

Allegiance Bancshares, Inc.
Form S-3
January 18, 2017

As filed with the Securities and Exchange Commission on January 18, 2017

Registration No. 333- _____

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

FORM S-3
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

Allegiance Bancshares, Inc.
(Exact Name of Registrant as Specified in its Charter)

Texas	26-3564100
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

8847 West Sam Houston Parkway, N., Suite 200
Houston, Texas 77040
(281) 894-3200
(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

George Martinez
Chairman and Chief Executive Officer
Allegiance Bancshares, Inc.
8847 West Sam Houston Parkway, N., Suite 200
Houston, Texas 77040
(281) 894-3200
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copy to:

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711 Louisiana Street, Suite 2300

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Nonaccelerated filer Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price(1)(2)(3)	Amount of Registration Fee(4)
Debt Securities				
Common Stock, par value \$1.00 per share				
Preferred Stock, par value \$1.00 per share				
Warrants				
Units				
Total	\$150,000,000		\$150,000,000	\$17,385

There are being registered hereunder such indeterminate number of shares of common stock, shares of preferred stock, warrants, units and/or principal amount of debt securities of the registrant as shall have an aggregate initial offering price not to exceed \$150,000,000. Also being registered hereunder by the registrant are an indeterminate number of shares of common stock, shares of preferred stock, warrants, units, or debt securities as shall be issuable upon exercise, conversion, or exchange of any securities that provide for such issuance. If any debt securities are (1) issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate initial offering price not to exceed \$150,000,000. In addition, pursuant to Rule 416 of the rules and regulations under the Securities Act of 1933, as amended, or the Securities Act, the shares being registered hereunder include such indeterminate number of shares of common stock, preferred stock, warrants or units as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.

The proposed maximum offering price per unit will be determined from time to time by the registrant in connection (2) with, and at the time of, the issuance of the securities registered hereunder, and is not specified as to each class of securities to be registered pursuant to General Instruction II.D of Form S-3 under the Securities Act.

(3) Excludes any accrued interest, distributions and dividends, if any.

(4) Pursuant to Rule 457(o) under the Securities Act, the registration fee has been calculated on the basis of the proposed maximum aggregate offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS Subject to Completion, dated January 18, 2017

\$150,000,000

Debt Securities

Common Stock

Preferred Stock

Warrants

Units

By this prospectus, Allegiance Bancshares, Inc. may offer from time to time debt securities of one or more series; shares of its common stock; shares of one or more series of its preferred stock; warrants to purchase our securities; and units of our securities.

When we offer securities, we will provide you with a prospectus supplement describing the terms of the specific issue of securities being offered, including the price at which those securities are being offered to the public.

We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

You should read this prospectus and any prospectus supplement carefully before you decide to invest. This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement that further describes the securities being offered to you.

Our common stock is listed for trading on the NASDAQ Global Market under the symbol "ABTX." We expect that any common stock sold pursuant to a prospectus supplement will be listed on such exchange, subject to official notice of issuance. We have not yet determined whether any of the other securities that may be offered by this prospectus will be listed on any exchange. If we decide to apply to list any such securities on a securities exchange upon their issuance, the prospectus supplement relating to those securities will disclose the exchange on which we will apply to have those securities listed. Any prospectus supplement will contain information, where applicable, as to any other listing on the NASDAQ Global Market or any other securities exchange of the other securities covered by the prospectus supplement.

Investing in our securities involves risks. See the section entitled "Risk Factors" beginning on page 6 of this prospectus and our most recent annual report on Form 10-K, which is incorporated herein by reference, as well as any additional risk factors included in, or incorporated by reference into, the applicable prospectus supplement. You should carefully read this prospectus together with the documents we incorporate by reference and the prospectus supplement before you invest in our securities.

This prospectus is not an offer to sell any securities other than the securities offered hereby. This prospectus is not an offer to sell securities in any jurisdictions or in any circumstances in which such an offer is unlawful.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The offered securities are not savings accounts, deposits or other obligations of any bank or savings associations and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency and are subject to investment risks.

The date of this prospectus is , 2017.

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You should rely only on the information contained in or incorporated by reference in this prospectus and in the applicable prospectus supplement when deciding whether to invest. We have not authorized anyone to give oral or written information about this offering, the Company, or the securities offered hereby that is different from the information included or incorporated by reference in this prospectus. If anyone provides you with different information, you should not rely on it. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a “shelf” registration process. Under this shelf registration statement, we may from time to time offer and sell, in one or more offerings, either separately or together, shares of our common stock, shares of one or more series of our preferred stock, senior debt securities of one or more series, subordinated debt securities of one or more series, warrants to purchase our securities and unit purchase agreements as described in this prospectus and an applicable prospectus supplement.

Each time we sell securities we will provide a prospectus supplement containing specific information about the terms of the securities being offered thereby. The prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus (including the information incorporated by reference herein) and information in any prospectus supplement, you should rely on the information in the applicable prospectus supplement, as it will control. You should carefully read both this prospectus and the applicable prospectus supplement together with additional information described under the heading “Where You Can Find More Information” or incorporated herein by reference as described under the heading “Incorporation of Certain Documents by Reference.”

References in this prospectus to “the Company,” “we,” “us” and “our” are to Allegiance Bancshares, Inc. In this prospectus, we sometimes refer to the debt securities, common stock, preferred stock, warrants and unit purchase agreements we may offer as “offered securities.”

ABOUT ALLEGIANCE BANCSHARES, INC.

Allegiance Bancshares, Inc. is a Texas corporation headquartered in Houston, Texas and is a bank holding company registered under the Bank Holding Company Act of 1956. Through our wholly-owned subsidiary, Allegiance Bank, a Texas state chartered bank, we provide a diversified range of commercial banking services to Houston metropolitan area-based small to medium-sized businesses and individual customers. We currently operate 16 full-service banking locations in the Houston metropolitan area. Our common stock is traded on the NASDAQ Global Market under the symbol “ABTX.”

Our principal executive offices are located at 8847 West Sam Houston Parkway, N., Suite 200, Houston, Texas 77040, and our telephone number is (281) 894-3200. Our website is www.allegiancebank.com. References to our website are not intended to be active links and the information on such website is not, and you must not consider that information to be, a part of this prospectus.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated herein by reference contain statements that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements included in this prospectus or the documents incorporated by reference herein are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business and growth strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing. You should understand that any such forward-looking statement are difficult to predict. Although we believe that the expectations reflected in these statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements:

- risks related to the concentration of our business in the Houston metropolitan area, including risks associated with volatility or decreases in oil and gas prices or prolonged periods of lower oil and gas prices;

- general market conditions and economic trends nationally, regionally and particularly in the Houston metropolitan area;

- our ability to retain executive officers and key employees and their customer and community relationships;

- our ability to recruit and retain successful bankers that meet our expectations in terms of customer and community relationships and profitability;

- risks related to our strategic focus on lending to small to medium-sized businesses;

- our ability to implement our growth strategy, including through the identification of acquisition candidates that will be accretive to our financial condition and results of operations;

risks related to any businesses we acquire in the future, including exposure to potential asset and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions and possible failures in realizing the anticipated benefits from such acquisitions;

potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;

risks associated with our owner-occupied commercial real estate loan and other commercial real estate loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;

risks associated with our commercial and industrial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;

the accuracy and sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and other estimates;

risk of deteriorating asset quality and higher loan charge-offs;

time and effort necessary to resolve nonperforming assets;

potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;

changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;

potential fluctuations in the market value and liquidity of the securities we hold for sale;

risk of impairment of investment securities, goodwill, other intangible assets or deferred tax assets;

the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services, which may adversely affect our pricing and terms;

our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;

- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
- risks associated with data processing system failures and errors;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the further implementation of the Dodd-Frank Act;
- governmental monetary and fiscal policies, including the policies of the Board of Governors of the Federal Reserve System, or the "Federal Reserve";
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of Federal Deposit Insurance Corporation, or "FDIC", insurance and other coverage;
- systemic risks associated with the soundness of other financial institutions; and
- other risks and uncertainties listed from time to time in our reports and documents filed with the SEC.

Other factors not identified above, including those described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent Annual Report on Form 10-K (our "Latest Form 10-K") and in any of our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K or other filings that we have made with the SEC since the date of the Latest Form 10-K that are incorporated by reference in this prospectus, may also cause actual results to differ materially from those described in our forward-

looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

RISK FACTORS

An investment in our securities involves certain risks. Before making an investment decision, you should carefully read and consider the risk factors set forth in our Latest Form 10-K under the heading “Risk Factors” as well as any updated or additional disclosure about risk factors included in any of our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K or other filings that we have made with the SEC since the date of the Latest Form 10-K that are incorporated by reference in this prospectus. We may also include updated or additional disclosure about risk factors in an applicable prospectus supplement under the heading “Risk Factors.” Additional risks and uncertainties of which we are not aware or that we believe are not material at the time could also materially and adversely affect our business, financial condition, results of operations or liquidity. In any case, the value of the securities offered by means of this prospectus and any applicable prospectus supplement could decline and you could lose all or part of your investment.

RATIO OF FIXED CHARGES TO EARNINGS

As of September 30, 2016, we did not have any shares of preferred stock outstanding. The following table presents the ratio of our combined fixed charges and preferred stock dividends to earnings for the periods indicated.

	Nine Months Ended							Year Ended December 31, September	
	2016	2015	2015	2014	2013	2012	2011		
Excluding interest on deposits	25.74	9.10	11.19	61.41	713.80	—	—		
Including interest on deposits	4.13	3.27	3.39	3.48	3.40	2.87	1.96		

For purposes of computing this ratio (i) earnings consists of income before income taxes plus fixed charges and preferred stock dividends, (ii) fixed charges and preferred stock dividends, excluding interest on deposits, includes interest expense (other than on deposits), preferred stock dividends and the estimated portion of rental expense attributable to interest, and (iii) fixed charges and preferred stock dividends, including interest on deposits, includes all interest expense, preferred stock dividends and the estimated portion of rental expense attributable to interest.

USE OF PROCEEDS

Unless otherwise indicated in the applicable prospectus supplement, we expect to use the net proceeds from the sale of offered securities by us for general corporate purposes, including:

- maintenance of consolidated capital to support our growth, enabling us to continue to satisfy our regulatory capital requirements;
- contributions of capital to Allegiance Bank to support Allegiance Bank's growth, enabling it to continue to satisfy its regulatory capital requirements;
- financing of acquisitions of financial institutions, their branches or their assets; and
- refinancing, reduction or repayment of debt.

The prospectus supplement with respect to an offering of offered securities may identify different or additional uses for the proceeds of that offering.

Except as otherwise stated in an applicable prospectus supplement, pending the application of the net proceeds from the sale of offered securities, we expect to either deposit such net proceeds in deposit accounts or invest them in short-term obligations.

THE SECURITIES WE MAY OFFER

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplements, summarize certain material terms and provisions of the various types of securities that we may offer. The particular material terms of the securities offered by a prospectus supplement, to the extent not described in this prospectus, will be described in that prospectus supplement. If indicated in the applicable prospectus supplement, the terms of the offered securities may differ from the terms summarized below. The prospectus supplement will also contain, where applicable, material U.S. federal income tax considerations relating to the offered securities, and will contain information regarding the securities exchange, if any, on which the offered securities will be listed. The descriptions of our securities being offered appearing herein and in the applicable prospectus supplement do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the actual documents that govern those securities and whose terms are summarized herein and in the applicable prospectus supplement, because those documents, and not the summaries, define your rights as holders of the relevant securities. For more information, please review the forms of these documents, which are or will be filed with the SEC and will be available as described under the heading "Where You Can Find More Information" below.

We may offer and sell from time to time, in one or more offerings, the following:

- our debt securities of one or more series, which debt securities may be our senior, unsecured debt securities or our subordinated, unsecured debt securities;
- shares of our common stock;
- shares of one or more series of our preferred stock;
- warrants, which may be exercisable for debt securities, common stock or preferred stock; and/or
- unit purchase agreements to which investors would acquire units of two or more of the foregoing securities.

DESCRIPTION OF DEBT SECURITIES

General

We may issue senior debt securities and subordinated debt securities, which in each case will be unsecured, direct, general obligations of the Company.

The senior debt securities will rank equally in right of payment with all of our other unsecured and unsubordinated debt. The subordinated debt securities will be subordinate and junior in right of payment to our senior indebtedness, including our senior debt securities as described below under “–Ranking–Subordinated Debt Securities” and in the prospectus supplement applicable to any subordinated debt securities that we may offer. For purposes of the descriptions under the heading “Description of Debt Securities,” we may refer to the senior debt securities and the subordinated debt securities collectively as the “debt securities.” The debt securities will be effectively subordinated to the creditors and preferred equity holders of our subsidiaries, if any.

We will issue senior debt securities under a senior debt indenture and issue subordinated debt securities under a subordinated debt indenture. We refer to the senior debt indenture or subordinated debt indenture, together with any applicable supplemental indentures thereto, in this prospectus as an “indenture” and collectively as the “indentures.” The indentures permit one or more series of senior debt securities or subordinated debt securities, as the case may be, to be established and issued thereunder. Any such series of senior debt securities or subordinated debt securities and their terms and conditions will be established by means of the adoption of a supplemental indenture, the adoption of a resolution of our board of directors or the adoption of a resolution of our board of directors and the action of certain officers of the Company acting pursuant to authority delegated to them by such resolution of the board of directors and evidenced by an officers’ certificate setting forth the terms and conditions of the series of debt securities established by that resolution and the action of such authorized officers. Generally, multiple series of debt securities will vary from one another with regard to the rate at which interest accrues on such debt securities and the term of such debt securities, and the senior debt securities and subordinated debt securities will vary from one another with regard to the priority of payment.

The indentures meet the requirements of the Trust Indenture Act of 1939, as amended, or the “Trust Indenture Act”, and will be qualified under and governed by the Trust Indenture Act. The trustee meets the requirements of the Trust Indenture Act for trustees under indentures being qualified under the Trust Indenture Act.

The descriptions under the heading “Description of Debt Securities” relating to the senior debt securities and subordinated debt securities and the indentures are summaries of their provisions. The summaries are not complete and are qualified in their entirety by reference to the indentures and senior and subordinated debt securities and the further descriptions in the applicable prospectus supplement. A copy of the form of each indenture has been filed with the SEC as an exhibit to the registration statement that includes this prospectus. We will file a copy of each supplemental indenture, board resolution and board resolution and related officers’

certificate establishing a series of debt securities and setting the respective series' terms and conditions with the SEC in connection with the offer and sale of the first debt securities of such series to be offered and sold and will file the form of debt security representing the debt securities of such series with the SEC in connection with the offering of such debt securities. Whenever we refer in this prospectus or in any prospectus supplement to particular sections or defined terms of an indenture, those sections or defined terms are incorporated by reference in this prospectus or in the prospectus supplement, as applicable. You should refer to the provisions of the indentures for provisions that may be important to you.

The terms and conditions described under this heading are terms and conditions that apply generally to the debt securities. The particular terms of any series of debt securities will be summarized in the applicable prospectus supplement. Those terms may differ from the terms summarized below.

Except as set forth in the indentures and described in the prospectus supplements, the indentures do not limit the amount of senior debt securities or subordinated debt securities we may issue under the indentures. We are not required to issue all of the debt securities of one series at the same time and, unless otherwise provided in an indenture and described in a prospectus supplement, we may, from time to time, issue additional debt securities under that series without the consent of the holders of the outstanding debt securities of that series. Additional debt securities issued in this manner will have the same terms and conditions as the outstanding debt securities of that series, except for their original issue date and issue price, and will be consolidated with, and form a single series with, the previously outstanding debt securities of that series. In certain instances, additional debt securities of a series sold may be issued with a different CUSIP number from that assigned to previously issued debt securities of that issue.

The debt securities of our subordinated debt series may have such terms and conditions as will permit such subordinated debt securities to qualify as Tier 2 capital under the regulatory capital requirements for bank holding companies. In such case, the subordinated debt securities will be subordinated to depositors and general creditors, will have a minimum term of five years, will be unsecured, will not have credit-sensitive features or other provisions that are inconsistent with safe and sound banking practice, and will have limited events of default and other provisions that will permit holders thereof to accelerate payment of principal of, or interest on, such subordinated debt securities only upon the occurrence of our bankruptcy, receivership, insolvency, liquidation or similar proceeding. Additionally, any redemption prior to maturity of our subordinated debt series that are intended to qualify as Tier 2 capital will require the prior approval of the Federal Reserve.

Terms and Conditions of Debt Securities to be Described in the Prospectus Supplement

The prospectus supplement relating to any debt securities of a series that we may offer will set forth the price or prices at which the debt securities will be offered to the public and the specific terms and conditions of the debt securities of that series to the extent such terms and conditions are not described in this prospectus. The prospectus supplement will set forth the

aggregate principal amount of the debt securities of a series being offered by means of such prospectus supplement and the price(s) (expressed as a percentage of the principal amount) at which the debt securities will be offered and sold to the public. Each series of debt securities will be established and its terms and conditions set by a supplemental indenture. These terms and conditions of the debt securities may include, without limitation, the following:

• the title and amount of the series of the debt securities and whether they are senior debt securities or subordinated debt securities;

• any limit on the aggregate principal amount of the debt securities of such series that may be issued;

• if other than the principal amount of those debt securities, the portion of the principal amount payable upon declaration of acceleration of the maturity of the debt securities of the series;

• the maturity date or dates, or the method for determining the maturity date or dates, on which the principal of the debt securities of the series will be payable and any rights of extension;

• the rate or rates, which may be fixed or variable, or the method of determining the rate or rates, at which the debt securities of the series will bear interest, if any;

• the date or dates from which any interest will accrue on the debt securities of the series, the date or dates on which accrued interest will be payable and the regular related record dates for the payment of accrued interest;

• the place or places where payments of principal, interest or premium, if any, will be payable, where the debt securities of the series may be surrendered for registration of transfer or exchange, and where notices or demands to or upon us may be served;

• the period or periods within which, the price or prices at which, and the other terms and conditions upon which, the debt securities of the series may be redeemed, in whole or in part, at our option, if we are to have such an option;

• with respect to our subordinated debt securities, the terms of the subordination of those debt securities in the right of payment to our senior indebtedness;

• prepayment rights, if any, applicable to the debt securities of the series and any premium payable in connection with any such prepayment;

• our obligation, if any, to redeem, repay or purchase the debt securities of the series pursuant to any sinking fund or analogous provision or at the option of a holder of the debt securities, and the period or periods within which, or the date and dates on which, the price or prices at which, and the other terms and conditions upon which, the debt

securities will be redeemed, repaid or purchased, in whole or in part, pursuant to that obligation;

whether the amount of payments of principal of and premium, if any, or interest, if any, on the debt securities of the series may be determined with reference to an index, formula or other method, and the manner in which the amounts are to be determined;

affirmative, negative and, in the case of our senior debt securities, financial covenants applicable with respect to the debt securities of the series;

any additions to, modifications of, or deletions from the terms of the debt securities of the series with respect to events of default, amendments, merger, consolidation and sale or covenants set forth in the indenture;

whether the debt securities of the series will be issued in certificated or book-entry form;

the denomination of the debt securities of the series, if other than \$1,000 and any integral multiple thereof;

if the debt securities of the series will be initially issuable in global form, the depository or its nominee with respect to the debt securities and the circumstances under which the global security may be registered for transfer or exchange in the name of a person other than the depository or its nominee;

the conditions upon which definitive debt securities of the series will be issued to beneficial owners;

the applicability, if any, of the discharge, defeasance and covenant defeasance provisions of the indenture to the debt securities of the series and any additional or different terms on which such debt securities may be discharged or defeased;

whether the debt securities of the series can be converted into or exchanged for other securities of the Company, and the related terms and conditions;

in the case of our subordinated debt securities, provisions relating to any modification of the subordination provisions of the subordinated debt securities of the series, which are described elsewhere in this prospectus;

whether the debt securities of the series will be sold as part of units consisting of debt securities, common stock, preferred stock and/or warrants;

any trustee, depository, authenticating agent, paying agent, transfer agent, registrar or other agent with respect to the debt securities of the series; and

any other terms of the debt securities of the series not inconsistent with the provisions of its applicable indenture.

Unless otherwise specified in the applicable prospectus supplement relating to the debt securities of a particular series, the debt securities will not be listed on any securities exchange.

We may offer and sell our debt securities at a substantial discount below their stated principal amount. The debt securities sold on that basis may be original issue discount securities, which means that less than the entire principal amount of the original issue discount securities will be payable upon declaration of acceleration of their maturity. Special federal income tax, accounting and other considerations applicable to original issue discount securities will be described in the applicable prospectus supplement.

Any material federal income tax considerations applicable to any discounted debt securities or to debt securities issued at par that are treated as having been issued at a discount for federal income tax purposes are not described in this prospectus and will be supplemented in the applicable prospectus supplement.

Special federal income tax, accounting and other considerations applicable to debt securities, the principal, premium, if any, or interest of which may be determined by reference to an index, formula or other method will be described in the applicable prospectus supplement.

Except as may be otherwise set forth in the prospectus supplement by which we offer particular debt securities, the indentures do not contain any provisions that would limit our ability to incur indebtedness, including indebtedness senior to the debt securities, or that would afford holders of debt securities protection in the event of a highly leveraged or similar transaction involving the Company. The indentures do not contain specific provisions that would afford debt securityholders protection in the event of a change of control, although such provisions may be included in the terms and conditions of the debt securities of a series by means of the supplemental indenture establishing that series. You should refer to the applicable prospectus supplement for information with respect to the deletion, modification or addition of any of the events of default or covenants that may be included in the debt securities of a series that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

For purposes of the descriptions under the heading “Description of Debt Securities,” “subsidiary” means a corporation, a partnership, business or statutory trust, or a limited liability company a majority of the outstanding voting equity securities or a majority of the voting membership or partnership interests or beneficial interests in a trust, as the case may be (collectively, referred to as “voting equity securities”), of which is owned or controlled, directly or indirectly, by us or by one or more of our other subsidiaries. For the purposes of this definition, “voting equity securities” means securities having voting power for the election of directors, managers, managing partners or trustees, as the case may be, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency.

