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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

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

Commission file number: 333-109381

HAIGHTS CROSS COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of Incorporation)

NO. 13-4087398

(I.R.S. Employer Identification No.)

10 NEW KING STREET, SUITE 102
WHITE PLAINS, NY 10604

(Address of principal executive offices) (Zip Code)

(914) 289-9400

(Registrant's telephone number, including area code)

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 an accelerated filer (as defined in Rule 12 b-2 of the Exchange Act.)

Yes No .

HAIGHTS CROSS COMMUNICATIONS, INC.

QUARTERLY REPORT FOR THE
QUARTER ENDED JUNE 30, 2004

TABLE OF CONTENTS

<TABLE>

<CAPTION>

PART I -- FINANCIAL INFORMATION

<S>

	PAGE

Item 1. Financial Statements	
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2004 and 2003 (unaudited).....	3
Consolidated Balance Sheets as of June 30, 2004 (unaudited) and December 31, 2003.....	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003 (unaudited).....	5
Notes to Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	25
Item 4. Controls and Procedures.....	25
Signatures.....	28

</TABLE>

<TABLE>

<CAPTION>

PART II -- OTHER INFORMATION

<S>

	PAGE

Item 1. Legal Proceedings.....	26
Item 2. Unregistered Sales of Equity Securities.....	26
Item 6. Exhibits and Reports on Form 8-K.....	26

</TABLE>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenue	\$ 50,892	\$ 44,109	\$ 90,455	\$ 82,236
Costs and expenses:				
Cost of goods sold	17,762	13,281	29,734	25,197
Marketing and sales	10,216	9,194	19,301	17,422
Fulfillment and distribution	3,810	3,214	6,871	5,949
General and administration	5,471	5,282	10,618	10,335
Restructuring charges	528	910	882	1,432
Amortization of pre-publication costs	3,078	2,065	5,672	4,018
Depreciation and amortization of property and equipment	616	565	1,197	1,041
Amortization of intangible assets	336	-	336	-
Total costs and expenses	41,817	34,511	74,611	65,394
Income from operations	9,075	9,598	15,844	16,842
Other (income) expenses:				
Interest expense	11,883	4,342	23,300	8,861
Interest income	(182)	(91)	(316)	(91)
Amortization of deferred financing costs	647	675	1,446	975
Other (income) expense	(63)	103	(61)	103
Total other expenses	12,285	5,029	24,369	9,848
Income (loss) before discontinued operations	(3,210)	4,569	(8,525)	6,994
Loss from discontinued operations (including loss on disposal of \$911,000 and \$911,000, respectively)	-	(1,006)	-	(1,156)
Net income (loss)	(3,210)	3,563	(8,525)	5,838
Non-cash preferred stock dividends and accretion	(679)	(4,746)	(1,300)	(9,320)
Net loss available to common stockholders	\$ (3,889)	\$ (1,183)	\$ (9,825)	\$ (3,482)

</TABLE>

See accompanying notes.

HAIGHTS CROSS COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	JUNE 30, 2004	DECEMBER 31, 2003
	----- (UNAUDITED) (IN THOUSANDS, EXCEPT SHARE DATA)	----- (UNAUDITED) (IN THOUSANDS, EXCEPT SHARE DATA)
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	\$ 60,496	\$ 32,389
Accounts receivable, net	26,203	16,459
Inventory, net	22,912	22,150
Direct response advertising costs - current portion, net	2,756	2,431
Prepaid royalties	4,904	5,342
Prepaid expenses and other current assets	1,832	2,908
	-----	-----
Total current assets	119,103	81,679
Pre-publication costs, net	29,092	28,197
Direct response advertising costs, net	6,762	6,504
Property and equipment, net	7,568	7,098
Goodwill	136,490	125,005
Intangible assets, net	12,330	-
Deferred financing costs, net	15,996	13,944
Other assets	3,125	3,095
	-----	-----
Total assets	\$ 330,466	\$ 265,522
	=====	=====
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 18,898	\$ 18,449
Accrued interest	6,993	6,742
Deferred subscription revenue	13,507	13,272
Current portion of long term debt	1,000	1,000
	-----	-----
Total current liabilities	40,398	39,463
Long term liabilities:		
Senior secured term loan	\$ 98,250	\$ 98,750
11 3/4% senior notes	140,000	140,000
12 1/2% senior discount notes	77,417	-
Series B Senior preferred stock, redeemable, \$.001 par value, 6,000,000 shares authorized, 2,000,230 shares issued and outstanding as of June 30, 2004 (approximate aggregate liquidation value as of June 30, 2004 of \$102,248)	100,143	-
Deferred gain on Series B cancellation and other long-term liabilities	4,959	-
	-----	-----
Total long term liabilities	420,769	238,750
Commitments		
Redeemable preferred stock:		
Series B Senior preferred stock, redeemable, \$.001 par value, 6,000,000 shares authorized, 2,400,000 shares issued and outstanding as of December 31, 2003	-	109,364
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, 2004 of \$32,252)	34,308	34,299
Series C preferred stock, redeemable, \$.001 par value, 3,500 shares authorized, issued and outstanding (approximate aggregate liquidation value as of June 30, 2004 of \$3,536)	1,139	-
	-----	-----
Total redeemable preferred stock	35,447	143,663
Stockholders' deficit:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 20,000,000 shares issued and outstanding	20	20
Accumulated other comprehensive income	330	299
Accumulated deficit	(166,498)	(156,673)
	-----	-----
Total stockholders' deficit	(166,148)	(156,354)
	-----	-----
Total liabilities, redeemable preferred stock and stockholders' deficit	\$ 330,466	\$ 265,522
	=====	=====

</TABLE>

See accompanying notes.

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

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(IN THOUSANDS)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net cash provided by operating activities:	\$ 4,839	\$ 12,938
INVESTING ACTIVITIES		
Additions to pre-publication costs	(6,563)	(6,810)
Additions to property and equipment	(1,129)	(1,847)
Acquisition of business	(25,078)	-
Proceeds from sale of businesses	-	7,550
Proceeds from sale of assets	4	18
Net cash used in investing activities:	(32,766)	(1,089)
FINANCING ACTIVITIES		
Proceeds from senior credit facility	-	12,000
Repayment of senior credit facility	-	(17,520)
Repayment of senior secured term loan	(500)	-
Proceeds from 12 1/2% senior discount notes	73,653	-
Purchase of Series B Senior preferred stock	(13,999)	-
Additions to deferred financing costs	(3,151)	(753)
Net cash provided by (used in) financing activities:	56,003	(6,273)
Effect of exchange rate changes on cash	31	97
Net change in cash and cash equivalents	28,107	5,673
Cash and cash equivalents at beginning of period	32,389	2,701
Cash and cash equivalents at end of period	\$ 60,496	\$ 8,374
SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for:		
Interest	\$ 11,422	\$ 4,371
Assets acquired under capital leases	\$ 350	\$ -
Issuance of Series C preferred stock in connection with business acquisition	\$ 1,093	\$ -

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements contained herein consist of the accounts of Hights Cross Communications, Inc. (the "Company"), a Delaware corporation formed in January 1997 to create and build an education and library publishing business, and its subsidiaries. The Company is a holding company that conducts all of its operations through its direct and indirect subsidiaries.

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. The consolidated results of operations of interim periods are not necessarily indicative of results for a full year. All material intercompany accounts and transactions have been eliminated upon consolidation. These financial statements should be read in conjunction with the consolidated financial statements and related notes for the fiscal year ended December 31, 2003. Certain prior year amounts have been reclassified to conform to the current year presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

From time to time, the Company may be involved in various litigation relating to claims which have arisen in the ordinary course of its business. In the opinion of management, the outcome of any such litigation will not have a material adverse impact on the Company's consolidated financial position or results of operations.

2. RECENT ACCOUNTING PRONOUNCEMENTS

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. Instruments that are indexed to and potentially settled in an issuer's own shares that are not within the scope of SFAS No. 150 remain subject to existing guidance.

The adoption of SFAS No. 150 requires that the Company's Series B Senior preferred stock be classified as debt on the Company's consolidated balance sheet because it is mandatorily redeemable at a fixed and determinable date. Dividends and accretion related to the Series B Senior preferred stock, which previously had been recorded below net income (loss)

as a charge in determining net income (loss) available to common stockholders, has been charged to interest expense in the accompanying consolidated statement of operations since the January 1, 2004 adoption of this standard. The Company's Series A preferred stock and Series C preferred stock, which are redeemable beginning in the year 2019 and 2012, respectively, are redeemable at the option of the holders and are not mandatorily redeemable. Accordingly, SFAS No. 150 is not applicable to the Company's Series A preferred stock or Series C preferred stock.

