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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from to

Commission File Number: 333-109381

Haights Cross Communications, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-4087398**
(State or Other Jurisdiction of Incorporation)	*(I.R.S. Employer Identification Number)*
10 New King Street **White Plains, NY**	**10604**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant's Telephone Number, Including Area Code:
(914) 289-9400

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☑

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

The registrant had 20,012,914 shares of Common Stock, par value $0.001 per share, outstanding as of August 11, 2006.

HAIGHTS CROSS COMMUNICATIONS, INC.

Quarterly Report for the
Quarter Ended June 30, 2006

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HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenue	$ 56,899	$ 56,661	$ 108,389	$ 103,027
Costs and expenses:				
Cost of goods sold	16,433	15,946	31,193	29,776
Marketing and sales	14,538	12,946	29,300	25,595
Fulfillment and distribution	4,615	4,116	9,023	7,678
General and administrative	6,724	6,207	13,784	12,300
Restructuring charges	273	—	407	—
Amortization of pre-publication costs	4,071	3,136	8,410	6,040
Goodwill impairment charge	24,393	—	24,393	—
Depreciation expense and amortization of intangibles	1,369	1,132	2,722	2,340
Total cost and expenses	72,416	43,483	119,232	83,729
(Loss) income from operations	(15,517)	13,178	(10,843)	19,298
Other (income) expense:				
Interest expense	16,130	15,073	31,965	28,809
Interest income	(718)	(421)	(1,372)	(691)
Amortization of deferred financing costs	900	907	1,633	1,790
Other (income) expense	(6)	126	(1)	132
Total other expenses	16,306	15,685	32,225	30,040
Loss before provision for income taxes	(31,823)	(2,507)	(43,068)	(10,742)
(Benefit) provision for income taxes	(4,591)	88	(3,034)	217
Loss before discontinued operations	(27,232)	(2,595)	(40,034)	(10,959)
Discontinued operations:				
Loss from operations of discontinued operations	—	(2,892)	—	(3,699)
(Loss) gain on disposal of discontinued operations	(15)	5	(17)	7
Net loss	(27,247)	(5,482)	(40,051)	(14,651)
Preferred stock dividends and accretion	(822)	(751)	(1,618)	(1,479)
Net loss available to common stockholders	$ (28,069)	$ (6,233)	$ (41,669)	$ (16,130)

See accompanying notes to unaudited consolidated financial statements.

HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (unaudited)	December 31, 2005 (Note 1)
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,521	$ 69,592
Accounts receivable, net	27,255	22,804
Inventory, net	23,683	22,304
Direct response advertising costs — current portion, net	3,677	3,534
Prepaid royalties	5,661	5,456
Prepaid expenses and other current assets	1,927	4,127
Total current assets	122,724	127,817
Pre-publication costs, net	46,272	42,841
Direct response advertising costs, net	7,341	7,159
Property and equipment, net	11,595	11,303
Goodwill	145,157	169,424
Intangible assets, net	25,581	26,934
Deferred financing costs, net	12,079	13,522
Other assets	1,508	1,491
Total assets	$ 372,257	$ 400,491
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 26,860	$ 28,533
Accrued interest	8,975	8,871
Deferred subscription revenue	13,824	12,630
Current portion of long term debt	1,300	1,300
Total current liabilities	50,959	51,334
Long term liabilities:		
Senior secured term loan	125,500	126,150
11 3/4% senior notes	172,389	172,630
12 1/2% senior discount notes	98,662	92,875
Series B senior preferred stock, redeemable, $.001 par value, 6,000,000 shares authorized, 2,000,230 shares issued and outstanding (approximate aggregate liquidation value as of June 30, 2006 of $140,032)	138,016	127,237
Deferred tax liability	11,616	14,830
Deferred gain on Series B cancellation and other long term liabilities	4,247	4,653
Total long term liabilities	550,430	538,375
Commitments *(Note 14)*		
Redeemable preferred stock:		
Series A preferred stock, redeemable, $.001 par value, 30,000 shares authorized, 22,476 shares issued and outstanding (approximate aggregate liquidation value as of June 30, 2006 of $37,789)	39,865	38,404
Series C preferred stock, redeemable, $.001 par value, 3,500 shares authorized, issued and outstanding (approximate aggregate liquidation value as of June 30, 2006 of $3,906)	1,682	1,526
Total redeemable preferred stock	41,547	39,930
Stockholders' deficit:		
Common stock, $.001 par value, 30,000,000 shares authorized, 20,012,914 and 20,008,300 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	20	20
Accumulated other comprehensive income	407	284
Accumulated deficit	(271,106)	(229,452)
Total stockholders' deficit	(270,679)	(229,148)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 372,257	$ 400,491

See accompanying notes to unaudited consolidated financial statements.

HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands)	
Operating activities from continuing operations		
Net loss from continuing operations	$ (40,034)	$ (10,959)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Non-cash interest expense	16,108	13,990
Allowance for doubtful accounts and obsolescence	3,233	2,247
Depreciation and amortization of property and equipment, pre-publication costs and intangibles	11,132	8,380
Amortization of deferred financing costs	1,634	1,790
Amortization of premium on 11 3/4% senior notes	(241)	(245)
Goodwill impairment charge	24,393	—
Deferred taxes — non-cash	(3,214)	—
Other non-operating income (loss) — non-cash	10	3
Changes in operating assets and liabilities:		
Accounts receivable	(8,247)	(8,905)
Inventory	(2,318)	(3,514)
Prepaid expenses, royalty advances and other current assets	1,995	1,560
Direct response advertising costs	(326)	(839)
Other assets	(17)	27
Accounts payable, accrued and other liabilities	(1,581)	(214)
Accrued interest	104	310
Deferred subscription revenue	1,195	816
Net cash provided by operating activities from continuing operations	3,826	4,447
Investing activities from continuing operations		
Additions to pre-publication costs	(11,795)	(10,793)
Additions to property and equipment	(1,685)	(1,319)
Additions to intangible assets	(12)	(11)
Acquisitions, net of cash acquired	907	(11,219)
Proceeds from sale of business	500	—
Proceeds from sale of assets	9	—
Net cash used in investing activities from continuing operations	(12,076)	(23,342)
Financing activities from continuing operations		
Proceeds from exercise of stock options	10	7
Repayment of senior secured term loan	(650)	(650)
Additions to deferred financing costs	(88)	(725)
Net cash used in financing activities from continuing operations	(728)	(1,368)
Effect of exchange rates on cash	68	(50)
Cash flows of discontinued operations		
Operating cash flows	(161)	609
Investing cash flows	—	(1,666)
Net cash used in discontinued operations	(161)	(1,057)
Net decrease in cash and cash equivalents	(9,071)	(21,370)
Cash and cash equivalents at beginning of period	69,592	78,581
Cash and cash equivalents at end of period	$ 60,521	$ 57,211

See accompanying notes to unaudited consolidated financial statements.

1. Basis of Presentation

Haights Cross Communications, Inc. (together with its subsidiaries, "we," "our," the "Company" or "Haights Cross Communications"), a Delaware corporation, 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"). The unaudited interim consolidated financial statements contained herein consist of the accounts of Haights Cross Communications, Inc. and its subsidiaries.

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 accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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 unaudited consolidated results of operations of interim periods are not necessarily indicative of results for a full fiscal year. All material intercompany accounts and transactions have been eliminated upon consolidation and, in connection with the previously disclosed reorganization of our segment financial reporting into four business segments, certain previously reported amounts have been reclassified to be consistent with current financial statement presentation. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements included with our annual report on Form 10-K for the fiscal year ended December 31, 2005. During 2005, the Company sold all of the assets of its *Chelsea House Publishers* business. As a result of this disposition, the results of *Chelsea House Publishers* have been reclassified as a discontinued operation for all periods presented.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions regarding assets and liabilities, the 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

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes" ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings. The Company has not determined the effect, if any, the adoption of FIN 48 will have on the Company's financial position and results of operations.

In December 2004, the FASB issued SFAS No. 123 (R) "Share-Based Payments,"("SFAS 123(R)"), which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123(R) supersedes Accounting Principal Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS 123(R) generally 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. The Company adopted SFAS No. 123 effective January 1, 2002, and applied the minimum-value method in future periods to awards outstanding prior to January 1, 2006. 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. See Note 3, "Stock-Based Compensation," for further information on the Company's accounting for stock-based compensation.

3. Stock –Based Compensation

As of June 30, 2006, the Company maintains a stock-based compensation plan that provides for grants of incentive stock options to employees of the Company (including officers and employee directors), as well as grants of non-qualified stock options to employees and consultants of the Company.

Prior to January 1, 2006, the Company accounted for this plan using the fair value method of accounting for stock options under SFAS 123. Under the fair value method, compensation expense for options was measured at the grant date and was based on the value of the award as determined using the minimum value method. The expense then was recognized over the vesting period of the grant.

Effective January 1, 2006, the Company adopted the fair-value recognition provisions of SFAS 123(R) using the prospective transition method. Accordingly, the Company has not restated prior periods. Compensation expense for all share-based payments granted subsequent to January 1, 2006 will be based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

Under the Company's stock option plan, the Company generally grants stock options for a fixed number of shares 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 these options is determined by the Company's Board of Directors using commonly-employed valuation methods for the market in which the Company operates. Awards under the plan generally are issued with vesting terms pursuant to which a portion of the award vests over time (typically three years) and the remainder vests (typically in three tranches) based on the achievement of annual performance goals. During the three and six-month periods ended June 30, 2005, the Company granted 57,500 and 246,500 options, respectively. During the three and six-month periods ended June 30, 2006, the Company granted 112,500 options, respectively.

The Company recognized compensation expense as a " general and administrative expense" in its statements of operations on a ratable basis over the vesting period for each option. As of June 30, 2006, there was approximately $22,000 (whole dollars, not thousands) of total unrecognized compensation expense related to non-vested stock options which will be recognized over a weighted-average period of 9.2 years.

The values of options exercised during the three and six-month periods ended June 30, 2006 and 2005 were not significant. The total cash received from the exercise of stock options was approximately $10,000 (whole dollars, not thousands) and $0 for the six month periods ended June 30, 2006 and 2005, respectively, and is classified as cash flows from financing activities. Prior to the adoption of SFAS 123(R), the Company was required to present all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statements of cash flows. SFAS No. 123(R) requires the Company to classify cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) as financing cash flows. The Company did not have any excess tax benefits for the six-month periods ended June 30, 2006 and 2005.

The fair values of the options granted during the six-month period ended June 30, 2006 and 2005 were estimated on the dates of the grants using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions:

	June 30, 2006	June 30, 2005
Risk free interest rate	4.32%	4.07%
Expected dividend yield	0%	0%
Expected lives	6 years	6 years
Expected volatility	54%	0%
Weighted-average fair value of options granted	$0.09	$0.09

The risk-free interest rate for the periods within the expected life of an option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of an option is based on historical exercises and terminations of options. We have estimated the expected life of options granted to be six years. The expected dividend yield is 0% and since the Company's common stock is not publicly traded, the expected volatility for the grants is determined by using average volatilities of comparable public companies within the market in which the Company operates.

Changes in outstanding options are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life
Outstanding as of December 31, 2005	1,570,157	$1.64	7.80 yrs
Forfeited in three-months ended March 31, 2006	117,194	$1.33	
Exercised in three-months ended March 31, 2006	4,614		
Outstanding as of March 31, 2006	1,448,349	$1.66	7.48 yrs
Forfeited in three-months ended June 30, 2006	30,320	$1.99	
Granted in three-months ended June 30, 2006	112,500	$1.00	
Outstanding as of June 30, 2006	1,530,529	$1.61	7.40yrs
Options vested at June 30, 2006	1,011,080	$1.88	
Options exercisable at June 30, 2006	1,011,080	$1.88	
Options available for grant at June 30, 2006	856,557		

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 $1.9 million.

The preliminary acquisition accounting for Scott Publishing was finalized in the quarter ended March 31, 2006.