Interest and Interest Rates

General

In the applicable prospectus supplement, we will designate the debt securities of a series as either bearing interest at a fixed rate of interest or bearing interest at a floating rate of interest. Each debt security will begin to accrue interest from the date it is originally issued. Interest on each such debt security will be payable in arrears on the interest payment dates set forth in the applicable prospectus supplement and as otherwise described below and at maturity or, if earlier, the redemption date described below. Interest will be payable to the holder of record of the debt securities at the close of business on the record date for each interest payment date, which record dates will be specified in such prospectus supplement. As used in the indentures, the term “business day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are generally authorized or required by law or regulation to close in Houston, Texas.

Fixed Rate Debt Securities

If a series of debt securities being offered pursuant to this prospectus will bear interest at a fixed rate of interest, the debt securities of that series will bear interest at the annual interest rate specified on the cover page of the applicable prospectus supplement. Interest on those debt securities will be payable semi-annually in arrears on the interest payment dates for those debt securities or at such other intervals as are established in the terms of the debt securities of a particular series. If the maturity date, any redemption date or an interest payment date is not a business day, we will pay principal, premium, if any, and interest on the next business day, and no interest will accrue on, from and after the maturity date, the redemption date or that interest payment date. Interest on the fixed rate debt securities will be computed on the basis of a 360-day year of twelve 30-day months.

Floating Rate Debt Securities

If a series of debt securities being offered will bear interest at a floating rate of interest, the debt securities of that series will bear interest during each relevant interest period at the rate determined as set forth in the applicable prospectus supplement and as otherwise set forth below. Each floating rate debt security will have an interest rate basis or formula.

The floating rate debt securities may have a maximum or minimum rate limitation. In no event, however, will the rate of interest on the debt securities be higher than the maximum rate of interest permitted by New York law as that law may be modified by United States law of general application.

The trustee or another bank or investment banking firm designated by us will act as the calculation agent for floating rate debt securities and, in that capacity, will compute the interest accruing on the debt securities unless otherwise specified in the applicable prospectus supplement.

If any interest payment date for the debt securities of a series bearing interest at a floating rate (other than the maturity date or a redemption date) would otherwise be a day that is not a business day, then the interest payment date will be postponed to the following date which is a business day, unless that business day falls in the next succeeding calendar month, in which case the interest payment date will be the immediately preceding business day. If the maturity date of such debt securities (or a tax or other redemption date, if earlier than the stated maturity date for those debt securities) falls on a day which is not a business day, then we will make the required payment of principal, premium, if any, and interest on the following day which is a business day, as if it were made on the date the payment was due. Interest will not accrue on, from or after the stated maturity date (or any tax or other redemption date) as a result of this delayed payment.

The calculation agent will reset the rate of interest on the debt securities of a series bearing interest at a floating rate on each interest payment date. If any of the interest reset dates for the debt securities is not a business day, that interest reset date will be postponed to the next succeeding business day, unless that day is in the next succeeding calendar month, in which case the interest reset date will be the immediately preceding business day. The interest rate set for the debt securities on a particular interest reset date will remain in effect during the interest period commencing on that interest reset date. Each interest period will be the period from and including the interest reset date to but excluding the next interest reset date or until the maturity date of the debt securities, as the case may be. The interest reset date relating to each interest period will be determined as set forth in the terms of each series of floating rate debt securities.

All percentages resulting from any calculation will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward. Dollar amounts used in any calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

The calculation agent will promptly notify the trustee of each determination of the interest rate, as well as of the interest period, the amount of interest expected to accrue for that interest period and the interest payment date related to each interest reset date, as soon as such information becomes available. The trustee will make such information available to the holders of the relevant debt securities upon request. The calculation agent's determination of any interest rate and its calculation of the amount of interest for any interest period will be final and binding in the absence of a manifest error.

So long as floating rate debt securities of a series are outstanding, we will at all times maintain a calculation agent as to the debt securities of that series. We will appoint a bank, trust company, investment banking firm or other financial institution to act as the successor calculation agent to the trustee or any of its successors in that capacity in the event that:

• any calculation agent is unable or unwilling to act;

• any calculation agent fails duly to establish the floating interest rate for a series of floating rate debt securities; or

• we propose to remove any calculation agent.

Ranking

Senior Debt Securities

The senior debt securities of a series that we issue under the senior debt indenture will rank equally in right of payment of the principal of and premium, if any, and interest on such senior debt securities with all of our other existing and future unsecured and unsubordinated debt, including the senior debt securities of any other series.

Subordinated Debt Securities

As provided in the subordinated debt indenture and as described in the prospectus supplement describing the applicable series of subordinated debt securities, the payment of the principal of and premium, if any, and interest on the subordinated debt securities of any series, including amounts payable on any redemption or repurchase in accordance with the terms of such subordinated debt securities, will be subordinated to the extent and in the manner provided in the terms of the subordinated debt securities of a series in right of payment to the prior payment in full of all of our senior indebtedness, which is defined below. If there is a distribution to our creditors in a liquidation or winding up of the Company, or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company, the holders of senior debt will first be entitled to receive payment in full of all amounts due on the senior debt (or provision shall be made for such payment in cash) before any payments may be made on the subordinated debt securities. Because of this subordination, holders of our senior debt securities and general creditors of the Company may recover more of the indebtedness of the Company owed to them, ratably, than will the holders of subordinated debt securities in the event of a distribution of assets upon bankruptcy, reorganization, insolvency, receivership or similar proceeding, or a liquidation, termination or winding up of the Company.

The supplemental indenture, board resolution or board resolution and related officers' certificate establishing a series of subordinated debt securities will set forth the terms and conditions under which, if any, we will not be permitted to pay some or all of the principal of or premium, if any, or interest on the subordinated debt securities of a series upon the occurrence of an event of default or other circumstances arising under or with respect to senior indebtedness of the Company, including senior debt securities.

As discussed above, the indentures may place no limitation on the amount of indebtedness that we may incur, and the subordinated debt indenture will not limit the amount of debt senior to the subordinated debt securities of any series that we may incur. We expect to incur from time to time additional indebtedness constituting senior debt, which may include indebtedness that is senior to the subordinated debt securities but subordinate to our other obligations.

"Senior indebtedness" under the subordinated debt indenture means the principal of, and premium, if any, and interest, including interest accruing after the commencement of any bankruptcy proceeding relating to the Company, on, or substantially similar payments we will make in respect of the following categories of indebtedness, whether that indebtedness was

outstanding at the date of execution of the subordinated debt indenture or thereafter incurred, created or assumed: our other indebtedness evidenced by notes, debentures, or bonds or other securities, whether issued under the provisions of any indenture (including indentures other than the senior debt indenture), fiscal agency agreement, debenture or note purchase agreement or other agreement, including the senior debt securities that may be offered by means of this prospectus and one or more prospectus supplements;

our indebtedness for money borrowed or represented by purchase-money obligations, as defined below;

our obligations as lessee under leases of property whether made as part of a sale and leaseback transaction to which we are a party or otherwise;

indebtedness, obligations and liabilities of others in respect of which we are liable contingently or otherwise to pay or advance money or property or as guarantor, endorser or otherwise or which we have agreed to purchase or otherwise acquire and indebtedness of partnerships and joint ventures that is included in our consolidated financial statements;

reimbursement and other obligations relating to letters of credit, bankers' acceptances and similar obligations;

obligations under various hedging and similar arrangements and agreements, including interest rate and currency hedging agreements and swap and nonswap forward agreements;

all our obligations issued or assumed as the deferred purchase price of property or services other than trade accounts payable and accrued liabilities arising in the ordinary course of business; and

deferrals, renewals or extensions of any of the indebtedness or obligations described in the eight clauses above.

However, "senior indebtedness" excludes:

any indebtedness, obligation or liability referred to in the nine clauses above as to which, in the instrument creating, governing or evidencing that indebtedness, obligation or liability, it is expressly provided that such indebtedness, obligation or liability is not senior in right of payment to, is junior in right of payment to, or ranks equally in right of payment with, other specified types of indebtedness, obligations and liabilities of the Company, including subordinated debt securities of one or more series;

any indebtedness, obligation or liability that is subordinated to other of our indebtedness, obligations and liabilities to substantially the same extent as or to a greater extent than the subordinated debt securities are subordinated; and

the subordinated debt securities issued pursuant to the subordinated debt indenture and our outstanding junior subordinated indentures and, unless expressly provided in the terms thereof, any of our indebtedness to our subsidiaries.

As used above, the term “purchase-money obligations” means indebtedness, obligations evidenced by a note, debenture, bond or other instrument, whether or not secured by a lien or other security interest issued to evidence the obligation to pay or a guarantee of the payment of, and any deferred obligation for the payment of, the purchase price of property but excluding indebtedness or obligations for which recourse is limited to the property purchased, issued or assumed as all or a part of the consideration for the acquisition of property or services, whether by purchase, merger, consolidation or otherwise, but does not include any trade accounts payable.

The applicable prospectus supplement and supplemental indenture may further describe the provisions, if any, applicable to the subordination of the subordinated debt securities of a particular series. The applicable prospectus supplement will describe as of a recent date the approximate amount of our senior debt outstanding as to which the subordinated debt securities of that series will be subordinated.

Structural Subordination

Because the Company is a holding company, our cash flows and consequent ability to service our obligations, including both our senior debt securities and subordinated debt securities, are dependent on dividends, distributions and other payments of earnings and other funds by our subsidiaries, particularly Allegiance Bank, to us. The payment of dividends and other distributions by our subsidiaries is contingent on their earnings and is subject to the requirements of federal banking regulations and other restrictions. For example, various banking laws applicable to Allegiance Bank limit the payment of dividends and other distributions by Allegiance Bank to us, and may, therefore, limit our ability to pay accrued interest owing on our outstanding senior debt securities and subordinated debt securities on any interest payment date or the principal of such senior debt securities and subordinated debt securities at their maturity. In addition, the debt securities will be structurally subordinated to all indebtedness and other liabilities of the our subsidiaries, because any right of the Company to receive any assets of its subsidiaries upon their liquidation or reorganization, and the consequent right of the holders of the debt securities to participate in those assets, will be effectively subordinated to the claims of that subsidiary’s secured and unsecured creditors. If the Company itself is recognized as a creditor of that subsidiary, our claims would still be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by the Company. Claims from creditors (other than us) on our subsidiaries may include long-term and medium-term debt and substantial obligations related to deposit liabilities, federal funds purchased, securities sold under repurchase agreements, other short-term borrowings and trade

payables. Any capital loans that we make to Allegiance Bank would be subordinate in right of payment to deposits and to other indebtedness of Allegiance Bank.

Unsecured Obligations

Our senior debt securities and subordinated debt securities will be unsecured.

Conversion or Exchange of Debt Securities

The applicable prospectus supplement will describe the terms, if any, on which a series of debt securities may be converted into or exchanged for other of our securities. These terms will include whether conversion or exchange will be mandatory, at our option or at the option of the holder. We will also describe in the applicable prospectus supplement relating to any such convertible or exchangeable debt securities how we will calculate the amount or number of our other securities that holders of debt securities would receive if they were to convert or exchange their debt securities, the conversion price or exchange ratio and other terms related to conversion or exchange and any antidilution protections.

Redemption of Securities

We may redeem the debt securities, in whole or in part, at the prescribed redemption price, at the times and on the terms described in the applicable prospectus supplement. If we exercise that redemption option, we will notify the trustee and the registrar of the redemption date and of the principal amount of debt securities of the series to be redeemed.

Notice of redemption will be given to each holder of the debt securities to be redeemed at their addresses, as shown on the security register, at least 60 days prior to the date set for such redemption. The notice will set forth: the redemption date; the price at which the debt securities will be redeemed; if less than all of the outstanding debt securities of such series are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the particular debt securities to be redeemed; the place or places where such debt securities maturing after the redemption date are to be surrendered for payment of the price at which such debt securities will be redeemed; whether the redemption is for a sinking fund; the CUSIP number applicable to the debt securities to be redeemed; and if all or a portion of the redemption price is to be paid in cash or common stock or other securities or property, a statement whether the Company has elected to pay the redemption price in cash or common stock or other securities and, if applicable, the portion of such payment.

At or prior to the opening of business on the redemption date, we will deposit or cause to be deposited with the trustee or with a paying agent (or, if we are acting as our own paying agent with respect to the debt securities being redeemed, we will segregate and hold in trust as provided in the indenture) an amount of money sufficient to pay the aggregate redemption price of all of the debt securities or the part thereof to be redeemed on that date. On the redemption date, the price at which the debt securities will be redeemed will become due and payable upon all of the debt securities to be redeemed, and interest, if any, on the debt securities to be redeemed will cease to accrue on and after that date.

Upon surrender of any such debt securities

for redemption, we will pay those debt securities surrendered at the price set for such redemption.

If we elect to redeem debt securities, we will be required to notify the trustee of the aggregate principal amount of debt securities to be redeemed and the redemption date. If fewer than all the debt securities are to be redeemed, the trustee is required to select the debt securities to be redeemed proportionately, by lot or in a manner it deems fair and appropriate or as required by law. Any of the debt securities to be redeemed only in part must be surrendered at the office or agency established by us for such purpose, and we will execute, and the trustee will authenticate and deliver to you without service charge, new debt securities of the same series, containing identical terms and conditions, of any authorized denominations as requested by you, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the debt securities you surrender.

Payment and Paying and Transfer Agent

We will make all payments of principal of and premium, if any, and interest on the debt securities of each series offered pursuant to this prospectus to the depository for the debt securities of that series, which will be The Depository Trust Company, or "DTC", for so long as those debt securities remain in book-entry form. If certificated securities are issued as to the debt securities of any series, we will pay the principal of and the premium, if any, and interest on those debt securities by wire transfer in accordance with the instructions given to us by the holders of those debt securities. Except as otherwise noted below, all other payments with respect to certificated debt securities will be made at the office or agency of the paying agent within Houston, Texas unless we elect to make interest payments by check mailed to the holders at their address set forth in the register of holders.

Under the terms of the indentures, we and the trustee will treat the registered holder of such debt securities (i.e., DTC (or its nominee)) as the owner thereof for all purposes, including the right to receive payments and for all other purposes. Consequently, neither we nor the trustee or any of our respective agents has or will have any responsibility or liability for:

any aspects of the records of DTC or any direct or indirect participant therein relating to or payments made on account of any such debt securities, any such payments made by DTC or any direct or indirect participant therein, or maintaining, supervising or reviewing the records of DTC or any direct or indirect participant therein relating to or payments made on account of any such debt securities; or

DTC or any direct or indirect participant therein. Payments by participants to the beneficial owners of our debt securities held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in "street name."

We will maintain an office or agency in Houston, Texas, where debt securities of each series may be presented for registration of transfer or for exchange and an office or agency where such debt securities may be presented and surrendered for payment. The trustee under the

indentures, will also be the registrar and paying agent for the debt securities of each series unless it resigns from such position or it is otherwise replaced in such capacities as provided in the applicable indentures. Holders will not have to pay any service charge for any registration of transfer or exchange of debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration of transfer.

Same-Day Settlement

The debt securities will trade in the same-day funds settlement system in the United States until maturity. Purchases of debt securities in secondary market trading must be settled in immediately available funds. See "Book Entry Issuance."

Denomination, Payment, Registration and Transfer

Unless otherwise specified in the applicable prospectus supplement, we will issue the debt securities of a series in denominations of \$1,000 or integral multiples of \$1,000.

Unless otherwise specified in the applicable prospectus supplement, we will pay the principal of, and applicable premium, if any, and interest on the debt securities of any series at the corporate trust office of the trustee, the address of which will be stated in the applicable prospectus supplement. At our option, we may pay interest by check mailed to the address of the person entitled to the interest payment as it appears in the register for the applicable debt securities or by wire transfer of funds to that person at an account maintained within the United States.

Any defaulted interest, which means interest not punctually paid or duly provided for on any interest payment date with respect to a debt security, will immediately cease to be payable to the registered holder on the applicable regular record date by virtue of his having been the registered holder on such date. We may pay defaulted interest either to the person in whose name the debt security is registered at the close of business on a special record date for the payment of the defaulted interest to be fixed by the trustee, notice of which is to be given to the holder of the debt security not less than ten days before the special record date, or at any time in any other lawful manner, all as more completely described in the indenture or supplemental indenture.

Subject to limitations imposed upon debt securities issued in book-entry form, the holder may exchange debt securities of any series for other debt securities of the same series and of a like aggregate principal amount and tenor but in different, authorized denominations upon surrender of the debt securities at the corporate trust office of the applicable trustee. In addition, subject to limitations imposed upon debt securities issued in book-entry form, the holder may surrender debt securities of any series for registration of transfer or exchange at the corporate trust office of the applicable trustee. Every debt security surrendered for registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be imposed for any registration of transfer or exchange of any debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any registration of transfer or exchange of any debt securities. If the applicable prospectus supplement refers to any transfer agent in addition to the applicable

trustee, which additional transfer agent is initially designated by us with respect to any series of debt securities, we may at any time rescind the designation of that transfer agent or approve a change in the location through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for that series of debt securities. We may at any time designate additional transfer agents with respect to any series of debt securities. If we redeem the debt securities of any series, neither we nor any trustee will be required to: issue, register the transfer of, or exchange debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption;

register the transfer of, or exchange any debt security, or portion of any debt security, called for redemption, except the unredeemed portion of any debt security being redeemed in part; or

issue, register the transfer of, or exchange any debt security that has been surrendered for repayment at the option of the holder, except the portion, if any, of the debt security not to be repaid.

Global Securities

We may issue the debt securities of a series in whole or in part in the form of one or more global securities to be deposited with, or on behalf of, a depository or with a nominee for a depository identified in the applicable prospectus supplement relating to that series. We will issue global securities in registered form and in either temporary or permanent form. The specific terms of the depository arrangement with respect to a series of debt securities will be described in the prospectus supplement relating to that series.

Our obligations with respect to the debt securities of any series, as well as the obligations of the applicable trustee with respect to the debt securities of such series, run only to persons who are registered holders of debt securities. For example, once we make payment to the registered holder, we have no further responsibility for that payment even if the recipient is legally required to pass the payment along to an individual investor but fails to do so. As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depository and/or participant of the depository, as well as general laws relating to transfers of debt securities.

An investor should be aware that when debt securities are issued in the form of global securities:

the investor cannot have a note or certificate representing his or her debt securities registered in his or her own name;

the investor cannot receive physical certificates for his or her debt securities unless the conditions for issuance of physical certification are met;

the investor must look to his or her bank or brokerage firm or related DTC participant for payments on the debt securities and protection of his or her legal rights relating to the debt securities;

the investor may not be able to sell interests in the debt securities to some insurance or other institutions that are required by law to hold the physical certificates of debt that they own;

the depositary's policies will govern payments, transfers, exchanges and other matters relating to the investor's interest in the global security; and

the depositary will usually require that interests in a global security be purchased or sold within its system and settled using same-day funds.

The prospectus supplement for a series of debt securities will list the special situations, if any, in which a global security will be exchanged for physical certificates representing debt securities represented by the global securities. After that exchange, the investor may choose whether to hold debt securities directly or indirectly through an account at the investor's bank or brokerage firm. In that event, investors must consult their banks or brokers to find out how to have their interests in debt securities transferred to their own names so that they may become direct holders. When a global security is exchanged for physical certificates, the depositary, and not us or one of the trustees, is responsible for deciding the names of the institutions that will be the initial direct holders of the debt securities represented by the global security.

Merger, Consolidation or Sale of Assets

We will not be permitted to consolidate with or merge into any other entity, or sell, lease, transfer or convey all or substantially all of our properties and assets, either in one transaction or a series of transactions, to any other entity and no other entity will consolidate with or merge into us, or sell, lease, transfer or convey all or substantially all of its properties and assets to us unless:

(1) either:

the Company is the continuing entity; or

the successor entity, if other than the Company, formed by or resulting from any consolidation or merger, or which has received the transfer of our properties and assets, expressly assumes payment of the principal of, and premium, if any, and interest on all of the outstanding debt securities and the due and punctual performance and observance of all of the covenants and conditions contained in the applicable indenture; and

(2) immediately after giving effect to the transaction and treating any indebtedness that becomes our obligation as a result of that transaction as having been incurred by us at the time of the transaction, no event of default under the applicable indenture, and no event which, after notice, the lapse of time or both, would become an event of default will have occurred and be continuing.

The conditions described in (1) and (2) above would not apply to the direct or indirect transfer of the stock, assets or liabilities of any of our subsidiaries to another of our direct or indirect subsidiaries.

Except as provided in this prospectus or as may otherwise be provided in the applicable prospectus supplement, the applicable indenture and the terms of the debt securities will not contain any event risk or similar covenants that are intended to afford protection to holders of any debt securities in the event of a merger, a highly leveraged transaction or other significant corporate event involving us or our subsidiaries, whether or not resulting in a change of control, which may adversely affect holders of the debt securities.

Additional Covenants and/or Modifications to the Covenant Described Above

Any covenants of the Company in addition to, and/or modifications to, the covenant relating to mergers, consolidations and sales of assets described above with respect to any series of debt securities, including any covenants relating to limitations on incurrence of indebtedness or incurrence of liens or any affirmative covenants, other negative covenants or financial covenants, will be set forth in the indenture and described in the prospectus supplement relating to that series of debt securities.

Unless the applicable prospectus supplement indicates otherwise, the indentures do not contain a restrictive covenant on the incurrence of debt of the type described above, nor do they contain any other provision which restricts us from, among other things:

• incurring or becoming liable on any secured or unsecured senior or subordinated indebtedness or general obligations;
or

• paying dividends or making other distributions on our capital stock; or

• purchasing or redeeming our capital stock; or

• creating any liens on our property for any purpose.