3. ACQUISITION

On April 15, 2004, the Company acquired certain assets and assumed certain liabilities of Buckle Down Publishing Company ("Buckle Down"), an Iowa-based company and a wholly owned subsidiary of Profiles Corporation. The Company acquired Buckle Down to compliment and expand their growing Triumph Learning segment which provides test-prep materials to the supplemental education market. The Company paid \$24,000,000 in cash and issued 3,500 shares of newly authorized Series C preferred stock with a face value of \$1,000 per share. The holder of the Series C preferred stock is entitled to a cumulative 5% dividend per year, compounded quarterly. The initial fair value of the Series C preferred stock was \$1,093,000, at the date of issuance.

This acquisition was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standard No. 141, Business Combinations, and, accordingly the results of operations have been included in the Triumph Learning segment of the consolidated financial statements since the date of acquisition.

The following table presents the preliminary allocation of the purchase price as of June 30, 2004:

<TABLE>	
<S>	
Working capital	<C> \$ 1,893,000
Fixed assets	193,000
Trademarks (indefinite lived)	2,700,000
Customer relationships (definite lived)	6,050,000
Backlist (definite lived)	3,600,000
Non-compete agreement (definite lived)	250,000
Goodwill (indefinite lived)	11,485,000

Total purchase price	\$ 26,171,000
	=====

</TABLE>

The total purchase price of \$26,171,000 includes acquisition costs of \$1,029,000. The allocation of the purchase price is based upon preliminary data and could change upon completion of the independent valuation of intangible assets by a third party valuation firm. The purchase price and its allocation are expected to be completed by September 30, 2004. If, through the valuation process, additional definite lived intangible assets related to the Buckle Down acquisition are identified, amortization expense over the estimated useful lives of the assets will be required, and may impact the balance sheet and results of operations.

The pro-forma results of operations assumes the acquisition of Buckle Down occurred at the beginning of the year.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(UNAUDITED)		(UNAUDITED)	
<S>	<C>		<C>	
Revenue	\$ 51,195,000	\$ 46,425,000	\$ 93,177,000	\$ 86,903,000
Depreciation and amortization	4,078,000	2,883,000	7,528,000	5,564,000
Operating income	9,062,000	10,289,000	16,282,000	18,070,000
Net (loss) income	(3,223,000)	4,256,000	(8,086,000)	7,071,000

</TABLE>

4. DISCONTINUED OPERATIONS

On March 31, 2003, and May 30, 2003, in two separate transactions, the Company sold the assets of its subsidiary Andrews Communications, LLC (including its divisions Oakstone Legal & Business Publishing and Andrews Publishing) for gross proceeds of \$7,991,000 and net proceeds of \$7,550,000. On May 30, 2003, in conjunction with the second transaction, a loss of \$911,000 was recorded on the sale. Andrews Communications, LLC published legal newsletters, books, reports, and related publications to attorneys, law firms, employment professionals, and others.

For the three and six months ended June 30, 2003, Andrews Communications, LLC had revenue of \$456,000 and \$2,005,000, and loss from operations and disposal of discontinued operations of \$1,006,000 and \$1,156,000, respectively.

On April 19, 2004, the Company announced its intention to sell the Oakstone Publishing business. While there was strong interest from prospective purchasers through a sale process conducted in the second quarter, valuations did not meet the Company's expectations and accordingly Oakstone will remain a continuing business of Hights Cross within the Educational Publishing Group.

5. COMPREHENSIVE LOSS

Assets and liabilities of the Company's wholly-owned international subsidiary, WF Howes Ltd., which is located in the United Kingdom, are translated at their respective period-end exchange rates and revenues and expenses are translated at average currency exchange rates for the period. The resulting foreign currency translation adjustments from assets and liabilities are included as "Accumulated other comprehensive loss" and are reflected as a separate component of stockholders' deficit.

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(UNAUDITED)		(UNAUDITED)	
	<C>	<C>	<C>	<C>
Net (loss) income	\$ (3,210,000)	\$ 3,563,000	\$ (8,525,000)	\$ 5,838,000
Add: foreign currency translation adjustment	(35,000)	127,000	31,000	97,000
	\$ (3,245,000)	\$ 3,690,000	\$ (8,494,000)	\$ 5,935,000

</TABLE>

6. INVENTORY

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

<TABLE>
<CAPTION>

	JUNE 30, 2004	DECEMBER 31, 2003
	(UNAUDITED)	
	<C>	<C>
Supplies	\$ 1,184,000	\$ 1,015,000
Work-in-process	529,000	642,000
Finished goods	25,553,000	22,137,000
	27,266,000	23,794,000
Less allowance for obsolescence	4,354,000	1,644,000
	\$ 22,912,000	\$ 22,150,000

</TABLE>

The Company recorded an additional \$2,095,000 in inventory obsolescence in the second quarter of 2004 due to a change in estimate at the Chelsea House segment. This change was necessitated due to the declining sales performance at that segment.

7. FINANCING ARRANGEMENTS

On August 20, 2003, Hights Cross Operating Company ("HCOC") entered into a \$30,000,000 four-year and nine-month senior secured revolving credit facility, and a \$100,000,000 five-year senior secured term loan and issued \$140,000,000 of 11 3/4% senior notes due 2011. HCOC used the net proceeds of these transactions to repay indebtedness under its old senior secured credit facility and to redeem its then outstanding 13.0% senior subordinated notes due 2009. In connection with this refinancing transaction, HCOC incurred an early redemption

premium of \$9,236,000 which was paid to the senior subordinated note holders. As part of the redemption transaction, the Company also cancelled 1,880 warrants for Series A preferred stock with an assigned value of \$1,880,000 and 1,692,169 warrants for common stock held by the senior subordinated note holders.

On December 10, 1999, DLJ Merchant Banking Partners II, L.P. and its affiliates (the "DLJ Parties") acquired shares of the Company's Series B Senior preferred stock and warrants to purchase shares of the Company's Series A preferred stock and common stock. In addition, the DLJ Parties became parties to an investors agreement with the Company pursuant to which DLJ Merchant Banking Partners II, L.P. had the right to designate one member of the Company's board of directors and such director had the right to approve various transactions, including the incurrence, assumption or guarantee by the Company of any indebtedness for borrowed money. On January 22, 2004, the DLJ Parties sold substantially all of their shares and warrants to third parties. In connection with such sale, the investors agreement was amended to eliminate the DLJ Parties' board designation right and the related director approval rights, and the DLJ Parties' board designee resigned from the Company's board of directors. In addition, the DLJ Parties returned to the Company for cancellation 104,770 shares of Series B Senior preferred stock having a liquidation value of \$5,000,000, warrants to purchase 778 shares of Series A preferred stock having a value of \$778,000, and warrants to purchase 743,148 shares of common stock. The Company reversed \$904,000 of discount and fees associated with the return of the Series B Senior preferred stock. The net gain resulting from this transaction has been deferred and classified as a liability in the accompanying consolidated balance sheet. The deferred gain will be amortized against interest expense through December 10, 2011, the date upon which the Series B Senior preferred stock is mandatorily redeemable.

On February 2, 2004, the Company completed an offering of 12 1/2% senior discount notes and received net proceeds of \$73,653,000. The Company used a portion of the proceeds from the sale of the Company's 12 1/2% senior discount notes to repurchase 295,000 outstanding shares of Series B Senior preferred stock at a price equal to 99% of its liquidation value of \$14,140,000. In connection with this repurchase, warrants to purchase 467 shares of Series A preferred stock having a value of \$467,000 and warrants to purchase 451,666 shares of common stock were returned to the Company for cancellation. The Company intends to use the remaining proceeds to fund future acquisitions and for general corporate purposes.

On April 15, 2004, the Company issued 3,500 shares of Series C preferred stock. The Series C preferred stock has a liquidation value of \$1,000 per share plus any accrued but unpaid dividends. The Series C preferred stock accrues quarterly cumulative dividends at an annual rate of 5%. Beginning on April 15, 2012, any Series C preferred stock holder may require the Company to redeem the outstanding shares of Series C preferred stock held by that holder, at a redemption price equal to \$1,000 per share plus any accrued but unpaid dividends. The holder of shares of Series C preferred stock is not entitled to any voting rights. The initial carrying value of the Series C preferred stock was \$1,093,000 and the Company will accrete to the aggregate liquidation value of \$5,209,000 through April 15, 2012 the date the shareholder can require redemption. The Company may, at its option, at any time, redeem shares of Series C preferred stock, in whole or in part at a price equal to 101% of the per share liquidation value.

