for the three months ended September 30, 2002. Selling, general and administrative expense as a percentage of revenue increased to 40.1% for the three months ended September 30, 2003 from 38.0% for the three months ended September 30, 2002. Selling, general and administrative expenses for the three months ended September 30, 2003 included \$0.8 million in restructuring charges and restructuring related expenses. For the three months ended September 30, 2002, selling general and administrative expenses included \$0.7 million for the 2002 equity plan.

Education Publishing Group. Selling, general and administrative expense for the Education Publishing Group increased \$1.3 million, or 16.2%, to \$9.6 million for the three months ended September 30, 2003 from \$8.3 million for the three months ended September 30, 2002. Selling, general and administrative expense for Sundance/Newbridge increased \$1.0 million due to higher catalog amortization, commissions based on the increased sales and overhead cost. Selling, general and administrative expense for Oakstone and Triumph Learning increased \$0.2 million and \$0.1 million, respectively, due to increased payroll costs.

Library Publishing Group. Selling, general and administrative expense for the Library Publishing Group increased \$0.5 million, or 9.1%, to \$6.3 million for the three months ended September 30, 2003 from \$5.8 million for the three months ended September 30, 2002. Selling, general and administrative expense for Chelsea House increased \$0.5 million due to restructuring costs. Selling, general and administrative expense for Recorded Books remained unchanged at \$4.3 million.

Corporate. Our corporate level general and administrative expense decreased \$0.9 million, or 48.9%, to \$1.0 million for the three months ended September 30, 2003 from \$1.9 million for the three months ended September 30, 2002. The decrease was due to a 2002 equity plan charge of \$0.7 million, and the allocation to our segments for 2003 of certain employee medical plan expenses reported at the corporate level during the 2002 period.

Interest Expense

Interest expense increased \$4.0 million, or 87.1%, to \$8.5 million for the three months ended September 30, 2003 from \$4.5 million for the three months ended September 30, 2002. This increase was primarily due to a \$3.2 million charge to interest expense for unamortized deferred financing costs related to the August 20, 2003 retirement of our old senior secured credit facility and our old senior subordinated notes. In addition, our total outstanding debt increased from \$204.7 million as of September 30, 2002 to \$240.0 million as of September 30, 2003.

Cash interest expense increased \$1.6 million to \$4.1 million for the three months ended September 30, 2003 from \$2.5 million for the three months ended September 30, 2002. The increase in cash interest was the result of the August 20, 2003 refinancing where our old non-cash interest bearing senior subordinated notes were retired, and were replaced with a term loan and senior notes bearing cash interest. Our cash interest bearing outstanding debt was \$240.0 million on September 30, 2003 compared to \$149.9 million as of September 30, 2002.

Interest expense on the old senior subordinated notes due 2009, which was not paid in cash but was added to the aggregate principal amount of the notes, decreased \$0.7 million to \$1.3 million for the three months ended September 30, 2003, from \$2.0 million for the three months ended September 30, 2002. These senior subordinated notes, both the original value of the notes and the accumulated paid in kind interest, were retired in the August 20, 2003 refinancing transaction.

Redemption Premiums

For the three months ended September 30, 2003, \$9.2 million of redemption premiums were paid and expensed as the senior subordinated notes were redeemed in connection with the August 20, 2003 refinancing transaction.

Discontinued Operations

In November 2002, we initiated a plan to sell our Andrews Communications, LLC subsidiary, which included our Andrews Publishing and Oakstone Legal & Business publishing divisions. The results of operations of Andrews Communications have been classified as a discontinued operation in our consolidated statements of operations. For the three months ended September 30, 2002, Andrews Communications had revenue of \$2.0 million and net income of \$0.4 million. On March 31, 2003 and May 30, 2003, in two separate transactions, we sold the assets of Andrews Communications for gross proceeds of \$7.9 million with net proceeds of \$7.5 million. On May 30, 2003, in conjunction with the second transaction, we recorded a loss on sale of \$1.0 million. The net proceeds of the sales were used to pay down debt under our old senior secured credit facility.

In March 2002, we adopted a formal plan to discontinue the operations of our Triumph Learning Software business, which was completed on July 31, 2002. Triumph Learning Software was in the business of developing state-specific test preparation software for 3rd through 8th grade students. The results of operations of Triumph Learning Software have been classified as a discontinued operation in our consolidated statements of operations. For the three months ended September 30, 2002, Triumph Learning Software had no revenue and net income of \$0.1 million.