Events of Default; Right to Accelerate

Senior Debt Securities. Under the senior debt indenture, but subject to any modifications or deletions provided in any supplemental indenture or board resolution or board resolution and related officers' certificate with respect to or establishing the terms and conditions of the senior debt securities of any specific series, an event of default will occur with respect to the senior debt securities upon the occurrence of any of the following events:

failure to pay any installment of interest payable on any senior debt security of the series for 30 days;

failure to pay principal of, or premium, if any, on, any senior debt security of the series when due, whether at maturity, upon redemption, by declaration of acceleration of maturity or otherwise;

default in making any sinking fund payment when due, for any senior debt security of the series;

default in the performance or breach of any other covenant or warranty of the Company contained in the senior debt indenture, other than a covenant added to the senior debt indenture solely for the benefit of any other series of senior debt securities issued under that senior debt indenture, continuing for 90 days after written notice as provided in the senior debt indenture;

the entry by a court having proper jurisdiction of a decree or order for relief in respect of us (or, in each case, any significant subsidiary of ours) in an involuntary case or proceeding under any bankruptcy, insolvency, reorganization or similar law or adjudging us bankrupt or insolvent or approving as properly filed a petition seeking our reorganization, arrangement, adjustment or composition or appointing a custodian, receiver, liquidator, assignee, trustee or similar official for us or of any substantial part of our property, or ordering our winding up or liquidation and such decree or order shall have continued unstayed and in effect for a period of 60 consecutive days;

if we (or, in each case, any significant subsidiary of ours) commence a voluntary case or proceeding under any bankruptcy, insolvency, reorganization law or to be adjudicated a bankrupt or insolvent, or we consent to the entry of a decree or order for relief in an involuntary case or proceeding under any bankruptcy, insolvency, reorganization or similar law, to the commencing of any bankruptcy or insolvency case or proceeding or to the filing of any petition or appointment of, or taking possession by, a custodian, receiver, liquidator, assignee, trustee or similar official for us or of any substantial part of our property or any assignment for the benefit of our creditors or our taking of any action in furtherance of such action;

default in the delivery of any shares of common stock or other securities or property when required to be delivered upon the conversion of, or the exchange of, any senior debt securities of a series and that default continues for a period of 10 days; or

any other event of default as is described in the prospectus supplement relating to any series of senior debt securities being offered for sale.

If any bankruptcy or insolvency-related event of default described above occurs, the principal amount and interest on the senior debt securities will become immediately due and payable, subject to the broad equity powers of a federal bankruptcy court and the determination

by that court of the nature and status of the payment claims of the holders of the senior debt securities. If any other event of default described above or established as a term of the senior debt securities of a series occurs and is continuing, the senior debt trustee or the holders of 25% of the aggregate principal amount of the outstanding senior debt securities of that series may accelerate the maturity of the outstanding senior debt securities of that series and declare the principal of and accrued and unpaid interest on such senior debt securities to be immediately due and payable. Upon such a declaration, the principal of (or such lesser amount as may be provided for in the terms of the senior debt securities of that series) and all accrued and unpaid interest on such senior debt securities will become immediately due and payable upon notice of such declaration being given in writing to the Company and, if the acceleration is by the holders, the senior debt trustee. At any time after a declaration of acceleration with respect to the senior debt securities of a series has been made, but before a judgment or decree for payment of the money due has been obtained, the holders of a majority in aggregate principal amount of outstanding senior debt securities of that series may rescind and annul the consequences of the event of default, but only if certain conditions have been satisfied.

Subordinated Debt Securities. Under the subordinated debt indenture, but subject to any modifications or deletions provided in any supplemental indenture or board resolution or board resolution and related officers' certificate with respect to any specific series of subordinated debt securities, an event of default will occur with respect to the subordinated debt securities upon the occurrence of any of the following events:

failure to pay any installment of interest payable on any subordinated debt security of the series for 30 days;

failure to pay principal of, or premium, if any, on, any subordinated debt security of the series when due, whether at maturity, upon redemption, by declaration of acceleration of maturity or otherwise;

default in making any sinking fund payment when due, for any subordinated debt security of the series;

default in the performance or breach of any other covenant or warranty of the Company contained in the subordinated debt indenture, other than a covenant added to the subordinated debt indenture solely for the benefit of any other series of subordinated debt securities issued under that subordinated debt indenture, continuing for 90 days after written notice as provided in the subordinated debt indenture;

the entry of a decree or order for relief in respect of the Company by a court having jurisdiction in the premises in an involuntary proceeding under Chapter 7 (liquidation) or Chapter 11 (reorganization) of the U.S. Bankruptcy Code as now or hereafter in effect, and such decree or order shall have continued unstayed and in effect for a period of 60 consecutive days;

if we commence a bankruptcy or insolvency proceeding or consent to the entry of an order in an involuntary proceeding under Chapter 7 (liquidation) or Chapter 11 (reorganization) of the U.S. Bankruptcy Code as now or hereafter in effect; or

such other events of default as are described in the prospectus supplement relating to any series of subordinated debt securities being offered for sale.

If an event of default based on the entry of a decree or order for relief in a bankruptcy or insolvency proceeding or the commencement by us of a bankruptcy or insolvency proceeding or our consent to the entry of an order in an involuntary bankruptcy or insolvency proceeding that adjudicates us as being insolvent occurs, the principal amount and interest on the subordinated debt securities shall become immediately due and payable, subject to the broad equity powers of a federal bankruptcy court and the determination by that court of the nature and status of the payment claims of the holders of the subordinated debt securities. Unless the terms of the subordinated debt securities of a series provide otherwise, if any non-insolvency event of default described above or established as a term of the subordinated debt securities of a series occurs and is continuing, the subordinated debt trustee or the holders of 25% of the aggregate principal amount of the outstanding subordinated debt securities of that series may accelerate the maturity of the outstanding subordinated debt securities of that series and declare the principal of and accrued and unpaid interest on such subordinated debt securities to be immediately due and payable. Upon such a declaration, the principal of (or such lesser amount as may be provided for in the terms of the subordinated debt securities of that series) and all accrued and unpaid interest on such subordinated debt securities will become immediately due and payable upon notice of such declaration being given in writing to the Company and, if the acceleration is by the holders, the subordinated debt trustee. At any time after a declaration of acceleration with respect to the subordinated debt securities of a series has been made, but before a judgment or decree for payment of the money due has been obtained, the holders of a majority in aggregate principal amount of outstanding subordinated debt securities of that series may rescind and annul the consequences of the event of default, but only if certain conditions have been satisfied.

We may offer subordinated debt securities of a series that we intend to qualify as “Tier 2 capital” under the federal regulatory rules and guidelines for bank holding company capital. For such subordinated debt securities to so qualify as “Tier 2 capital,” the maturity of such subordinated debt securities may not be accelerated upon the occurrence and continuation of an event of default unless the event of default is one based on the entry of a decree or order for relief in a bankruptcy or insolvency proceeding or the commencement by us of a bankruptcy or insolvency proceeding or our consent to the entry of an order in an involuntary bankruptcy or insolvency proceeding as discussed above. Notwithstanding the discussion appearing above of the rights of the subordinated debt trustee or holders of subordinated debt securities to accelerate the maturity of such subordinated debt securities upon the occurrence of a non-insolvency event of default, the terms of the subordinated debt securities of a series intended to qualify as “Tier 2 capital” will expressly limit the rights of the subordinated debt trustee and the holders of the subordinated debt securities of such series to declare an acceleration of the maturity of such subordinated debt securities upon the occurrence of a non-insolvency default and such limitation will be described in any prospectus supplement by which we offer subordinated debt securities of

that series for sale. As a consequence of that limitation, with respect to our subordinated debt securities of a series intended to qualify as “Tier 2 capital,” neither the trustee nor the holders of the subordinated debt securities of any series or any group of holders of any portion of the outstanding subordinated debt securities of one or more series will have the right to accelerate the subordinated debt securities of any series in the event of a default in the payment of principal of, or premium, if any, or interest on, the subordinated debt securities of that series or as a result of our nonperformance of any other covenant applicable to or obligation arising under the terms of the subordinated debt securities of that series or the subordinated debt indenture. If we default in our obligation to pay any interest on the subordinated debt securities when due and payable and such default continues for a period of 30 days, or if we default in our obligation to pay the principal amount due upon maturity, or if we breach any covenant or agreement contained in the subordinated debt indenture and that default continues for any grace period, then the subordinated debt trustee may, subject to certain limitations and conditions, seek to enforce its rights and the rights of the holders of subordinated debt securities of the performance of any covenant or agreement in the indenture. As a result of such limitations on the rights and remedies of the holders of subordinated debt securities of a series intended to qualify as “Tier 2 capital”, the holders of our senior debt securities, holders of our other senior indebtedness, holders of our subordinated debt securities of a series not intended to qualify as “Tier 2 capital” and our general creditors would be able to act to recover amounts owing to them prior to the holders of our subordinated debt securities.

Collection of Indebtedness

If an event of default relating to our failure to pay interest or principal, to make a sinking fund or analogous payment occurs with respect to the debt securities of a series issued under an indenture, we must pay to the applicable trustee for the benefit of the holders of the affected debt securities the amount of the principal of, and premium, if any, and accrued and unpaid interest on, such debt securities and, to the extent legally enforceable, interest on any such overdue amounts at the rate determined as prescribed in the terms of such debt securities. If we fail to pay such amounts, the applicable trustee may institute a suit against us to collect the amounts due and payable. If the debt securities as to which such a failure of payment occurs are subordinated debt securities intended to qualify as “Tier 2 capital,” the amounts we would be required to pay to the subordinated debt trustee upon such a failure of payment or performance would not include any principal, premium or interest that would not be due without the maturity of such subordinated debt securities being accelerated.

Trustee Action

The indentures provide that, subject to the duty of the trustee upon the occurrence of an event of default to act with the required standard of care, the trustee will be under no obligation to exercise any of its rights or powers under the applicable indenture at the request or direction of any of the holders of debt securities unless such holders shall have offered to the trustee indemnity or security reasonably satisfactory to the trustee against the costs, expenses and liabilities that may be incurred by it in complying with such request or direction. Subject to certain provisions, the holders of a majority in aggregate principal amount of the outstanding

debt securities of the affected series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the subject debt securities.

Limitations on Suits by Holders

No holder of debt securities shall have any right to institute any proceeding, judicial or otherwise, with respect to the indentures, or for the appointment of a receiver or trustee, or for any other remedy under the indentures, unless: such holder has previously given written notice to the trustee of a continuing event of default with respect to the applicable debt securities;

the holders of not less than 25% in aggregate principal amount of the applicable debt securities shall have made written request to the trustee to institute proceedings in respect of such event of default in its own name as trustee under the applicable indenture;

such holder or holders have offered to the trustee reasonable security or indemnity against the costs, expenses, and liabilities to be incurred in complying with such request;

the trustee for 60 days after its receipt of such notice, request, and offer of security or indemnity has failed to institute any such proceeding; and

no direction inconsistent with such written request has been given to the trustee during such 60-day period by the holders of a majority in aggregate principal amount of the outstanding debt securities.

In any event, the applicable indenture provides that no one or more of such holders of the debt securities of a series will have any right under such indenture to affect, disturb or prejudice the rights of any other holder of debt securities of any series issued under such indenture, or to obtain priority or preference over any of the other holders or to enforce any right under such indenture, except in the manner provided in the indenture and for the equal and ratable benefit of all holders of debt securities issued under that indenture.

Waiver

Each indenture provides that the holders of not less than a majority in principal amount of the outstanding debt securities of any series issued under that indenture may waive any past default with respect to that series and its consequences, except a default:

• in the payment of the principal of, or premium, if any, or interest on any debt security of that series, or

• in respect of a covenant or provision contained in that indenture that, by the terms of the indenture, cannot be modified or amended without the consent of each affected holder of an outstanding debt security.

Notice

The trustee will be required to give notice to the holders of the applicable debt securities within 90 days of a default under the applicable indenture unless the default has been cured or waived; but the trustee may withhold notice of any default, except a default in the payment of the principal of, or premium, if any, or interest on the debt securities or in the payment of any sinking fund installment in respect of the debt securities, if specified responsible officers of the trustee consider the withholding to be in the interest of the holders.

The holders of debt securities of any series may not institute any proceedings, judicial or otherwise, with respect to the applicable indenture or for any remedy under such indenture, except in the case of failure of the applicable trustee, for 60 days, to act after the trustee has received a written request to institute proceedings in respect of an event of default from the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series, as well as an offer of indemnity reasonably satisfactory to the trustee, and provided that no direction inconsistent with such written request has been given to the trustee during such 60-day period by the holders of a majority in aggregate principal amount of the outstanding debt securities of that series. However, any holder of debt securities is not prohibited from instituting suit for the enforcement of payment of the principal of, and premium, if any, and interest on the debt securities at their respective due dates.

Subject to the trustee's duties in case of default, no trustee will be under any obligation to exercise any of its rights or powers under the indenture at the request or direction of any holders of debt securities of a series then outstanding under the applicable indenture unless the holders offer to the trustee reasonable security or indemnity. Subject to such provisions for the indemnification of the trustee, the holders of not less than a majority in aggregate principal amount of the outstanding debt securities of any series issued under the indenture will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the applicable trustee or of the applicable trustee exercising any trust or power conferred upon the trustee. A trustee may refuse, however, to follow any direction that is in conflict with any law or the indenture that may involve the trustee in personal liability or may be unduly prejudicial to the holders of debt securities of that series not joining in the direction.

Within 180 days after the end of each fiscal year, we will be required to deliver to each trustee a certificate, signed by one of several specified officers, stating whether or not that officer has knowledge of any default under the indenture and, if so, specifying each default and the nature and status of the default.

Modification of an Indenture

Except as otherwise specifically provided in the applicable indenture, with the consent of the holders of not less than a majority in aggregate principal amount of all outstanding debt securities issued under the indenture that are affected by the modification or amendment, we may enter into supplemental indentures with the trustee for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of modifying in any manner the rights of the holders of debt securities issued under the indenture. However, no modification or amendment may, without the consent of the holder of each debt security affected by the modification or amendment:

• except as described in the prospectus supplement relating to such debt security:

• extend the stated maturity of the principal of, or any installment of interest, or the premium, if any, on, any debt security;

• reduce the principal amount of, or the rate at which interest accrues under, amount of interest on, or change the manner of calculating the rate, or any premium payable on redemption of, any debt security, or reduce the amount of principal of an original issue discount security that would be due and payable upon declaration of acceleration of its maturity or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any debt security;

• extend the time of payment of interest on any debt security;

• change any of the conversion, exchange or redemption provisions of any debt security;

• change the place of payment, or the coin or currency for payment, of principal of, or premium, if any, including any amount in respect of original issue discount or interest on any debt security;

• impair the right to institute suit for the enforcement of any payment on or with respect to any debt security or for the conversion or exchange of any debt security in accordance with its terms;

• modify the ranking or priority of the securities;

• reduce the percentage of outstanding debt securities of any series necessary to modify or amend the indenture, to waive compliance with specific provisions of or certain defaults

and consequences under the indenture, or to reduce the quorum or voting requirements set forth in the indenture; or

modify any of the provisions relating to the waiver of specific past defaults or compliance with specific covenants, except to increase the required percentage to effect that action or to provide that specific other provisions may not be modified or waived without the consent of the holder of that debt security.

The holders of not less than a majority in aggregate principal amount of the outstanding debt securities of each series affected by any such modification or amendment will have the right to waive our compliance with specific covenants in the indenture.

We and the trustee may modify and amend the applicable indenture without the consent of the holders of debt securities for any of the following purposes:

• to evidence the succession of another person to us as obligor under the indenture;

• to add to our covenants for the benefit of the holders of all or any series of debt securities issued under the indenture or to surrender any right or power conferred upon us in the indenture;

• to add events of default for the benefit of the holders of all or any series of debt securities issued under the indenture;

• to add or change any provisions of the indenture to permit or facilitate the issuance of debt securities in uncertificated form issued under the indenture, provided that the action will not adversely affect the interests of the holders of the debt securities of any series in any material respect;

• to change or eliminate any provision of the indenture, if the change or elimination becomes effective only when there are no debt securities outstanding of any series created thereunder prior to the change or elimination that are entitled to the benefit of the changed or eliminated provision;

• to secure the debt securities of any series issued under the indenture;

• to establish the form or terms of debt securities of any series to be issued under the indenture;

• to provide for the acceptance of appointment by a successor trustee or facilitate the administration of the trusts under the indenture by more than one trustee;

• to cure any ambiguity or correct any inconsistency in the indenture provided that the cure or correction does not adversely affect the holders of the debt securities issued under the indenture;

- to supplement any of the provisions of the indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of debt securities issued under the indenture, provided that the supplemental indenture does not adversely affect the interests of the holders of the debt securities of any series issued under the indenture in any material respect;
- to make provisions with respect to the conversion or exchange terms and conditions applicable to the debt securities of any series issued under the indenture;
- to add to, delete from or revise the conditions, limitations or restrictions on issue, authentication and delivery of debt securities to be issued under the indenture in the future;
- to conform any provision in the indenture to the requirements of the Trust Indenture Act;
- to make any change that does not adversely affect the legal rights under the indenture of any holder of debt securities of any series issued under the indenture, or
- in the case of any subordinated debt security, to make any change in the subordinated provisions that limits or terminates the benefits applicable to the holder of any senior debt.

In determining whether the holders of the requisite principal amount of outstanding debt securities of a series have given any request, demand, authorization, direction, notice, consent or waiver under the indenture governing such series of debt securities or whether a quorum is present at a meeting of holders of debt securities of such series: the principal amount of an original issue discount security that is deemed to be outstanding will be the amount of the principal of that original issue discount security that would be due and payable as of the date of the determination upon declaration of acceleration of the maturity of that original issue discount security;

the principal amount of an indexed security that is deemed outstanding will be the principal face amount of the indexed security at original issuance, unless otherwise provided with respect to the indexed security under the indenture; and

debt securities owned by us or any other obligor upon the debt securities or any affiliate of us or of any other obligor will be disregarded.

Discharge, Defeasance and Covenant Defeasance
Discharge

We are permitted under each indenture to discharge specific obligations to holders of any series of debt securities issued under the indenture (1) that have not already been delivered to the applicable trustee for cancellation and (2) that either have become due and payable or will, within one year, become due and payable or scheduled for redemption, by irrevocably depositing with the applicable trustee, in trust, money or funds certified to be sufficient to pay when due, whether at maturity, upon redemption or otherwise, the principal of, and premium, if any, on and interest on the debt securities of one or more series.

Defeasance and Covenant Defeasance

If the provisions in an indenture relating to defeasance and covenant defeasance are made applicable to the debt securities of any series issued under that indenture, we may elect either:

defeasance, which means we elect to defease and be discharged from any and all obligations with respect to the debt securities of a series, except for the obligations to register the transfer or exchange of the debt securities, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency in respect of the debt securities and to hold moneys for payment in trust; or

covenant defeasance, which means we elect to be released from our obligations with respect to the debt securities under specified sections of the indenture relating to covenants, as described in the applicable prospectus supplement and any omission to comply with our obligations will not constitute an event of default with respect to the debt securities being defeased; in either case upon the irrevocable deposit by us with the applicable trustee, in trust, of an amount, in currency or government obligations, or both, sufficient without reinvestment to make scheduled payments of the principal of, and premium, if any, and interest on such debt securities, when due, whether at maturity, upon redemption or otherwise, and any mandatory sinking fund or analogous payments.

A trust will only be permitted to be established under an indenture if, among other things:

we have delivered to the applicable trustee an opinion of counsel, as specified in the applicable indenture, to the effect that the holders of the debt securities being defeased will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance or covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the defeasance or covenant defeasance had not occurred, and the opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable U.S. federal income tax law occurring after the date of the indenture;

no event of default or any event which after notice or lapse of time or both would be an event of default has occurred and is continuing;

the defeasance or covenant defeasance will not result in a breach or violation of, or constitute an event of default under, the indenture, any senior debt or any other material agreement or instrument to which the Company is a party or by which it is bound;

certain other provisions set forth in the applicable indenture are met;

we will have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent to the defeasance or covenant defeasance have been complied with; and

in the case of the subordinated debt indenture, no event or condition will exist that, pursuant to certain provisions described under "—Ranking—Subordinated Debt Securities," would prevent the Company from making payments of principal of and premium, if any, and interest on the subordinated debt securities being defeased at the date of the irrevocable deposit referred to above.

In general, if we elect covenant defeasance with respect to any debt securities and payments on those debt securities are declared due and payable because of the occurrence of an event of default, the amount of money and/or government obligations on deposit with the applicable trustee would be sufficient to pay amounts due on those debt securities at the time of their stated maturity, but may not be sufficient to pay amounts due on those debt securities at the time of the acceleration resulting from the event of default. In that case, we would remain liable to make payment of the amounts due on the debt securities at the time of acceleration.

In the event we properly discharge and satisfy or effect a defeasance or covenant defeasance with respect to any subordinated debt securities, the subordination provisions of those subordinated debt securities will cease to cause those subordinated debt securities to be subordinate in right of payment to the payment in full of the senior indebtedness as defined for purposes of those subordinated debt securities. In such a circumstance, the funds or government obligations deposited in trust with the applicable trustee in connection with such discharge and satisfaction, defeasance or covenant defeasance may be applied to the payment of the principal of, and premium, if any, and interest on, the subordinated debt securities discharged and satisfied or the subject of defeasance or covenant defeasance prior to any or all of the senior indebtedness being paid in full.

A prospectus supplement by which we offer for sale debt securities of a particular series may further describe the provisions, if any, permitting defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the debt securities of or within such particular series.

Regarding the Trustee

We will designate a trustee under the indentures before the issuance of the debt securities.

The trustee has two main roles under the indentures. First, the trustee can enforce your rights against us if an event of default occurs with respect to any debt securities. See "—

Limitations on Suits by Holders” and “—Notice” for certain information regarding the rights of the trustee upon the occurrence of an event of default. Second, the trustee performs certain administrative duties related to the debt securities of each series for us. The trustee is entitled, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of the debt securities before proceeding to exercise any right or power under the applicable indenture at the request of those holders.

The trustee may resign or be removed as the trustee under an indenture, and a successor trustee may be appointed by us or by the holders holding a majority in aggregate principal amount of the debt securities outstanding under the applicable indenture to act with respect to all of the debt securities outstanding under the applicable indenture. If the trustee resigns or is removed as trustee under one of the indentures, it may continue to serve as the trustee under the other indenture unless it resigns or is removed as trustee under the other indenture as described above.

If two or more persons are acting as trustee with respect to different series of debt securities, each trustee will be a trustee of a trust under that indenture separate from the trust administered by any other such trustee as to a separate series of debt securities issued under that indenture. Except as otherwise indicated in this prospectus or the applicable prospectus supplement, a trustee may only take an action with respect to the debt securities of the particular series of debt securities for which it is trustee under an indenture.