The Company accounts for their Series B Senior preferred stock, which is mandatorily redeemable, in accordance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The Company's Series B Senior preferred stock is mandatorily redeemable on December 10, 2011, at its liquidation value, plus any accrued but unpaid dividends. The Company's Series A preferred stock and Series C preferred stock, which are redeemable beginning on December 31, 2019 and April 15, 2012, respectively, are redeemable at the option of the holder and are not mandatorily redeemable. Accordingly, SFAS No. 150 is not applicable to our Series A preferred stock or Series C preferred stock.

8. RESTRUCTURING CHARGES

Restructuring charges generally consist of employee termination benefits, costs incurred to consolidate facilities or relocate employees, or costs to terminate contracts, such as operating leases.

During the fourth quarter of 2002, the Company initiated an operations consolidation project under which it consolidated the warehousing and order fulfillment functions of its Triumph Learning, Chelsea House and Sundance/Newbridge subsidiaries at a new warehouse facility. The customer service functions of Triumph Learning

and Sundance/Newbridge were also combined. The objective of the consolidation was to reduce payroll costs and avoid expected increases in lease costs, while providing faster and more accurate order and delivery services. In January 2003, the Company signed the lease for the new warehouse facility and overall completion of the project occurred in March 2004. In connection with this effort, the Company recorded a total restructuring charge of \$2,430,000. In accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities, these costs were not accrued as of December 31, 2002.

Operations consolidation project restructuring activity by type for the three months ended June 30, 2004 (unaudited) is as follows:

<TABLE>
<CAPTION>

	AMOUNT EXPECTED TO BE INCURRED	ACCRUED RESTRUCTURING LIABILITY AS OF MARCH 31, 2004	RESTRUCTURING EXPENSE IN 2004	CASH PAID IN 2004	REVERSALS	ACCRUED RESTRUCTURING LIABILITY AS OF JUNE 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Severance and related.....	\$ 600,000	\$ 173,000	\$ --	\$ 94,000	\$ --	\$ 79,000
Lease terminations costs.....	730,000	111,000	--	30,000	--	81,000
Relocation and other.....	1,100,000	47,000	--	22,000	--	25,000
	\$ 2,430,000	\$ 331,000	\$ --	\$ 146,000	\$ --	\$ 185,000

</TABLE>

Operations consolidation project restructuring activity by segment for the three months ended June 30, 2004 (unaudited) is as follows:

<TABLE>
<CAPTION>

	AMOUNT EXPECTED TO BE INCURRED	ACCRUED RESTRUCTURING LIABILITY AS OF MARCH 31, 2004	RESTRUCTURING EXPENSE IN 2004	CASH PAID IN 2004	REVERSALS	ACCRUED RESTRUCTURING LIABILITY AS OF JUNE 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sundance/Newbridge....	\$ 750,000	\$ 49,000	\$ --	\$ 36,000	\$ --	\$ 13,000
Chelsea House.....	1,000,000	282,000	--	110,000	--	172,000
Triumph Learning.....	560,000	--	--	--	--	--
Corporate.....	120,000	--	--	--	--	--
	\$ 2,430,000	\$ 331,000	\$ --	\$ 146,000	\$ --	\$ 185,000

</TABLE>

Operations consolidation project restructuring activity by type for the six months ended June 30, 2004 (unaudited) is as follows:

<TABLE>
<CAPTION>

	AMOUNT EXPECTED TO BE INCURRED	ACCRUED RESTRUCTURING LIABILITY AS OF DECEMBER 31, 2003	RESTRUCTURING EXPENSE IN 2004	CASH PAID IN 2004	REVERSALS	ACCRUED RESTRUCTURING LIABILITY AS OF JUNE 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Severance and related.....	\$ 600,000	\$ 103,000	\$ 244,000	\$ 268,000	\$ --	\$ 79,000
Lease terminations costs.....	730,000	155,000	--	74,000	--	81,000
Relocation and other.....	1,100,000	33,000	110,000	118,000	--	25,000
	\$ 2,430,000	\$ 291,000	\$ 354,000	\$ 460,000	\$ --	\$ 185,000

</TABLE>

The Company has expensed inception to date for this project \$827,000, \$523,000 and \$1,144,000 for severance and related, lease termination costs and relocation and other, respectively.

Operations consolidation project restructuring activity by segment for the six months ended June 30, 2004 (unaudited) is as follows:

<TABLE>
<CAPTION>

	AMOUNT EXPECTED TO BE INCURRED	ACCRUED RESTRUCTURING LIABILITY AS OF MARCH 31, 2004	RESTRUCTURING EXPENSE IN 2004	CASH PAID IN 2004	REVERSALS	ACCRUED RESTRUCTURING LIABILITY AS OF JUNE 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sundance/Newbridge.....	\$ 750,000	\$ 93,000	\$ --	\$ 81,000	\$ --	\$ 12,000
Chelsea House.....	1,000,000	198,000	354,000	379,000	--	173,000
Triumph Learning.....	560,000	--	--	--	--	--
Corporate.....	120,000	--	--	--	--	--
	\$ 2,430,000	\$ 291,000	\$ 354,000	\$ 460,000	\$ --	\$ 185,000

</TABLE>

The Company has expensed inception to date for this project \$639,000, \$1,257,000, \$479,000 and \$119,000 at Sundance/Newbridge, Chelsea House, Triumph Learning and Corporate, respectively.

During the second quarter of 2004, the Company initiated a management restructuring project under which it consolidated the executive management and accounting functions of its Chelsea House subsidiary into Sundance/Newbridge. The objective of the consolidation was to reduce payroll costs and avoid expected increases in lease costs. In connection with this effort, the Company expects to record a total restructuring charge of \$528,000 at the Chelsea House segment.

Management restructuring project activity by type for the three and six months ended June 30, 2004 (unaudited) is as follows:

<TABLE>
<CAPTION>

	AMOUNT EXPECTED TO BE INCURRED	ACCRUED RESTRUCTURING LIABILITY AS OF MARCH 31, 2004	RESTRUCTURING EXPENSE IN 2004	CASH PAID IN 2004	REVERSALS	ACCRUED RESTRUCTURING LIABILITY AS OF JUNE 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Severance and related.....	\$ 445,000	\$ --	\$ 445,000	\$ 57,000	\$ --	\$ 388,000
Relocation and other.....	83,000	--	83,000	83,000	--	--
	\$ 528,000	\$ --	\$ 528,000	\$ 140,000	\$ --	\$ 388,000

</TABLE>

9. SEGMENT REPORTING

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

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

The results of operations and other data for the five operating segments and the corporate parent for the three and six months ended June 30, 2004 and 2003 (unaudited) are as follows:

<TABLE>
<CAPTION>

	SUNDANCE/ NEWBRIDGE	TRIUMPH LEARNING	OAKSTONE	TOTAL EDUCATION PUBLISHING GROUP	RECORDED BOOKS	CHELSEA HOUSE	TOTAL LIBRARY PUBLISHING GROUP	CORPORATE	CONSO- LIDATED
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	(in thousands)								
THREE MONTHS ENDED									
JUNE 30, 2004									
(UNAUDITED)									
Revenue	\$ 18,570	\$ 7,454	\$ 4,420	\$ 30,444	\$ 16,952	\$ 3,496	\$ 20,448	\$ -	\$ 50,892
Cost of goods sold	4,736	1,686	1,224	7,646	7,131	2,985	10,116	-	17,762
Marketing and sales	3,695	1,550	1,409	6,654	2,941	621	3,562	-	10,216
Fulfillment and distribution	1,425	606	456	2,487	1,080	243	1,323	-	3,810
General and administrative	845	1,045	543	2,433	1,314	922	2,236	1,330	5,999
Amortization of									
pre-publication costs	751	390	97	1,238	927	913	1,840	-	3,078
Depreciation and amortization									
of property and equipment	168	67	125	360	169	35	204	52	616
Amortization of intangible									
assets	3	324	-	327	9	-	9	-	336
Income (loss) from operations	\$ 6,947	\$ 1,786	\$ 566	\$ 9,299	\$ 3,381	\$ (2,223)	\$ 1,158	\$ (1,382)	\$ 9,075
Interest expense	\$ 1,129	\$ 1,981	\$ 881	\$ 3,991	\$ 2,266	\$ 1,598	\$ 3,864	\$ 4,028	\$ 11,883
Capital expenditures -									
pre-publication costs	1,367	694	25	2,086	1,230	566	1,796	-	3,882
Capital expenditures -									
property and equipment	121	(a) 397	23	541	187	67	254	12	807
(a) Includes \$350,000 of assets purchased under a capital lease.									
THREE MONTHS ENDED									
JUNE 30, 2003									
(UNAUDITED)									
Revenue	\$ 16,162	\$ 4,764	\$ 4,350	\$ 25,276	\$ 15,184	\$ 3,649	\$ 18,833	\$ -	\$ 44,109
Cost of goods sold	4,003	1,033	1,192	6,228	6,167	886	7,053	-	13,281
Marketing and sales	3,372	1,241	1,159	5,772	2,698	724	3,422	-	9,194
Fulfillment and distribution	990	550	380	1,920	1,003	291	1,294	-	3,214
General and administrative	1,215	1,277	537	3,029	1,266	773	2,039	1,124	6,192
Amortization of									
pre-publication costs	505	360	91	956	646	463	1,109	-	2,065
Depreciation and amortization									
of property and equipment	151	26	141	318	169	26	195	52	565
Income (loss) from operations	\$ 5,926	\$ 277	\$ 850	\$ 7,053	\$ 3,235	\$ 486	\$ 3,721	\$ (1,176)	\$ 9,598
Interest expense	\$ 642	\$ 939	\$ 568	\$ 2,149	\$ 1,519	\$ 894	\$ 2,413	\$ (220)	\$ 4,342
Capital expenditures -									
pre-publication costs	1,049	597	41	1,687	764	834	1,598	-	3,285
Capital expenditures -									
property and equipment	699	21	68	788	157	26	183	18	989

</TABLE>

<TABLE>
<CAPTION>

	SUNDANCE/ NEWBRIDGE	TRIUMPH LEARNING	OAKSTONE	TOTAL EDUCATION PUBLISHING GROUP	RECORDED BOOKS	CHELSEA HOUSE	TOTAL LIBRARY PUBLISHING GROUP	CORPORATE	CONSO- LIDATED
<S>	<C>	<C>	<C>	<C>	(in thousands)		<C>	<C>	<C>
SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)					<C>	<C>			
Revenue	\$ 26,912	\$ 15,371	\$ 8,307	\$ 50,590	\$ 33,558	\$ 6,307	\$ 39,865	\$ -	\$ 90,455
Cost of goods sold	6,816	3,279	2,326	12,421	13,572	3,741	17,313	-	29,734
Marketing and sales	6,372	3,257	2,693	12,322	5,828	1,151	6,979	-	19,301
Fulfillment and distribution	2,302	1,072	866	4,240	2,126	505	2,631	-	6,871
General and administrative	1,563	2,167	1,093	4,823	2,656	1,722	4,378	2,299	11,500
Amortization of pre-publication costs	1,463	831	193	2,487	1,737	1,448	3,185	-	5,672
Depreciation and amortization of property and equipment	345	89	249	683	340	65	405	109	1,197
Amortization of intangible assets	3	324	-	327	9	-	9	-	336
Income (loss) from operations	\$ 8,048	\$ 4,352	\$ 887	\$ 13,287	\$ 7,290	\$ (2,325)	\$ 4,965	\$ (2,408)	\$ 15,844
Interest expense	\$ 1,542	\$ 2,784	\$ 1,361	\$ 5,687	\$ 3,422	\$ 2,498	\$ 5,920	\$ 11,693	\$ 23,300
Capital expenditures - pre-publication costs	2,162	1,144	88	3,394	1,986	1,183	3,169	-	6,563
Capital expenditures - property and equipment	357	(a) 435	55	847	452	150	602	30	1,479
Total assets	57,516	58,558	25,771	141,845	96,378	14,212	110,590	78,031	330,466
(a) Includes \$350,000 of assets purchased under a capital lease.									
SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED)									
Revenue	\$ 24,148	\$ 11,714	\$ 8,211	\$ 44,073	\$ 30,983	\$ 7,180	\$ 38,163	\$ -	\$ 82,236
Cost of goods sold	6,022	2,683	2,269	10,974	12,497	1,726	14,223	-	25,197
Marketing and sales	5,737	2,782	2,319	10,838	5,208	1,376	6,584	-	17,422
Fulfillment and distribution	1,569	1,039	756	3,364	1,995	590	2,585	-	5,949
General and administrative	2,359	2,133	981	5,473	2,448	1,465	3,913	2,381	11,767
Amortization of pre-publication costs	985	690	182	1,857	1,265	896	2,161	-	4,018
Depreciation and amortization of property and equipment	253	53	244	550	319	50	369	122	1,041
Income (loss) from operations	\$ 7,223	\$ 2,334	\$ 1,460	\$ 11,017	\$ 7,251	\$ 1,077	\$ 8,328	\$ (2,503)	\$ 16,842
Interest expense	\$ 1,283	\$ 1,877	\$ 1,136	\$ 4,296	\$ 3,038	\$ 1,788	\$ 4,826	\$ (261)	\$ 8,861
Capital expenditures - pre-publication costs	2,138	1,028	86	3,252	1,841	1,717	3,558	-	6,810
Capital expenditures - property and equipment	1,209	24	121	1,354	401	66	467	26	1,847
Total assets	52,782	30,003	24,691	107,476	93,637	15,759	109,396	14,896	231,768

</TABLE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

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

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

OPERATING GROUPS

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

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

In April 2004, we announced a plan to divest the Oakstone Publishing business. While there was strong interest from prospective purchasers through a sale process conducted in the second quarter, valuations did not meet our expectations. Accordingly, Oakstone Publishing will remain a continuing business within our Educational Publishing Group.

On April 15, 2004 we acquired the assets and assumed certain liabilities of Buckle Down Publishing which will be reported within our Triumph Learning segment prospectively from the acquisition date.

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

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Changes in facts, circumstances and market conditions may result in revised estimates.

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

REVENUE AND EXPENSE RECOGNITION

In accordance with industry practice, we recognize revenue from books and other non-subscription sales when the product is shipped to the customer. Product shipment terms are FOB shipping point and collectability is reasonably assured at the time of shipment. Subscription revenue is deferred and recognized as the subscription is fulfilled. Revenue is recognized net of provisions for estimated returns. These estimated return provisions are based upon historical experience and other industry factors including management's expectations. Actual return experience is monitored and any significant change from management's expectations 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, audio tape, printing, binding and duplication and author royalty expenses.

PRE-PUBLICATION COSTS

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

Under SFAS No. 142, goodwill is subject to an annual impairment test as well as an interim test if an event occurs or circumstances change between annual tests indicating that the asset might be impaired. The impairment test is a two-step process. First, the fair value of the reporting unit is compared to its carrying value. If the fair value is less than the carrying value, a second step is performed. In the second step, an implied goodwill value is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If implied fair value of the goodwill, as calculated, is less than the carrying amount of the goodwill, an impairment charge is taken for the difference. For purposes of estimating the fair value of the reporting unit, we use a discounted cash flow approach, since our common stock is not publicly traded and a quoted market price is unavailable.

DIRECT RESPONSE ADVERTISING COSTS

Direct response advertising costs are incurred to solicit sales from potential new customers who can be shown to have responded specifically to an advertising campaign that results in probable future economic benefits. We have two types of direct response advertising costs: direct mail and catalogs. We are able to track the revenue, costs and profitability from these advertising efforts at the campaign level. Both the direct mail and catalog campaign costs are capitalized and the net recoverability is evaluated on a product-by-product basis at the campaign level. The life and amortization rate are determined by historical experience from similar products at the same business. Generally, greater than 90% of direct mail costs are amortized in the first year, with all costs being amortized over lives ranging from 12-18 months. The sole exception to this policy is the direct mail costs relating 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 subsequent renewal periods. The rate of amortization is based on the expiration and cancellation rate of subscribers for similar subscription products.

Catalog costs are amortized on an accelerated basis over the estimated life of the catalog, generally between one and eighteen months with greater than 90% of catalog costs being amortized in the first year. The life and amortization rate is 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, 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

We have 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 our board of directors using commonly employed valuation methods. Awards under the plan generally vest over three years, although vesting may also be based on the achievement of performance goals.

We account for stock options by following the fair value method under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." 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.