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

	As of April 15, 2005
Working capital, net (excluding cash acquired)	$ 176
Intangibles	1,560
Net assets acquired	1,736
Goodwill recorded	1,891
Net cost	$ 3,627

CME*info*

In June 2005, the Company acquired all of the outstanding shares of capital stock of CME*info.com,* Inc. ("CME*info*"). 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. CME*info* publishes self-study continuing medical education ("CME") courses. The Company acquired CME*info* to increase the scope of its CME product offerings. To acquire CME*info*, 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 CME*info*'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 due to CME*info'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 $2.4 million.

The preliminary acquisition accounting for CME*info* was updated to reflect certain changes made to assets, liabilities and intangible balances between the acquisition date and the quarter ended June 30, 2006. The purchase accounting for CME*info* was finalized in the quarter ended June 30, 2006.

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

	As of June 15, 2005
Working capital, net (excluding cash acquired)	$ (168)
Pre-publication costs	890
Property and equipment	60
Intangibles	4,420
Net assets acquired	5,202
Goodwill recorded	2,359
Net cost	$ 7,561

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

5. Inventory

Inventory consists of the following:

	June 30, 2006	December 31, 2005
Raw materials	$ 1,527	$ 1,059
Work-in-process	877	716
Finished goods	24,321	23,278
	26,725	25,053
Allowance for obsolescence	3,042	2,749
Inventory, net	$ 23,683	$ 22,304

6. Pre-publication Costs

Pre-publication costs consist of the following:

	June 30, 2006	December 31, 2005
Pre-publication costs	$ 92,820	$ 89,557
Less accumulated amortization	46,548	46,716
Pre-publication costs, net	$ 46,272	$ 42,841

Amortization of pre-publication costs for the three-month periods ended June 30, 2006 and 2005 was $4.1 million and $3.1 million, respectively. Amortization of pre-publication costs for the six-month periods ended June 30, 2006 and 2005 was $8.4 million and $6.0 million, respectively.

As of June 30, 2006 the Company completed an impairment test of its pre-publication assets in its K-12 Supplemental Education segment which consists of Sundance/Newbridge as indications of impairment existed due to declines in revenues and operating profits. The fair value of the pre-publication assets was tested at a series level and the fair values of certain series, based on a discounted cash flow analysis, were below the unamortized cost basis, resulting in a $0.1 million impairment charge that was recorded to amortization of pre-publication costs for the period.

7. Dispositions

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 unaudited consolidated financial statements for all periods presented.

The operating results of *Chelsea House Publishers* for the three and six-month periods ended June 30, 2005 were as follows:

	Three months ended June 30, 2005	Six months ended June 30, 2005
Revenue	$ 3,126	$ 5,328
Cost of goods sold	806	1,716
Marketing and sales	741	1,304
Fulfillment and distribution	267	529
General and administrative	212	655
Amortization of pre-publication costs	3,964	4,764
Depreciation expense	28	59
Loss from operations	$ (2,892)	$ (3,699)

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 an 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 June 30, 2006, there was $0.1 million of this accrual remaining. The carrying amounts of *Chelsea House Publishers*' assets and liabilities as of August 8, 2005 were as follows:

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

8. Goodwill

Goodwill and other intangible assets with indefinite lives were tested for impairment as of October 1, 2005, as required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Using the discounted cash flow method to estimate fair value, the Company concluded that none of its goodwill was impaired at such date. At June 30, 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, an impairment test was performed and the Company recorded a $24.4 million impairment charge to Income from Operations for its K-12 Supplemental Education Segment. 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 used multiples of revenue and EBITDA. The Company will continue to test the goodwill of each of its reporting units annually, and more frequently if impairment indicators exist.

A summary of the change in the Company's goodwill for the six-month period ended June 30, 2006 is as follows:

Goodwill, December 31, 2005	$ 169,424
CME*info* acquisition	126
Goodwill impairment charge	(24,393)
Goodwill, June 30, 2006	$ 145,157

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

9. 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 142 and has determined that such estimated lives are appropriate. A summary of intangible assets is as follows:

Definite Life Assets	**Lives**	**As of June 30, 2006**	**As of December 31, 2005**
Customer list	10 years	$ 23,240	$ 23,240
Non-compete agreements	3-5 years	1,900	1,900
Other	5 years	190	179
		25,330	25,319
Less: accumulated amortization		(4,561)	(3,196)
		20,769	22,123
Trademarks	Indefinite	4,812	4,811
Net intangible assets		$ 25,581	$ 26,934

Amortization expense for the three-months ended June 30, 2006 and 2005 was $0.7 million and $0.6 million, respectively. Amortization expense for the six-months ended June 30, 2006 and 2005 was $1.4 million and $1.2 million, respectively.

Accumulated amortization by asset class as of June 30, 2006 was $3.9 million for customer lists, $0.5 million for non-compete agreements and $0.1 million for other intangible assets. Accumulated amortization by asset class as of December 31, 2005 was $2.7 million for customer lists, $0.3 million for non-compete agreements and $0.1 million for other intangible assets.

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

	Total
Amortization of intangibles:	
Remainder of 2006	$ 1,365
2007	2,725
2008	2,719
2009	2,663
2010 and thereafter	11,297
	$ 20,769

10. 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 the existing Northborough, Massachusetts Shared Service facility. 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 which 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.

The cost of the restructuring activity by type of cost for the six-month period ended June 30, 2006 is as follows:

	Warehouse and Order Fulfillment Consolidation			
	Severance and related	Lease terminations costs	Relocation and other	Total Consolidation
Amount expected to be incurred	$ 65	$ 180	$ 162	$ 407
Accrued restructuring liability as of December 31, 2005	—	—	—	—
Restructuring expense	13	—	121	134
Cash paid	(13)	—	(89)	(102)
Accrued restructuring liability as of March 31, 2006	—	—	32	32
Restructuring expense	52	180	41	273
Cash paid	(43)	(24)	(72)	(139)
Accrued restructuring liability as of June 30, 2005	$ 9	$ 156	$ 1	$ 166

Restructuring activity for the three and six-months ended June 30, 2006 was related to *Buckle Down Publishing*, and is therefore, reported within the Test-prep and Intervention segment.

11. Income Taxes

The provision for income taxes consists of the following:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Current income tax expense:				
Foreign	$ 24	$ 88	$ 180	$ 217
Total	24	88	180	217
Deferred income tax expense:				
U.S. Federal	(4,615)	—	(3,214)	—
Total	(4,615)	—	(3,214)	—
Total provision for income taxes	$ (4,591)	$ 88	$ (3,034)	$ 217

Foreign income tax expense is derived from taxable earnings on sales in the United Kingdom of $0.1 million and $0.3 million for the three-month periods ended June 30, 2006 and 2005, respectively and $0.6 million and $0.7 million for the six-month periods ended June 30, 2006 and 2005, respectively.

The $4.6 million credit to deferred income tax expense for the three-month period ended June 30, 2006 is primarily due to a reduction in deferred tax liabilities resulting from the goodwill impairment charge at Sundance/Newbridge. The income tax provision adjustment for the goodwill impairment charge is offset slightly by increases in the valuation allowance on deferred tax assets for both the three and six-month periods ended June 30, 2006. Management is uncertain when the Company will realize the benefits of such assets and has accordingly provided for a full valuation allowance.

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. 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. A reconciliation of the statutory Federal income tax rate to the effective rate for the six-month periods ended June 30, 2006 and 2005, respectively, is as follows:

	Six Months Ended June 30,	
	2006	2005
Statutory rate	34%	34%
State and local income taxes (net of federal benefit)	6%	6%
Change in valuation allowance	(13)%	(0)%
Non-deductible interest expense	(18)%	(39)%
Other	(2)%	(3)%
Effective tax rate	7%	(2)%

12. Financing Arrangements

Senior Secured Revolving Credit Facility, Senior Secured Term Loans, 11$^3/_4$% Senior Notes

On August 20, 2003, Haights 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 $140.0 million aggregate principal amount of its 11$^3/_4$% Senior Notes due 2011 ("Senior Notes").

The Facility matures on May 20, 2008 and is secured by a first 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 Facility contains customary restrictive covenants and financial ratio requirements. Borrowings under the Facility bear interest at variable rates based on LIBOR plus an applicable spread. The Facility has been amended periodically to allow for acquisitions and to amend and/or waive compliance with certain financial ratio requirements. As of June 30, 2006, the Company had not drawn any amounts on the Facility and our available borrowing capacity under the Facility, as limited by our financial covenant ratios, was $21.4 million.

The First Term Loan matures on August 20, 2008, is subordinate to the Facility and is secured by a second 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 June 30, 2006, the effective interest rate on all borrowings under the First Term Loan was 9.67%. 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.

The Senior Notes mature on August 15, 2011, and are subordinate to the Facility and the Term Loans (as defined below). The Senior Notes contain customary restrictive covenants and debt incurrence tests. The Senior Notes bear interest at a fixed rate of 11$^3/_4$% with payments due semi-annually on February 15 and on August 15. Interest payments commenced on February 15, 2004.

On December 10, 2004, Haights 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 with, the original Senior Notes. In connection with the issuance of the additional Senior Notes, Haights 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. As of June 30, 2006, the effective interest rate on all borrowings under the Second Term Loan was 8.67%. As of June 30, 2006, the Company had $170.0 million aggregate principal amount of outstanding Senior Notes and $126.8 million aggregate principal amount of indebtedness outstanding under the Term Loans.

The Facility, the Term Loans and the Senior Notes have been fully and unconditionally guaranteed, jointly and severally, by the Company and each of Haights Cross' existing and future restricted subsidiaries. (See Note 17.)

$12^1/_2$% Senior Discount Notes

On February 2, 2004, Haights 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 Haights Cross Communications and rank equally with all of Haights 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 Haights 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 Haights Cross Communications' guarantee of the Facility, the Term Loans and the Senior Notes. The Company can redeem the Senior Discount Notes on or after February 15, 2008 and, prior to February 15, 2007, may redeem up to 35% of the aggregate principal amount at maturity of the Senior Discount Notes with net cash proceeds from certain equity offerings. The Senior Discount Notes contain customary restrictive covenants and debt incurrence tests.

The following table is a summary of the Company's current outstanding debt as of June 30, 2006 (in thousands):

Instrument:	Issuance Date	Due Date	Face Amount	Premium (Discount) at issuance	Interest Rate as of June 30, 2006	Book Value as of June 30, 2006
Haights Cross:						
Senior secured term loan	08/20/03	08/15/08	$100,000	—	9.67%	$ 97,250
Senior secured term loan	12/10/04	08/15/08	$ 30,000	—	8.67%	29,550
						$ 126,800
11³/₄% Senior notes	08/20/03	08/15/11	$140,000	—	11.75%	$ 140,000
11³/₄% Senior notes	12/10/04	08/15/11	$ 30,000	$ 3,150	11.75%	32,389
						$ 172,389
Haights Cross Communications:						
12 ¹/₂% Senior discount notes	02/02/04	08/15/11	$135,000	$ (61,347)	12.5%	$ 98,662
Series B preferred (See Note 13)	12/10/99	12/10/11	$ 50,006	$ (3,410)	16.0%	138,016
Total debt						$ 535,867

The following table shows the required future repayments under the Company's current financing arrangements as of June 30, 2006 (in thousands):

2006	$ 1,300
2007	1,300
2008	124,200
2009	—
Thereafter	445,032
Total	571,832
Less: Unamortized discounts and other	(35,965)
	$ 535,867

13. 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 has a liquidation value of $1,000 per share, plus any accrued but unpaid dividends. The Preferred A accrues quarterly cumulative dividends at an annual rate of 8%. Beginning on December 31, 2019, any Preferred A holder may require the Company to redeem its outstanding Preferred A shares at a redemption price equal to $1,000 per share, plus any accrued but unpaid dividends. Each holder of a share of Preferred A is entitled to one vote per share. The initial carrying value of the Preferred A was $22.3 million. Unless earlier redeemed or repurchased, the Preferred A will accrete to an aggregate liquidation value of $110.2 million through December 19, 2019, the date holders can require redemption.