Governing Law

The debt securities of each series and the indenture will be governed by, and construed in accordance with, the laws of the State of New York without regard to any principles with respect to conflicts of laws that would result in the imposition of the laws of any State other than the State of New York.

DESCRIPTION OF COMMON STOCK

General

The following discussion summarizes some of the important rights of the holders of shares of our common stock. This discussion does not purport to be a complete description of these rights and may not contain all of the information regarding our common stock that is important to you. These rights can be determined in full only by reference to federal and state banking laws and regulations, the Texas Business Organizations Code, or “the TBOC”, and our amended and restated certificate of formation and bylaws.

We are incorporated in the State of Texas. The rights of our shareholders are generally covered by Texas law and our amended and restated certificate of formation and bylaws. The terms of our capital stock are therefore subject to Texas law, including the TBOC, and the common and constitutional law of Texas. The following discussion describes the terms of our amended and restated certificate of formation and bylaws. Our amended and restated certificate of formation and bylaws have been filed with the SEC as Exhibit 3.1 and Exhibit 3.2 to the registration statement of which this prospectus is a part, and we encourage you to read those documents.

Our amended and restated certificate of formation authorizes us to issue up to 40,000,000 shares of common stock, par value \$1.00 per share, and 1,000,000 shares of preferred stock, par value \$1.00 per share. As of January 12, 2017, we had 12,966,341 outstanding shares of our common stock and there were no preferred shares outstanding. The authorized but unissued shares of our capital stock will be available for future issuance without shareholder approval, unless otherwise required by applicable law or the rules of any applicable securities exchange.

Voting Rights

Subject to any special voting rights that may be given to any series of preferred stock that we may issue in the future, holders of our common stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote of our shareholders. Shareholders are not entitled to cumulate their votes with respect to the election of directors. Directors are elected by a plurality of the votes cast.

Dividend Rights

Holders of our common stock are entitled to dividends when, as and if declared by our board of directors out of funds legally available therefor.

Liquidation Rights

On liquidation of the Company, the holders of the common stock are entitled to share pro rata with the holders of shares of other common stock of the Company in any distribution of the assets of the Company after the holders of shares of preferred stock have received the liquidation

preference of their shares as determined by our board of directors plus any declared but unpaid dividends, if any, and after all other indebtedness of the Company has been retired. Other

Our common stock has no preemptive or conversion rights and is not entitled to the benefits of any redemption or sinking fund provision.

Listing

Our common stock is listed on the NASDAQ Global Market under the symbol "ABTX."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Investor Services, c/o Shareholder Services, whose address is P.O. Box #3170, College Station, TX 77842-3170.

Business Combinations under Texas Law

A number of provisions of Texas law, our amended and restated certificate of formation and our bylaws could have an anti-takeover effect and make more difficult the acquisition of the Company by means of a tender offer, a proxy contest or otherwise and the removal of incumbent directors. These provisions are intended to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors.

We are subject to the provisions of Title 2, Chapter 21, Subchapter M of the TBOC, or the Texas Business Combination Law, which provides that a Texas corporation may not engage in specified types of business combinations, including mergers, consolidations and asset sales, with a person, or an affiliate or associate of that person, who is an "affiliated shareholder." For purposes of this law, an "affiliated shareholder" is generally defined as the holder of 20% or more of the corporation's voting shares, for a period of three years from the date that person became an affiliated shareholder. The law's prohibitions do not apply if:

the business combination or the acquisition of shares by the affiliated shareholder was approved by the board of directors of the corporation before the affiliated shareholder became an affiliated shareholder; or

the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the affiliated shareholder, at a meeting of shareholders called for that purpose, not less than six months after the affiliated shareholder became an affiliated shareholder.

We have more than 100 shareholders and are considered to be an "issuing public corporation" for purposes of this law. The Texas Business Combination Law does not apply to the following:

the business combination of an issuing public corporation: where the corporation's original certificate of formation or bylaws contain a provision expressly electing not to be governed by the Texas Business Combination Law; or that adopts an amendment to its certificate of formation or bylaws, by the affirmative vote of the holders, other than affiliated shareholders, of at least two-thirds of the outstanding voting shares of the corporation, expressly electing not to be governed by the Texas Business Combination Law and so long as the amendment does not take effect for 18 months following the date of the vote and does not apply to a business combination with an affiliated shareholder who became affiliated on or before the effective date of the amendment;

a business combination of an issuing public corporation with an affiliated shareholder that became an affiliated shareholder inadvertently, if the affiliated shareholder divests itself, as soon as possible, of enough shares to no longer be an affiliated shareholder and would not at any time within the three- year period preceding the announcement of the business combination have been an affiliated shareholder but for the inadvertent acquisition;

a business combination with an affiliated shareholder who became an affiliated shareholder through a transfer of shares by will or intestacy and continuously was an affiliated shareholder until the announcement date of the business combination; and

- a business combination of a corporation with its wholly owned subsidiary if such subsidiary is a Texas entity and not an affiliate or associate of the affiliated shareholder other than by reason of the affiliated shareholder's beneficial ownership of voting shares of the corporation.

Neither our amended and restated certificate of formation nor our bylaws contain any provision expressly providing that the Company will not be subject to the Texas Business Combination Law. The Texas Business Combination Law may have the effect of inhibiting a nonnegotiated merger or other business combination involving Allegiance, even if that event would be beneficial to our shareholders.

Action by Written Consent

Under Texas law, no action required or permitted to be taken at an annual or special meeting of shareholders may be taken by written consent in lieu of a meeting of shareholders without the unanimous written consent of all shareholders entitled to vote on the action unless the certificate of formation specifically allows action to be taken by a written consent of the shareholders holding at least the minimum number of shares necessary to take the action that is subject to that consent at a meeting of shareholders, even though such consent is not signed by all of the corporation's shareholders. Our amended and restated certificate of formation provides for shareholder action by less than unanimous written consent.

Certain Certificate of Formation and Bylaw Provisions Potentially Having an Anti-takeover Effect

Our amended and restated certificate of formation and bylaws contain certain provisions that could have an anti-takeover effect and thus discourage potential takeover attempts and make it more difficult for our shareholders to change management or receive a premium for their shares. These provisions include:

• staggered terms for directors, who may be removed from office only for cause;

• a prohibition on cumulative voting in the election of directors;

• authority for our board of directors to issue shares of our preferred stock without shareholder approval and upon such terms as our board of directors may determine;

• a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals; and

• a provision that any special meeting of our shareholders may be called only by a majority of our board of directors, the President or a holder or group of holders of at least 50 % of our shares entitled to vote at the meeting.

In addition to these provisions of our amended and restated certificate of formation and bylaws, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution. These laws include the Bank Holding Company Act and the Change in Bank Control Act. These laws could delay or prevent an acquisition.

Limitation of Liability and Indemnification of Officers and Directors

Our amended and restated certificate of formation provides that our directors and officers will be indemnified by us to the fullest extent permitted under the TBOC and applicable federal laws and regulations, against all reasonable expenses incurred in connection with their service for or on our behalf. Our amended and restated certificate of formation also makes mandatory the indemnification permitted under Section 8.101 of the TBOC and makes mandatory the payment or reimbursement of reasonable expenses under Section 8.10 of the TBOC, and extends this mandatory indemnification and mandatory payment or reimbursement of expenses to all former or present officers of the Company and all persons who were serving at the request of the Company as the director, officer, partner, agent or trustee of another foreign or domestic entity. In addition, our amended and restated certificate of formation provides that our directors and officers will not be personally liable for monetary damages to us to the fullest extent permitted by the TBOC.

We have entered into indemnification agreements with our executive officers and directors pursuant to which they will be indemnified as described above and will be advanced costs and expenses subject to the condition that such executive officers and directors will

reimburse us for all advancements paid if a final judicial determination is made that such executive officer or director is not entitled to indemnification under applicable law or regulation.

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DESCRIPTION OF PREFERRED STOCK

The following description is a general summary of the terms of the preferred stock that we may issue. The description below and in any prospectus supplement relating to the offer for sale of shares of a series of our preferred stock does not purport to be complete and is subject to and qualified in its entirety by reference to our amended and restated certificate of formation and the applicable certificate of designation to our amended and restated certificate of formation establishing the terms of the series of preferred stock being offered for sale by means of a prospectus supplement and our bylaws, each of which we will make available upon request. The descriptions herein and in the applicable prospectus supplement do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of our amended and restated certificate of formation, the applicable certificate of designation and our bylaws because they, and not the summaries, define your rights as a holder of shares of our preferred stock. See “Where You Can Find More Information” for additional information.

General

We are authorized to issue 1,000,000 shares of preferred stock, par value \$1.00 per share. As of the date of this prospectus, we had no shares of preferred stock issued or outstanding.

Our amended and restated certificate of formation permits us to issue one or more series of preferred stock and authorizes our board of directors to designate the designations, preferences, limitations and relative rights of any such series of preferred stock, in each case, without any further action by our shareholders. Each share of a series of preferred stock will have the same relative rights as, and be identical in all respects with, all the other shares of the same series. Preferred stock may have voting rights, subject to applicable law and the determination at issuance by our board of directors. While the terms of preferred stock may vary from series to series, holders of our common stock should assume that all shares of preferred stock will be senior to our common stock in respect of distributions and on liquidation.

Terms of the Preferred Stock That We May Offer and Sell to You

You should refer to the prospectus supplement relating to the shares of one or more series of preferred stock being offered for sale for the specific terms of that series, including:

- the title and par value of the series of preferred stock being offered and the price per share at which such shares of the series of preferred stock are being offered to the public;
- the number of shares of the series of preferred stock being offered;
- the number of shares of preferred stock included in that series of preferred stock;
- the liquidation preference per share of the preferred stock of such series;

the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculating the payment date(s) applicable to the shares of the series of preferred stock being offered;

whether dividends will be cumulative or noncumulative and, if cumulative, the date from which dividends on the shares of preferred stock being offered will accumulate;

the procedures for any auction and remarketing, if any, for the shares of preferred stock being offered;

the provisions for a sinking fund, if any, for the shares of preferred stock being offered;

the provisions for redemption, if applicable, of the shares of preferred stock being offered;

any listing of the shares of preferred stock being offered on any securities exchange or market;

the terms and conditions, if applicable, upon which the shares of preferred stock being offered will be convertible into or exchangeable for other securities or rights, or a combination of the foregoing, including the name of the issuer of the securities or rights, conversion or exchange ratio or price, or the manner of calculating the conversion or exchange ratio or price, and the conversion or exchange date(s) or period(s) and whether we will have the option to convert such preferred stock into cash;

voting rights, if any, of the shares of preferred stock being offered;

a discussion of any material and/or special United States federal income tax considerations applicable to the shares of preferred stock being offered;

the relative ranking and preferences of the shares of preferred stock being offered as to dividend rights to participate in our assets and rights upon winding up or termination of the affairs of the Company;

any limitations on the issuance of any series of preferred stock ranking senior to or equally with the series of preferred stock being offered as to dividend rights and rights to participate in our assets upon winding up or termination of the affairs of the Company; and

any other specific terms, preferences, rights, limitations or restrictions of the shares of preferred stock being offered.

DESCRIPTION OF WARRANTS

This section describes the general terms and provisions of the warrants. The prospectus supplement will describe the specific terms of the warrants offered through that prospectus supplement and any general terms outlined in this section that will not apply to those warrants.

We may issue warrants for the purchase of debt securities, common stock or preferred stock. Warrants may be issued alone or together with securities offered by any prospectus supplement and may be attached to or separate from those securities. Each series of warrants will be issued under a separate warrant agreement between us and a bank or trust company, as warrant agent, which will be described in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not act as an agent or trustee for any holders of warrants.

We have summarized the material terms and provisions of the warrant agreements and warrants in this section. We will file the forms of warrant agreements and the certificates representing the warrants as exhibits to the registration statement of which this prospectus is a part or as an exhibit to documents incorporated or deemed incorporated by reference in this prospectus. You should read the applicable forms of warrant agreement and warrant certificate for additional information before you buy any warrants.

General

If warrants are offered, the applicable prospectus supplement will describe the terms of those warrants, including the following if applicable:

the offering price;

in the case of warrants for common stock, the total number of shares that can be purchased if a holder of the warrants exercises them, in the case of warrants for preferred stock, the designation, total number and terms of the series of preferred stock that can be purchased if a holder of the warrants exercises them and, in the case of warrants for debt securities, the designation, aggregate principal amount, currencies, denominations and terms of the series of the debt securities that can be purchased if a holder of the warrants exercises them;

the designation and terms of any series of debt securities, common stock or preferred stock with which the warrants are being offered and the number of warrants offered with each debt security, share of common stock or share of preferred stock;

the date on and after which the holder of the warrants can transfer them separately from the related securities;

in the case of warrants for common stock or preferred stock, the price at which the common stock or preferred stock may be purchased if a holder of the warrants exercises them, and in the case of warrants for debt securities, the principal amount of the series of

debt securities that can be purchased if a holder exercises the warrant and the price at which and currencies in which the principal amount may be purchased if a holder of the warrants exercises them;

the date on which the right to exercise the warrants begins and the date on which the right expires;

any material United States federal income tax consequences relevant to the warrants; and

any other terms of the warrants.

Unless we state otherwise in the applicable prospectus supplement, the warrants will be in registered form only. A holder of warrant certificates may exchange them for new certificates of different denominations, present them for registration of transfer, and exercise them at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement.

Until any warrants to purchase debt securities are exercised, the holder of such warrants will not have any of the rights of holders of the debt securities that can be purchased upon exercise, including any right to receive payments of principal, premium or interest on the underlying debt securities or to enforce covenants in the applicable indenture.

Until any warrants to purchase common stock or preferred stock are exercised, holders of such warrants will not have any rights of holders of the underlying common stock or preferred stock, including any right to receive dividends or to exercise any voting rights.

Exercise of Warrants

Each holder of a warrant is entitled to purchase the principal amount of debt securities, number of shares of common stock or number of shares of preferred stock, as the case may be, at the exercise price described in the applicable prospectus supplement. After the close of business on the day when the right to exercise terminates, or a later date if we extend the time for exercise, unexercised warrants will become void.

A holder of warrants may exercise them by following the general procedure outlined below:

delivering to the warrant agent the payment required by the applicable prospectus supplement to purchase the underlying security;

properly completing and signing the reverse side of the warrant certificate representing the warrants; and

delivering the warrant certificate representing the warrants to the warrant agent, or other office indicated in the applicable prospectus supplement, within five business days of the warrant agent receiving payment of the exercise price.

If a holder of warrant complies with the procedures described above, their warrants will be considered to have been exercised when the warrant agent receives payment of the exercise price. After a holder of warrants has completed those procedures, we will, as soon as practicable, issue and deliver to the holder the debt securities, common stock or preferred stock that the holder purchased upon exercise. If a holder of warrants exercises fewer than all of the warrants represented by a warrant certificate, the warrant agent will issue to the holder a new warrant certificate for the unexercised amount of warrants. Holders of warrants will be required to pay any tax or governmental charge that may be imposed in connection with transferring the underlying securities in connection with the exercise of the warrants.

Amendments and Supplements to Warrant Agreements

We may amend or supplement a warrant agreement without the consent of the holders of the applicable warrants if the changes are not inconsistent with the provisions of the warrants and do not materially adversely affect the interests of the holders of the warrants. We, along with the warrant agent, may also modify or amend a warrant agreement and the terms of the warrants if a majority of the then outstanding unexercised warrants affected by the modification or amendment consent. However, no modification or amendment that accelerates the expiration date, increases the exercise price, reduces the majority consent requirement for any such modification or amendment, or otherwise materially adversely affects the rights of the holders of the warrants may be made without the consent of each holder affected by the modification or amendment.

Common Stock Warrant Adjustments

Unless the applicable prospectus supplement states otherwise, the exercise price of, and the number of shares of common stock covered by, a warrant for common stock will be adjusted in the manner set forth in the applicable prospectus supplement if certain events occur, including:

• if we issue capital stock as a dividend or distribution on the common stock;

• if we subdivide, reclassify or combine the common stock;

• if we issue rights or warrants to all holders of common stock entitling them to purchase common stock at less than the current market price, as defined in the warrant agreement for such series of common stock warrants;

• if we distribute to all holders of common stock evidence of our indebtedness or our assets, excluding certain cash dividends and distributions referred to above; or

• any other event described in the applicable prospectus supplement.

Except as stated above, the exercise price and number of shares of common stock covered by a common stock warrant will not be adjusted if we issue common stock or any securities convertible into or exchangeable for common stock, or securities carrying the right to purchase common stock or securities convertible into or exchangeable for common stock.

Holders of common stock warrants may have additional rights under the following circumstances:

• reclassification or change of the common stock;

• consolidation, merger or share exchange involving us; or

• sale or conveyance to another corporation of all or substantially all of our property and assets.

If one of the above transactions occurs and holders of our common stock become entitled to receive stock, securities, other property or assets, including cash, with respect to or in exchange for common stock, the holders of the common stock warrants then outstanding will be entitled to receive upon exercise of their common stock warrants the kind and amount of shares of stock and other securities or property that they would have received upon the reclassification, change, consolidation, merger, share exchange, sale or conveyance if they had exercised their common stock warrants immediately before the transaction.

DESCRIPTION OF UNIT PURCHASE AGREEMENTS

Securities may be offered and sold as part of units consisting of a unit purchase agreement relating the purchase of any combination of:

• debt securities of one or more series;

• one or more series of preferred stock;

• warrants; or

• common stock;

which may secure the holders' obligations to purchase the common stock, preferred stock and/or debt securities under the unit purchase agreements. The applicable prospectus supplement will describe the terms of any unit purchase agreements. Such description may not be complete. For more information, you should review the unit purchase agreements and, if applicable, any related arrangements relating to those unit purchase agreements. We will file forms of these documents with the SEC before the Company issues any unit purchase agreements.

BOOK ENTRY ISSUANCE

If so provided in the applicable prospectus supplement, we will issue the debt securities of each series offered by means of this prospectus in the form of one or more fully registered global debt securities, without coupons, each of which we refer to as a “global security.” Each such global security will be registered in the name of a depository or a nominee of a depository and held through one or more domestic clearing systems, principally the book-entry system operated by DTC in the United States. No person who acquires an interest in these global securities will be entitled to receive a certificate or other instrument representing the person’s interest in the global securities except as set forth under “—Certificated Debt Securities” below or in the applicable prospectus supplement. Unless otherwise provided in the applicable prospectus supplement, all references in this prospectus or any prospectus supplement to this prospectus to actions by holders of any debt securities that are global securities refer to actions taken by DTC upon instructions from its participants, and all references herein to payments and notices to the holders refer to payments and notices to DTC or its nominee, as the case may be, as the registered holder of the offered debt securities. Electronic securities and payment transfer, processing, depository and custodial links have been established among the DTC system and other systems, either directly or indirectly, which enable global securities to be issued, held and transferred among these clearing systems through these links.

Although DTC has agreed to the procedures described below in order to facilitate transfers of global securities among participants in DTC, it is under no obligation to perform or continue to perform those procedures, and those procedures may be modified or discontinued at any time. Neither we, the trustee nor any registrar and transfer agent with respect to our debt securities of any series offered by means of this prospectus will have any responsibility for the performance by DTC or any of its direct or indirect participants of its obligations under the rules and procedures governing the operations of DTC.

Unless otherwise specified in the applicable prospectus supplement, the debt securities of a series issued in the form of one or more global securities will be registered in the name of DTC or a nominee of DTC. Where appropriate with respect to the debt securities of a series ">The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	As of	
	September 30, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	(unaudited)	
Current liabilities:		
Capital lease obligations, current	\$ 965	\$ 1,290
Accounts payable	1,652	3,007
Contingent value rights		7,599
Accrued expenses	20,590	20,530
Deferred revenue, current	51,023	45,974
Total current liabilities	74,230	78,400
Long-term liabilities:		
Long-term debt	174,450	174,328
Capital lease obligations, less current portion	2,278	3,014
Deferred revenue, less current portion	8,138	5,631
Other liabilities	14,001	15,131
Total long-term liabilities	198,867	198,104
Commitments and contingencies (See Note 13)		
Stockholders' equity (deficit):		
Preferred stock (\$.001 par value, 15,000 shares authorized, zero shares issued and outstanding at September 30, 2013 and December 31, 2012)		
Common stock (\$.001 par value, 150,000 shares authorized, 51,208 and 51,208 shares issued, and 46,904 and 47,098 shares outstanding at September 30, 2013 and December 31, 2012, respectively)	51	51
Capital surplus	283,572	282,450
Accumulated deficit	(326,961)	(318,442)
Treasury stock at cost (4,304 and 4,110 shares at September 30, 2013 and December 31, 2012, respectively)	(7,772)	(7,528)
Accumulated other comprehensive loss:		
Pension and postretirement plans	(2,486)	(2,576)
Accumulated other comprehensive loss	(2,486)	(2,576)
Total stockholders' equity (deficit)	(53,596)	(46,045)

Total liabilities and stockholders equity (deficit)	\$ 219,501	\$ 230,459
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The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements

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Cambium Learning Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Operating activities:		
Net loss	\$ (8,519)	\$ (44,976)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	16,343	24,826
Goodwill impairment		14,700
Loss from recovery of property held for sale	122	880
Amortization of note discount and deferred financing costs	1,304	1,308
Change in fair value of contingent value rights obligation	74	161
Loss on disposal of assets	104	68
Stock-based compensation and expense	788	518
Impairment of long-lived assets		3,347
Proceeds from sale of recovered properties	258	
Michigan tax refund received	12,342	
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,738)	(19,430)
Inventory	6,029	2,624
Other current assets	(408)	(818)
Other assets	(875)	(223)
Restricted assets	3,995	1,023
Accounts payable	(1,355)	1,378
Accrued expenses	60	(3,868)
Deferred revenue	7,556	6,390
Other long-term liabilities	(830)	(689)
Net cash provided by (used in) operating activities	23,250	(12,781)
Investing activities:		
Cash paid for contingent value rights obligation related to acquisition	(7,673)	
Proceeds from sale of property, equipment, and software		264
Expenditures for property, equipment, software and pre-publication costs	(12,383)	(13,317)
Net cash used in investing activities	(20,056)	(13,053)
Financing activities:		
Principal payments under capital lease obligations	(1,061)	(921)

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Share repurchases	(244)	(1,297)
Net cash used in financing activities	(1,305)	(2,218)
Increase (decrease) in cash and cash equivalents	1,889	(28,052)
Cash and cash equivalents, beginning of period	51,904	63,191
Cash and cash equivalents, end of period	\$ 53,793	\$ 35,139

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

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Cambium Learning Group, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

Presentation. The Condensed Consolidated Financial Statements include the accounts of Cambium Learning Group, Inc. and subsidiaries (the Company) and are unaudited. The condensed balance sheet as of December 31, 2012 has been derived from audited financial statements. All intercompany transactions are eliminated.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) have been omitted. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Due to seasonality, the results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

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

Nature of Operations. The Company is a leading educational solutions and services company that is committed to helping every student reach their full potential by providing evidence-based solutions and expert professional services to empower educators and raise the achievement levels of all students. The Company's brands include: Voyager Learning and Sopris Learning, Learning A-Z, ExploreLearning, and Kurzweil Educational Systems and IntelliTools. Together, these business units provide best-in-class intervention and supplemental instructional materials; gold-standard professional development and school-improvement services; breakthrough technology solutions for online learning and professional support; valid and reliable assessments; and proven materials to support a positive and safe school environment.