INCOME TAXES

We account for income taxes pursuant to the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recorded to reflect the future tax consequences attributable to the effects of differences between carrying amounts of existing assets and liabilities for financial reporting and for income tax purposes. A history of generating taxable income is required in order to substantiate the recording of a net tax asset. Because we have not yet generated taxable income, we have placed a 100% valuation allowance on our net tax benefits. We will re-evaluate the deferred tax valuation allowance based on future earnings.

LONG-TERM DEBT AND REDEEMABLE CAPITAL STOCK

We have had and continue to have significant obligations pursuant to which interest and/or dividends are accrued and not paid in cash. These obligations consist of the old senior subordinated notes (which have been redeemed in full) and our Series A preferred stock, Series B Senior preferred stock and Series C preferred stock.

We issued warrants to purchase shares of our common stock and Series A preferred stock in connection with the issuance of our old senior subordinated notes due 2009 and our Series B Senior preferred stock. Accounting Principles Board Opinion No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", requires that the portion of the proceeds of the old senior subordinated notes due 2009 and Series B Senior preferred stock that is allocable to the warrants should be accounted for as paid-in capital. The allocation is based on the relative fair values of the old senior subordinated notes due 2009, Series B Senior preferred stock, common stock warrants and Series A preferred stock warrants at the time of issuance. The resulting discounts on the old senior subordinated notes due 2009 were recorded initially as a reduction to the carrying amount of such notes and were amortized as a component of interest expense over the life of such notes. In connection with the August 20, 2003 refinancing transaction, all outstanding warrants to purchase shares of Series A preferred stock and warrants to purchase shares of common stock issued with such notes were canceled.

On December 10, 1999, DLJ Merchant Banking Partners II, L.P. and its affiliates (the "DLJ Parties") acquired shares of our Series B Senior preferred stock and warrants to purchase shares of our Series A preferred stock and common stock. In addition, the DLJ Parties became parties to an investors agreement with us pursuant to which DLJ Merchant Banking Partners II, L.P. had the right to designate one member of our board of directors and such director had the right to approve various transactions, including the incurrence, assumption or guarantee by us of any

indebtedness for borrowed money. On January 22, 2004, the DLJ Parties sold substantially all of their shares and warrants to third parties. In connection with such sale, the investors agreement was amended to eliminate the DLJ Parties' board designation right and the related director approval rights, and the DLJ Parties' board designee resigned from our board of directors. In addition, the DLJ Parties returned to us for cancellation 104,770 shares of Series B Senior preferred stock having a liquidation value of \$5.0 million, warrants to purchase 778 shares of Series A preferred stock having a value of \$0.8 million, and warrants to purchase 743,148 shares of common stock. We reversed \$0.9 million of discount and fees associated with the return of the Series B Senior preferred stock. The net gain resulting from this transaction has been deferred and classified as a liability in the accompanying consolidated balance sheet. The deferred gain will be amortized against interest expense through December 10, 2011, the Series B Senior preferred stock mandatory redemption date.

On February 2, 2004, we completed an offering of 12-1/2% senior discount notes and received net proceeds of \$73.7 million. We used a portion of the proceeds from the sale to repurchase 295,000 outstanding shares of Series B Senior preferred stock at a price equal to 99% of its carrying value of \$14.1 million. In connection with this repurchase, warrants to purchase 467 shares of Series A preferred stock having a value of \$0.5 million and warrants to purchase 451,666 shares of common stock were returned to us for cancellation. We reversed \$0.5 million of discount and fees associated with the return of the Series B Senior preferred stock. We have used a portion of these proceeds towards the acquisition of Buckle Down Publishing and intend to use the remaining proceeds to fund future acquisitions and for general corporate purposes.

On April 15, 2004, we issued 3,500 shares of Series C preferred stock. The Series C preferred stock has a liquidation value of \$1,000 per share plus any accrued but unpaid dividends. The Series C preferred stock accrues quarterly cumulative dividends at an annual rate of 5%. Beginning on April 15, 2012, any holder of Series C preferred stock may require us to redeem the outstanding shares of Series C preferred stock held by that holder, at a redemption price equal to \$1,000 per share plus any accrued but unpaid dividends. The holder of shares of Series C preferred stock is not entitled to any voting rights. The fair value of the Series C preferred stock at inception was \$1,093,000 and we will accrete to the aggregate liquidation value of \$5,209,000 through April 15, 2012, the earliest date the shareholder can require redemption. We may, at our option, at any time, redeem shares of Series C preferred stock, in whole or in part at a price equal to 101% of the per share liquidation value.

We account for our Series B Senior preferred stock, which is mandatorily redeemable, in accordance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Our Series B Senior preferred stock is mandatorily redeemable on December 10, 2011, at its liquidation value, plus any accrued but unpaid dividends. Our Series A preferred stock and Series C preferred stock, which are redeemable beginning on December 31, 2019 and April 15, 2012, respectively, are redeemable at the option of the holder and are not mandatorily redeemable. Accordingly, SFAS No. 150 is not applicable to our Series A preferred stock or Series C preferred stock.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

REVENUE

Revenue increased \$6.8 million, or 15.4%, to \$50.9 million for the three months ended June 30, 2004, from \$44.1 million for the three months ended June 30, 2003.

EDUCATION PUBLISHING GROUP. Revenue from the Education Publishing Group increased \$5.2 million, or 20.4%, to \$30.4 million for the three months ended June 30, 2004, from \$25.3 million for the three months ended June 30, 2003. Sundance/Newbridge's revenue increased \$2.4 million, or 14.9%, to \$18.6 million for the three months ended June 30, 2004, from \$16.2 million for the three months ended June 30, 2003. The increase was mostly due to two large district level school sales which provided more than \$2.5 million in revenue for June 2004. Revenue at Triumph Learning increased \$2.7 million, or 56.5%, to \$7.5 million for the three months ended June 30, 2004 from \$4.8 million for the three months ended June 30, 2003. This increase was primarily due to \$1.8 million in revenue from the newly acquired Buckle Down Publishing as well as continued strong sales of state specific test-prep

products. Revenue at Oakstone for the three months ended June 30, 2004 increased \$0.1 million, or 1.6%, to \$4.4 million from \$4.3 million for the three months ended June 30, 2003.

LIBRARY PUBLISHING GROUP. Revenue from the Library Publishing Group increased \$1.6 million, or 8.6%, to \$20.4 million for the three months ended June 30, 2004, from \$18.8 million for the three months ended June 30, 2003. Revenue at Recorded Books increased \$1.8 million, or 11.6%, to \$17.0 million for the three months ended June 30, 2004 from \$15.2 million for the three months ended June 30, 2003 resulting from increases in the school, library and retail channels. Revenue at Chelsea House decreased \$0.2 million, or 4.2%, to \$3.5 million for the three months ended June 30, 2004, from \$3.6 million for the three months ended June 30, 2003 due to continued softness in library spending on traditional materials.

COST OF GOODS SOLD

Cost of goods sold increased \$4.5 million, or 33.7%, to \$17.8 million for the three months ended June 30, 2004 from \$13.3 million for the three months ended June 30, 2003. The gross margin as a percentage of revenue for the three months ended June 30, 2004 decreased to 65.1% from 69.9% for the three months ended June 30, 2003. The decline in gross margin as a percentage of revenue is primarily due to unfavorable variances in period over period inventory obsolescence charges, most notably at Chelsea House which incurred a non-cash, non-recurring charge of \$2.1 million related to a change in estimate concerning remaining unit sales from existing product lines.

EDUCATION PUBLISHING GROUP. Cost of goods sold for the Education Publishing Group increased \$1.4 million, or 22.8%, to \$7.6 million for the three months ended June 30, 2004 from \$6.2 million for the three months ended June 30, 2003, while the gross margin decreased to 74.9% from 75.4% period over period. At Sundance/Newbridge, the cost of goods sold increased \$0.7 million, or 18.3%, to \$4.7 million from \$4.0 million and the gross margin decreased to 74.5% from 75.2% quarter over quarter. The majority of this decrease was from lower margins on the two large district level school sales described above, increased product research costs and lower margins from distributed products. Cost of goods sold for Triumph Learning increased \$0.7 million, or 63.2% to \$1.7 million from \$1.0 million, and gross margin decreased to 77.4% from 78.3% quarter over quarter. The majority of this drop was due to 2003 benefiting from a decrease in inventory obsolescence reserve. Cost of goods sold at Oakstone was \$1.2 million for both periods, while the gross margin declined to 72.3% from 72.6% period over period.