On December 10, 1999, the Company issued 2,400,000 shares of nonvoting Series B senior preferred stock (the "Preferred B"), warrants to acquire 3,333,861 shares of common stock at $.01 per share (the "Common Warrants"), and warrants to acquire 3,458 shares of Preferred A at $.01 per share (the "Preferred Warrants"), for aggregate proceeds of $60.0 million. In 2004, the Company canceled 1,194,814 of the Common Warrants, and 1,245 of the Preferred Warrants, in connection with two separate Preferred B retirement transactions.

On January 22, 2004, DLJ Merchant Banking Partners II, L.P. and its affiliates (the "DLJ Parties") sold substantially all of their shares of Preferred B and warrants to purchase Preferred A and Common Stock to third parties. In connection with the sale of shares and warrants by the DLJ Parties, (i) the terms of the Preferred B were amended to clarify that unpaid cash dividends would accrue on a quarterly compounded basis, and (ii) an investor's agreement among the Company and the DLJ Parties was amended to eliminate the DLJ Parties' board designation right and related director approval rights, and the DLJ Parties' board designee resigned from the Company's board of directors. In consideration for the amendment to the terms of the Preferred B, the DLJ Parties returned to the Company for cancellation 104,770 shares of Preferred B with an aggregate liquidation value of $5,000,000, warrants to purchase 778 shares of Preferred A with a carrying value of $778,000 and warrants to purchase 743,148 shares of Common Stock. In connection with the return and cancellation of the Preferred B shares, the Company reversed $0.2 million of discount and fees representing the pro rata portion of the unamortized discount and issuance costs of the Preferred B, resulting in a net deferred gain of $5.6 million which is being amortized against interest expense over the remaining term of the Preferred B.

On February 2, 2004, the Company repurchased 295,000 outstanding shares of Preferred B at a price equal to 99% of their aggregate liquidation value, or $14.1 million. In connection with this repurchase, warrants to purchase 467 shares of the Company's Preferred A with a liquidation value of $0.5 million and warrants to purchase 451,666 shares of the Company's Common Stock were returned to the Company for cancellation. In connection with the repurchase of the Preferred B shares, the Company reversed $0.5 million of discount and fees representing the pro rata portion of the Preferred B unamortized discount and issuance costs. The resulting gain of $0.1 million was recorded and included in other income.

The Preferred B has a liquidation value of $25 per share, plus any accrued but unpaid dividends. Prior to January 1, 2005, the Preferred B accrued quarterly cumulative dividends at an annual rate of 16%, which dividends were added to its carrying value. Beginning January 1, 2005, such dividends became payable quarterly in cash. Under the terms of the Preferred B, if the Company fails to pay four consecutive or six quarterly cash dividends for any reason, the holders of the Preferred B are entitled to elect one director to serve on the Company's Board of Directors. The Company has failed to pay any such cash dividends and, effective January 20, 2006, the holders of the Preferred B elected, by written consent, Eugene I. Davis to serve on the Company's Board of Directors. As of June 30, 2006, the Company had accrued $29.4 million for unpaid cash dividends, but has elected not to pay cash dividends because the Company is restricted from paying such dividends by the terms of the indenture for its Senior Discount Notes.

The Preferred B is mandatorily redeemable on December 10, 2011 at its liquidation value, plus any accrued but unpaid dividends. After December 10, 2004, the Company may redeem the Preferred B at 110% of its liquidation value, plus any accrued but unpaid dividends. The redemption premium in connection with an optional redemption periodically declines each year through 2008 to 100% of liquidation value, plus any accrued but unpaid dividends. The initial carrying value of the Preferred B was $53.9 million, which was net of $0.8 million of issuance costs. The issuance costs will be amortized through December 10, 2011. Unless earlier redeemed or repurchased, the Preferred B will accrete to the mandatory redemption price of $25 per share plus accrued but unpaid dividends (the liquidation value) on the Preferred B through December 10, 2011, the date upon which it is mandatorily redeemable.

Upon a change of control of the Company after December 10, 2002, to the extent the Company has funds legally available, the Company is required to offer to redeem the Preferred B at 108% of its liquidation value plus any accrued but unpaid dividends. The redemption premium in connection with a change of control offer periodically declines each year through 2008 to 100% of liquidation value plus any accrued but unpaid dividends.

As of December 10, 1999, the 3,333,861 Common Warrants and the 3,458 Preferred Warrants were valued at $1.9 million and $3.5 million, respectively. Each warrant is exercisable into shares of common stock or Preferred A, as applicable, at an exercise price of $0.01 per share and has an expiration date of December 10, 2011. The fair value of the Common Warrants was estimated at the grant date using the Black-Scholes option-pricing model. The fair value of the Preferred Warrants was estimated based upon the redemption value of the Preferred A discounted to present value of the Preferred A.

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 has a liquidation value of $1,000 per share, plus any accrued but unpaid dividends. The Preferred C accrues quarterly cumulative dividends at an annual rate of 5%. The Preferred C shall automatically convert into common stock upon the consummation of the Company’s initial public offering, with the number of shares of common stock issued on such conversion to be determined as follows: (a) if such initial public offering occurs on or prior to April 15, 2008, the number of shares of common stock to be issued shall be equal to the original face value of the Preferred C of $3.5 million divided by the price per share at which the common stock is offered to the public in such offering, or (b) if such initial public offering occurs after April 15, 2008, the number of shares of common stock to be issued shall be equal to the original face value of the Preferred C of $3.5 million plus all accrued and unpaid dividends thereon, divided by the price per share at which the common stock is offered to the public in such offering. Beginning on April 15, 2012, any Preferred C holder may require the Company to redeem the outstanding shares of Preferred C held by that holder, at a redemption price equal to $1,000 per share plus any accrued but unpaid dividends. The holders of shares of Preferred C are not entitled to any voting rights. The Company may, at its option, at any time, redeem shares of Preferred C, in whole or in part, at a price equal to 101% of the per share liquidation value plus any accrued but unpaid dividends. The initial carrying value of the Preferred C was $1.1 million. Unless earlier redeemed or repurchased, the Preferred C will accrete to the aggregate liquidation value of $5.2 million through April 15, 2012, the date holders can require redemption.

The Company has 30,000,000 shares of common stock authorized for issuance. As of June 30, 2006, the Company had 20,012,914 shares issued and outstanding, including 4,614 shares issued due to the exercise of stock options during the six-month period ended June 30, 2006, 2,387,086 shares reserved for the issuance upon the exercise of stock options granted under the Company’s stock option plan and 2,139,047 shares reserved for the conversion of Common Warrants.

We are a party to a registration rights agreement with certain of our holders of common stock, pursuant to which we have granted those persons or entities the right to register shares of common stock held by them under the Securities Act of 1933, as amended (the “Securities Act”). The holders of these rights are entitled to demand that we register their shares of common stock under the Securities Act. These holders are also entitled to “piggyback” registration rights in which they may require us to include their shares of common stock in future registration statements that we may file, either for our own account or for the account of other security holders exercising registration rights. In addition, after our initial public offering, certain of these holders have the right to request that their shares of common stock be registered on a Form S-3 registration statement so long as the anticipated aggregate sales price of such registered shares as of the date of filing of the Form S-3 registration statement is at least $0.5 million. The foregoing registration rights are subject to various conditions and limitations, including the right of underwriters of an offering to limit the number of registrable securities that may be included in an offering. The registration rights terminate as to any particular stockholder on the date on which the holder may sell all of his or its shares pursuant to Rule 144(k) under the Securities Act. We are generally required to bear all of the expenses of these registrations, except underwriting commissions, selling discounts and transfer taxes.

14. Commitments

From time to time, the Company is involved in litigation that it considers to be ordinary routine litigation incidental to our 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 the Company’s consolidated financial position, results of operations or liquidity.

15. Comprehensive Loss

The following table sets forth the calculation of comprehensive loss for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited)			
Net loss	$ (27,247)	$ (5,482)	$ (40,051)	$ (14,651)
Foreign currency translation adjustment	(106)	11	123	(50)
Comprehensive Loss	$ (27,353)	$ (5,471)	$ (39,928)	$ (14,701)

16. Segment Reporting

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

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 CME*info* 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 not allocated to the operating business segments.

The results of operations and other data for the four reporting segments and corporate for the three-month and six-month periods ending June 30, 2006 and 2005 are as follows:

Three Months Ended June 30, 2006 (unaudited)	K-12 Supplemental Education	Test-prep & Intervention	Library	Medical Education	Corporate	Consolidated
Revenue	$ 11,444	$ 18,255	$ 20,375	$ 6,825	$ —	$ 56,899
Cost of good sold	3,280	3,873	7,263	2,017	—	16,433
Marketing and sales	4,076	4,344	3,827	2,291	—	14,538
Fulfillment and distribution	1,003	1,301	1,525	786	—	4,615
General and administrative	897	1,847	1,606	828	1,546	6,724
Restructuring charges	—	273	—	—	—	273
Amortization of pre-publication costs	1,062	1,591	1,162	256	—	4,071
Goodwill impairment charge	24,393	—	—	—	—	24,393
Depreciation expense and amortization of intangibles	207	696	205	245	16	1,369
Income (loss) from operations	$ (23,474)	$ 4,330	$ 4,787	$ 402	$ (1,562)	$ (15,517)
Interest expense	$ 706	$ 3,582	$ 1,393	$ 1,109	$ 9,340	$ 16,130
Capital expenditures — property and equipment	127	113	137	133	2	512
Capital expenditures — pre-publication costs	1,122	3,338	1,481	249	—	6,190
Goodwill	—	60,906	64,513	19,738	—	145,157
Total assets	29,575	126,092	103,241	38,950	74,399	372,257

Three Months Ended June 30, 2005 (unaudited)	K-12 Supplemental Education	Test-prep & Intervention	Library	Medical Education	Corporate	Consolidated
Revenue	$ 14,652	$ 16,124	$ 20,249	$ 5,636	$ —	$ 56,661
Cost of good sold	3,809	3,313	7,215	1,609	—	15,946
Marketing and sales	3,440	4,256	3,618	1,632	—	12,946
Fulfillment and distribution	1,194	1,022	1,289	611	—	4,116
General and administrative	693	1,657	1,482	765	1,610	6,207
Amortization of pre-publication costs	1,020	1,023	995	98	—	3,136
Depreciation expense and amortization of intangibles	182	598	176	130	46	1,132
Income (loss) from operations	$ 4,314	$ 4,255	$ 5,474	$ 791	$ (1,656)	$ 13,178
Interest expense	$ 771	$ 3,271	$ 1,545	$ 822	$ 8,664	$ 15,073
Capital expenditures — property and equipment	183	216	49	113	43	604
Capital expenditures — pre-publication costs	1,289	3,866	1,177	146	—	6,478
Goodwill	24,393	60,894	64,513	21,236	—	171,036
Total assets	53,900	122,463	99,732	38,359	85,271	399,725

	K-12 Supplemental Education	Test-prep & Intervention	Library	Medical Education	Corporate	Consolidated
Six Months Ended June 30, 2006 (unaudited)						
Revenue	$ 19,384	$ 36,065	$ 39,119	$ 13,821	$ —	$ 108,389
Cost of good sold	5,424	7,481	14,010	4,278	—	31,193
Marketing and sales	7,525	9,669	7,579	4,527	—	29,300
Fulfillment and distribution	1,895	2,565	3,019	1,544	—	9,023
General and administrative	1,948	3,909	3,144	1,707	3,076	13,784
Restructuring charges	—	407	—	—	—	407
Amortization of pre-publication costs	2,475	3,048	2,329	558	—	8,410
Goodwill impairment charge	24,393	—	—	—	—	24,393
Depreciation expense and amortization of intangibles	420	1,392	406	469	35	2,722
Income (loss) from operations	$ (24,696)	$ 7,594	$ 8,632	$ 738	$ (3,111)	$ (10,843)
Interest expense	$ 1,369	$ 7,095	$ 2,810	$ 2,208	$ 18,483	$ 31,965
Capital expenditures — property and equipment	272	240	959	211	3	1,685
Capital expenditures — pre-publication costs	2,747	5,950	2,661	437	—	11,795
Goodwill	—	60,906	64,513	19,738	—	145,157
Total assets	29,575	126,092	103,241	38,950	74,399	372,257