These brands comprise four reportable segments with separate management teams and infrastructures that offer various products and services: Voyager Sopris Learning, Learning A-Z, ExploreLearning and Kurzweil/IntelliTools. Prior to the first quarter of 2013, the Company operated in two reportable segments, Voyager Sopris Learning and Cambium Learning Technologies. See Note 15 to the Condensed Consolidated Financial Statements for further information on the Company's segment reporting structure.

Note 2 Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts and estimated sales returns. The allowance for doubtful accounts and estimated sales returns totaled \$0.6 million at September 30, 2013 and \$0.4 million at December 31, 2012. The allowance for doubtful accounts is based on a review of the outstanding balances and historical collection experience. The reserve for sales returns is based on historical rates of return as well as other

factors that in the Company's judgment could reasonably be expected to cause sales returns to differ from historical experience.

Note 3 Stock-Based Compensation and Expense

The stock-based compensation and expense recorded was allocated as follows:

(in thousands)	Three Months Ended September		Nine Months Ended September	
	2013	30, 2012	2013	30, 2012
Cost of revenues	\$ 33	\$ 13	\$ 57	\$ 38
Research and development expense	60	31	112	91
Sales and marketing expense	61	31	105	87
General and administrative expense	192	238	514	302
Total	\$ 346	\$ 313	\$ 788	\$ 518

Exchange Offer

During the three month period ended September 30, 2013, the Company filed a Tender Offer Statement on Schedule TO with the SEC related to an offer by the Company to certain current U.S. employees of the Company and its subsidiaries who were selected by the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) and such employees who have been selected by the committee, Eligible Optionholders) to receive the opportunity to exchange all of their outstanding options to purchase shares of the Company's common stock, par value \$0.001 per share, previously granted under the Cambium Learning Group, Inc. 2009 Equity Incentive Plan (the Plan) for the grant of new options to purchase shares of the Company's common stock (the New Options). The New Options were granted pursuant to the Plan. The number of shares of Company common stock subject to the New Options was calculated pursuant to an exchange ratio determined by the Compensation Committee for each Eligible Optionholder. On July 30, 2013, options to purchase 1,757,500 shares of the Company's common stock were exchanged in the exchange offer and New Options to purchase 1,902,500 shares of the Company's common stock were issued. The New Options had a grant date compensation cost, net of forecasted forfeitures, of \$1.2 million which was comprised of incremental compensation cost of the New Options of \$0.9 million and unamortized compensation cost of the surrendered options of \$0.3 million, each as described below.

The exercise price per share for each New Option was equal to \$1.30. Each of the New Options vests in equal monthly installments on the last day of each month of the four year period commencing as of January 1, 2013. Each New Option expires on the expiration date applicable to the option for which it was exchanged.

Under Accounting Standards Codification 718, Compensation - Stock Compensation, the exchange of options in this exchange offer is treated as a modification of the existing stock options for accounting purposes. Accordingly, beginning in the third quarter of 2013, the Company began recognizing the unamortized compensation cost of the surrendered options, as well as the incremental compensation cost of the New Options granted in this exchange offer, ratably over the vesting period of the New Option grants. The incremental compensation cost was measured as the excess of the fair value of each New Option grant granted to employees in exchange for surrendered options over the fair value of the surrendered options in exchange for the New Option grants, each measured as of the date the New Options were granted.

Other Grants

On July 30, 2013, the Company granted 377,500 options under the Plan with a total grant date fair value, net of forecasted forfeitures, of \$0.3 million. Each of these options have a per-share exercise price of \$1.30 and vest in equal monthly installments on the last day of each month of the four year period commencing as of January 1, 2013. The term of each of the options is ten years from the date of grant.

On September 19, 2013, the Company granted 30,000 options under the Plan with a total grant date fair value, net of forecasted forfeitures, of \$25 thousand. Each of these options have a per-share exercise price of \$1.51 and vest in equal monthly installments on the last day of each month of the four year period beginning on the first day of the month of grant. The term of each of the options is ten years from the date of grant.

Valuation assumptions

The following assumptions were used in the Black-Scholes option-pricing model to estimate the fair value of the awards granted during the nine month periods ended September 30, 2013 and 2012:

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	Nine Months Ended		
	September 30, 2013		September 30, 2012
Expected stock volatility	63.1	63.9%	35.0%
Risk-free interest rate	1.01	1.88%	1.02 - 1.17%
Expected years until exercise	4.20	6.25	6.25
Dividend yield		0.00%	0.00%

Due to a lack of exercise history or other means to reasonably estimate future exercise behavior, the Company used the simplified method as described in applicable accounting guidance for stock-based compensation to estimate the expected years until exercise on new awards.

Award activity

The following tables detail changes in the Company's outstanding stock options during the three and nine month periods ended September 30, 2013. Options surrendered in the exchange offer of 1,757,500 options are included in Canceled/Forfeited in the tables below.

Three Months Ended September 30, 2013				
Grant Date	Beginning Outstanding	Granted	Canceled/Forfeited	Ending Outstanding
December 8, 2009	550,000		550,000	
January 27, 2010	996,421		969,044	27,377
May 25, 2010	80,000		74,128	5,872
February 1, 2011	122,908		119,616	3,292
November 21, 2011	150,000			150,000
February 8, 2012	195,000		195,000	
April 16, 2012	15,000		15,000	
May 14, 2012	25,000			25,000
July 30, 2013		2,280,000	4,108	2,275,892
September 19, 2013		30,000		30,000
Total	2,134,329	2,310,000	1,926,896	2,517,433

Nine Months Ended September 30, 2013				
Grant Date	Beginning Outstanding	Granted	Canceled/Forfeited	Ending Outstanding
December 8, 2009	1,550,000		1,550,000	
January 27, 2010	1,065,398		1,038,021	27,377
May 25, 2010	92,401		86,529	5,872
February 1, 2011	165,290		161,998	3,292
November 21, 2011	150,000			150,000
December 1, 2011	500,000		500,000	
February 8, 2012	195,000		195,000	
April 16, 2012	15,000		15,000	
May 14, 2012	25,000			25,000
July 30, 2013		2,280,000	4,108	2,275,892
September 19, 2013		30,000		30,000
Total	3,758,089	2,310,000	3,550,656	2,517,433

During the three and nine months ended September 30, 2013, the related restrictions lapsed on restricted common stock awards of zero shares and 47,795 shares, respectively.

Note 4 Net Income (Loss) per Common Share

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Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period including a warrant for shares issuable for little or no cash consideration which is considered a common share equivalent. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period, including the potential dilution that could occur if all of the Company's outstanding stock awards that are in-the-money were exercised, using the treasury stock method.

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A reconciliation of the weighted-average number of common shares and equivalents outstanding used in the calculation of basic and diluted net income (loss) per common share is shown in the table below for the periods indicated:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic	47,563	49,284	47,439	49,722
Dilutive effect of awards	94			
Diluted	47,657	49,284	47,439	49,722
Antidilutive securities:				
Options	2,517	4,107	2,517	4,107
Warrants		188	300	188
Restricted stock	2	49	2	49

Note 5 Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability (exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3 Valuations derived from valuation techniques in which significant value drivers are unobservable. Applicable guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As of September 30, 2013, financial instruments include \$53.8 million of cash and cash equivalents, restricted assets of \$7.1 million, collateral investments of \$2.0 million, and \$174.5 million of senior secured notes. As of December 31, 2012, financial instruments include \$51.9 million of cash and cash equivalents, restricted assets of \$11.1 million, collateral investments of \$2.0 million, \$174.3 million of senior secured notes, \$0.3 million of warrants, assets held for sale of \$0.4 million, and \$7.6 million in contingent value rights (CVRs). The fair market values of cash equivalents and restricted assets are equal to their carrying value, as these investments are recorded based on quoted market prices and/or other market data for the same or comparable instruments and transactions as of the end of the

reporting period. The final recovered property related to the employee embezzlement matter was sold during the quarter ended September 30, 2013. See Note 16 to the Condensed Consolidated Financial Statements for further information. The sale of the remaining recovered property also represented the final contingency related to the warrant. As such, the warranty liability was reclassified from Other Liabilities to Capital Surplus in the Condensed Consolidated Financial Statements in accordance with relevant GAAP.

As of September 30, 2013, the fair value of the senior secured notes was \$165.6 million based on quoted market prices in active markets for these debt instruments when traded as assets.

Assets and liabilities measured at fair value on a recurring basis are as follows:

(in thousands)	As of September 30, 2013	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted assets:				
Money market	\$ 7,146	\$ 7,146	\$	\$
Collateral investments:				
Money market	903	903		
Certificate of deposit	1,068	1,068		

(in thousands)

Description	As of December 31, 2012	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted assets:				
Money market	\$ 11,141	\$ 11,141	\$	\$
Collateral investments:				
Money market	902	902		
Certificate of deposit	1,067	1,067		
Warrant liability	310		310	
Assets held for sale:				
Recovered properties	380		380	
CVRs	7,599			7,599

Description	Total Gains (Losses) for the Nine Months Ended September 30,	
	2013	2012
(in thousands)		
Restricted assets:		
Money market	\$	\$
Collateral investments:		
Money market		
Certificate of deposit		
Warrant liability	(53)	389
Assets held for sale:		
Recovered properties	(122)	(880)
CVRs	(74)	(161)

The warrant was valued using the Black-Scholes pricing model. Due to the low exercise price of the warrant, the model assumptions do not significantly impact the valuation.

Contingent Value Rights

As part of the 2009 merger with Voyager Learning Company (VLCY), each former VLCY shareholder received a CVR to receive cash in an amount equal to the aggregate amount of specified tax refunds received after the closing of the mergers and various other amounts deposited in escrow on or after the closing date, reduced by any payments to be made under the escrow agreement entered into in connection with the mergers, with respect to agreed contingencies, a potential working capital adjustment and allowed expenses, divided by the total number of shares of VLCY common stock outstanding immediately prior to the effective time of the mergers.

The first and second CVR payment dates were in September 2010 and June 2011, with \$1.1 million and \$2.0 million, respectively, distributed to the escrow agent at those times for distribution to holders of the CVRs.

During the second quarter of 2013, the remaining contingencies related to the CVR liability were resolved and the final payment of \$7.7 million was issued. This payment comprised \$5.8 million related to a Michigan state tax matter and \$1.9 million related to a potential tax indemnity obligation. Restricted cash in an escrow account for the benefit of the CVRs was \$3.0 million for the potential tax indemnity obligation. As the potential tax indemnity obligation was not triggered, the remaining \$1.1 million in the escrow account reverted back to the general cash of the Company in the second quarter of 2013.

See Note 13 for further information on the Michigan tax matter.

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A detail of the elements included in the CVR is as follows:

(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs
Balance as of December 31, 2012	\$ 7,599
Accrued interest	74
Payments made	(7,673)
Balance as of September 30, 2013	\$

(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CVRs Fair Value as of September 30, 2013
Components of CVR Total:	
Tax refunds received before closing of the merger	\$ 1,583
Other specified tax refunds	4,797
Tax indemnity obligation	1,868
Legal receivable	2,400
Interest income from Michigan tax refund	607
Other specified tax related liabilities	(53)
Costs incurred to collect tax refunds and by stockholders representative	(430)
Total CVR liability	10,772
September 2010 payment	(1,106)
June 2011 payment	(1,993)
June 2013 payment	(7,673)
Remaining CVR liability	\$

Assets and liabilities measured at fair value on a non-recurring basis are as follows:

(in thousands) Description	As of September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level	Fair Value at Reporting Date Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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			1)	
Goodwill	\$	47,404	\$	\$ 47,404
Property, equipment and software		21,008		21,008
Pre-publication costs, net		13,949		13,949
Acquired curriculum and technology intangibles, net		6,508		6,508
Acquired publishing rights, net		5,429		5,429
Other intangible assets, net		6,481		6,481

(in thousands)

Description	As of December 31, 2012	Fair Value at Reporting Date Using Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Goodwill	\$ 47,404	\$	\$	\$ 47,404
Property, equipment and software	21,021			21,021
Pre-publication costs, net	11,660			11,660
Acquired curriculum and technology intangibles, net	9,320			9,320
Acquired publishing rights, net	7,602			7,602
Other intangible assets, net	7,836			7,836

(in thousands) Description	Total Gains (Losses) for the Nine Months Ended September 30,	
	2013	2012
Goodwill	\$	\$ (14,700)
Property, equipment and software		(3,347)
Pre-publication costs, net		
Acquired curriculum and technology intangibles, net		
Acquired publishing rights, net		
Other intangible assets, net		

There were no significant remeasurements of these assets during the nine months ended September 30, 2013.

During the quarter ended March 31, 2012, an Impairment of Long-Lived Assets charge of \$2.8 million was recorded primarily due to the Company's decision to outsource its warehouse operations to Ozburn Hesse Logistics and to cease use of its leased facility in Frederick, Colorado. During the quarter ended June 30, 2012, an Impairment of Long-Lived Assets charge of \$0.3 million was recorded for the impairment of previously capitalized development costs that, as a result of certain actions in our restructuring and reengineering initiative, were determined to have no ongoing value. During the quarter ended September 30, 2012, an Impairment of Long-Lived Assets charge of \$0.2 million was recorded for the impairment of certain warehouse equipment as a result of the Company's restructuring and reengineering initiatives.

Goodwill Impairment

In accordance with applicable accounting guidance, goodwill and other indefinite-lived intangible assets are not amortized but are instead reviewed for impairment at least annually and if a triggering event is determined to have occurred in an interim period. The Company's annual impairment testing is performed as of October 1 of each year. During the quarter ended June 30, 2012, significant sustained sales declines in the Company's Kurzweil/IntelliTools segment caused the Company to re-evaluate the forecasts for this reporting unit. The Company determined that future sales for Kurzweil/IntelliTools were not expected to achieve previous forecasts. This adverse change in expected future cash flows triggered the need for an interim goodwill impairment analysis for this reporting unit. As a result of our interim impairment test, the goodwill balance for the Kurzweil/IntelliTools reporting unit was determined to be partially impaired, and an impairment charge of \$14.7 million was recorded as of June 30, 2012. The goodwill impairment charge was primarily the result of lowered forecasts of future sales.

During the three and nine months ended September 30, 2013, the Company did not identify any triggering events that would warrant an interim goodwill impairment test.

Class.com

In late 2011, the Company completed the acquisition of certain assets of Class.com, a provider of online learning solutions and courseware. To better align its product portfolio with the Company's strategic focus, the Voyager Sopris Learning segment is considering strategic alternatives which could include a sale of the Class.com assets. The Company is actively pursuing a sale transaction, but it is unknown at this time whether a transaction will be completed. If the strategic alternative process does result in a sale transaction, it would most likely be completed in the fourth quarter of 2013 or the first quarter of 2014. The Class.com product line was not recorded as held for sale or discontinued operations at September 30, 2013 as it was reasonably possible that the plan to sell the Class.com assets could significantly change or be withdrawn.

The Company determined that the potential sale of the Class.com assets was a trigger event for performing a review of the recoverability of the related assets. After reviewing the recoverability of the assets and the fair values, as necessary, it was determined that no impairment was present at September 30, 2013. The related product line assets include intangible assets of \$0.6 million, capitalized software of \$0.3 million, and developed curriculum of \$0.2 million. The Company will continue to monitor any changes to its strategic alternatives process and the related impact to its asset values.

Note 6 Other Current Assets

Other current assets at September 30, 2013 and December 31, 2012 consisted of the following:

(in thousands)	As of	
	September 30, 2013	December 31, 2012
Deferred costs	\$ 4,399	\$ 4,132
Prepaid expenses	1,656	1,599
Deferred taxes	261	137
Other current assets		24
Total	\$ 6,316	\$ 5,892

Note 7 Other Assets

Other assets at September 30, 2013 and December 31, 2012 consisted of the following:

(in thousands)	As of	
	September 30, 2013	December 31, 2012
Deferred financing costs	\$ 4,939	\$ 6,121
Collateral investments	1,971	1,969
Other	2,415	1,542
Total	\$ 9,325	\$ 9,632

The deferred financing costs represent costs incurred in connection with the issuance of the \$175 million aggregate principal amount of 9.75% senior secured notes as described in Note 14 to the Condensed Consolidated Financial Statements.

Note 8 Accrued Expenses

Accrued expenses at September 30, 2013 and December 31, 2012 consisted of the following:

(in thousands)	As of	
	September 30, 2013	December 31, 2012
Salaries, bonuses and benefits	\$ 12,814	\$ 7,593
Accrued interest	2,202	6,490
Accrued royalties	1,505	1,399
Pension and post-retirement medical benefits	1,221	1,218
Deferred compensation	21	57
Other	2,827	3,773
Total	\$ 20,590	\$ 20,530

Accrued interest primarily relates to the 9.75% senior secured notes. The notes require semi-annual interest payments in arrears on each February 15 and August 15 over the life of the notes.

Note 9 Other Liabilities

Other liabilities at September 30, 2013 and December 31, 2012 consisted of the following:

(in thousands)	September 30, 2013	As of December 31, 2012
Pension and post-retirement medical benefits, long-term portion	\$ 10,812	\$ 11,392
Deferred rent	1,262	1,457
Long-term income tax payable	889	852
Long-term deferred compensation	488	503
Long-term deferred tax liability	397	273
Other	153	654
Total	\$ 14,001	\$ 15,131

Note 10 Pension Plan

The net pension costs of the Company's defined benefit pension plan were primarily comprised of interest costs and totaled \$0.1 million for the three month periods ended September 30, 2013 and 2012 and \$0.4 million for the nine month periods ended September 30, 2013 and 2012. The net pension costs for the three and nine months ended September 30, 2013 and 2012 also included immaterial accumulated net loss amortization.

Note 11 Restructuring

In late 2011, the Company launched a reengineering and restructuring initiative to align its organizational and cost structure to its strategic goals. Reengineering and restructuring activities were completed during 2012 and included:

- Obtaining new leadership and employee skill sets that support the transformation of the Company to focus more heavily on technology solutions and services and other strategic objectives;
- Outsourcing warehouse operations to a third party logistics provider, which will allow the Company to take advantage of a lower and more variable cost structure for its print based products, as well as locate operations closer to the geographic center of its nationwide customer base;
- Rationalizing facilities space by consolidating facilities and subleasing entire or partial facilities where feasible;
- Assessing and implementing optimization projects to improve cost efficiencies and enhance the customer experience throughout the order to cash, professional service delivery, procurement processes, and sales channel structure;
- Reduction of job positions that do not support the Company's key strategic goals; and
- Other reductions and costs to improve the Company's cost structure.

The total expense for all reengineering and restructuring initiatives from the fourth quarter of 2011 through the end of 2012 was \$9.6 million, including both cash and non-cash items, and capital expenditures were \$0.7 million.

The following table summarizes the amounts incurred in connection with the reengineering and restructuring initiative:

(in thousands)	Incurred in Year Ended December 31, 2011	Incurred in Year Ended December 31, 2012	Total Amount Incurred Under the Plan
One-time termination benefits	\$ 1,189	\$ 2,507	\$ 3,696
Impairment of long-lived assets		4,448	4,448
Warehouse transition costs		1,003	1,003
Facility rationalization costs		209	209
Process reengineering costs		203	203
	\$ 1,189	\$ 8,370	\$ 9,559

Reengineering and restructuring charges were recorded to the following line items in the Condensed Consolidated Statements of Operations for the three and nine months, respectively, ended September 30, 2012: \$0.1 million and \$1.5 million to Cost of Revenues; zero and \$0.3 million to Research and Development Expense; zero and \$0.5 million to Sales and Marketing Expense; \$0.2 million and \$0.3 million to General and Administrative Expense; zero and \$0.4

million to Shipping and Handling Costs; and \$0.2 million and \$3.3 million to Impairment of Long-Lived Assets. All of these charges were recorded in unallocated shared services.

(in thousands)	One-Time Termination Benefits
Balance as of December 31, 2012	\$ 828
Accrual changes	(18)
Payments made	(757)
Balance as of September 30, 2013	\$ 53

Note 12 Uncertain Tax Positions

The Company recognizes the financial statement impacts of a tax return position when it is more likely than not, based on technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, the Company applies judgment, taking into account applicable tax laws, experience managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in its financial statements. For each position, the difference between the benefit realized on the Company's tax return and the benefit reflected in its financial statements is recorded on the Condensed Consolidated Balance Sheet as an unrecognized tax benefit (UTB). The Company updates its UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with tax authorities. The balance of UTBs was \$7.1 million at September 30, 2013 and December 31, 2012.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. All U.S. tax years prior to 2008 related to the VLCY acquired entities have been audited by the Internal Revenue Service. Cambium and its subsidiaries have been examined by the Internal Revenue Service through the end of 2006. The Company has been audited by the various state tax authorities through 2007.