On July 31, 2002, we sold our subsidiary, Triumph Learning College, for a \$3.0 million promissory note, with an effective sales price of \$2.6 million after a discount for interest which resulted in a loss on sale of \$1.7 million. Triumph Learning College was a publisher of SAT, ACT and PSAT test preparation materials for high school students. The results of operations of Triumph Learning College have been classified as a discontinued operation in our consolidated statements of operations. For the three months ended September 30, 2002, Triumph Learning College had revenue of \$0.1 million and a net income of \$0.1 million.

In December 2001, we adopted a formal plan to discontinue the operations of our subsidiary The Coriolis Group, LLC, which was completed in 2002. Coriolis published and distributed software certification study guides and technical reference materials for web developers, programmers and professionals. The results of operations of Coriolis have been classified as a discontinued operation in our consolidated statements of operations. For the three months ended September 30, 2003, Coriolis had net income of \$0.2 million relating to a royalty recovery. For the three months ended September 30, 2002, Coriolis had net income of \$0.1 million.

Net Income (Loss)

Net loss for the three months ended September 30, 2003, was \$8.6 million compared to net income of \$5.3 million for the three months ended September 30, 2002. This was due primarily to \$9.2 million of redemption premiums paid in connection with our August 20, 2003 refinance and an additional \$3.2 million charge to interest expense for unamortized deferred financing costs related to the August 20, 2003 refinance.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Revenue

Revenue decreased \$0.8 million, or 0.6%, to \$124.6 million for the nine months ended September 30, 2003, from \$125.4 million for the nine months ended September 30, 2002.

Education Publishing Group. Revenue from the Education Publishing Group increased \$3.2 million, or 5.0%, to \$68.3 million for the nine months ended September 30, 2003, from \$65.1 million for the nine months ended September 30, 2002. Triumph Learning's revenue increased \$2.5 million, or 15.8%, to \$18.4 million for the nine months ended September 30, 2003 from \$15.9 million for the nine months ended September 30, 2002 due to strong sales in North Carolina, Pennsylvania, Texas, Mississippi and Tennessee. Revenue for Sundance/Newbridge increased \$2.0 million, or 5.7%, to \$37.8 million for the nine months ended September 30, 2003 from \$35.8 million for the nine months ended September 30, 2002. This revenue increase was the result of large orders for the quasi-adoption of both Sundance and Newbridge titles. Revenue for Oakstone declined \$1.3 million, or 9.6%, to \$12.1 million for the nine months ended September 30, 2003 from \$13.4 million for the nine months ended September 30, 2002. The revenue decline at Oakstone was primarily due to a shift in the fulfillment schedule of our subscription products, lower revenue from the MKSAP product due to its tri-annual release and certain non-recurring product shipments in the first three months of 2002.

Library Publishing Group. Revenue from the Library Publishing Group decreased \$4.0 million, or 6.7%, to \$56.3 million for the nine months ended September 30, 2003, from \$60.3 million for the nine months ended September 30, 2002. Revenue for Recorded Books declined \$2.6 million, or 5.3%, to \$46.2 million from \$48.8 million, period over period. This decline reflects the impact of a strong 2002 performance in the retail channel of our Lord of the Rings audiobook trilogy, and a decline in the Audio Adventures channel resulting from the loss of a significant distributor early in 2003. Revenue for Chelsea House decreased \$1.4 million, or 12.2%, for the nine

months ended September 30, 2003 compared to the nine months ended September 30, 2002 due to reduced spending by libraries on traditional materials.

Cost of Goods Sold

Cost of goods sold declined \$0.2 million, or 0.5%, to \$38.5 million for the nine months ended September 30, 2003 from \$38.7 million for the nine months ended September 30, 2002 due primarily to the revenue decline. Gross margin as a percentage of revenue remained unchanged at 69.1% for both the nine months ended September 30, 2003 and September 30, 2002.

Education Publishing Group. Cost of goods sold for the Education Publishing Group increased \$1.3 million, or 7.9%, to \$17.7 million for the nine months ended September 30, 2003 from \$16.4 million for the nine months ended September 30, 2002, while gross margin declined to 74.0% from 74.7% period over period. The increased cost of goods sold was primarily due to the revenue increase while the gross margin decline was primarily due to the favorable inventory obsolescence reserve adjustment recorded at Sundance/Newbridge in 2002. Oakstone reported a period over period decline in gross margin from 73.1% to 72.2% due to lower revenues and fixed product costs, while Triumph Learning reported a period over period increase in gross margin from 73.7% to 75.3% due to lower royalty and per-unit product costs.