LIBRARY PUBLISHING GROUP. Cost of goods sold for the Library Publishing Group increased \$3.1 million, or 43.4%, to \$10.1 million for the three months ended June 30, 2004 from \$7.1 million for the three months ended June 30, 2003 while gross margin declined to 50.5% from 62.6%. The cost of goods sold for Recorded Books increased \$1.0 million, or 15.6%, to \$7.1 million from \$6.2 million while the gross margin for Recorded Books decreased to 57.9% from 59.4%. The decline in gross margin is primarily due to royalty advance and inventory obsolescence provision adjustments both related to a new large print product line. Cost of goods sold for Chelsea House increased \$2.1 million to \$3.0 million from \$0.9 million quarter over quarter due to the non-cash, non-recurring \$2.1 million inventory obsolescence charge related to a change in estimate concerning remaining unit sales from existing product lines.

SELLING, GENERAL & ADMINISTRATIVE EXPENSE

Selling, general and administrative expense is comprised of marketing and sales, fulfillment and distribution, general and administrative and restructuring charges on the accompanying consolidated statements of operations. Selling, general and administrative expense increased \$1.4 million, or 7.7%, to \$20.0 million for the three months ended June 30, 2004 from \$18.6 million for the three months ended June 30, 2003, primarily due to additional sales commission and fulfillment costs resulting from our revenue growth for the period and investments in additional in-house sales reps in several businesses. Selling, general and administrative expense as a percentage of revenue decreased to 39.3% for the three months ended June 30, 2004 from 42.2% for the three months ended June 30, 2003.

EDUCATION PUBLISHING GROUP. Selling, general and administrative expense for the Education Publishing Group increased \$0.9 million, or 7.9%, to \$11.6 million for the three months ended June 30, 2004 from \$10.7 million for the three months ended June 30, 2003. Selling, general and administrative expense for Sundance/Newbridge and

Triumph Learning increased \$0.4 million and \$0.1 million, respectively, due to revenue driven increases in selling and fulfillment and distribution expenses and investments in our in-house sales reps offset partially by lower restructuring and restructuring related expenses. Selling, general and administrative expense for Oakstone Publishing increased \$0.3 million as a result of additional fulfillment and distribution expenses related to higher Oakstone Health and Wellness newsletter sales and greater marketing expenses due to increased marketing efforts, including additional direct mail.

LIBRARY PUBLISHING GROUP. Selling, general and administrative expense for the Library Publishing Group increased \$0.4 million, or 5.4%, to \$7.1 million for the three months ended June 30, 2004 from \$6.8 million for the three months ended June 30, 2003. Selling, general and administrative expense for Recorded Books increased \$0.4 million, primarily due to the higher revenue. Selling, general and administrative expense at Chelsea House remained unchanged at \$1.8 million.

CORPORATE. Our corporate level general and administrative expense increased \$0.2 million, or 18.2%, to \$1.3 million for the three months ended June 30, 2004 from \$1.1 million for the three months ended June 30, 2003.

INTEREST EXPENSE

Interest expense increased \$7.5 million to \$11.9 million for the three months ended June 30, 2004 from \$4.3 million for the three months ended June 30, 2003. This increase was primarily related to the adoption of SFAS No. 150 as of January 1, 2004 which required our Series B Senior preferred stock dividends and accretion to be included in interest expense, and the issuance of our 12-1/2% senior discount notes on February 2, 2004. Our total outstanding debt increased from \$199.5 million as of June 30, 2003 to \$416.8 million as of June 30, 2004. This is primarily related to the adoption of SFAS No. 150 which required our Series B Senior preferred stock to be included in total debt as of January 1, 2004, and the issuance of our 12-1/2% senior discount notes.

Cash interest expense increased \$3.7 million to \$5.8 million for the three months ended June 30, 2004 from \$2.1 million for the three months ended June 30, 2003. The increase in cash interest was the result of the August 20, 2003 refinancing transaction where our old paid-in-kind interest bearing senior subordinated notes were retired, and were replaced with a floating rate senior secured term loan and 11-3/4% senior notes bearing cash interest. Our cash interest bearing outstanding debt was \$239.3 million as of June 30, 2004 compared to \$136.8 million as of June 30, 2003.

Interest expense consists of the following:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
	(UNAUDITED)	
<S>	<C>	<C>
Interest expense:		
Senior secured term loan	\$ 1,633,000	\$ --
11-3/4% senior notes	4,112,000	--
12-1/2% senior discount notes - non-cash	2,311,000	--
Series B Senior preferred stock - non-cash	3,751,000	--
Secured bank loan	--	2,140,000
Subordinated notes - non-cash	--	2,202,000
Other	76,000	--
Interest expense	<u>\$11,883,000</u>	<u>\$ 4,342,000</u>

</TABLE>

DISCONTINUED OPERATIONS

In November 2002, we initiated a plan to sell our Andrews Communications, LLC subsidiary, which included our Andrews Publishing and Oakstone Legal & Business Publishing divisions. The results of operations of Andrews Communications have been classified as a discontinued operation in our consolidated statements of operations. For the three months ended June 30, 2003, Andrews Communications had revenue of \$0.5 million and net loss of \$0.1

million. On March 31, 2003 and May 30, 2003, in two separate transactions, we sold the assets of Andrews Communications for gross proceeds of \$8.0 million and net proceeds of \$7.6 million. On May 30, 2003, in conjunction with the second transaction, we recorded a loss on sale of \$0.9 million. The net proceeds of the sales were used to pay down debt under our old senior secured credit facility.

NET INCOME (LOSS)

Net loss for the three months ended June 30, 2004, was \$3.2 million compared to net income of \$3.6 million for the three months ended June 30, 2003. A large portion of this decrease was due to the adoption of SFAS No. 150 in which our Series B Senior preferred stock dividends and accretion of \$3.8 million for the three months ended June 30, 2004 are now charged to interest expense. In addition, cash interest expense increased \$3.7 million as a result of the August 2003 financing transaction and amortization of pre-publication costs increased \$1.0 million due to the increased investment in pre-publication costs in the preceding years and a non-cash non-recurring charge of \$0.4 million due to a change in estimate concerning remaining unit sales from existing product lines. In addition, amortization of intangibles increased \$0.3 million for amortization of other intangibles related to the acquisition of Buckle Down Publishing on April, 15, 2004. For the quarter ended June 2003, net income was reduced by \$1.0 million due to the loss from sale of Andrews Communications.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

REVENUE

Revenue increased \$8.2 million, or 10.0%, to \$90.5 million for the six months ended June 30, 2004, from \$82.2 million for the six months ended June 30, 2003.

EDUCATION PUBLISHING GROUP. Revenue from the Education Publishing Group increased \$6.5 million, or 14.8%, to \$50.6 million for the six months ended June 30, 2004, from \$44.1 million for the six months ended June 30, 2003. Sundance/Newbridge's revenue increased \$2.8 million, or 11.4%, to \$26.9 million for the six months ended June 30, 2004, from \$24.1 million for the six months ended June 30, 2003. The two large district level school sales accounted for more than \$2.5 million of this increase. Revenue at Triumph Learning increased \$3.7 million, or 31.2%, to \$15.4 million for the six months ended June 30, 2004 from \$11.7 million for the six months ended June 30, 2003. This increase was due to the additional \$1.8 million of revenue from the newly acquired Buckle Down Publishing and strong year over year sales of state specific test-prep products. Oakstone's revenue increased slightly by \$0.1 million, or 1.2% to \$8.3 million for the six months ended June 30, 2004 from \$8.2 million for the six months ended June 30, 2003.

LIBRARY PUBLISHING GROUP. Revenue from the Library Publishing Group increased \$1.7 million, or 4.5%, to \$39.9 million for the six months ended June 30, 2004, from \$38.2 million for the six months ended June 30, 2003. Revenue at Recorded Books increased \$2.6 million, or 8.3%, to \$33.6 million for the six months ended June 30, 2004 from \$31.0 million for the six months ended June 30, 2003. The increase over the prior year is attributable to the retail, schools and library revenue channels. Revenue at Chelsea House decreased \$0.9 million, or 12.2%, to \$6.3 million for the six months ended June 30, 2004, from \$7.2 million for the six months ended June 30, 2003 due to continued softness in library spending on traditional materials.

COST OF GOODS SOLD

Cost of goods sold increased \$4.5 million, or 18.0%, to \$29.7 million for the six months ended June 30, 2004 from \$25.2 million for the six months ended June 30, 2003. The gross margin as a percentage of revenue for the six months ended June 30, 2004 decreased to 67.1% from 69.4% for the six months ended June 30, 2003 primarily due to the inventory obsolescence charge at Chelsea House described below.