Note 13 Commitments and Contingencies

The Company is involved in various legal proceedings incidental to its business. Management believes that the outcome of these proceedings will not have a material adverse effect upon the Company's consolidated operations or financial condition and the Company has recognized appropriate liabilities as necessary based on facts and circumstances known to management. The Company expenses legal costs related to legal contingencies as incurred.

In March 2013, the Company's Board of Directors announced that they had accepted the resignations of Ron Klausner, Chief Executive Officer; Vernon Johnson, President of Voyager Sopris Learning; and Brad Almond, Chief Financial Officer. These resignations were not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. Severance charges of \$1.5 million were recorded in the first quarter of 2013 in connection with these resignations.

The Company had a potential contingent liability related to state income taxes and related interest that had been assessed against a former subsidiary. On August 27, 2010, the former subsidiary received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, the former subsidiary was liable to the State of Michigan for unpaid taxes and interest in the amount of approximately \$10.4 million. In order to expedite resolution of this matter and access the Michigan Court of Claims, the Company paid this liability to the state of Michigan on behalf of the former subsidiary on September 7, 2010 and filed an action in the Michigan Court of Claims to pursue a refund of the assessment. On November 16, 2011, the Michigan Court of Claims ruled in the Company's favor. The Michigan state taxing authority then appealed the decision of the Court of Claims to the Michigan Court of Appeals. On January 16, 2013, the Michigan Court of Appeals affirmed the verdict of the Court of Claims. As the Michigan state taxing authority declined to appeal the case to the Michigan Supreme Court, the matter was closed and the Company received \$11.7 million related to this claim in the second quarter of 2013.

This liability was identified as an agreed contingency for purposes of the CVRs issued as part of a 2009 merger. In accordance with the terms of the merger agreement, dated June 20, 2009, fifty percent (50%) of any amount that is paid or due and payable with respect to each agreed contingency would offset payments due under the CVRs from an amount held for such payments by Wells Fargo Bank, N.A., as escrow agent, in an escrow account. Upon payment of the approximately \$10.4 million, the Company requested a disbursement to the Company from the escrow account in an amount equal to fifty percent (50%) of the payment, or approximately \$5.2 million. This cash disbursement was received by the Company during the third quarter of 2010. On September 20, 2010, the Company amended the merger agreement and the escrow agreement to extend the term of the escrow agreement until the later of the full distribution of the escrow funds or the final resolution of the agreed contingency. The final resolution of the tax litigation resulted in a total refund from the taxing authority to the Company of \$11.7 million of which \$5.8 million was paid to the holders of the CVRs. The total payment to the holders of the CVRs during the second quarter of 2013 also included \$1.9 million related to a potential tax indemnity obligation.

The Michigan Court of Appeals also ruled in the Company's favor on two other tax matters that resulted in a refund of \$0.6 million. These tax refunds were retained by the Company and were not subject to payment to the holders of the CVRs.

From time to time, the Company may enter into firm purchase commitments for printed materials included in inventory which the Company expects to use in the ordinary course of business. These commitments are typically for terms less than one year and require the Company to buy minimum quantities of materials with specific delivery dates at a fixed price over the term. These open purchase commitments totaled \$0.3 million as of September 30, 2013.

The Company has letters of credit outstanding as of September 30, 2013 in the amount of \$2.9 million to support workers compensation insurance coverage, certain credit card programs, the build-to-suit lease, and performance bonds for certain contracts. The Company maintains a \$1.1 million certificate of deposit as collateral for the workers compensation insurance and credit card program letters of credit and for Automated Clearinghouse (ACH) programs. The Company also maintains a \$0.9 million money market fund investment as collateral for a travel card program. The certificate of deposit and money market fund investment are recorded in Other Assets.

Note 14 Long-Term Debt

Long-term debt consists of the following at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013	December 31, 2012
\$175.0 million of 9.75% senior secured notes due February 15, 2017, interest payable semiannually	\$ 175,000	\$ 175,000
Less: Unamortized discount	(550)	(672)
Total long-term debt	\$ 174,450	\$ 174,328

In February 2011, the Company closed an offering of \$175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into an asset-based revolving credit facility with potential for up to \$40 million in borrowing capacity. Deferred financing costs are capitalized in Other Assets in the Condensed Consolidated Balance Sheets, net of accumulated amortization, and are to be amortized over the term of the related debt using the effective interest method. Unamortized capitalized deferred financing costs at September 30, 2013 and December 31, 2012 were \$4.9 million and \$6.1 million, respectively.

Interest on the Notes accrues at a rate of 9.75% per annum from the date of original issuance and is payable semi-annually in arrears on each February 15 and August 15 to the holders of record of the Notes on the immediately preceding February 1 and August 1. No principal repayments are due until the maturity date of the Notes.

The Notes are secured by (i) a first priority lien on substantially all of the Company's assets (other than inventory and accounts receivable and related assets of the ABL Credit Parties in connection with the ABL Facility (each as defined and discussed below) and subject to certain exceptions), including capital stock of the guarantors (which are certain of the Company's subsidiaries), and (ii) a second-priority lien on substantially all of the inventory and accounts receivable and related assets of the ABL Credit Parties, in each case, subject to certain permitted liens. The Notes also contain customary covenants, including limitations on the Company's ability to incur debt, and events of default as defined by the agreement. The Company may, at its option, redeem the Notes prior to their maturity based on the terms included in the agreement.

ABL Facility. In February 2011, the Company's wholly owned subsidiary, Cambium Learning, Inc. (together with its wholly owned subsidiaries, the ABL Credit Parties), entered into a credit facility (the ABL Facility) pursuant to a Loan and Security Agreement (the ABL Loan Agreement), by and among the ABL Credit Parties, Harris N.A., individually and as Agent (the Agent) for any ABL Lender (as hereinafter defined) which is or becomes a party to said ABL Loan Agreement, certain other lenders party thereto (together with Harris N.A. in its capacity as a lender, the ABL Lenders), Barclays Bank PLC, individually and as Collateral Agent, and BMO Capital Markets and Barclays Capital, as Joint Lead Arrangers and Joint Book Runners. The ABL Facility consists of a four-year \$40.0 million revolving credit facility, which includes a \$5.0 million subfacility for swing line loans and a \$5.0 million subfacility for letters of credit. In addition, the ABL Facility provides that the ABL Credit Parties may increase the aggregate principal amount of the ABL Facility by up to an additional \$20.0 million, subject to the consent of the Agent (whose consent shall not be unreasonably withheld) and subject to the satisfaction of certain other conditions.

The interest rate for the ABL Facility will be, at the ABL Credit Parties' option, either an amount to be determined (ranging from 2.75% to 3.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the London Interbank Offered Rate (LIBOR) or at an amount to be determined (ranging from 1.75% to 2.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the base rate. On any day, the base rate will be the greatest of (i) the Agent's then-effective prime commercial rate, (ii) an average federal funds rate

plus 0.50% and (iii) the LIBOR quoted rate plus 1.00%. The ABL Facility is, subject to certain exceptions, secured by a first-priority lien on the ABL Credit Parties' inventory and accounts receivable and related assets and a second-priority lien (junior to the lien securing the ABL Credit Parties' obligations with respect to the Notes) on substantially all of the ABL Credit Parties' other assets.

As of September 30, 2013, the balances of accounts receivable and inventory collateralizing the ABL Facility were \$31.6 million and \$10.6 million, respectively. As of September 30, 2013, the Company had a borrowing base under the ABL Loan Agreement of up to \$24.3 million.

Revolving loans under the ABL Facility may be used solely for (i) the satisfaction of existing indebtedness of the ABL Credit Parties under their prior senior secured credit facility and outstanding pursuant to their prior existing senior unsecured notes, (ii) general operating capital needs of the ABL Credit Parties in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iii) working capital and other general corporate purposes in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iv) the payment of certain fees and expenses incurred in connection with the ABL Facility and/or the Notes, and (v) other purposes permitted under the ABL Loan Agreement.

The ABL Facility contains a financial covenant that generally requires the ABL Credit Parties to maintain, on a consolidated basis, either (i) excess availability of at least the greater of \$8 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0. The ABL Credit Parties will be required to pay, quarterly in arrears, an unused line fee equal to the product of (x) either 0.375% or 0.50% (depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) and (y) the average daily unused amount of the revolver. As of September 30, 2013, the Company was in compliance with this covenant.

Note 15 Segment Reporting

During the first quarter of 2013, the Company's Board of Directors announced that they had accepted the resignation of Ron Klausner, the Company's Chief Executive Officer. In response to Mr. Klausner's resignation, John Campbell was promoted from President of the Company's Cambium Learning Technologies segment to Chief Executive Officer of the Company. Based on the Company's organizational structure and management reporting and resource allocation practices subsequent to the management change, the Company has identified four reportable segments with separate management teams and infrastructures that offer various products and services:

Voyager Sopris Learning:

Voyager Sopris Learning (VSL) is a comprehensive provider of research-based education solutions and online learning tools including curriculum products, personalized professional development, assessment, and school improvement/turnaround services. With the ultimate goal of advancing student achievement, VSL partners with PreK-12 schools to build teaching and leadership capacity, keep students on track, and accelerate struggling students to grade-level proficiency. VSL's products include the work of world-renowned researchers and education leaders.

Learning A-Z:

Founded in 2002, Learning A-Z is an educational resource company specializing in online delivery of leveled readers and other supplementary curriculum resources for PreK-6. Learning A-Z's resources are currently used in nearly half of the districts in the U.S. and Canada and over 165 countries worldwide. In addition to general classroom use, Learning A-Z serves a wide range of student need, including English Language Learners, Response to Intervention, Special Education, and more. Learning A-Z's value proposition focuses on three key things:

- Saving teachers time, giving them all the resources they need, all online, all accessible at the click of a mouse
- Saving teachers money, delivering thousands of resources for a fraction of the cost of print and other online providers
- Supporting student achievement through differentiated instruction, ensuring the right high-quality resources for every PreK-6 student

Winner of more than 15 industry awards in 2013 alone, Learning A-Z's five subscription-based websites provide online supplemental books, lessons, assessments, and other instructional resources for individual classrooms, schools, and districts. They include: Reading A-Z, Raz-Kids, Science A-Z, Writing A-Z, and Vocabulary A-Z.

ExploreLearning:

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning currently has two products: Gizmos, the world's largest library of interactive, online simulations for math and science in grades 3-12; and Reflex, a powerful solution available for math fact fluency development. Gizmos and Reflex bring research-proven instructional strategies to classrooms around the world.

Kurzweil/IntelliTools:

The Kurzweil/IntelliTools reporting segment includes the Kurzweil Educational Systems and IntelliTools product lines.

Kurzweil Educational Systems is recognized as the leading developer of literacy software for people with learning differences such as dyslexia, attention deficit disorder, and those who are English Language Learners as well as those who are blind or visually impaired. Kurzweil provides complete reading, study skills, writing, and test taking support for students. For over 30 years the company has been driven by the vision to serve the needs of struggling learners to enable them to reach their full potential. We offer products that bring the power and pleasure of reading and learning to the lives of users, striving to enhance learning and expand literacy. Kurzweil Educational Systems is committed to providing research-based solutions that help educators raise the achievement levels of preK-12 students as well as adult learning communities.

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IntelliTools offers hardware products that target students with physical, visual and cognitive disabilities that make using a standard keyboard and mouse difficult. IntelliTools also offers software products that target elementary and middle school special education students struggling with reading and math.

Other:

This consists of unallocated shared services, such as accounting, legal, human resources and corporate related items. Depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and income taxes are also included in Other, as the Company and its chief operating decision maker evaluate the performance of operating segments excluding these captions.

Prior Period Reclassifications:

Certain prior period reclassifications have been made to conform to the current period segment presentation.

Prior to the first quarter of 2013, the Cambium Learning Technologies segment included: Learning A-Z; ExploreLearning; Kurzweil/IntelliTools; and certain management charges related to the entire Cambium Learning Technologies segment. In the current presentation, Learning A-Z, ExploreLearning, and Kurzweil/IntelliTools are presented in separate segments. The management charges that were related to the overall Cambium Learning Technologies segment, which did not directly relate to any of the three new segments, are included in Other consistent with the 2013 presentation.

In late 2012, the management teams and infrastructures for the former Voyager Learning and Sopris Learning segments were merged into a combined VSL business unit. Prior to the fourth quarter of 2012, the Company reported segment results separately for Voyager Learning and Sopris Learning. The Company's historical segment reporting results have been restated for comparative purposes to reflect the current organizational structure.

The following table represents the revenue, operating expenses, income (loss) from operations, and capital expenditures which are used by the Company's chief operating decision maker to measure the segment's operating performance. The Company does not track assets directly by segment and the chief operating decision maker does not use assets to measure a segment's operating performance, and therefore this information is not presented.

(in thousands)	Voyager Sopris		Kurzweil/		Other	Consolidated
	Learning	Learning A-Z	ExploreLearning	IntelliTools		
Quarter ended						
September 30, 2013						
Net revenues	\$ 28,212	\$ 8,362	\$ 3,700	\$ 2,683	\$	\$ 42,957
Cost of revenues	11,434	167	670	679		12,950
Amortization					4,692	4,692
Total cost of revenues	11,434	167	670	679	4,692	17,642
Other operating expenses	8,589	3,512	2,322	1,038	3,811	19,272
Embezzlement-related expense					3	3
Depreciation and amortization					1,227	1,227
Net interest expense					4,773	4,773

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Other income, net					(215)	(215)
Income tax expense					127	127
Segment net income						
(loss)	\$ 8,189	\$ 4,683	\$ 708	\$ 966	\$ (14,418)	\$ 128
Capital expenditures	\$ 2,007	\$ 1,112	\$ 382	\$ 154	\$ 754	\$ 4,409

Quarter ended						
September 30, 2012						
Net revenues	\$ 32,957	\$ 6,520	\$ 3,637	\$ 2,844	\$	\$ 45,958
Cost of revenues	13,069	91	542	478	94	14,274
Amortization					7,035	7,035
Total cost of revenues	13,069	91	542	478	7,129	21,309
Other operating expenses	10,292	2,753	1,813	1,409	3,727	19,994
Embezzlement-related expense					493	493
Depreciation and amortization					1,592	1,592
Impairment of long-lived assets					236	236
Net interest expense					4,628	4,628
Other income, net					(163)	(163)
Income tax expense					104	104
Segment net income						
(loss)	\$ 9,596	\$ 3,676	\$ 1,282	\$ 957	\$ (17,746)	\$ (2,235)
Capital expenditures	\$ 2,775	\$ 1,167	\$ 272	\$ 66	\$ 610	\$ 4,890

(in thousands)	Voyager Sopris			Kurzweil/		Other	Consolidated
	Learning	Learning A-Z Explore	Learning	IntelliTools			
Nine months ended September 30, 2013							
Net revenues	\$ 74,032	\$ 24,047	\$ 11,497	\$ 7,596	\$		\$ 117,172
Cost of revenues	32,934	646	1,693	1,727			37,000
Amortization						12,680	12,680
Total cost of revenues	32,934	646	1,693	1,727		12,680	49,680
Other operating expenses	25,032	10,211	6,662	3,348		13,297	58,550
Embezzlement-related expense						118	118
Depreciation and amortization						3,663	3,663
Net interest expense						14,028	14,028
Other income, net						(645)	(645)
Income tax expense						297	297
Segment net income (loss)	\$ 16,066	\$ 13,190	\$ 3,142	\$ 2,521	\$ (43,438)		\$ (8,519)
Capital expenditures	\$ 5,627	\$ 3,320	\$ 1,070	\$ 279	\$ 2,087		\$ 12,383
Nine months ended September 30, 2012							
Net revenues	\$ 76,074	\$ 18,864	\$ 10,558	\$ 8,746	\$		\$ 114,242
Cost of revenues	34,705	266	1,364	1,978		1,524	39,837
Amortization						19,984	19,984
Total cost of revenues	34,705	266	1,364	1,978		21,508	59,821
Other operating expenses	30,461	8,007	5,778	4,677		13,079	62,002
Goodwill impairment						14,700	14,700
Embezzlement-related expense						452	452
Depreciation and amortization						4,842	4,842
Impairment of long-lived assets						3,347	3,347
Net interest expense						14,032	14,032
Other income, net						(236)	(236)
Income tax expense						258	258
Segment net income (loss)	\$ 10,908	\$ 10,591	\$ 3,416	\$ 2,091	\$ (71,982)		\$ (44,976)
Capital expenditures	\$ 6,890	\$ 2,885	\$ 825	\$ 281	\$ 2,436		\$ 13,317
	Voyager Sopris Learning	Learning A-Z Explore	Learning	Kurzweil/IntelliTools		Other	Consolidated

(in thousands)

Year ended						
December 31, 2012						
Product revenues	\$ 78,463	\$ 26,189	\$ 14,283	\$ 10,812	\$	\$ 129,747
Service revenues	18,399			413		18,812
Net revenues	96,862	26,189	14,283	11,225		148,559
Cost of product revenues	26,406	659	1,929	2,056	1,578	32,628
Cost of service revenues	17,679			656		18,335
Amortization					24,716	24,716
Total cost of revenues	44,085	659	1,929	2,712	26,294	75,679
Other operating expenses	38,551	10,920	7,747	5,646	18,671	81,535
Goodwill impairment					66,893	66,893
Embezzlement-related expense					516	516
Depreciation and amortization					6,182	6,182
Impairment of long-lived assets	1,496				32,211	33,707
Net interest expense					18,683	18,683
Other income, net					(1,125)	(1,125)
Income tax expense					272	272
Segment net income (loss)	\$ 12,730	\$ 14,610	\$ 4,607	\$ 2,867	\$ (168,597)	\$ (133,783)
Capital expenditures	\$ 9,618	\$ 4,039	\$ 1,090	\$ 365	\$ 3,033	\$ 18,145

The capital expenditures disclosed for each segment represent development expenses, primarily developed curriculum and capitalized software. The capital expenditures disclosed for Other represent general capital expenditures that benefit the entire Company such as back-office systems, computer equipment or office furniture. The capital expenditures recorded in Other in 2012 also include capitalized costs from our re-engineering and restructuring initiatives described in Note 11 to the Condensed Consolidated Financial Statements.

Note 16 Embezzlement

On April 26, 2008, the Company began an internal investigation that revealed irregularities over the control and use of cash and certain other general ledger accounts of the Company, revealing a misappropriation of assets, or embezzlement. These irregularities were perpetrated by a former employee over more than a three-year period beginning in 2004 and continuing through April 2008 with total embezzlement losses of approximately \$14.0 million. Charges included in the Condensed Consolidated Statements of Operations after April 2008 represent expenses incurred by the Company to recover property purchased by the former employee using the embezzled funds, net of any recoveries.

The final recovered property related to the employee embezzlement matter was sold during the third quarter of 2013. The net expense recorded in the three and nine month periods ended September 30, 2013 was primarily due to a reduction in the carrying value of the recovered property to the final sales price.

The number of shares of common stock issuable under a warrant held by VSS-Cambium Holdings III, LLC is increased based on the cash recoveries, net of related expenses, that the Company receives or received on and after June 1, 2009. The number of shares to be issued under the warrant equals 0.45 multiplied by the quotient of the net cash recovery divided by \$6.50. As a result of the recoveries of \$0.3 million during the third quarter of 2013, shares under the warrant were increased by 17,864. Additionally, as the final number of shares exercisable under the warrant is now set and no other contingencies remain, these awards have been reclassified from Other Liabilities to Capital Surplus in the Condensed Consolidated Balance Sheet in accordance with relevant GAAP.

During the three and nine months ended September 30, 2012, the net expenses represented a reduction in the fair value of the recovered properties partially offset by a decline in the estimated fair value of the warrants expected to be issued upon the sale of the recovered properties.

Note 17 Related Party Transactions

During the first quarter of 2013, the Company entered into a consulting agreement with Joe Walsh, Chairman of the Company's Board of Directors. For his services as Chairman and as a consultant to the Company, Mr. Walsh will receive total annual compensation of \$300,000, comprised of the compensation to which he is entitled as Chairman and the balance comprised of fees received pursuant to the consulting agreement. This agreement was subsequently amended to name Mr. Walsh an employee of the Company rather than a consultant. With the exception of the fact that Mr. Walsh is eligible for employee benefits, the terms of the amended agreement are substantially the same as the original agreement.

Note 18 Subsequent Events

On November 4, 2013, the Company entered into a stock purchase agreement with an investor pursuant to its share repurchase program. As previously announced, on March 19, 2013 the Company's board of directors authorized the extension of the Company's \$5 million share repurchase program for an additional one year period (through July 5, 2014) and increased the remaining \$2.2 million available for repurchases of shares thereunder up to \$5 million. The transaction settled on November 6, 2013 with the Company purchasing 1,861,969 shares for a total cost of \$4.4

million. Upon repurchase these treasury shares are no longer registered under the Securities Act of 1933.

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

This section should be read in conjunction with the audited Consolidated Financial Statements of Cambium Learning Group, Inc. and its subsidiaries (the Company, we, us, or our) and the notes thereto included in our Annual Report Form 10-K for the year ended December 31, 2012.

Cautionary Note Regarding Forward-looking Statements.

This report contains forward-looking statements within the meaning of the federal securities laws that involve risks and uncertainties, and which are based on beliefs, expectations, estimates, projections, forecasts, plans, anticipations, targets, outlooks, initiatives, visions, objectives, strategies, opportunities, drivers and intents of our management. Such statements are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report, including statements regarding our future financial position, economic performance and results of operations, as well as our business strategy, objectives of management for future operations, and the information set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements.

Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as believes, expects, estimates, projects, forecasts, plans, anticipates, targets, outlooks, visions, objectives, strategies, opportunities, drivers, intends, scheduled to, seeks, may, will, or of those terms, or other variations of those terms or comparable language, or by discussions of strategy, plans, targets, models or intentions. Forward-looking statements speak only as of the date they are made, and except for our ongoing obligations under the federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, you are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the date made, expectations may prove to have been materially different from the results expressed or implied by such forward-looking statements, as it is impossible for us to anticipate all factors that could affect our actual results. These risks and uncertainties include, but are not limited to, those described in Risk Factors in Part II, Item 1A and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2012, and those described from time to time in our future reports filed with the SEC. Unless otherwise required by law, we also disclaim any obligation to update our view of any such risks or uncertainties or to announce publicly the results of any revisions to the forward-looking statements made in this report.