Library Publishing Group. Cost of goods sold for the Library Publishing Group decreased \$1.5 million, or 6.7% to \$20.8 million for the nine months ended September 30, 2003 from \$22.3 million for the nine months ended September 30, 2002, while the gross margin remained unchanged period to period at 63.1%. The decline in cost of goods sold for the Library Publishing Group is due to declines at both the Recorded Books and Chelsea House business segments.

Selling, General & Administrative Expense

Selling, general and administrative expense increased \$3.3 million, or 6.8%, to \$52.1 million for the nine months ended September 30, 2003 from \$48.8 million for the nine months ended September 30, 2002. Selling, general and administrative expense as a percentage of revenue increased to 41.8% for the nine months ended September 30, 2003 from 38.9% for the nine months ended September 30, 2002. The increase in selling, general and administrative expense period over period was primarily due to a \$2.1 million restructuring charge in 2003 related to the consolidation of the warehousing, customer service and order fulfillment functions of Sundance/Newbridge, Triumph Learning and Chelsea House. The additional \$1.2 million period over period increase is due to \$0.8 million in other restructuring related expenses in 2003 and an increase in overhead expenses including payroll.

Education Publishing Group. Selling, general and administrative expense for the Education Publishing Group increased \$4.1 million, or 16.2%, to \$29.3 million for the nine months ended September 30, 2003 from \$25.2 million for the nine months ended September 30, 2002. Selling, general and administrative expense for Sundance/Newbridge increased \$2.3 million, or 19.1%, due to restructuring costs and increased rent and payroll expense. Selling, general and administrative expense for Triumph Learning increased \$1.4 million, or 19.6%, due to restructuring costs, increased commissions on higher revenue and higher payroll costs. Selling, general and administrative expenses for Oakstone increased \$0.4 million, or 5.9%, due to payroll increases.

Library Publishing Group. Selling, general and administrative expense for the Library Publishing Group increased \$2.1 million, or 11.9% to \$19.4 million for the nine months ended September 30, 2003 from \$17.3 million for the nine months ended September 30, 2002. Selling, general and administrative expense for Recorded Books increased \$0.9 million, or 6.2%, due to increased payroll and benefits costs, bad debt accrual and implementation costs of a new software system. Selling, general and administrative expense for Chelsea House increased \$1.2 million, or 29.6%, due to restructuring costs related to the consolidation of the warehousing, customer service and order fulfillment functions of Sundance/Newbridge, Triumph Learning and Chelsea House.

Corporate. Our corporate level general and administrative expense decreased \$2.8 million, or 45.5%, to \$3.4 million for the nine months ended September 30, 2003 from \$6.2 million for the nine months ended September 30, 2002. The decrease was due to a 2002 equity plan charge of \$2.1 million, a reduction in staffing during the second

half of 2002 and the allocation to our segments for 2003 of certain employee medical plan expenses reported at the corporate level in the comparable 2002 period.

Interest Expense

Interest expense increased \$3.8 million, or 28%, to \$17.4 million for the nine months ended September 30, 2003 from \$13.6 million for the nine months ended September 30, 2002. This increase was primarily due to a \$3.2 million charge to interest expense for unamortized deferred financing costs related to the August 20, 2003 refinancing of our old senior secured credit facility and our old senior subordinated notes. In addition, our total outstanding debt increased from \$204.7 million as of September 30, 2002 to \$240.0 million as of September 30, 2003.

Cash interest expense increased \$0.9 million to \$8.6 million for the nine months ended September 30, 2003 from \$7.7 million for the nine months ended September 30, 2002. The increase in cash interest was the result of the August 20, 2003 refinancing where our old non-cash interest bearing senior subordinated notes were retired, and were replaced with a term loan and senior notes bearing cash interest. Our cash interest bearing outstanding debt was \$240.0 million on September 30, 2003 compared to \$149.9 million on September 30, 2002.

Interest expense on our old senior subordinated notes due 2009, which was not paid in cash but was added to the aggregate principal amount of the notes, decreased \$0.2 million to \$5.7 million for the nine months ended September 30, 2003, from \$5.9 million for the nine months ended September 30, 2002. Our old senior subordinated notes, both the original value of the notes and the accumulated paid in kind interest, were redeemed in the August 20, 2003 refinancing transaction.

Redemption Premiums

For the nine months ended September 30, 2003, \$9.2 million of redemption premiums were paid and expensed as our old senior subordinated notes were redeemed in connection with the August 20, 2003 refinancing transaction.

Goodwill Impairment

In connection with the adoption of SFAS No. 142 as of January 1, 2002, we recorded a total charge of \$48.6 million for goodwill impairment for the nine months ended September 30, 2002, which was reflected as a cumulative effect of accounting change.