EDUCATION PUBLISHING GROUP. Cost of goods sold for the Education Publishing Group increased \$1.4 million, or 13.2%, to \$12.4 million for the six months ended June 30, 2004 from \$11.0 million for the six months ended June 30, 2003, while the gross margin increased to 75.4% from 75.1% period over period. At Sundance/Newbridge cost of goods sold increased \$0.8 million, or 13.2%, to \$6.8 million from \$6.0 million primarily due to the revenue

increase. However, gross margin decreased to 74.7% from 75.1% as a result of higher product costs, period over period. Cost of goods sold for Triumph Learning increased \$0.6 million, or 22.2%, to \$3.3 million from \$2.7 million due to the increased revenue while the gross margin increased to 78.7% from 77.1% period over period. Cost of goods sold at Oakstone was \$2.3 million for both periods and gross margin declined to 72.0% from 72.4% period over period.

LIBRARY PUBLISHING GROUP. Cost of goods sold for the Library Publishing Group increased \$3.1 million, or 21.7%, to \$17.3 million from \$14.2 million and gross margin declined to 56.6% from 62.7% period over period. The cost of goods sold for Recorded Books increased \$1.1 million, or 8.6%, to \$13.6 million from \$12.5 million while the gross margin declined slightly to 59.6% from 59.7% period over period. Cost of goods sold for Chelsea House increased \$2.0 million to \$3.7 million from \$1.7 million and gross margin declined to 40.7% from 76.0% due to the non-cash, non-recurring \$2.1 million inventory obsolescence charge related to a change in estimate concerning remaining unit sales from existing product lines, recorded in June 2004.

SELLING, GENERAL & ADMINISTRATIVE EXPENSE

Selling, general and administrative expense is comprised of marketing and sales, fulfillment and distribution, general and administrative and restructuring charges on the accompanying consolidated statements of operations. Selling, general and administrative expense increased \$2.5 million, or 7.2%, to \$37.7 million for the six months ended June 30, 2004 from \$35.1 million for the six months ended June 30, 2003. This increase is attributable to additional sales commission and fulfillment costs resulting from the revenue growth, the addition of new in-house sales reps in several businesses and increased marketing efforts offset partially by lower restructuring expenses in 2004. Selling, general and administrative expense as a percentage of revenue decreased to 41.6% for the six months ended June 30, 2004 from 42.7% for the six months ended June 30, 2003.

EDUCATION PUBLISHING GROUP. Selling, general and administrative expense for the Education Publishing Group increased \$1.7 million, or 8.7%, to \$21.4 million for the six months ended June 30, 2004 from \$19.7 million for the six months ended June 30, 2003. Selling, general and administrative expense for Sundance/Newbridge increased \$0.6 million due to revenue driven increases in selling related expenses, including commissions and investments in in-house sales reps, along with a corresponding increase in fulfillment and distribution costs. The period over period increase in expense was partially offset by a decline in restructuring and restructuring related expenses. Selling, general and administrative expenses at Triumph Learning increased \$0.5 million due to revenue driven increases in commissions partially offset by lower restructuring and restructuring related expenses in 2004. Selling, general and administrative expense at Oakstone increased \$0.6 million due to increased marketing in 2004 and fulfillment costs on increased ancillary and newsletter sales.

LIBRARY PUBLISHING GROUP. Selling, general and administrative expense for the Library Publishing Group increased \$0.9 million, or 6.9%, to \$14.0 million for the six months ended June 30, 2004 from \$13.1 million for the six months ended June 30, 2003. Selling, general and administrative expense for Recorded Books increased \$1.0 million, due to the addition of in-house sales reps and revenue driven increases in commissions and fulfillment costs. Selling, general and administrative expense at Chelsea House remained unchanged at \$3.4 million.

CORPORATE. Corporate level general and administrative expense decreased \$0.1 million, or 3.5%, to \$2.3 million for the six months ended June 30, 2004 from \$2.4 million for the six months ended June 30, 2003.

INTEREST EXPENSE

Interest expense increased \$14.4 million to \$23.3 million for the six months ended June 30, 2004 from \$8.9 million for the six months ended June 30, 2003. This increase was primarily related to the adoption of SFAS No. 150 as of January 1, 2004 which required our Series B Senior preferred stock dividends and accretion to be included in interest expense, and the issuance of our 12-1/2% senior discount notes on February 2, 2004. Our total outstanding debt increased from \$199.5 million as of June 30, 2003 to \$416.8 million as of June 30, 2004. This is primarily related to the adoption of SFAS No. 150 which required our Series B Senior preferred stock to be included in total debt as of January 1, 2004, and the issuance of our 12-1/2% senior discount notes.

Cash interest expense increased \$7.2 million to \$11.7 million for the six months ended June 30, 2004 from \$4.5 million for the six months ended June 30, 2003. The increase in cash interest was the result of the August 20, 2003 refinancing transaction where our old paid-in-kind interest bearing senior subordinated notes were retired, and were replaced with a floating rate senior secured term loan and 11-3/4% senior notes bearing cash interest. Our cash interest bearing outstanding debt was \$239.3 million as of June 30, 2004 compared to \$136.8 million as of June 30, 2003.

Interest expense consists of the following:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(UNAUDITED)	
<S>	<C>	<C>
Interest expense:		
Senior secured term loan	\$ 3,342,000	\$ --
11-3/4% senior notes	8,179,000	--
12-1/2% senior discount notes - non-cash	3,765,000	--
Series B Senior preferred stock - non-cash	7,862,000	--
Secured bank loan	--	4,482,000
Subordinated notes - non-cash	--	4,379,000
Other	152,000	--
Interest expense	\$23,300,000	\$ 8,861,000

</TABLE>

DISCONTINUED OPERATIONS

In November 2002, we initiated a plan to sell our Andrews Communications, LLC subsidiary, which included our Andrews Publishing and Oakstone Legal & Business Publishing divisions. The results of operations of Andrews Communications have been classified as a discontinued operation in our consolidated statements of operations. For the six months ended June 30, 2003, Andrews Communications had revenue of \$2.0 million and net loss of \$0.3 million. On March 31, 2003 and May 30, 2003, in two separate transactions, we sold the assets of Andrews Communications for gross proceeds of \$8.0 million and net proceeds of \$7.6 million. On May 30, 2003, in conjunction with the second transaction, we recorded a loss on sale of \$0.9 million. The net proceeds of the sales were used to pay down debt under our old senior secured credit facility.

NET INCOME (LOSS)

Net loss for the six months ended June 30, 2004, was \$8.5 million compared to net income of \$5.8 million for the six months ended June 30, 2003. A large portion of this decrease was due to the adoption of SFAS No. 150 pursuant to which our Series B Senior preferred stock dividends and accretion of \$7.9 million for the six months ended June 30, 2004 are now charged to interest expense. In addition, cash interest expense and amortization of deferred financing costs increased \$7.2 million and \$0.5 million, respectively, primarily due to the August 2003 refinancing transaction and amortization of pre-publication costs increased \$1.6 million due to the increased investment in pre-publication costs in the preceding years and a non-cash non-recurring charge of \$0.4 million at our Chelsea House segment due to a change in estimate concerning remaining unit sales from existing product lines. In addition, amortization of intangibles increased \$0.3 million for amortization of other intangibles related to the acquisition of Buckle Down Publishing on April, 15, 2004. Net income for the six months ended June 2003 was reduced by \$1.2 million due to the loss from sale of Andrews Communications.

LIQUIDITY AND CAPITAL RESOURCES

For the past several years, we have relied primarily on borrowings under our old senior secured credit facility and the benefits of the paid-in-kind interest on our old senior subordinated notes due 2009 and our preferred stock for our working capital, capital expenditures, acquisition needs and debt service requirements. On August 20, 2003, we entered into a \$30.0 million four-year and nine-month senior secured revolving credit facility and a \$100.0 million five-year senior secured term loan, and we issued \$140.0 million in aggregate principal amount of our 11-3/4% senior

notes. The proceeds from the 2003 refinancing transaction were used to repay the old senior secured credit facility and old senior subordinated notes due 2009 and to pay fees associated with the transaction. On February 2, 2004, we completed an offering of 12-1/2% senior discount notes and received net proceeds of \$73.7 million. A portion of the proceeds from the issuance were used to repurchase 295,000 outstanding shares of Series B Senior preferred stock. On April 15th 2004, we used \$25.0 million in cash and issued a new Preferred C stock with a face value of \$3.5 million in order to purchase Buckle Down Publishing. We used a portion of the proceeds to purchase Buckle Down Publishing and intend on using the remaining proceeds to fund future acquisitions and for general corporate purposes. As of June 30, 2004, our available borrowing capacity under the senior secured revolving credit facility, limited by certain restrictive covenants and financial ratio requirements, was approximately \$28.1 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

During 2004, we completed an offering of 12-1/2% senior discount notes. As of June 30, 2004, this issuance created an increase in our contractual obligations and commitments of \$77.4 million which is due after 5 years. Also, in connection with the adoption of SFAS No. 150 which required that our Series B Senior preferred stock be classified as debt, as of June 30, 2004 our contractual obligations and commitments increased by \$100.1 million which is due after five years.