	K-12 Supplemental Education	Test-prep & Intervention	Library	Medical Education	Corporate	Consolidated
Six Months Ended June 30, 2005 (unaudited)						
Revenue	$ 23,853	$ 29,746	$ 39,708	$ 9,720	$ —	$ 103,027
Cost of good sold	6,122	6,264	14,649	2,741	—	29,776
Marketing and sales	6,543	8,759	7,238	3,055	—	25,595
Fulfillment and distribution	2,157	1,909	2,534	1,078	—	7,678
General and administrative	1,519	3,438	2,859	1,460	3,024	12,300
Amortization of pre-publication costs	1,931	1,940	1,973	196	—	6,040
Depreciation expense and amortization of intangibles	362	1,328	360	202	88	2,340
Income (loss) from operations	$ 5,219	$ 6,108	$ 10,095	$ 988	$ (3,112)	$ 19,298
Interest expense	$ 4,123	$ 6,460	$ 3,181	$ 1,487	$ 13,558	$ 28,809
Capital expenditures — property and equipment	353	485	128	300	53	1,319
Capital expenditures — pre-publication costs	3,498	4,483	2,520	292	—	10,793
Goodwill	24,393	60,894	64,513	21,236	—	171,036
Total assets	53,900	122,463	99,732	38,359	85,271	399,725

17. Condensed Consolidating Financial Statements

On August 20, 2003 and December 10, 2004, Haights Cross issued $140.0 million and $30.0 million, respectively, of its Senior Notes, which have been fully and unconditionally guaranteed, jointly and severally, by the Company and each of Haights Cross' existing and future restricted subsidiaries. Haights Cross and its guarantor subsidiaries are 100% owned, directly or indirectly, by the Company. Subject to certain exceptions, Haights Cross 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 Rule 3-10(d) of Regulation S-X.

Unaudited Interim Condensed Consolidating Statements of Operations:

	Three Months Ended June 30, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	$ —	$ —	$ 56,899	$ —	$ 56,899
Costs and expenses	125	1,437	70,854	—	72,416
Loss from operations	(125)	(1,437)	(13,955)	—	(15,517)
Equity in the income (loss) of subsidiaries	(23,458)	(22,242)	—	45,700	—
Loss from discontinued operations	—	15	—	—	15
Other expenses (income)	3,664	(236)	8,287	—	11,715
Net (loss) income	$ (27,247)	$(23,458)	$ (22,242)	$ 45,700	$ (27,247)

	Three Months Ended June 30, 2005				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	$ —	$ —	$ 56,661	$ —	$ 56,661
Costs and expenses	—	1,655	41,828	—	43,483
(Loss) income from operations	—	(1,655)	14,833	—	13,178
Equity in the income (loss) of subsidiaries	1,741	2,243	—	(3,984)	—
Loss (income) from discontinued operations	—	(5)	2,892	—	2,887
Other expenses (income)	7,223	(1,148)	9,698	—	15,773
Net (loss) income	$ (5,482)	$ 1,741	$ 2,243	$ (3,984)	$ (5,482)

	Six Months Ended June 30, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	$ —	$ —	$ 108,389	$ —	$ 108,389
Costs and expenses	125	2,986	116,121	—	119,232
Loss from operations	(125)	(2,986)	(7,732)	—	(10,843)
Equity in the income (loss) of subsidiaries	(26,848)	(24,213)	—	51,061	—
Loss from discontinued operations	—	17	—	—	17
Other expenses (income)	13,078	(368)	16,481	—	29,191
Net (loss) income	$ (40,051)	$(26,848)	$ (24,213)	$ 51,061	$ (40,051)

	Six Months Ended June 30, 2005				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	$ —	$ —	$ 103,027	$ —	$ 103,027
Costs and expenses	—	3,112	80,617	—	83,729
(Loss) income from operations	—	(3,112)	22,410	—	19,298
Equity in the income (loss) of subsidiaries	(476)	70	—	406	—
(Gain) loss from discontinued operations	—	(7)	3,699	—	3,692
Other expenses (income)	14,175	(2,559)	18,641	—	30,257
Net (loss) income	$ (14,651)	$ (476)	$ 70	$ 406	$ (14,651)

Unaudited Interim Condensed Consolidating Balance Sheets:

	As of June 30, 2006				
	Parent Guarantor	**HCOC**	**Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
			(in thousands)		
Assets					
Current assets	$ 3,640	$ 57,585	$ 61,499	$ —	$ 122,724
Investment in subsidiaries	17,050	259,075	—	(276,125)	—
Long term assets	2,354	10,820	236,359	—	249,533
Total assets	$ 23,044	$327,480	$ 297,858	$ (276,125)	$ 372,257
Liabilities, Redeemable Preferred Stock and Stockholders' Deficit					
Current liabilities	$ —	$ 12,541	$ 38,418	$ —	$ 50,959
Long term liabilities	252,176	297,889	365		550,430
Redeemable preferred stock	41,547	—			41,547
Stockholders' deficit:					
Common stock	20	—	—	—	20
Accumulated deficit and other	(270,699)	17,050	259,075	(276,125)	(270,699)
Total stockholders' deficit	(270,679)	17,050	259,075	(276,125)	(270,679)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 23,044	$327,480	$ 297,858	$ (276,125)	$ 372,257

	As of December 31, 2005				
	Parent Guarantor	**HCOC**	**Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
			(in thousands)		
Assets					
Current assets	$ 3,571	$ 65,533	$ 58,713	$ —	$ 127,817
Investment in subsidiaries	43,886	278,313	—	(322,199)	—
Long term assets	2,505	12,144	258,025	—	272,674
Total assets	$ 49,962	$355,990	$ 316,738	$ (322,199)	$ 400,491
Liabilities, Redeemable Preferred Stock and Stockholders' Deficit					
Current liabilities	$ —	$ 13,324	$ 38,010	$ —	$ 51,334
Long term liabilities	239,180	298,780	415	—	538,375
Redeemable preferred stock	39,930	—	—	—	39,930
Stockholders' deficit:					
Common stock	20	—	—	—	20
Accumulated deficit	(229,168)	43,886	278,313	(322,199)	(229,168)
Total stockholders' deficit	(229,148)	43,886	278,313	(322,199)	(229,148)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 49,962	$355,990	$ 316,738	$ (322,199)	$ 400,491

Unaudited Interim Condensed Consolidating Statements of Cash Flows:

	Six Months Ended June 30, 2006				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Cash provided by (used in):					
Operating activities from continuing operations:	$ (57)	$ (1,879)	$ 5,762	$ —	$ 3,826
Investing activities from continuing operations:					
Additions to pre-publication costs	—	—	(11,795)	—	(11,795)
Additions to property and equipment	—	(3)	(1,682)	—	(1,685)
Additions to intangible assets	—	—	(12)	—	(12)
Intercompany activity	115	(4,873)	4,758	—	—
Acquisitions, net of cash acquired	—	(93)	1,000	—	907
Proceeds form the sale of business	—	500	—	—	500
Proceeds from sale of assets	—	—	9	—	9
Net cash provided by (used in) investing activities	115	(4,469)	(7,722)	—	(12,076)
Financing activities:					
Proceeds from exercise of stock options	10	—	—	—	10
Repayment of senior secured loan	—	(650)	—	—	(650)
Additions to deferred financing costs	—	(88)	—	—	(88)
Net cash provided by (used in) financing activities	10	(738)	—	—	(728)
Effect of exchange rates on cash	—	—	68	—	68
Net cash used in discontinued operations	—	(161)	—	—	(161)
Net change in cash and cash equivalents	68	(7,247)	(1,892)	—	(9,071)
Cash and cash equivalents at beginning of period	3,571	64,650	1,371	—	69,592
Cash and cash equivalents at end of period	$ 3,639	$57,403	$ (521)	$ —	$ 60,521

	Six Months Ended June 30, 2005				
	Parent Guarantor	HCOC	Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Cash provided by (used in):					
Operating activities from continuing operations	$ 38	$ 1,040	$ 3,369	$ —	$ 4,447
Investing activities from continuing operations:					
Additions to pre-publication costs	—	—	(10,793)	—	(10,793)
Additions to property and equipment	—	(52)	(1,267)	—	(1,319)
Additions to intangible assets	—	—	(11)	—	(11)
Acquisitions, net of cash acquired	—	—	(11,219)	—	(11,219)
Intercompany activity	(7)	(18,853)	18,860	—	—
Net cash used in investing activities	(7)	(18,905)	(4,430)	—	(23,342)
Financing activities from continuing operations:					
Proceeds from exercise of stock options	7	—	—	—	7
Repayment of senior secured term loan	—	(650)	—	—	(650)
Additions to deferred financing costs	—	(725)	—	—	(725)
Net cash provided by (used in) financing activities	7	(1,375)	—	—	(1,368)
Effect of exchange rates on cash	—	—	(50)	—	(50)
Net cash provided by(used in) discontinued operations	—	7	(1,064)	—	(1,057)
Net change in cash and cash equivalents	38	(19,233)	(2,175)	—	(21,370)
Cash and cash equivalents at beginning of period	3,460	73,940	1,181	—	78,581
Cash and cash equivalents at end of period	$ 3,498	$ 54,707	$ (994)	$ —	$ 57,211

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

"Safe Harbor" Statement under Private Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. The forward-looking statements included in this Quarterly Report on Form 10-Q 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 on Form 10-Q, 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 business trends, are based upon our current expectations, beliefs, projections and assumptions. Our expectations, beliefs, projections and assumptions are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that our financial condition or results of operations will meet the expectations set forth in our forward-looking statements.

The forward-looking statements that we make in this Quarterly Report on Form 10-Q are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from such forward-looking statements. We refer you to documents filed by us with the Securities and Exchange Commission, specifically our most recent Annual Report on Form 10-K, as may be amended from time to time, which identify important risks that could cause our actual results to differ materially from those contained in our forward-looking statements. Other factors could also materially affect our actual results.

Without limitation of the foregoing, among the important factors or risks that could cause our actual results to differ from those contained in our forward-looking statements are: (i) our substantial leverage and indebtedness, which may adversely affect our ability to operate our business and place us at a competitive disadvantage in our industry; (ii) our history of losses, which we expect to continue; (iii) market acceptance of our new products; (iv) the seasonal and cyclical nature of sales of our products; (v) changes in funding in school systems throughout the nation, which may result in cancellations of planned purchases of our products and shifts in timing of purchases; (vi) changes in the competitive environment, including those which could adversely affect our cost of sales; (vii) changes in the relative profitability of products sold; (viii) regulatory changes that could affect the purchase of our products; (ix) 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; (x) the potential effect of a continued weak economy on sales of our products; (xi) the risk that our well-known authors will depart and write for our competitors; and (xii) the effect of changes in accounting, regulatory and/or tax policies and practices, including the additional professional and internal costs necessary for compliance with recent and proposed future changes in SEC rules (including the Sarbanes-Oxley Act of 2002), listing standards (if applicable) and accounting rules.

Information included in this report is made as of the date hereof. We undertake no obligation to update our forward-looking statements, including any financial projections we make. We do not endorse any projections regarding future performance that may be made by third parties.

Overview

We are a leading developer and publisher of products for the K-12 supplemental education, library and medical education markets. Our 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. Our high quality products are sold primarily to schools, libraries and medical professionals and we believe we have leading positions in the three markets and four segments we serve.