Discontinued Operations

In November 2002, we initiated a plan to sell our Andrews Communications, LLC subsidiary, which included our Andrews Publishing and Oakstone Legal & Business publishing divisions. The results of operations of Andrews Communications have been classified as a discontinued operation in our consolidated statements of operations. For the nine months ended September 30, 2003 Andrews Communications had revenue of \$2.0 million and a net loss of \$0.2 million. For the nine months ended September 30, 2002 Andrews Communications had revenue of \$5.8 million and net income of \$0.7 million. On March 31, 2003 and May 30, 2003, in two separate transactions, we sold the assets of Andrews Communications for a gross proceeds of \$7.9 million and net proceeds of \$7.5 million. On May 30, 2003, in conjunction with the second transaction, we recorded a loss on sale of \$1.0 million. The net proceeds of the sales were used to pay down debt in accordance with our old senior secured credit facility.

In March 2002, we adopted a formal plan to discontinue the operations of our Triumph Learning Software business, which was completed on July 31, 2002. Triumph Learning Software was in the business of developing state-specific test preparation software for 3rd through 8th grade students. The results of operations of Triumph Learning Software have been classified as a discontinued operation in our consolidated statements of operations. For the nine months ended September 30, 2002, Triumph Learning Software had a net loss of \$2.2 million.

On July 31, 2002, we sold our subsidiary, Triumph Learning College, for a \$3.0 million promissory note, with an effective sales price of \$2.6 million after a discount for interest, which resulted in a loss on sale of \$1.7 million.

Triumph Learning College was a publisher of SAT, ACT and PSAT test preparation materials for high school students. The results of operations of Triumph Learning College have been classified as a discontinued operation in our consolidated statements of operations. For the nine months ended September 30, 2002, Triumph Learning College had revenue of \$0.8 million and a net loss of \$0.5 million.

In December 2001, we adopted a formal plan to discontinue the operations of our subsidiary The Coriolis Group, LLC, which was completed in 2002. Coriolis published and distributed software certification study guides and technical reference materials for web developers, programmers and professionals. The results of operations of Coriolis have been classified as a discontinued operation in our consolidated statements of operations. For the nine months ended September 30, 2003, Coriolis had no revenue and net income of \$0.2 million relating to a royalty recovery. For the nine months ended September 30, 2002, Coriolis had revenue of \$2.1 million and net income of \$3.9 million. The majority of the net income reflects the reversal in 2002 of an accrual related to the business exit, as certain contractual obligations and other liabilities of Coriolis were settled for less than anticipated.

Net Income (Loss)

Net loss decreased \$28.9 million to \$2.8 million for the three months ended September 30, 2003, from a net loss of \$31.7 million for the three months ended September 30, 2002. The decrease in the loss was primarily due to the \$48.6 million goodwill impairment charge recorded during 2002 offset by \$2.1 million of restructuring charges in 2003, \$9.2 million of redemption premiums paid in connection with our August 20, 2003 refinance and an additional \$3.2 million charge to interest expense for unamortized deferred financing costs related to the August 20, 2003 refinance, and a decrease income from operations of discontinued operations.

Liquidity and Capital Resources

For the past several years, we have relied primarily on borrowings under our old senior secured credit facility and the benefits of the paid-in-kind interest on our old senior subordinated notes and our preferred stock for our working capital, capital expenditures, acquisition needs and debt service requirements. On August 20, 2003, we entered into a \$30.0 million four-year and nine-month senior secured revolving credit facility and a \$100.0 million five-year senior secured term loan, and we issued eight-year 11¾% senior notes totaling \$140.0 million. The proceeds from the 2003 refinancing were used to repay the old senior secured credit facility and old senior subordinated notes and to pay fees associated with the transaction.

The Company's cash and cash equivalents increased by \$25.8 million for the nine months ended September 30, 2003 to \$28.5 million from \$2.7 million on December 31, 2002. Cash and cash equivalents decreased by \$5.3 million for the nine months ended September 30, 2002 to \$2.2 million from \$7.5 million on December 31, 2001.

Cash Flows

Net cash provided by operating activities increased \$1.1 million to \$13.1 million for the nine months ended September 30, 2003 from \$12.0 million for the nine months ended September 30, 2002. The \$1.1 million increase was due to an increase in cash provided by current assets and current liabilities.

Net cash provided by investing activities increased \$6.9 million to \$5.2 million for the nine months ended September 30, 2003 from net cash used of \$1.7 million for the nine months ended September 30, 2002. The increase was due to \$7.5 million of net proceeds received from the sale of Oakstone Legal offset by \$0.6 million increase in capital expenditures.