Cash and cash equivalents increased by \$28.2 million for the six months ended June 30, 2004, to \$60.5 million, from \$32.3 million as of December 31, 2003 due primarily to the receipt of the net process from our 12-1/2% senior discount notes on February 2, 2004.

While we cannot assure you 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 the senior secured revolving credit facility in an amount sufficient to enable us to service our indebtedness, including the 11-3/4% senior notes and 12-1/2% senior discount notes, 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 the senior secured revolving credit facility, will be adequate to meet our future liquidity needs for the next five years.

CASH FLOWS

Net cash provided by operating activities was \$4.8 million for the six months ended June 30, 2004 in comparison to net cash provided of \$12.9 million for the six months ended June 30, 2003. The decrease was primarily due to the increase in cash interest relating to our August 20, 2003 refinancing transaction and an increase in cash used in current assets and liabilities.

Net cash used in investing activities was \$32.8 million for the six months ended June 30, 2004 in comparison to net cash used of \$1.1 million for the six months ended June 30, 2003. The increase was primarily due to \$25.1 million of cash used towards the purchase of Buckle Down Publishing in April, 2004 offset by the sale of our Oakstone Legal & Business division on March 31, 2003.

Net cash provided by financing activities was \$56.0 million for the six months ended June 30, 2004 in comparison to net cash used of \$6.3 million for the six months ended June 30, 2003. The increase was due to \$73.7 million of cash provided from the completion of the 12-1/2% senior discount notes offering on February 2, 2004, offset by \$3.2 million of additions to deferred financing costs associated with this offering. We also used \$14.0 million of the proceeds from the 12-1/2% senior discount note offering in the repurchase of 295,000 outstanding shares of Series B Senior preferred stock, at a price equal to 99% of its liquidation value of \$14.1 million.

CAPITAL EXPENDITURES

Capital expenditures - pre-publication costs relate to the costs incurred in the development of new products. For the three and six months ended June 30, 2004, we had \$3.9 million and \$6.6 million of pre-publication expenditures compared to \$3.2 million and \$6.8 million during the three and six months ended June 30, 2003, respectively. We plan expenditures of approximately \$16.5 million for pre-publication costs in 2004. This level of spending is intended to support our core successful products and allow for the development of new products.

Capital expenditures - property and equipment relate to the purchase of tangible fixed assets such as computers, software and leasehold improvements. For the three and six months ended June 30, 2004, we had \$0.8 million and \$1.1 million of property, building and equipment expenditures compared to \$1.0 million and \$1.8 million during the three and six months ended June 30, 2003, respectively. We plan expenditures of approximately \$3.2 million for property and equipment in

2004. This level of spending allows for our planned implementation of an ERP system at our Recorded Books business, a software conversion at our shared services facility in Northborough, Massachusetts,

a full office move for our Triumph Learning business and general additions to furniture, fixtures and equipment for both our newly acquired Buckle Down Publishing and our existing businesses.

SEASONALITY AND QUARTERLY RESULTS OF OPERATIONS

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

The 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. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

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 months. Because of the short-term nature of these investments, changes in interest rates would not materially affect the fair value of these instruments.

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

Market risks relating to our operations result primarily from changes in interest rates. However, we do not consider the impact of interest rate fluctuations to represent a significant risk during 2004.

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

We have minimal exposure to foreign currency rate fluctuations on our foreign sales, as currently we have minimal transactions denominated in foreign currency. As a result, we do not hedge the exposure to these changes, and the impact on our results of operations from the currency fluctuations for the three and six months ended June 30, 2004 and 2003 has been de minimus.

We have available a \$30.0 million senior secured revolving credit facility as a source of financing for our working capital requirements subject to certain restrictive covenants that can reduce the available aggregate borrowings under the facility. As of June 30, 2004, our available borrowing capacity under the senior secured revolving credit facility, limited by such restrictive covenants, was approximately \$28.1 million. Borrowings under this revolving credit agreement bear interest at variable rates based on LIBOR plus an applicable spread. As of June 30, 2004, we had no borrowings outstanding under this credit facility.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of June 30, 2004 we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation,

our Chief Executive Officer and Chief Financial Officer have concluded that they believe that, as of the date of completion of the evaluation, our disclosure controls and procedures were reasonably effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. We will continue to review and document our disclosure controls and procedures on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

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

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we are involved in litigation that we consider to be in the normal course of business. We are not presently involved in any legal proceedings that we expect individually or in the aggregate to have a material adverse effect on our financial condition, results of operations or liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

As part of our acquisition of Buckle Down Publishing on April 15, 2004, we issued 3,500 shares of our newly authorized Series C preferred stock, par value \$.001 per share. We acquired substantially all of the assets of Buckle Down Publishing on April 15, 2004 for total consideration of \$24.0 million in cash and 3,500 shares of Series C preferred stock with a face amount of \$3.5 million. The shares of Series C preferred stock were issued under an exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof, insofar as the shares were issued to a single recipient in a transaction not involving a public offering.

The shares of Series C preferred stock are convertible into common stock automatically upon an initial public offering by us. If such public offering occurs on or prior to April 15, 2008, the number of shares issuable upon such conversion with respect to each share of Series C preferred stock will be equal to the original issue price per share divided by the initial public offering price per share of our common stock. If such public offering occurs after April 15, 2008, the number of shares issuable upon such conversion with respect to each share of Series C preferred stock will be equal to (i) the original issue price per share plus all accrued and unpaid dividends, divided by (ii) the initial public offering price per share of our common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Peter J. Quandt
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Paul J. Crecca
- 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
- 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

(b) REPORTS ON FORM 8-K

A form 8-K (Item 12) was filed on April 2, 2004 regarding the Company's annual report.

A form 8-K was filed on April 20, 2004 regarding the Company's acquisition of substantially all of the assets of Buckle Down Publishing Company.

A form 8-K (Item 12) was filed on May 10, 2004 regarding a press release announcing that the Company had reported its financial results for the first quarter ended March 31, 2004.

A form 8-K/A was filed on May 10, 2004, amending the Form 8-K filed on April 20, 2004 regarding the Buckle Down acquisition to include Item 7(a) Financial Statements of Business Acquired and Item 7(b) Pro Forma Financial Information.

SIGNATURES

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

HIGHTS CROSS COMMUNICATIONS, INC.

By:

Dated: August 16, 2004

/s/ Peter J. Quandt

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

Dated: August 16, 2004

/s/ Paul J. Crecca

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

Dated: August 16, 2004

/s/ Mark Kurtz

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

<TABLE>

<CAPTION>

EXHIBIT NO.

EXHIBIT DESCRIPTION

<S>

<C>

31.1* Rule 13a-14(a)/15d-14(a) Certification of Peter J. Quandt

31.2* Rule 13a-14(a)/15d-14(a) Certification of Paul J. Crecca

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

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

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* filed herewith

** furnished herewith

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<FILENAME> y00585exv31w1.txt
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CERTIFICATION

I, Peter J. Quandt, certify that:

1. I have reviewed this report on Form 10-Q of Hights 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 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 16, 2004

By: /s/ Peter J. Quandt

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

<DOCUMENT>
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CERTIFICATION

I, Paul J. Crecca, certify that:

1. I have reviewed this report on Form 10-Q of Hights 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 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 16, 2004

By: /s/ Paul J. Crecca

 Name: Paul J. Crecca
 Title: Chief Financial Officer, Executive Vice
 President and Treasurer

<DOCUMENT>
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The undersigned officer of Hights 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 (the "Exchange Act"), 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 16, 2004

By: /s/ Peter J. Quandt

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

<DOCUMENT>
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The undersigned officer of Hights 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 (the "Exchange Act"), 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 16, 2004

By: /s/ Paul J. Crecca

Name: Paul J. Crecca
Title: Chief Financial Officer, Executive Vice
President and Treasurer

33

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