- *K-12 Education:*
  - *K-12 Supplemental Education:* We publish supplemental reading materials for the kindergarten through eighth grade, or K-8, market under the well-recognized imprints *Sundance Publishing* and *Newbridge Educational Publishing,* and we also offer non-proprietary supplemental reading and literature products for the K-12 market. During 2005, we sold the assets of our *Chelsea House Publishers* imprint which

had previously been included within the K-12 Supplemental Education segment, and these results have been reclassified as a discontinued operation for all periods presented.

- *Test-prep and Intervention:* We publish 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.* We also offer skills assessment products and intervention materials for struggling math and reading students under the widely known *Options Publishing* imprint.
- *Library:* We publish unabridged audiobooks and other products for adults and children, under the *Recorded Books* brand, and market these titles, as well as selected non-proprietary audiobooks and other products, primarily to public libraries and schools.
- *Medical Education:* We publish audio-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 our CME*info* imprint. We also publish personal wellness information products for companies seeking to improve employee awareness of health and wellness issues under the *Top Health* and *Personal Best* brands.

Business Segments

Our financial reporting is organized into four business segments: K-12 Supplemental Education, Test-prep and Intervention, Library and Medical Education.

K-12 Supplemental Education. Our K-12 Supplemental Education segment publishes supplemental reading materials for the kindergarten through 8th grade market and literary, biographical and topical books published in series for school libraries. It also markets non-proprietary, supplemental reading products and literature for the K-12 market. This segment is comprised of our *Sundance/Newbridge* imprints.

Test-prep and Intervention. Our Test-prep and Intervention segment publishes state-specific test preparation materials for K-12 state-specific competency tests and proprietary instructional materials with the focus on students in kindergarten through 8th grade, who need more help after using textbooks. This segment is comprised of our *Triumph Learning, Buckle Down Publishing* and *Options Publishing* imprints.

Library. Our Library segment publishes unabridged audiobooks and other products for adults and children and markets these titles, as well as non-proprietary audiobooks and other products, to public libraries and schools. This segment is comprised of our *Recorded Books* business.

Medical Education. Our Medical Education segment publishes and markets subscription based continuing education materials to doctors, dentists and medical institutions on a variety of medical, dental and allied health specialty topics and publishes and markets subscription based wellness information, such as newsletters and calendars, to companies seeking to improve employee awareness of health and wellness issues. This segment is comprised of our *Oakstone Publishing* business.

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, as well as 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 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 industry 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.

Pre-Publication Costs

We capitalize the costs associated with the development of our new products. These costs primarily include author fees pursuant to 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 an updated 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.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the net acquisition cost over the estimated fair value of net assets acquired from purchased companies. On January 1, 2002, we adopted SFAS 142, pursuant to which intangible assets considered to have indefinite lives, such as goodwill, are not 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 142, goodwill and other intangible assets with indefinite lives 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 assets of each of our reporting units is compared to their 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. For purposes of estimating the fair value of a reporting unit, we use either a discounted cash flow approach or market valuation approach.

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 for each effort 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 twelve to eighteen months. The sole exception to this policy is the direct mail costs relating to the Oakstone 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. Amortization of direct response advertising costs is included in marketing and sales expense in the accompanying consolidated statements of operations. If a direct mail solicitation or catalog is determined to be unprofitable, all remaining capitalized costs are written off at that time.

Inventory and Related Obsolescence

Inventory consists primarily of books and audiobooks, 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 prices 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 are issued with vesting terms pursuant to which a portion of the award vests over time (typically three years) and the remainder vests (typically in three tranches) based on the achievement of annual performance goals.

Prior to January 1, 2006, we accounted for stock options by following the fair value method under SFAS 123. 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. In December 2004, the FASB issued SFAS 123 (R), which is a revision of SFAS 123. SFAS 123(R) supersedes Accounting Principal Board Opinion (APB) 25, "Accounting for Stock Issued to Employees," and amends SFAS 95, "Statement of Cash Flows." Generally, SFAS 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 123 effective January 1, 2002, and will continue to apply the minimum-value method in future periods 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 123(R), using the prospective transition method to account for all awards granted, modified or settled after the date of adoption. The adoption of SFAS 123(R) did not have a significant impact on our reported results of operations and financial position or our reported operating cash flows as there were only nominal stock option grants during the quarter ended June 30, 2006.

Income Taxes

We account for income taxes pursuant to the provisions of SFAS 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 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 purposes and for income tax purposes. A history of generating taxable income is required in order to substantiate the recording of a net tax asset. However, 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. Our federal and state operating loss carry-forwards at December 31, 2005 were $99.8 million expiring through 2025. In calculating the provision for income taxes on an interim basis, we use an estimate of the annual effective tax rate based upon facts and circumstances that are known.

Redeemable Capital Stock

We account for the Preferred B in accordance with SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 prescribes reporting standards for financial instruments that have characteristics of both liabilities and equity. SFAS 150 generally indicates that certain financial instruments that give the issuer a choice of settling an obligation with a variable number of securities or with a transfer of assets, any mandatorily redeemable security and certain put options and forward purchase contracts, should be classified as a liability on the balance sheet. The Preferred B is mandatorily redeemable by the Company on December 10, 2011, at its liquidation value, plus any accrued but unpaid dividends. Accordingly, SFAS 150 is applicable to the Preferred B. By contrast, the holders of the Preferred A and Preferred C, at their option, may require the Company to redeem such shares beginning on December 31, 2019 and April 15, 2012, respectively, but such shares are not mandatorily redeemable by the Company. Accordingly, SFAS 150 is not applicable to the Preferred A or Preferred C.

Results of Operations

Three Months Ended June 30, 2006 Compared To Three Months Ended June 30, 2005

The following table summarizes the results of operations and the percentage of total revenue represented by each category for the three-months ended June 30, 2006 and 2005:

	Three Months Ended June 30,			
	2006		2005	
	(In Thousands)			
Revenue				
K-12 Supplemental Education	$ 11,444	20.1%	$14,652	25.9%
Test Prep and Intervention	18,255	32.1%	16,124	28.5%
Library	20,375	35.8%	20,249	35.7%
Medical Education	6,825	12.0%	5,636	9.9%
Total Revenue	56,899	100.0%	56,661	100.0%
Cost of goods sold	16,433	28.9%	15,946	28.1%
Selling, general and administrative expenses:				
Marketing and sales	14,538	25.6%	12,946	22.8%
Fulfillment and distribution	4,615	8.1%	4,116	7.3%
General and administrative expense	6,997	12.3%	6,207	11.0%
Total selling, general and administrative expenses	26,150	46.0%	23,269	41.1%
Amortization of pre-publication costs	4,071	7.2%	3,136	5.5%
Goodwill impairment charge	24,393	42.9%	—	0.0%
Depreciation / amortization of intangibles	1,369	2.3%	1,132	2.0%
(Loss) income from operations	(15,517)	(27.3)%	13,178	23.3%
Interest expense	16,130	28.3%	15,073	26.6%
Other expenses, net of interest income	176	0.3%	612	1.1%
Loss before taxes	(31,823)	(55.9)%	(2,507)	(4.4)%
Tax provision (benefit)	(4,591)	(8.0)%	88	0.2%
Loss before discontinued operations	(27,232)	(47.9)%	(2,595)	(4.6)%
Loss from discontinued operations	(15)	0.0%	(2,887)	(5.1)%
Net loss	$(27,247)	(47.9)%	$ (5,482)	(9.7)%

Revenue

Our total revenue increased $0.2 million, or 0.4%, to $56.9 million for the three-month period ended June 30, 2006 from $56.7 million for the three-month period ended June 30, 2005. The increase is primarily due to the Test-prep and Intervention segment which benefited from the release of new products and increased demand resulting from the testing requirements created by the federal government's No Child Left Behind Act (the "NCLB Act"). The revenue increase also reflects the acquisitions of *Scott Publishing* in April 2005 and CME*info* in June 2005, which are included in our financial statements prospectively from their respective date of acquisition, and are therefore only partially included in the results for the three months ended June 30, 2005.

K-12 Supplemental Education. Revenue for the K-12 Supplemental Education segment decreased $3.2 million, or 21.9%, to $11.4 million for the three-month period ended June 30, 2006, from $14.7 million for the three-month period ended June 30, 2005. This decline results from what we believe is a significantly more competitive market. Our *Sundance/Newbridge* business, which represents 100% of this segment, competes in the K-12 market for classroom materials. This market's competitors include other supplemental educational publishers such as Harcourt Achieve and National Geographic, as well as basal textbook publishers, such as McGraw Hill and Houghton Mifflin, which are generally much larger and have greater financial resources than the Company. We believe a significant percentage of all basal textbook programs are purchased for the classroom through state-wide and state organized "adoption" processes, thus resulting in multi-million dollar textbook purchase contracts for the winning basal publisher or publishers. For a variety of reasons, including limitations on funds available for supplemental classroom materials and the favorable position that the basal publishers have for marketing their own supplemental classroom materials, a challenging competitive environment emerged in 2005 for

Sundance/Newbridge that is expected to continue throughout 2006. We are implementing both short-term initiatives and long-term investments to address this increased competition and to effect a turn-around of this business.

Test-prep and Intervention. Revenue for the Test-prep and Intervention segment increased $2.1 million, or 13.2%, to $18.3 million for the three-month period ended June 30, 2006, from $16.1 million for the three-month period ended June 30, 2005. While operating in the same broader K-12 classroom materials market as *Sundance/Newbridge, Triumph Learning* and *Buckle Down Publishing,* publish and market test-preparation study materials to a discrete niche of this overall market. A provision of the NCLB Act required each state to implement, for the 2005-2006 school year, increased standardized testing across many grade levels. It is these state standardized tests in reading, math and science and social studies which are the subject of *Triumph Learning's* and *Buckle Down's* test-prep study materials. *Triumph Learning* and *Buckle Down Publishing* proactively sought to benefit from the demand created by the NCLB Act by publishing new test-prep study materials corresponding to these new tests for many but not all states. While *Triumph Learning's* and *Buckle Down's* pre-publication costs increased significantly during 2005, both businesses have reported exceptional sales growth since the release of new products in late 2005. Revenues for *Triumph Learning* and *Buckle Down* product lines increased $3.0 million, or 39.0%, to $10.7 million for the three-month period ended June 30, 2006 from $7.7 million for the three-month period ended June 30, 2005. We anticipate that *Triumph Learning* and *Buckle Down* will continue to benefit in 2006 from the demand created by the NCLB Act.

*Options Publishin*g, reflected within the Test-prep and Intervention segment focuses on publishing and marketing high-quality products for the under performing and struggling students primarily in reading and math, referred to generally as intervention products. Revenue from *Options Publishing* decreased $0.9 million, or 10.5%, to $7.5 million for the three-month period ended June 30, 2006 from $8.4 million for the three-month period ended June 30, 2005. We believe this decrease was due to the timing of sales of certain assessment products resulting from the release of new state tests and related new assessment products.

Library. Revenue for the Library segment, increased $0.1 million, or 0.6%, to $20.4 million for the three- month period ended June 30, 2006, from $20.2 million for the three-month period ended June 30, 2005. The Library segment, which consists of our *Recorded Books* business, publishes unabridged audiobooks and other audio-based products in both CD and audiocassette formats. *Recorded Books* markets to public libraries, schools, retail vendors and directly to consumers, with sales to public libraries generally accounting for more than two-thirds of revenue. Revenue from the core public library channel of *Recorded Books* was up slightly for the second quarter 2006 while the School, Consumer and Retail channels were flat to the prior year.

Medical Education. Revenue for the Medical Education segment increased $1.2 million, or 21.1%, to $6.8 million for the three-month period ended June 30, 2006, from $5.6 million for the three-month period ended June 30, 2005. The increase in segment revenue is primarily attributable to the product lines we acquired in connection with our acquisitions of *Scott Publishin*g which was completed in April 2005, and CME*info* which was completed in June 2005, which are only partially included in the results for the three-month period ended June 30, 2005. Revenue from our existing core *Oakstone Medical* product line decreased $0.8 million, or 23.4%, due to special subscription product deliveries in the prior year period.