Our Company

We are a leading educational solutions and services company that is committed to helping every student reach their full potential by providing evidence-based solutions and expert professional services to empower educators and raise the achievement levels of all students. Our brands include: Voyager Learning (www.voyagerlearning.com) and Sopris Learning (www.soprislearning.com), Learning A-Z (www.learninga-z.com), ExploreLearning® (www.explorelearning.com www.reflexmath.com), and Kurzweil Educational Systems® (www.kurzweilededu.com) and IntelliTools® (www.intellitools.com). Together, these business units provide best-in-class intervention and supplemental instructional materials; gold-standard professional development and school-improvement services; breakthrough technology solutions for online learning and professional support; valid and reliable assessments; and proven materials to support a positive and safe school environment.

Our products have continued to receive awards and accolades from industry publications including the Best Educational Software (BESSIE) awards from the ComputED Gazette, the CODiE awards from the Software and Information Industry Association and the Education Software Review Awards (EDDIES) by The ComputED Gazette.

The following products were winners of the 19th annual BESSIE awards:

- Kurzweil 3000 firefly
- ExploreLearning Reflex
- ExploreLearning Gizmos
- Learning A-Z ReadingA-Z.com
- Learning A-Z ScienceA-Z.com

The following products were winners of the 2013 CODiE awards:

- Learning A-Z ReadingA-Z.com
- Learning A-Z Raz-Kids.com
- ExploreLearning Gizmos

The following products were winners of the 18th annual EDDIES:

- Kurzweil 3000 firefly
- ExploreLearning Reflex
- ExploreLearning Gizmos
- Learning A-Z Raz-Kids.com
- Learning A-Z ReadingA-Z.com
- Learning A-Z ScienceA-Z.com

Management Changes

In March 2013, the Company's Board of Directors announced that they had accepted the resignations of Ron Klausner, Chief Executive Officer; Vernon Johnson, President of Voyager Sopris Learning; and Brad Almond, Chief Financial Officer. These resignations were not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

The Company made the following promotions in response to these resignations:

- John Campbell was promoted from President of Cambium Learning Technologies to President and Chief Executive Officer of Cambium Learning Group.
- George Logue was promoted from President of Sopris to President of Voyager Sopris Learning.
- Barbara Benson was promoted from Controller of Cambium Learning Group to Chief Financial Officer of Cambium Learning Group
- Paul Fonte was promoted from Vice President of Technology for Cambium Learning Technologies to Chief Technology Officer for Cambium Learning Group.

Overview

Order volume is an internal metric that is a leading indicator of revenues. For the first nine months of 2013, company-wide order volumes were flat compared to the same period of 2012, and order volume changes by segment were as follows:

- Voyager Sopris Learning decreased 10%
- Learning A-Z increased 27%
- ExploreLearning increased 32%
- Kurzweil/IntelliTools decreased 15%

Learning A-Z and ExploreLearning continued their trend of double-digit growth rates. Offsetting this growth, Voyager Sopris Learning and Kurzweil/IntelliTools continued to show order volume declination as reductions in legacy products are currently outpacing gains from newer online and technology-enabled solutions.

School district funding continues to undergo significant change and uncertainty, and most of our public school district customers are largely dependent on federal, state and local funding to purchase our products. Additionally, the digitalization of education content and delivery is driving a substantial shift in the education market. The demand for these products has developed rapidly over the past several years and has led to changes in the way that providers develop, produce, market and distribute products.

The education market is also changing in response to the adoption of the Common Core State Standards by a majority of the states. Common Core State Standards define the knowledge and skills students should have within their K-12 education careers so that they will graduate high school able to succeed in entry-level, credit-bearing academic college

courses and in workforce training programs. These standards are the product of a state-led effort to establish a single set of clear educational standards for grades K-12. Most of the states that have adopted the Common Core State Standards also belong to one of two multistate testing consortia that are developing common state assessments in English language arts and mathematics, aligned to the new standards. These assessments, which will be designed to replace existing statewide tests, are expected to be administered beginning in the 2014-15 school year. Schools in these states may need to augment or replace instructional materials to align to the Common Core State Standards and to prepare students for the new state assessments.

Overall, GAAP net revenues for the first nine months of 2013 increased by 3% to \$117.2 million, compared with \$114.2 million in the first nine months of 2012. GAAP net revenues by segment for the first nine months of 2013, and the percentage change from the first nine months of 2012, were as follows:

- Voyager Sopris Learning: \$74.0 million, decreased 3%
- Learning A-Z: \$24.0 million, increased 28%
- ExploreLearning: \$11.5 million, increased 9%
- Kurzweil/IntelliTools: \$7.6 million, decreased 13%

Costs in 2013 have benefited from the reengineering and restructuring activities which were completed in 2012.

While the Company has reinvested some of the savings in growth areas such as its online subscription businesses, cost reductions made in slower growing areas such as Voyager Sopris Learning's print-based solutions are providing year over year earnings growth. We will continue to review and assess our cost structure to ensure that resources are allocated to areas of the business providing the highest earnings opportunity. Results of operations for the nine months ended September 30, 2012 include costs of \$6.2 million related to the Company's reengineering and restructuring activities, including impairment of long-lived assets of \$3.3 million.

Segment Results of Operations

Our brands comprise four reportable segments with separate management teams and infrastructures that offer various products and services: Voyager Sopris Learning, Learning A-Z, ExploreLearning and Kurzweil/IntelliTools.

Segment change from prior year: Prior to the first quarter of 2013, the Cambium Learning Technologies segment included: Learning A-Z; ExploreLearning; Kurzweil/IntelliTools; and certain management charges related to the entire Cambium Learning Technologies segment. In the current presentation, Learning A-Z, ExploreLearning, and Kurzweil/IntelliTools are presented in separate segments. The management charges that were related to the overall Cambium Learning Technologies segment, which did not directly relate to any of the three new segments, are included in Other consistent with the 2013 presentation.

Voyager Sopris Learning

Voyager Sopris Learning is a comprehensive provider of research-based education solutions and online learning tools including curriculum products, personalized professional development, assessment, and school improvement/turnaround services. With the ultimate goal of advancing student achievement, Voyager Sopris Learning partners with PreK-12 schools to build teaching and leadership capacity, keep students on track, and accelerate struggling students to grade-level proficiency. Voyager Sopris Learning's products include the work of world-renowned researchers and education leaders.

During the second quarter of 2013, Voyager Sopris Learning announced the release of LANGUAGE!@Live and We Can®: Early Learning Curriculum, Second Edition. As the next iteration of LANGUAGE! Comprehensive Literacy Curriculum, LANGUAGE! Live is a technology-enabled comprehensive adolescent intervention literacy solution for middle and high school students based on nearly two decades of classroom implementation and is proven to accelerate the literacy growth of nonreaders, struggling readers, and English language learners. This Common Core State Standards-aligned product is a blended model which combines technology-based learning solutions with our print-based products. The product is designed such that half of the time will be led by a teacher in a traditional classroom setting and the other half will be focused on student directed learning. This solution has received positive reviews since its release and the second level of LANGUAGE! Live is expected to be released in the spring of 2014.

The fundamental goal of We Can is to prepare students for academic success in kindergarten and beyond. The robust, multidisciplinary curriculum provides a clear roadmap for early childhood success featuring easy-to-implement lesson plans, cross-curricular content addressing 10 early childhood domains, innovative learning tools, reinforced routines and procedures, a prewriting kit, and fully integrated assessments. Teachers can maximize multiple opportunities to observe children, identify their capabilities and needs, and monitor their progress.

During the third quarter of 2013, Voyager Sopris Learning announced the release of Edplicity, an all-in-one solution for content storage and collaboration that provides teachers the ability to deliver instruction in an online format using

the evidence-based reading programs Voyager Passport® and Passport Reading Journeys®. As an advanced cloud-based solution, this digital platform creates an interactive online learning community where teachers can assign student work, track participation and performance, provide targeted feedback, collaborate with other teachers and share best practices, all online and in real-time.

Results of Operations

Order volumes in the Voyager Sopris Learning segment declined 10% in the nine months ended September 30, 2013 from the same period in 2012. We believe that a significant portion of the Voyager Sopris Learning order volume decline is attributable to slow execution of our strategy to transition to technology-based learning solutions, as well as some confusion in the marketplace concerning solutions designed to assist districts in achieving Common Core State Standards.

We expect sales of purely print-based products to continue to decline. Therefore, to stabilize order volumes and enable growth in future years, the company will focus its development efforts on technology solutions, especially those opportunities that help school districts implement the new Common Core State Standards or other State-based curriculum or assessment standards. We believe that the efficacy of our products and the transition of our existing content to technology-based learning solutions will eventually offset the weakness in our legacy print-based offerings and return the segment to growth. However, these products take a significant amount of time to develop and gain customer acceptance.

GAAP net revenues for Voyager Sopris Learning were down \$2.0 million, or 2.7%, for the nine months ended September 30, 2013 from the same period in 2012 as a result of the order volume declines. Through the second quarter 2013, net revenues had been higher versus prior year due to the recognition of prior period technology and services sales that were delivered in 2013. Generally, deferred revenues for Voyager Sopris Learning follow a September through July school year cycle, increasing during the highest selling period at the start of a school year and declining as those revenues are recognized over the school year and summer school periods. Sales of print materials are generally recognized when the product is shipped to or received by the customer. With the start of the new school year in the third fiscal quarter, GAAP net revenues are expected to follow more closely with the current year order volume trends.

Voyager Sopris Learning costs have benefited from the reengineering and restructuring activities which were completed in 2012 and from ongoing efforts to right-size the business to ensure that resources are allocated to areas providing the highest earnings opportunity.

Learning A-Z

Founded in 2002, Learning A-Z is an educational resource company specializing in online delivery of leveled readers and other supplementary curriculum resources for PreK-6. Learning A-Z's resources are currently used in nearly half of the districts in the U.S. and Canada and over 165 countries worldwide. In addition to general classroom use, Learning A-Z serves a wide range of student need, including English Language Learners, Response to Intervention, Special Education, and more. Learning A-Z's value proposition focuses on three key things:

- Saving teachers time, giving them all the resources they need, all online, all accessible at the click of a mouse
- Saving teachers money, delivering thousands of resources for a fraction of the cost of print and other online providers
- Supporting student achievement through differentiated instruction, ensuring the right high-quality resources for every PreK-6 student

Winner of more than 15 industry awards in 2013 alone, Learning A-Z's five subscription-based websites provide online supplemental books, lessons, assessments, and other instructional resources for individual classrooms, schools, and districts. They include: Reading A-Z, Raz-Kids, Science A-Z, Writing A-Z, and Vocabulary A-Z.

Results of Operations

For the nine months ended September 30, 2013, Learning A-Z order volume exceeded the same period in 2012 by 27%. Learning A-Z has realized double-digit order volume growth for several years and we believe this unit will continue to deliver strong growth. We believe that the value proposition offered by the Learning A-Z products will continue to be compelling due to quality content and award-winning technology. To facilitate this expected growth, we will make significant investments in our sales force and product development efforts. Learning A-Z products are aligned with the Common Core State Standards and this will continue to be a focus in future development.

GAAP net revenues for Learning A-Z were higher by \$5.2 million, or 27.5%, for the nine months ended September 30, 2013 from the same period in 2012, which was consistent with its order volume trends. Learning A-Z revenues are recognized pro rata over their subscription periods, which are generally for one year but can be for longer periods. Costs as a percentage of net revenues are higher in 2013 due to investments being made to fuel growth, primarily in sales and marketing.

ExploreLearning

ExploreLearning develops online solutions to improve student learning in math and science. ExploreLearning currently has two products: Gizmos, the world's largest library of interactive, online simulations for math and science

in grades 3-12; and Reflex, a powerful solution available for math fact fluency development. Gizmos and Reflex bring research-proven instructional strategies to classrooms around the world.

Results of Operations

Through the third quarter of 2013, ExploreLearning has continued its trend of significant growth with order volumes exceeding prior year levels by 32%. To ensure that this trend continues, we will make significant investments in this segment for the enhancement of existing products, the development of new products, and the expansion of the sales force. We believe that the value proposition offered by the ExploreLearning products will continue to be compelling due to quality content and award-winning technology and we expect strong growth in the coming years.

GAAP net revenues for ExploreLearning were higher by \$0.9 million, or 8.9%, for the nine months ended September 30, 2013 from the same period in 2012. ExploreLearning revenues are recognized pro rata over their subscription periods, which are generally for one year but can be for longer periods. Due to an increase in the amount of multi-year agreements at ExploreLearning, the growth in GAAP net revenues is lagging order volume growth.

Costs as a percentage of net revenues are higher in 2013 due to investments being made to fuel growth, primarily in sales and marketing.

Kurzweil/IntelliTools

The Kurzweil/IntelliTools reporting segment includes the Kurzweil Educational Systems and IntelliTools product lines.

Kurzweil Educational Systems is recognized as the leading developer of literacy software for people with learning differences such as dyslexia, attention deficit disorder, and those who are English Language Learners as well as those who are blind or visually impaired. Kurzweil provides complete reading, study skills, writing, and test taking support for students. For over 30 years the company has been driven by the vision to serve the needs of struggling learners to enable them to reach their full potential. We offer products that bring the power and pleasure of reading and learning to the lives of users, striving to enhance learning and expand literacy. Kurzweil Educational Systems is committed to providing research-based solutions that help educators raise the achievement levels of preK-12 students as well as adult learning communities.

IntelliTools offers hardware products that target students with physical, visual and cognitive disabilities that make using a standard keyboard and mouse difficult. IntelliTools also offers software products that target elementary and middle school special education students struggling with reading and math.

Results of Operations

Order volumes in the Kurzweil/IntelliTools segment declined 15% in the nine months ended September 30, 2013 from the same period in 2012. The decline is due in part to a change in mix toward a subscription solution rather than a perpetual model (which would provide more first year revenues). Additionally, management believes that customers are increasingly meeting their special education and text-to-speech needs with free and low-priced, but less comprehensive, solutions. The Company plans to continue to invest in improving the firefly offering which brings many of the capabilities of the Kurzweil 3000 product to the web. This subscription solution has shown strong year over year growth and high renewal rates and will continue to be the focus of the business unit.

GAAP net revenues for Kurzweil/IntelliTools declined by \$1.2 million, or 13.1%, for the nine months ended September 30, 2013 from the same period in 2012, which was consistent with its order volume trends. Costs have benefited from ongoing efforts to right-size the business to ensure that resources are allocated to areas of the business providing the highest earnings opportunity.

Shared Services and Other

Shared services and other include accounting, legal, human resources and corporate related items, as well as depreciation and amortization expense, goodwill impairment, interest income and expense, other income and expense, and income taxes. The Company does not allocate any of these costs to its segments, and our chief operating decision maker evaluates the performance of operating segments excluding these items.

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Third Quarter of Fiscal 2013 Compared to the Third Quarter of Fiscal 2012

(in thousands)	Quarter Ended				Year Over Year Change	
	September 30, 2013		September 30, 2012		Favorable/(Unfavorable)	
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Net revenues:						
Voyager Sopris Learning	\$ 28,212	65.7%	\$ 32,957	71.7%	\$ (4,745)	(14.4)%
Learning A-Z	8,362	19.5%	6,520	14.2%	1,842	28.3%
ExploreLearning	3,700	8.6%	3,637	7.9%	63	1.7%
Kurzweil/IntelliTools	2,683	6.2%	2,844	6.2%	(161)	(5.7)%
Total net revenues	42,957	100.0%	45,958	100.0%	(3,001)	(6.5)%
Cost of revenues:						
Voyager Sopris Learning	11,434	26.6%	13,069	28.4%	1,635	12.5%
Learning A-Z	167	0.4%	91	0.2%	(76)	(83.5)%
ExploreLearning	670	1.6%	542	1.2%	(128)	(23.6)%
Kurzweil/IntelliTools	679	1.6%	478	1.0%	(201)	(42.1)%
Shared Services		0.0%	94	0.2%	94	100.0%
Amortization expense	4,692	10.9%	7,035	15.3%	2,343	33.3%
Total cost of revenues	17,642	41.1%	21,309	46.4%	3,667	17.2%
Research and development expense	2,486	5.8%	2,622	5.7%	136	5.2%
Sales and marketing expense	10,943	25.5%	11,331	24.7%	388	3.4%
General and administrative expense	5,122	11.9%	4,837	10.5%	(285)	(5.9)%
Shipping costs	721	1.7%	1,204	2.6%	483	40.1%
Depreciation and amortization expense	1,227	2.9%	1,592	3.5%	365	22.9%
Embezzlement-related expense	3	0.0%	493	1.1%	490	99.4%
Impairment of long-lived assets		0.0%	236	0.5%	236	100.0%
Income before interest, other income (expense) and income taxes	4,813	11.2%	2,334	5.1%	2,479	106.2%
Net interest expense	(4,773)	(11.1)%	(4,628)	(10.1)%	(145)	(3.1)%
Other income, net	215	0.5%	163	0.4%	52	31.9%
Income tax expense	(127)	(0.3)%	(104)	(0.2)%	(23)	(22.1)%
Net income (loss)	\$ 128	0.3%	\$ (2,235)	(4.9)%	\$ 2,363	105.7%

Net Revenues.

Our total net revenues decreased \$3.0 million, or 6.5%, to \$43.0 million in the third quarter of 2013 compared to the same period in 2012. Although our overall order volume increased 5.7% from the third quarter of 2012, net revenues decreased as the mix of sales continued to shift to our online offerings which are recognized over the subscription period.

·The Voyager Sopris Learning segment's net revenues decreased \$4.7 million, or 14.4%, to \$28.2 million in the third quarter of 2013 compared to the same period in 2012.

·The Learning A-Z segment's net revenues increased \$1.8 million, or 28.3%, to \$8.4 million in the third quarter of 2013 compared to the same period in 2012.

·The ExploreLearning segment's net revenues increased \$0.1 million, or 1.7%, to \$3.7 million in the third quarter of 2013 compared to the same period in 2012.

·The Kurzweil/IntelliTools segment's net revenues decreased \$0.2 million, or 5.7%, to \$2.7 million in the third quarter of 2013 compared to the same period in 2012.

Cost of Revenues.

Cost of revenues includes expenses to print, purchase, handle and warehouse our products, as well as order processing and royalty costs, and to provide services and support to customers. Cost of revenues, excluding amortization, decreased \$1.3 million, or 9.3%, to \$13.0 million in the third quarter of 2013 compared to the same period in 2012.

This decline was primarily due to lower order volumes in our Voyager Sopris Learning segment. Additionally, the charges incurred in the third quarter of 2012 include \$0.1 million of expenses related to our re-engineering and restructuring initiatives.

- Cost of revenues for the Voyager Sopris Learning segment decreased \$1.6 million, or 12.5%, to \$11.4 million in the third quarter of 2013 compared to the same period in 2012. This decline was primarily due to lower order volumes.

- Cost of revenues for the Learning A-Z segment increased \$0.1 million, or 83.5%, to \$0.2 million in the third quarter of 2013 compared to the same period in 2012.

- Cost of revenues for the ExploreLearning segment increased \$0.1 million, or 23.6%, to \$0.7 million in the third quarter of 2013 compared to the same period in 2012.

- Cost of revenues for the Kurzweil/IntelliTools segment increased \$0.2 million, or 42.1%, to \$0.7 million in the third quarter of 2013 compared to the same period in 2012.

- Cost of revenues for Shared Services for the third quarter of 2012 of \$0.1 million relate to our reengineering and restructuring initiative.

Amortization Expense.

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and developed pre-publication and technology. Amortization for the third quarter of 2013 decreased \$2.3 million compared to the third quarter of 2012, or 33.3%, primarily due to impairment losses that were recorded in the fourth quarter of 2012 which reduced the value of the assets being amortized. Additionally, a majority of our intangible assets are amortized using accelerated methodologies.

Research and Development Expense.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the third quarter of 2013 decreased \$0.1 million, or 5.2%, to \$2.5 million compared to the third quarter of 2012.

Sales and Marketing Expense.

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commissions paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expense for the third quarter of 2013 decreased \$0.4 million, or 3.4%, as savings from our re-engineering and restructuring initiatives in 2012 were slightly offset by an increase in commissions.

General and Administrative Expense.

General and administrative expenses for the third quarter of 2013 increased \$0.3 million, or 5.9%, from the third quarter of 2012 to \$5.1 million. This variance is primarily due to an increase in expense related to the Company's annual bonus plan as estimated achievement levels were significantly reduced in the third quarter of 2012.

Additionally, general and administrative expenses in the third quarter of 2013 include costs related to the former Voyager Learning Company entity acquired in 2009 of \$0.2 million and stock based compensation and expense of \$0.2 million. General and administrative expenses in the third quarter of 2012 include re-engineering and restructuring charges of \$0.2 million, costs related to mergers and acquisitions, including the former Voyager Learning Company entity acquired in 2009, of \$0.2 million, stock based compensation and expense of \$0.2 million and a loss to reflect an increase in the estimated fair value of the contingent value rights (CVR) liability of \$0.1 million.

Shipping and Handling Costs.

Shipping and handling costs recognized in the third quarter of 2013 decreased \$0.5 million, or 40.1%, from the third quarter of 2012 to \$0.7 million primarily due to a reduction in order volume in our Voyager Sopris Learning segment.

Impairment of Long-Lived Assets.

The impairment expense recorded in the third quarter of 2012 of \$0.2 million relates to charges from the impairment of warehouse equipment in connection with our reengineering and restructuring initiative.

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Net Interest Expense.

Net interest expense increased by \$0.1 million, or 3.1%, to \$4.8 million in the third quarter of 2013 compared to the same period in 2012.

Income Tax Provision.

During the third quarter of 2013 and 2012, we recorded state income tax expense of \$0.1 million. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated the deferred tax benefit generated.