Net cash provided by financing activities increased \$23.2 million to \$7.6 million for the nine months ended September 30, 2003 from net cash used of \$15.6 million for the nine months ended September 30, 2002. The increase was primarily due to \$19.9 million of cash provided in the August 20, 2003 refinancing transaction.

Capital Expenditures

Capital expenditures relate substantially to the purchase of tangible fixed assets such as computers, software and leasehold improvements. For the three and nine months ended September 30, 2003, we had \$0.5 million and \$2.4 million, respectively, of property, building and equipment expenditures compared to \$0.5 million and \$1.6 million, during the three and nine months ended September 30, 2002, respectively. We plan expenditures of approximately \$3.2 million for property and equipment in 2003. This level of spending is based on the consolidation of the warehousing, customer service and order fulfillment functions of our Sundance/Newbridge, Triumph Learning and Chelsea House businesses into a single facility and the implementation of a new Recorded Books fulfillment and financial software system as well as general additions to furniture, fixtures and equipment.

Contractual Obligations

The following table summarizes our contractual cash obligations (excluding interest) as of September 30, 2003:

Contractual Obligations	Payments Due by Period				
	Less than 1 Year	1-2 Years	3-5 Years	After 5 Years	Total
	<i>(dollars in thousands)</i>				
Operating leases	\$ 2,785	\$ 2,016	\$ 2,308	\$ 268	\$ 7,377
Senior secured term loan	1,000	1,000	98,000	-	100,000
Senior notes	-	-	-	140,000	140,000
Total contractual cash obligations	\$ 3,785	\$ 3,016	\$ 100,308	\$ 140,268	\$ 247,377

Seasonality and Quarterly Results of Operations

Our business is subject to seasonal fluctuations. Our revenue and income from operations have historically been higher during the second and third calendar quarters. In addition, our quarterly results of operations have fluctuated in the past and can be expected to continue to fluctuate in the future, 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; the need to increase inventories in advance of our primary selling season; and timing of introductions of new products.

The following tables set forth selected unaudited quarterly statements of operations information for the periods presented. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown. Because of the seasonality of our business and other factors, results for any interim period are not necessarily indicative of the results that may be achieved for the full fiscal year.

	Year Ending December 31, 2003			
	First Quarter	Second Quarter	Third Quarter	
	<i>(dollars in thousands)</i>			
Revenue	\$ 38,216	\$ 44,212	\$ 42,216	
Gross profit	26,211	30,828	29,106	
Income from operations	7,244	9,598	9,322	
Net (loss) income	2,274	3,560	(8,643)	

	Year Ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	<i>(dollars in thousands)</i>			
Revenue	\$ 38,662	\$ 44,607	\$ 42,152	\$ 38,014
Gross profit	25,962	31,165	29,594	26,095
Income from operations	8,456	11,711	11,236	6,985
Net (loss) income	(46,958)	9,945	5,301	3,960

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Inflation has not had a significant impact on our operations in the past two years. We do not expect inflation to have a significant impact on our consolidation results of operations or financial condition in the foreseeable future.

Market risks relating to our operations result primarily from changes in interest rates. However, we do not consider the impact of interest rate fluctuations to represent a significant risk during 2003.

To reduce the impact of increases in interest rates, we may, in the normal course of business, enter into certain derivative instruments to hedge such changes.

We have minimal exposure to foreign currency rate fluctuations on our foreign sales, as currently we have minimal transactions denominated in foreign currency. As a result, we do not hedge the exposure to these changes, and the impact on our results of operations from the currency fluctuations for the three months ended September 30, 2003 and 2002 and for the nine months ended September 30, 2003 and 2002 has been diminimus.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As of September 30, 2003 we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that they believe that, as of the date of completion of the evaluation, our disclosure controls and procedures were reasonably effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 or under the Indenture, as applicable, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. We will continue to review and document our disclosure controls and procedures on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

There was no change in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

SIGNATURES

The Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

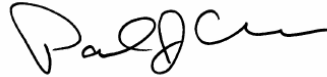
HAIGHTS CROSS COMMUNICATIONS, INC.

BY:



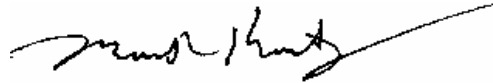
Dated: November 14, 2003

Peter J. Quandt
Chairman, Chief Executive Officer and President
(Principal Executive Officer)



Dated: November 14, 2003

Paul J. Crecca
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)



Dated: November 14, 2003

Mark Kurtz
Vice President of Finance and Accounting and
Chief Accounting Officer