Cost of Goods Sold

Cost of goods sold increased $0.5 million, or 3.1%, to $16.4 million for the three-month period ended June 30, 2006 from $15.9 million for the three-month period ended June 30, 2005. Cost of goods sold as a percentage of revenue increased to 28.9% from 28.1% period over period, primarily due to changes in product mix and inventory obsolescence provisions.

K-12 Supplemental Education. Cost of goods sold for the K-12 Supplemental Education segment decreased $0.5 million, or 13.8%, to $3.3 million for the three-month period ended June 30, 2006 from $3.8 million for the three-month period ended June 30, 2005 due primarily to the decline in revenue. Cost of goods sold as a percentage of revenue for the K-12 Supplemental Education segment increased to 28.7% from 26.0% period over period as a larger percentage of the revenue was derived from sales of distributed product which has a higher cost of inventory as well as increased inventory obsolescence provisions.

Test-prep and Intervention. Cost of goods sold for the Test-prep and Intervention segment increased $0.6 million, or 16.9%, to $3.9 million for the three month-period ended June 30, 2006 from $3.3 million for the three-month period ended June 30, 2005 as a result of strong revenue growth for the segment period over period. Cost of goods sold as a percentage of revenue for the Test-prep and Intervention segment increased to 21.2% from 20.5% period over period primarily due to inventory obsolescence provisions.

Library. Cost of goods sold for the Library segment was $7.2 million for both the three-month periods ended June 30, 2006 and June 30, 2005, which was in line with the similar period over period revenue performances. Cost of goods sold as a percentage of revenue was 35.6% for both of the three-month periods.

Medical Education. Cost of goods sold for the Medical Education segment increased $0.4 million, or 25.3% to $2.0 million for the three-month period ended June 30, 2006 from $1.6 million for the three-month period ended June 30, 2005. The increase is primarily related to the acquisitions of *Scott Publishing* and CME*info*, both of which were acquired in the second quarter of 2005 and therefore only partially included in the results for the three-month period ended June 30, 2005. Cost of goods sold as a percentage of revenue increased to 29.6% from 28.6% period over period, primarily due to the impact of higher inventory cost of *Scott Publishing* products.

Selling, General & Administrative Expense

Selling, general and administrative expense is comprised of marketing and sales, fulfillment and distribution, general and administrative, and restructuring charges in the accompanying consolidated statements of operations. Selling, general and administrative expense increased $2.9 million, or 12.4%, to $26.1 million for the three-month period ended June 30, 2006 from $23.3 million for the three-month period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue increased to 46.0% from 41.1%, period over period. The increase in selling, general and administrative expense as a percentage of revenue is primarily due to increased staffing, additional marketing and sales force related expenses, costs associated with our *Scott Publishing* and CME*info* acquisitions as well as restructuring expenses related to the consolidation of the Iowa-based warehouse, customer service and order fulfillment functions of *Buckle Down Publishing* into our Northborough, Massachusetts facility.

K-12 Supplemental Education. Selling, general and administrative expense for the K-12 Supplemental Education segment increased $0.6 million, or 12.2%, to $6.0 million for the three-month period ended June 30, 2006 from $5.3 million for the three-month period ended June 30, 2005. Selling, general and administrative expenses as a percentage of revenue increased to 52.2% from 36.4% period resulting primarily from the effect of decreased revenue on fixed expenses such as salaries, as well as investments in sales and marketing initiatives aimed at returning the business to revenue and profit growth.

Test-prep and Intervention. Selling, general and administrative expense for the Test-prep and Intervention segment increased $0.8 million, or 12.0%, to $7.8 million for the three-month period ended June 30, 2006 from $6.9 million for the three-month period ended June 30, 2005. The increase was primarily due to volume related increases in payroll for fulfillment and distribution and sales and marketing and an additional $0.3 million incurred in connection with the consolidation of the Iowa-based warehouse, customer service and order fulfillment functions of *Buckle Down Publishing's* warehouse into the Northborough, Massachusetts facility. Selling, general and administrative expenses as a percentage of revenue for the Test-prep and Intervention segment decreased to 42.5% from 43.0% period over period, reflecting operating leverage on fixed expenses resulting from the 13.2% revenue growth.

Library. Selling, general and administrative expense for the Library segment increased $0.6 million, or 8.9%, to $7.0 million for the three-month period ended June 30, 2006 from $6.4 million for the three-month period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue increased to 34.1% from 31.6% period over period, primarily due to increased payroll and benefits costs from personnel additions and higher fulfillment costs arising from the new *Recorded Books* Unlimited program, whereby consumers are shipped titles that can be continually exchanged for new titles for a monthly fee.

Medical Education. Selling, general and administrative expense for the Medical Education segment increased $0.9 million, or 29.9%, to $3.9 million for the three-month period ended June 30, 2006 from $3.0 million for the three-month period ended June 30, 2005. The increase is primarily due to additional sales and marketing and fulfillment and distribution costs resulting from the 2005 acquisitions of *Scott Publishing* and CME*info* which are only partially included in the results for the three-month-period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue increased to 57.2% from 53.4% period over period. The increase in selling, general and administrative expenses as a percentage of revenue is primarily due to increased sales and marketing costs and fulfillment costs which result from the additions of Scott Publishing and CME*info*.

Corporate. Our corporate general and administrative expense decreased $0.1 million, or 4.0%, to $1.5 million for the three-month period ended June 30, 2006 from $1.6 million for the three-month period ended June 30, 2005.

Amortization of Pre-Publication Costs

Amortization of pre-publication costs increased $0.9 million, or 29.8%, to $4.1 million for the three-month period ended June 30, 2006, from $3.1 million for the three-month period ended June 30, 2005. Investments in pre-publication activities have increased significantly over the last several years due to a greater emphasis on developing new products as well as the addition of assets obtained as a result of our acquisitions of *Buckle Down Publishing*, *Options Publishing*, *Scott Publishing* and CME*info*. We anticipate that the increased level of spending will continue through 2006 and amortization of pre-publication costs will continue to reflect this higher level of investment.

Goodwill Impairment Charge

A $24.4 million goodwill impairment charge was recorded at our *Sundance/Newbridge* business in the quarter ended June 30, 2006. The impairment charge, representing 100% of the goodwill associated with *Sundance/Newbridge*, is a result of the continued decline in revenue and operating results at this business.

Depreciation Expense and Amortization of Intangibles

Depreciation expense and amortization of intangibles increased $0.2 million to $1.4 million for the three-month period ended June 30, 2006, from $1.1 million for the three-month period ended June 30, 2005. The increase was primarily due to amortization expense from the amortizable intangible assets acquired in the *Scott Publishing* and CME*info* acquisitions.

Interest Expense

Interest expense increased $1.1 million, or 7.0%, to $16.1 million for the three-month period ended June 30, 2006 from $15.1 million for the three-month period ended June 30, 2005. This increase was due to the compounding effect of interest on our Senior Discount Notes and Preferred B. Our total outstanding debt increased from $506.3 million as of June 30, 2005 to $535.9 million as of June 30, 2006. The increase is a result of accretion on the Preferred B and amortization of the discount on our Senior Discount Notes, offset slightly by principal payments on our Term Loans.

Cash interest expense was $8.0 million for both the three-month periods ended June 30, 2006 and June 30, 2005. The average interest rate increased to 9.23% for the three-month period ended June 30, 2006 from 7.30% for the three-month period ended June 30, 2005. Our cash interest bearing outstanding debt was $299.2 million as of June 30, 2006 compared to $301.0 million as of June 30, 2005.

Interest expense consists of the following:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
	(In thousands)	
Interest expense:		
Senior secured term loans	$ 2,896	$ 2,880
11$^{3}/_{4}$% senior notes	4,994	4,994
12$^{1}/_{2}$% senior discount notes – non-cash	2,949	2,612
Series B senior preferred stock – non-cash	5,224	4,520
Other	90	76
Total interest expense	16,153	15,082
Less: capitalized interest	(23)	(9)
Net Interest expense	$16,130	$15,073

As of June 30, 2006 the company had $126.8 million in aggregate principal amount outstanding under the Term Loans, with such amount bearing interest at rates between 8.67% and 9.67%. The average interest rate on the Term Loans was 9.23% for the three-month period ended June 30, 2006.

Discontinued Operations

We disposed of our *Chelsea House Publishers* business on August 9, 2005 and its results of operations have been presented as a discontinued operation for all periods presented. *Chelsea House Publishers* reported an operating loss of $2.9 million for the three-month period ended June 30, 2005. There were no other significant items reported in discontinued operations for the three-month period ended June 30, 2006 or the three-month period ended June 30, 2005.

Provision for Income Taxes

The provision for income taxes was a benefit of $4.6 million for the three-month period ended June 30, 2006 compared to a $0.1 million expense for the three-month period ended June 30, 2005. The income tax benefit for the three-month period ended June 30, 2006 primarily reflects the impact on deferred taxes of the goodwill impairment charge at *Sundance/Newbridge*. A current income tax expense of $0 and $0.1 million was recorded for the three-month periods ended June 30, 2006 and June 30 2005, respectively. The current income tax expense relates to our United Kingdom subsidiary, *WF Howes,* which had taxable earnings in the United Kingdom of $0.1 million and $0.3 million for the three-month periods ended June 30, 2006 and 2005, respectively.

Net Loss

Net loss for the three-month period ended June 30, 2006 was $27.2 million compared to $5.5 million for the three-month period ended June 30, 2005. This increase in net loss was primarily due to a $27.8 million decline in operating income at *Sundance/Newbridge* which includes the $24.4 goodwill impairment charge. The decline was partially offset by the $4.6 million benefit to the tax provision and the $2.9 million decline in loss from discontinued operations.

Six Months Ended June 30, 2006 Compared To Six Months Ended June 30, 2005

The following table summarizes the results of operations and the percentage of total revenue represented by each category for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30,			
	2006		2005	
	(In Thousands)			
Revenue				
K-12 Supplemental Education	$ 19,384	17.9%	$ 23,853	23.2%
Test Prep and Intervention	36,065	33.3%	29,746	28.9%
Library	39,119	36.1%	39,708	38.5%
Medical Education	13,821	12.7%	9,720	9.4%
Total Revenue	108,389	100.0%	103,027	100.0%
Cost of goods sold	31,193	28.8%	29,776	28.9%
Selling, general and administrative expenses:				
Marketing and sales	29,300	27.0%	25,595	24.8%
Fulfillment and distribution	9,023	8.3%	7,678	7.5%
General and administrative expense	14,191	13.1%	12,300	11.9%
Total selling, general and administrative expenses	52,514	48.4%	45,573	44.2%
Amortization of pre-publication costs	8,410	7.8%	6,040	5.9%
Goodwill impairment charge	24,393	22.5%	—	0.0%
Depreciation / amortization of intangibles	2,722	2.5%	2,340	2.3%
(Loss) income from operations	(10,843)	(10.0)%	19,298	18.7%
Interest expense	31,965	29.5%	28,809	28.0%
Other expenses, net of interest income	260	0.2%	1,231	1.1%
Loss before taxes	(43,068)	(39.7)%	(10,742)	(10.4)%
Tax provision (benefit)	(3,034)	(2.8)%	217	0.2%
Loss before discontinued operations	(40,034)	(36.9)%	(10,959)	(10.6)%
Loss from discontinued operations	(17)	0.0%	(3,692)	(3.6)%
Net loss	$ (40,051)	(36.9)%	$ (14,651)	(14.2)%

Revenue

Our total revenue increased $5.4 million, or 5.2%, to $108.4 million for the six-month period ended June 30, 2006 from $103.0 million for the six-month period ended June 30, 2005. The increase is primarily due to the Test-prep and Intervention segment which benefited from the release of new products and increased demand resulting from the testing requirements created by the federal government's No Child Left Behind Act (the "NCLB Act"). The revenue increase also reflects the acquisitions of *Scott Publishing* in April 2005 and CME*info* in June 2005, which are included in our financial statements prospectively from their respective date of acquisition, and are therefore only partially included in the results for the six months ended June 30, 2005. The growth in the Test-prep and Intervention and Medical Education segments was offset significantly by declines in the K-12 Supplemental Education and Library segments.

K-12 Supplemental Education. Revenue for the K-12 Supplemental Education segment decreased $4.5 million, or 18.7%, to $19.4 million for the six-month period ended June 30, 2006, from $23.9 million for the six-month period ended June 30, 2005. The decline in revenue for the six month period ended June 30, 2006 is attributed to the significantly more competitive market noted previously.

Test-prep and Intervention. Revenue for the Test-prep and Intervention segment increased $6.3 million, or 21.2%, to $36.1 million for the six-month period ended June 30, 2006, from $29.7 million for the six-month period ended June 30, 2005. Revenues for *Triumph Learning* and *Buckle Down* , our state-specific test-prep publishers, accounted for all of the segment growth for the period with an increase of $6.3 million, or 35.9%, to $23.8 million for the six-month period ended June 30, 2006 from $17.5 million for the six-month period ended June 30, 2005. We anticipate that *Triumph Learning* and *Buckle Down* will continue to benefit in 2006 from the demand created by the NCLB Act.

*Options Publishin*g, reflected within the Test-prep and Intervention segment focuses on publishing and marketing high-quality products for the under performing and struggling students primarily in reading and math, referred to generally as intervention products. Revenue from *Options Publishing* was $12.2 million for both of the six month periods ended June 30, 2006 and 2005.

Library. Revenue for the Library segment, decreased $0.6 million, or 1.5%, to $39.1 million for the six- month period ended June 30, 2006, from $39.7 million for the six-month period ended June 30, 2005. Revenue from the core public library channel of *Recorded Books* was flat to the prior period and was offset by declines in revenue from our Pimsleur language series.

Medical Education. Revenue for the Medical Education segment increased $4.1 million, or 42.2%, to $13.8 million for the six-month period ended June 30, 2006, from $9.7 million for the six-month period ended June 30, 2005. The increase in segment revenue is primarily attributable to the product lines we acquired in connection with our acquisitions of *Scott Publishin*g which was completed in April 2005, and CME*info* which was completed in June 2005, which are only partially included in the results for the six-month period ended June 30, 2005. Revenue from our existing core *Oakstone Medical* product line decreased $0.6 million, or 10.4%, due to special subscription product deliveries in the prior year period.

Cost of Goods Sold

Cost of goods sold increased $1.4 million, or 4.8%, to $31.2 million for the six-month period ended June 30, 2006 from $29.8 million for the six-month period ended June 30, 2005, reflecting the 5.2% revenue growth. Cost of goods sold as a percentage of revenue decreased to 28.8% from 28.9% period over period.

K-12 Supplemental Education. Cost of goods sold for the K-12 Supplemental Education segment decreased $0.7 million, or 11.4%, to $5.4 million for the six-month period ended June 30, 2006 from $6.1 million for the six-month period ended June 30, 2005 due primarily to the decline in revenue. Cost of goods sold as a percentage of revenue for the K-12 Supplemental Education segment increased to 28.0% from 25.7% period over period as a larger percentage of the revenue was derived from sales of distributed product which has a higher cost of inventory as well as increased inventory obsolescence provisions.

Test-prep and Intervention. Cost of goods sold for the Test-prep and Intervention segment increased $1.2 million, or 19.4%, to $7.5 million for the six month-period ended June 30, 2006 from $6.3 million for the six-month period ended June 30, 2005 as a result of the corresponding revenue growth for the segment period over period. Cost of goods sold as a percentage of revenue for the Test-prep and Intervention segment decreased to 20.7% from 21.1% period over period.

Library. Cost of goods sold for the Library segment decreased $0.6 million, or 4.4% to $14.0 million for the six-month period ended June 30, 2006 from $14.6 million for the six-month period ended June 30, 2005, primarily reflecting the decrease in revenue. Cost of goods sold as a percentage of revenue decreased to 35.8% from 36.9%, period over period, primarily due to changes in revenue mix.

Medical Education. Cost of goods sold for the Medical Education segment increased $1.5 million, or 56.0% to $4.3 million for the six-month period ended June 30, 2006 from $2.7 million for the six-month period ended June 30, 2005. The increase is primarily related to the acquisitions of *Scott Publishing* and CME*info*, both of which were acquired in the second quarter of 2005 and therefore only partially included in the results for the six-month period ended June 30, 2005. Cost of goods sold as a percentage of revenue increased to 31.0% from 28.2% period over period, primarily due to the impact of higher inventory cost of *Scott Publishing* products.

Selling, General & Administrative Expense

Selling, general and administrative expense is comprised of marketing and sales, fulfillment and distribution, general and administrative, and restructuring charges in the accompanying consolidated statements of operations. Selling, general and administrative expense increased $6.9 million, or 15.2%, to $52.5 million for the six-month period ended June 30, 2006 from $45.6 million for the six-month period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue increased to 48.4% from 44.2%, period over period. The increase in selling, general and administrative expense as a percentage of revenue is primarily due to increased staffing, additional marketing and sales force related expenses, costs associated with our *Scott Publishing* and CME*info* acquisitions as well as expenses related to the consolidation of the Iowa-based warehouse, customer service and order fulfillment functions of *Buckle Down Publishing* into our Northborough, Massachusetts facility.

K-12 Supplemental Education. Selling, general and administrative expense for the K-12 Supplemental Education segment increased $1.1 million, or 11.2%, to $11.4 million for the six-month period ended June 30, 2006 from $10.2 million for the six-month period ended June 30, 2005. Selling, general and administrative expenses as a percentage of revenue increased to 58.6% from 42.8% period over period, resulting primarily from the effect of decreased revenue on fixed expenses such as salaries, as well as investments in sales and marketing initiatives aimed at returning the business to revenue and profit growth.

Test-prep and Intervention. Selling, general and administrative expense for the Test-prep and Intervention segment increased $2.4 million, or 17.3%, to $16.6 million for the six-month period ended June 30, 2006 from $14.1 million for the six-month period ended June 30, 2005. The increase was primarily due to volume related increases in payroll for fulfillment and distribution and sales and marketing and an additional $0.4 million restructuring and incurred in connection with the consolidation of the Iowa-based warehouse, customer service and order fulfillment functions of *Buckle Down Publishing's* warehouse into the Northborough, Massachusetts facility. Selling, general and administrative expenses as a percentage of revenue for the Test-prep and Intervention segment decreased to 45.9% from 47.4% period over period, due to the impact of the growth in revenue on fixed costs.

Library. Selling, general and administrative expense for the Library segment increased $1.1 million, or 8.8%, to $13.7 million for the six-month period ended June 30, 2006 from $12.6 million for the six-month period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue increased to 35.1% from 31.8% period over period, primarily due to increased payroll and benefits costs from personnel additions and higher fulfillment costs arising from the new *Recorded Books* Unlimited program, whereby consumers are shipped titles that can be continually exchanged for new titles for a monthly fee.

Medical Education. Selling, general and administrative expense for the Medical Education segment increased $2.2 million, or 39.1%, to $7.8 million for the six-month period ended June 30, 2006 from $5.6 million for the six-month period ended June 30, 2005. The increase is primarily due to additional sales and marketing and fulfillment and distribution costs resulting from the 2005 acquisitions of *Scott Publishing* and CME*info* which are only partially included in the results for the six-month-period ended June 30, 2005. Selling, general and administrative expense as a percentage of revenue decreased to 56.3% from 57.5% period over period. The decrease in selling, general and administrative expenses as a percentage of revenue is primarily due to the impact of the growth in revenue on fixed administrative expenses.

Corporate. Our corporate general and administrative expense increased $0.1 million, or 1.7%, to $3.1 million for the six-month period ended June 30, 2006 from $3.0 million for the six-month period ended June 30, 2005.

Amortization of Pre-Publication Costs

Amortization of pre-publication costs increased $2.4 million, or 39.2%, to $8.4 million for the six-month period ended June 30, 2006, from $6.0 million for the six-month period ended June 30, 2005. Investments in pre-publication activities have increased significantly over the last several years due to a greater emphasis on developing new products as well as the addition of assets obtained as a result of our acquisitions of *Buckle Down Publishing*, *Options Publishing*, *Scott Publishing* and CME*info*. We anticipate that the increased level of spending will continue through 2006 and amortization of pre-publication costs will continue to reflect this higher level of investment.

Goodwill Impairment Charge

A $24.4 million goodwill impairment charge was recorded at our Sundance/Newbridge business in the quarter ended June 30, 2006. The impairment charge, representing 100% of the goodwill associated with Sundance/Newbridge, is a result of the continued decline in revenue and operating results at this business.

Depreciation Expense and Amortization of Intangibles

Depreciation expense and amortization of intangibles increased $0.4 million, or 16.3%, to $2.7 million for the six-month period ended June 30, 2006, from $2.3 million for the six-month period ended June 30, 2005. The increase was primarily due to amortization expense from the amortizable intangible assets acquired in the *Scott Publishing* and CME*info* acquisitions.

Interest Expense

Interest expense increased $3.2 million, or 11.0%, to $32.0 million for the six-month period ended June 30, 2006 from $28.8 million for the six-month period ended June 30, 2005. This increase was due to the compounding effect of interest on our Senior Discount Notes and Preferred B and increases in interest rates on our term loans. Our total outstanding debt increased from $506.3 million as of June 30, 2005 to $535.9 million as of June 30, 2006. The increase is a result of accretion on the Preferred B and amortization of the discount on our Senior Discount Notes, offset slightly by principal payments on our Term Loans.

Cash interest expense increased $1.1 million, or 7.4% to $15.9 million for the six-months ended June 30, 2006 from $14.8 million for the six-month period ended June 30, 2005. The average interest rate increased to 9.02% for the six-month period ended June 30, 2006 from 7.06% for the six-month period ended June 30, 2005. Our cash interest bearing outstanding debt was $299.2 million as of June 30, 2006 compared to $301.0 million as of June 30, 2005.

Interest expense consists of the following:

	Six Months Ended June 30, 2006	2005
	(In thousands)	
Interest expense:		
Senior secured term loans	$ 5,741	$ 4,699
11 3/4% senior notes	9,987	9,987
12 1/2% senior discount notes – non-cash	5,788	5,127
Series B senior preferred stock – non-cash	10,320	8,862
Other	175	152
Total interest expense	32,011	28,827
Less: capitalized interest	(46)	(18)
Net Interest expense	$31,965	$28,809

As of June 30, 2006 the company had $126.8 million in aggregate principal amount outstanding under the Term Loans, with such amount bearing interest at rates between 8.67% and 9.67%. The average interest rate on the Term Loans was 9.02% for the six-month period ended June 30, 2006.

Discontinued Operations

We disposed of our *Chelsea House Publishers* business on August 9, 2005 and its results of operations have been presented as a discontinued operation for all periods presented. *Chelsea House Publishers* reported an operating loss of $3.7 million for the six-month period ended June 30, 2005. There were no other significant items reported in discontinued operations for the six-month period ended June 30, 2006 or the six-month period ended June 30, 2005.

Provision for Income Taxes

The provision for income taxes was a benefit of $3.0 million for the six-month period ended June 30, 2006 compared to a $0.2 million expense for the six-month period ended June 30, 2005. The income tax benefit for the six-month period ended June 30, 2006 primarily reflects the impact on deferred taxes of the goodwill impairment charge at Sundance/Newbridge. A current income tax expense of $0.2 million and $0.2 million was recorded for the six-month periods ended June 30, 2006 and June 30 2005, respectively. The current income tax expense relates to our United Kingdom subsidiary, *WF Howes,* which had taxable earnings in the United Kingdom of $0.6 million and $0.7 million for the six-month periods ended June 30, 2006 and 2005, respectively.

Net Loss

Net loss for the six-month period ended June 30, 2006 was $40.1 million compared to $14.6 million for the six-month period ended June 30, 2005. This increase in net loss was primarily due to a $29.9 million decline in operating income at Sundance/Newbridge, which includes the $24.4 goodwill impairment charge. The decline was partially offset by the $3.0 million benefit to the tax provision and the $3.7 million decline in loss from discontinued operations.

Liquidity and Capital Resources

We have relied primarily on our borrowings under our current financing arrangements, and the benefits of non-cash interest on our Senior Discount Notes and outstanding preferred stock, for our working capital, capital expenditures, acquisition needs and debt service requirements.

In April 2005, we used $3.6 million in cash to purchase all of the outstanding capital stock of *Scott Publishing* and pay related transaction costs.

In June 2005, we used $8.5 million in cash to purchase all of the outstanding capital stock of CME*info* and pay related transaction costs.

As of June 30, 2006, we were in compliance with all debt covenants as amended and the available borrowing capacity under our Facility, as limited by our financial covenant ratios, was $21.4 million and there were no balances outstanding. Borrowings under our Facility bear interest at variable rates based on LIBOR plus an applicable spread.

As of June 30, 2006, we had accrued $29.4 million for unpaid cash dividends on the Preferred B. We are restricted from making cash dividend payments on the Preferred B by the restricted payment provisions of our Senior Discount Notes.

Our cash and cash equivalents decreased by $9.1 million to $60.5 million as of June 30, 2006, from $69.6 million as of December 31, 2005. This was due to cash used in investing and financing activities of $12.1 million and $0.7 million, respectively, offset with cash provided by operating activities of $3.8 million.

We are highly leveraged and have significant debt service obligations. Our primary sources of liquidity are our current cash balance, cash flow from operations and available borrowings under our Facility. We expect that ongoing requirements for debt service, working capital, capital expenditures and permitted business acquisitions will be funded from these sources.

Our ability to make scheduled payments of principal, or to pay interest on, or to refinance, our indebtedness, or to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

While we cannot guarantee that our business will generate sufficient cash flow from operations, that any revenue growth or operating improvements will be realized or that future borrowings will be available under our Facility in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs, based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our Facility, will be adequate to meet our future liquidity needs until the maturity of our Term Loans in August 2008. In addition, from time to time as needs arise in connection with future acquisitions, the maturity of the Term Loans or other general corporate purposes, which may include the repayment or refinancing of the Term Loans, Senior Notes, Senior Discount Notes or preferred stock, we may seek to raise additional capital through the issuance, in registered offerings or in private placements, of debt or equity securities on terms to be determined at the time of such issuances.

Cash Flows

Net cash provided by operating activities of continuing operations decreased $0.6 million, or 14.0%, to $3.8 million for the six-month period ended June 30, 2006 from $4.4 million for the six-month period ended June 30, 2005. The decrease in cash used in operating activities was primarily due to the corresponding loss from operations, offset by changes in working capital and goodwill write off.

Net cash used in investing activities decreased $11.3 million, or 48.3%, to $12.1 million for the six-month period ended June 30, 2006 from $23.3 million for the six-month period ended June 30, 2005. The decrease was primarily due to $11.2 million used for the acquisitions of Scott Publishing and CME*info* that occurred in April 2005 and June 2005, respectively. In addition, cash flows for the six months ended June 30, 2006 included proceeds of $0.5 million and $1.0 million representing escrow returns from the *Chelsea House Publishers* disposition and CME*info* acquisition, respectively. Additions to prepublication costs and capital expenditures increased $1.0 million and $0.4 million, period over period, respectively.

Net cash used by financing activities decreased $0.7 million, or 46.8% to $0.7 million for the six-month period ended June 30, 2006 from $1.4 million for the six-month period ended June 30, 2005 due to a reduction in additions for deferred financing costs.

Net cash used by discontinued operations decreased $0.9 million to $0.2 million for the six-month period ended June 30, 2006 from $1.1 million for the six-month period ended June 30, 2005. The decline in cash used by discontinued operations is primarily attributable to $1.7 million in pre-publication costs incurred by *Chelsea House Publishers* for the six-month period ended June 30, 2005 offset by a $0.8 million decline in cash provided by operating activities of discontinued operations, period over period.

Capital Expenditures

Pre-publication costs refer to the costs incurred in the development of new products. For the six-month period ended June 30, 2006, we had $11.8 million of pre-publication costs, compared to $10.8 million during the six-month period ended June 30, 2005. We expect to make expenditures of approximately $25.0 million for pre-publication costs in 2006. This level of spending is intended to support our successful core products and allow for the development of new products.

Property and equipment expenses are incurred to purchase tangible fixed assets such as computers, software and leasehold improvements. For the six-month period ended June 30, 2006, we had $1.7 million of property and equipment expenses compared to $1.3 million for the six-month period ended June 30, 2005. We expect to make expenditures of approximately $3.5 million for property and equipment in 2006. This level of spending allows for our planned implementation of a new software system at our *Recorded Books* business, the rollout of a customer relationship management system for several other businesses and general additions to furniture, fixtures and equipment.

Contractual Obligations and Commitments

There have been no significant changes in our contractual obligations or commitments since December 31, 2005.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Seasonality and Quarterly Results of Operations

Our business is subject to moderate 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, without limitation, 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 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, our financial position and results of operations are routinely subject to a variety of risks. These risks include market risk associated with interest rate movements on borrowings and investments that we make on variable interest rates. Currently, our $30.0 million Facility, which is un-drawn, and our Term Loans bear interest at variable rates based on LIBOR plus an applicable spread.

We regularly assess these market risks and have established policies and business practices to protect against the adverse effect of these and other potential exposures. We utilize cash from operations and short-term borrowings to fund our working capital and investment needs. Cash balances are normally invested in high-grade securities with terms shorter than three-month periods. Because of the short-term nature of these investments, changes in interest rates would not materially affect the fair value of these financial instruments.

As of June 30, 2006, a hypothetical 10% change in interest costs of our variable rate debt would change interest expense on an annual basis by $1.2 million. As of June 30, 2006, a hypothetical 10% change in the interest rate applicable to our investments would change interest income on an annual basis by $0.2 million. These amounts are determined by calculating the effect of a hypothetical interest rate change on our variable rate debt and our investments, and without regard to the effects of other possible occurrences, such as actions to mitigate these risks or changes in our financial structure.

Our $30.0 million Facility is available to finance our working capital requirements, subject to certain restrictive covenants that can reduce the available aggregate borrowings under the Facility. As of June 30, 2006, the available borrowing capacity under the Facility was $21.4 million, and the applicable interest rate is based on LIBOR plus an applicable spread. As of June 30, 2006, there were no borrowings outstanding under this credit facility. Also as of June 30, 2006, we had $126.8 million in aggregate principal amount outstanding under the Term Loans. The applicable interest rates on the Term Loans, which are based on LIBOR plus an applicable spread, were 9.67% for the First Term Loan and 8.67% for the Second Term Loan.

We have minimal exposure to foreign currency rate fluctuations on our foreign sales, as currently we have minimal transaction gain or loss recognized in our statement of operations due to currency fluctuations, mainly fluctuations in UK pounds. As a result, we do not hedge the exposure to these changes. As of June 30, 2006, a hypothetical 10% change in the foreign currency exchange rates applicable to such transactions would not have a material impact on our results of operations.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 15d-15 under the Securities Exchange Act of 1934 (the “Exchange Act”) we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of and design and operation of our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(a) and 15d-15 (e), as of the end of the period covered by this report. Due to the identification of a material weakness in internal control over financial reporting related to the Company's accounting for income taxes, as described below, we concluded that the Company's disclosure controls and procedures were not effective, at the reasonable assurance level, in ensuring that information required to be disclosed by the Company in reports filed with the SEC is recorded, processed, summarized and reported on in a timely basis.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily is required to apply its judgment in designing and evaluating the controls and procedures. We regularly review and document our disclosure controls and procedures, and our internal controls over financial reporting, and may from time to time make appropriate changes aimed at enhancing their effectiveness and ensure that our systems evolve with our business.

As a result of an adjustment to income taxes discovered during the audit of the financial statements for our fiscal year ended December 31, 2005, management determined that a material weakness in internal control over financial reporting related to the Company's accounting for income taxes existed. This determination prompted management to conclude that as of December 31, 2005, there was more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements related to accounting for income taxes would not be prevented or detected on a timely basis by Company employees in the normal course of performing their assigned functions. This material weakness exists because the Company's management does not currently have adequate technical expertise with respect to income tax accounting to effectively oversee and review the Company's accounting in this area. This lack of adequate technical expertise resulted in an error in the Company's accounting for income taxes during the third quarter of 2005, which was identified during the course of the Company's 2005 audit. This error related to the Company not providing a sufficient valuation allowance against deferred tax assets that are not more likely than not to be realized. The Company had incorrectly netted deferred tax liabilities related to intangibles with indefinite lives against deferred tax assets related to net operating loss carry-forwards with finite lives in determining the amount of allowance necessary. As a result of the error, the Company provided in its Annual Report on Form 10-K for its fiscal year ended December 31, 2005 a restatement of its financial statements as of and for the three-month and nine-month periods ended September 30, 2005.

(b) Changes in Internal Controls over Financial Reporting

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

Regarding the material weakness described above, the Company intends to implement enhanced control procedures over accounting for income taxes which include:

- improving our documentation and training related to policies and procedures for the controls related to our significant accounts and processes;
- providing education and training to Company management and staff to improve technical expertise with respect to income tax accounting;
- engaging expert resources to assist with tax accounting; and
- re-allocating and/or relocating duties of finance personnel to enhance review and monitoring procedures.

While the Company believes that the remedial actions will result in the correction of the material weakness in our internal control over financial reporting, the exact timing of when the conditions will be corrected is dependent upon future events, which may or may not occur.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in litigation that we consider to be ordinary routine litigation incidental to our 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 consolidated financial condition, results of operations or liquidity.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description	Page or Method of Filing
3.1	Second Amended and Restated Certificate of Incorporation of Haights Cross Communications, Inc.	Incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K filed April 19, 2004.
3.1(a)	Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Haights Cross Communications, Inc.	Incorporated by reference to Exhibit 3.1(a) of the Company's Registration Statement on Form S-4 (Reg. No. 333-122750) filed February 11, 2005.
3.2	Bylaws of Haights Cross Communications, Inc.	Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-4 (Reg. No. 333-109381) filed October 2, 2003.
10.1	Amendment No. 6 to the Revolving Credit Agreement, dated as of August 20, 2003, by and among HCOC, as the Borrower, the several lenders from time to time party thereto, Bear Stearns Corporate Lending, Inc., as syndication agent, and The Bank of New York, as administrative agent for the lenders	Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 30, 2006.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Peter J. Quandt	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Paul J. Crecca	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Furnished herewith

SIGNATURES

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

HAIGHTS CROSS COMMUNICATIONS, INC.

By:

Dated: August 11, 2006

/s/ Peter J. Quandt

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

Dated: August 11, 2006

/s/ Paul J. Crecca

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

Dated: August 11, 2006

/s/ Mark Kurtz

Mark Kurtz
Vice President of Finance and Accounting and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Peter J. Quandt, certify that:

1. I have reviewed this report on Form 10-Q of Haights Cross Communications, Inc..

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2006

By: /s/ Peter J. Quandt
Name: Peter J. Quandt
Title: Chairman, Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

I, Paul J. Crecca, certify that:

1. I have reviewed this report on Form 10-Q of Haights Cross Communications, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2006

By: /s/ Paul J. Crecca
Name: Paul J. Crecca
Title: Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Haights Cross Communications, Inc. (the "Company") hereby certifies to his knowledge that the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2006

By: /s/ Peter J. Quandt
Name: Peter J. Quandt
Title: Chairman, Chief Executive Officer and President

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Haights Cross Communications, Inc. (the "Company") hereby certifies to his knowledge that the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2006

By: /s/ Paul J. Crecca

Name: Paul J. Crecca

Title: Executive Vice President and Chief Financial Officer