First Nine Months of Fiscal 2013 Compared to the First Nine Months of Fiscal 2012

(in thousands)	Nine Months Ended				Year Over Year Change	
	September 30, 2013		September 30, 2012		Favorable/(Unfavorable)	
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Net revenues:						
Voyager Sopris Learning	\$ 74,032	63.2%	\$ 76,074	66.6%	\$ (2,042)	(2.7)%
Learning A-Z	24,047	20.5%	18,864	16.5%	5,183	27.5%
ExploreLearning	11,497	9.8%	10,558	9.2%	939	8.9%
Kurzweil/IntelliTools	7,596	6.5%	8,746	7.7%	(1,150)	(13.1)%
Total net revenues	117,172	100.0%	114,242	100.0%	2,930	2.6%
Cost of revenues:						
Voyager Sopris Learning	32,934	28.1%	34,705	30.4%	1,771	5.1%
Learning A-Z	646	0.6%	266	0.2%	(380)	(142.9)%
ExploreLearning	1,693	1.4%	1,364	1.2%	(329)	(24.1)%
Kurzweil/IntelliTools	1,727	1.5%	1,978	1.7%	251	12.7%
Shared Services		0.0%	1,524	1.3%	1,524	100.0%
Amortization expense	12,680	10.8%	19,984	17.5%	7,304	36.5%
Total cost of revenues	49,680	42.4%	59,821	52.4%	10,141	17.0%
Research and development expense	7,345	6.3%	8,606	7.5%	1,261	14.7%
Sales and marketing expense	32,991	28.2%	35,268	30.9%	2,277	6.5%
General and administrative expense	16,795	14.3%	15,643	13.7%	(1,152)	(7.4)%
Shipping costs	1,419	1.2%	2,485	2.2%	1,066	42.9%
Depreciation and amortization expense	3,663	3.1%	4,842	4.2%	1,179	24.3%
Goodwill impairment		0.0%	14,700	12.9%	14,700	100.0%
Embezzlement-related expense	118	0.1%	452	0.4%	334	73.9%
Impairment of long-lived assets		0.0%	3,347	2.9%	3,347	100.0%
Income (loss) before interest, other income (expense) and income taxes	5,161	4.4%	(30,922)	(27.1)%	36,083	116.7%

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Net interest expense	(14,028)	(12.0)%	(14,032)	(12.3)%	4	0.0%
Other income, net	645	0.6%	236	0.2%	409	173.3%
Income tax expense	(297)	(0.3)%	(258)	(0.2)%	(39)	(15.1)%
Net loss	\$ (8,519)	(7.3)%	\$ (44,976)	(39.4)%	\$ 36,457	81.1%

Net Revenues.

Our total net revenues increased \$2.9 million, or 2.6%, to \$117.2 million in the first nine months of 2013 compared to the same period in 2012. Although our overall order volume was consistent with the first nine months of 2012, net revenues increased as we recognized revenue on prior period technology and service sales that were delivered in the period.

The Voyager Sopris Learning segment's net revenues decreased \$2.0 million, or 2.7%, to \$74.0 million in the first nine months of 2013 compared to the same period in 2012. The decline in revenues in the Voyager Sopris Learning segment was not as significant as the decline in order volume as we recognized revenue on prior period technology and service sales that were delivered in the period.

The Learning A-Z segment's net revenues increased \$5.2 million, or 27.5%, to \$24.0 million in the first nine months of 2013 compared to the same period in 2012 due to continued order volume growth.

·The ExploreLearning segment's net revenues increased \$0.9 million, or 8.9%, to \$11.5 million in the first nine months of 2013 compared to the same period in 2012 due to continued order volume growth.

·The Kurzweil/IntelliTools segment's net revenues decreased \$1.2 million, or 13.1%, to \$7.6 million in the first nine months of 2013 compared to the same period in 2012 due to a decline in order volume and a shift in mix to subscription based products for which revenue is recognized over the subscription period.

Cost of Revenues.

Cost of revenues includes expenses to print, purchase, handle and warehouse our products, as well as order processing and royalty costs, and to provide services and support to customers. Cost of revenues, excluding amortization, decreased \$2.8 million, or 7.1%, to \$37.0 million in the first nine months of 2013 compared to the same period in 2012. The charges incurred in the first nine months of 2012 include \$1.5 million of expenses related to our re-engineering and restructuring initiatives.

·Cost of revenues for the Voyager Sopris Learning segment decreased \$1.8 million, or 5.1%, to \$32.9 million in the first nine months of 2013 compared to the same period in 2012 due to continued declines in sales of our legacy print-based products and a reduction in inventory reserves.

·Cost of revenues for the Learning A-Z segment increased \$0.4 million, or 142.9%, to \$0.6 million in the first nine months of 2013 compared to the same period in 2012.

·Cost of revenues for the ExploreLearning segment increased \$0.3 million, or 24.1%, to \$1.7 million in the first nine months of 2013 compared to the same period in 2012.

·Cost of revenues for the Kurzweil/IntelliTools segment decreased \$0.3 million, or 12.7%, to \$1.7 million in the first nine months of 2013 compared to the same period in 2012.

·Cost of revenues for Shared Services in the first nine months of 2012 of \$1.5 million was related to our re-engineering and restructuring efforts, primarily the outsourcing of our warehouse operations to a third party logistics firm.

Amortization Expense.

Amortization expense included in cost of revenues includes amortization for acquired pre-publication costs and technology, acquired publishing rights, and developed pre-publication and technology. Amortization for the first nine months of 2013 decreased \$7.3 million compared to the first nine months of 2012, or 36.5%, primarily due to impairment losses that were recorded in the fourth quarter of 2012 which reduced the value of the assets being amortized. Additionally, a majority of our intangible assets are amortized using accelerated methodologies.

Research and Development Expense.

Research and development expenditures include costs to research, evaluate and develop educational products, net of capitalization. Research and development expense for the first nine months of 2013 decreased \$1.3 million, or 14.7%, to \$7.3 million compared to the first nine months of 2012 due to a reduction in employee costs as a result of the re-engineering and restructuring initiatives in 2012. Additionally, the first nine months of 2012 includes charges of \$0.3 million related to our re-engineering and restructuring efforts.

Sales and Marketing Expense.

Sales and marketing expenditures include all costs to maintain our various sales channels, including the salaries and commissions paid to our sales force, and costs related to our advertising and marketing efforts. Sales and marketing expense for the first nine months of 2013 decreased \$2.3 million, or 6.5%, compared to the first nine months of 2012. This decline was primarily due to cost reductions in the Voyager Sopris Learning segment in connection with efforts to right size the business partially offset by an increase in commissions. Sales and marketing expenses in the first nine months of 2012 includes charges of \$0.5 million related to our re-engineering and restructuring efforts.

General and Administrative Expense.

General and administrative expenses for the first nine months of 2013 increased \$1.2 million, or 7.4%, from the first nine months of 2012 to \$16.8 million. General and administrative expenses in the first nine months of 2013 include severance charges related to the March 2013 management changes of \$1.5 million, costs related to the former Voyager Learning Company entity acquired in 2009 of \$0.5 million, stock based compensation and expense of \$0.7 million and a loss to reflect an increase in the estimated fair value of the CVR liability of \$0.1 million. General and administrative expenses in the first nine months of 2012 include re-engineering and restructuring charges of \$0.3 million, costs related to mergers and acquisitions, including the former Voyager Learning Company entity acquired in 2009, of \$0.7 million, stock based compensation and expense of \$0.3 million and a loss to reflect an increase in the estimated fair value of the CVR liability of \$0.2 million. As a result of the re-engineering and restructuring

efforts in 2012, savings were realized in the first nine months of 2013 in employee costs, travel expenses and rent. These savings were slightly offset due to an increase in bonus accruals.

Shipping and Handling Costs.

Shipping and handling costs recognized in the first nine months of 2013 decreased \$1.1 million, or 42.9%, from the first nine months of 2012 to \$1.4 million primarily due to a reduction in order volume in our Voyager Sopris Learning segment. Additionally, shipping and handling costs in the first nine months of 2012 included re-engineering and restructuring charges of \$0.4 million.

Goodwill Impairment.

We determined during the second quarter of 2012 that the goodwill balance for the Kurzweil/IntelliTools reporting unit was partially impaired. As such an impairment charge of \$14.7 million was recorded. The goodwill impairment charge was primarily the result of lowered forecasts of future sales for that reporting unit.

Impairment of Long-Lived Assets.

In connection with our reengineering and restructuring initiative mentioned above, during the nine months ended September 30, 2012 we recorded an impairment charge of \$3.3 million primarily related to our leased facility in Frederick, Colorado and warehouse related assets. We completed the outsourcing of our warehouse operations to a third party logistics provider during the quarter ended June 30, 2012. The impairment expense recorded in the first nine months of 2012 also included \$0.3 million of charges from the impairment of previously capitalized development costs that, as a result of certain actions in our restructuring and reengineering initiative, were determined to have no ongoing value.

Net Interest Expense.

Net interest expense was \$14.0 million in the nine month periods ended September 30, 2013 and 2012.

Income Tax Provision.

During the first nine months of 2013 and 2012, we recorded state income tax expense of \$0.3 million. We continue to maintain a valuation allowance against our deferred tax assets, which eliminated the deferred tax benefit generated.

Liquidity and Capital Resources

Because sales seasonality affects operating cash flow, we normally incur a net cash deficit from all of our activities through the early part of the third quarter of the year. We typically fund these seasonal deficits through the drawdown of cash, which also could be supplemented by borrowings on a revolving credit facility, if needed. The cash balance as of September 30, 2013 was \$53.8 million. The primary sources of liquidity are our current cash balances and our annual cash flow from operations and the primary liquidity requirements relate to interest on our long-term debt, pre-publication costs, capital investments and working capital. We believe that based on current and anticipated levels of operating performance, cash flow from operations and availability under a revolving credit facility, we will be able to make required interest payments on our debt and fund our working capital and capital expenditure requirements for the next 12 months.

Long-term debt

In February 2011, the Company closed an offering of \$175 million aggregate principal amount of 9.75% senior secured notes due 2017 (the Notes) and entered into an asset-based revolving credit facility with potential for up to

\$40 million in borrowing capacity. Deferred financing costs are capitalized in Other Assets in the Condensed Consolidated Balance Sheets, net of accumulated amortization, and are to be amortized over the term of the related debt using the effective interest method. Unamortized capitalized deferred financing costs at September 30, 2013 and December 31, 2012 were \$4.9 million and \$6.1 million, respectively.

Interest on the Notes accrues at a rate of 9.75% per annum from the date of original issuance and is payable semi-annually in arrears on each February 15 and August 15, to the holders of record of the Notes on the immediately preceding February 1 and August 1. No principal repayments are due until the maturity date of the Notes.

The Notes are secured by (i) a first priority lien on substantially all of the Company's assets (other than inventory and accounts receivable and related assets of the ABL Credit Parties in connection with the ABL Facility (each as defined and discussed below) and subject to certain exceptions), including capital stock of the guarantors (which are certain of the Company's subsidiaries), and (ii) a second-priority lien on substantially all of the inventory and accounts receivable and related assets of the ABL Credit Parties, in each case, subject to certain permitted liens. The Notes also contain customary covenants, including limitations on the Company's ability to

incur debt, and events of default as defined by the agreement. The Company may, at its option, redeem the Notes prior to their maturity based on the terms included in the agreement.

ABL Facility. In February 2011, the Company's wholly owned subsidiary, Cambium Learning, Inc. (together with its wholly owned subsidiaries, the ABL Credit Parties), entered into a credit facility (the ABL Facility) pursuant to a Loan and Security Agreement (the ABL Loan Agreement), by and among the ABL Credit Parties, Harris N.A., individually and as Agent (the Agent) for any ABL Lender (as hereinafter defined) which is or becomes a party to said ABL Loan Agreement, certain other lenders party thereto (together with Harris N.A. in its capacity as a lender, the ABL Lenders), Barclays Bank PLC, individually and as Collateral Agent, and BMO Capital Markets and Barclays Capital, as Joint Lead Arrangers and Joint Book Runners. The ABL Facility consists of a four-year \$40.0 million revolving credit facility, which includes a \$5.0 million subfacility for swing line loans and a \$5.0 million subfacility for letters of credit. In addition, the ABL Facility provides that the ABL Credit Parties may increase the aggregate principal amount of the ABL Facility by up to an additional \$20.0 million, subject to the consent of the Agent (whose consent shall not be unreasonably withheld) and subject to the satisfaction of certain other conditions.

The interest rate for the ABL Facility will be, at the ABL Credit Parties' option, either an amount to be determined (ranging from 2.75% to 3.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the London Interbank Offered Rate (LIBOR) or at an amount to be determined (ranging from 1.75% to 2.25%, depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) above the base rate. On any day, the base rate will be the greatest of (i) the Agent's then-effective prime commercial rate, (ii) an average federal funds rate plus 0.50% and (iii) the LIBOR quoted rate plus 1.00%. The ABL Facility is, subject to certain exceptions, secured by a first-priority lien on the ABL Credit Parties' inventory and accounts receivable and related assets and a second-priority lien (junior to the lien securing the ABL Credit Parties' obligations with respect to the Notes) on substantially all of the ABL Credit Parties' other assets.

As of September 30, 2013, the balances of accounts receivable and inventory collateralizing the ABL Facility were \$31.6 million and \$10.6 million, respectively. As of September 30, 2013, the Company had a borrowing base under the ABL Loan Agreement of up to \$24.3 million.

Revolving loans under the ABL Facility may be used solely for (i) the satisfaction of existing indebtedness of the ABL Credit Parties under their prior senior secured credit facility and outstanding pursuant to their prior existing senior unsecured notes, (ii) general operating capital needs of the ABL Credit Parties in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iii) working capital and other general corporate purposes in a manner consistent with the provisions of the ABL Facility and all applicable laws, (iv) the payment of certain fees and expenses incurred in connection with the ABL Facility and/or the Notes, and (v) other purposes permitted under the ABL Loan Agreement.

The ABL Facility contains a financial covenant that generally requires the ABL Credit Parties to maintain, on a consolidated basis, either (i) excess availability of at least the greater of \$8 million and 15% of the revolver commitment or (ii) a fixed charge coverage ratio of 1.1 to 1.0. The ABL Credit Parties will be required to pay, quarterly in arrears, an unused line fee equal to the product of (x) either 0.375% or 0.50% (depending upon the ABL Credit Parties' fixed charge coverage ratio at the time) and (y) the average daily unused amount of the revolver. As of September 30, 2013, we were in compliance with this covenant.

Cash flows

Cash from operations is seasonal, with more cash generated in the second half of the year than in the first half of the year. Cash is historically generated during the second half of the year because the buying cycle of school districts generally starts at the beginning of each new school year in the fall. Cash provided by (used in) our operating, investing and financing activities is summarized below:

	For the nine months ended September 30,	
(in thousands)	2013	2012
Operating activities \$	23,250	\$ (12,781)
Investing activities	(20,056)	(13,053)
Financing activities	(1,305)	(2,218)

Operating activities. Cash provided by (used in) operations was \$23.3 million and (\$12.8) million for the nine month periods ended September 30, 2013 and 2012, respectively. Overall, cash flow from operations improved by \$36.0 million. A significant portion of the 2013 cash flow is related to the tax refunds received from the state of Michigan and the release of funds from escrow for a potential tax indemnity obligation which totaled \$12.3 million and \$3.0 million, respectively. A portion of these receipts were issued as the final payment to the holders of the CVRs as noted below in investing activities. Cash flow from operations was also positively impacted by earnings improvement, including the benefit of prior year cost reduction activities, and the absence in 2013 of the reengineering and restructuring activities which resulted in cash outflows of \$3.5 million in the first nine months of 2012. Improved inventory management practices and the timing of accounts receivable collections also increased operating cash flows in the first nine months of 2013 relative to the same period in 2012.

Investing activities. Cash used in investing activities was \$20.1 million in the first nine months of 2013 compared to \$13.1 million in the first nine months of 2012. The increase in investing cash flows is primarily due to the final CVR payment of \$7.7 million offset partially by a reduction in capital expenditures of \$0.9 million.

Financing activities. Cash used in financing activities was \$1.3 million in the first nine months of 2013 and \$2.2 million in the first nine months of 2012. The cash flows in each period represent principal payments under capital lease obligations and share repurchases.

Outlook. On November 4, 2013, we entered into a stock purchase agreement with an investor pursuant to our share repurchase program. The transaction settled on November 6, 2013 with the Company purchasing 1,861,969 shares for a total cost of \$4.4 million. After the completion of this transaction, we have \$0.6 million remaining under the existing share repurchase authorization.

As an update to our previously disclosed estimate, capital expenditures for the full year 2013 are expected to range between \$15.5 million and \$16.0 million.

Contingency

The Company had a potential contingent liability related to state income taxes and related interest that had been assessed against a former subsidiary. On August 27, 2010, the former subsidiary received a decision and order of determination from the Michigan taxing authority. According to the determination of the Michigan taxing authority, the former subsidiary was liable to the State of Michigan for unpaid taxes and interest in the amount of approximately \$10.4 million. In order to expedite resolution of this matter and access the Michigan Court of Claims, the Company paid this liability to the state of Michigan on behalf of the former subsidiary on September 7, 2010 and filed an action in the Michigan Court of Claims to pursue a refund of the assessment. On November 16, 2011, the Michigan Court of Claims ruled in the Company's favor. The Michigan state taxing authority then appealed the decision of the Court of Claims to the Michigan Court of Appeals. On January 16, 2013, the Michigan Court of Appeals affirmed the verdict of the Court of Claims. As the Michigan state taxing authority declined to appeal the case to the Michigan Supreme Court, the matter was closed and the Company received \$11.7 million related to this claim in the second quarter of 2013.

This liability was identified as an agreed contingency for purposes of the CVRs issued as part of a 2009 merger. In accordance with the terms of the merger agreement, dated June 20, 2009, fifty percent (50%) of any amount that is paid or due and payable with respect to each agreed contingency would offset payments due under the CVRs from an amount held for such payments by Wells Fargo Bank, N.A., as escrow agent, in an escrow account. Upon payment of the approximately \$10.4 million, the Company requested a disbursement to the Company from the escrow account in an amount equal to fifty percent (50%) of the payment, or approximately \$5.2 million. This cash disbursement was received by the Company during the third quarter of 2010. On September 20, 2010, the Company amended the merger agreement and the escrow agreement to extend the term of the escrow agreement until the later of the full distribution of the escrow funds or the final resolution of the agreed contingency. The final resolution of the tax litigation resulted in a total refund from the taxing authority to the Company of \$11.7 million of which \$5.8 million was paid to the holders of the CVRs.

The Michigan Court of Appeals also ruled in the Company's favor on two other tax matters that resulted in a refund of \$0.6 million. These tax refunds were retained by the Company and were not subject to payment to the holders of the CVRs.

Non-GAAP Measures

The net income (loss) as reported on a GAAP basis includes material non-operational and non-cash items. We believe that earnings (loss) from operations before interest, income taxes, and depreciation and amortization, or EBITDA, and

Adjusted EBITDA, which further excludes non-operational and non-cash items, provide useful information for investors to assess the results of the ongoing business of the Company.

EBITDA, Adjusted EBITDA and Adjusted Net Revenues are not prepared in accordance with GAAP and may be different from similarly named, non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that these non-GAAP measures provide useful information to investors because they reflect the underlying performance of the ongoing operations of the Company and provide investors with a view of the Company's operations from management's perspective. Adjusted EBITDA and Adjusted Net Revenues remove significant purchase accounting, non-operational or certain non-cash items from earnings. We use Adjusted EBITDA and Adjusted Net Revenues to monitor and evaluate the operating performance of the Company and as the basis to set and measure progress towards performance targets, which directly affect compensation for employees and executives. We generally use these non-GAAP measures as measures of operating performance and not as measures of liquidity. Our presentation of EBITDA, Adjusted EBITDA and Adjusted Net Revenues should not be construed as an indication that our future results will be unaffected by unusual, non-operational or non-cash items.

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Below are reconciliations between net income (loss) and Adjusted EBITDA for the three and nine month periods ended September 30, 2013 and 2012:

Reconciliation Between Net Revenues and Adjusted Net Revenues and Between Net Income (Loss) and Adjusted EBITDA for the Three Months Ended September 30, 2013 and 2012

	Three Months Ended September 30,	
	2013	2012
	(In thousands) (Unaudited)	
Total net revenues	\$ 42,957	\$ 45,958
Non-operational or non-cash costs included in net revenues but excluded from adjusted net revenues: Adjustments related to purchase accounting ^(a)	57	58
Adjusted net revenues	\$ 43,014	\$ 46,016
Net income (loss)	\$ 128	\$ (2,235)
Reconciling items between net income (loss) and EBITDA:		
Depreciation and amortization	5,919	8,627
Net interest expense	4,773	4,628
Income tax expense	127	104
Income from operations before interest, income taxes, and depreciation and amortization (EBITDA)	10,947	11,124
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(215)	(163)
Re-engineering and restructuring costs ^(b)		491
Merger and acquisition activities ^(c)	171	160
Stock-based compensation and expense ^(d)	384	313
Embezzlement-related expense ^(e)	3	493
Adjustments related to purchase accounting ^(a)	57	49
Adjustments to CVR liability ^(f)		54
Adjusted EBITDA	\$ 11,347	\$ 12,521

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Reconciliation Between Net Revenues and Adjusted Net Revenues and Between Net Loss and Adjusted EBITDA for the Nine Months Ended September 30, 2013 and 2012

	Nine Months Ended September 30,	
	2013	2012
	(In thousands) (Unaudited)	
Total net revenues	\$ 117,172	\$ 114,242
Non-operational or non-cash costs included in net revenues but excluded from adjusted net revenues: Adjustments related to purchase accounting ^(a)	75	313
Adjusted net revenues	\$ 117,247	\$ 114,555
Net loss	\$ (8,519)	\$ (44,976)
Reconciling items between net loss and EBITDA:		
Depreciation and amortization	16,343	24,826
Net interest expense	14,028	14,032
Income tax expense	297	258
Income (loss) from operations before interest, income taxes, and depreciation and amortization (EBITDA)	22,149	(5,860)
Non-operational or non-cash costs included in EBITDA but excluded from Adjusted EBITDA:		
Other income, net	(645)	(236)
Re-engineering and restructuring costs ^(b)		6,240
Management transition ^(g)	1,501	
Merger and acquisition activities ^(c)	485	684
Stock-based compensation and expense ^(d)	975	518
Embezzlement-related expense ^(e)	118	452
Adjustments related to purchase accounting ^(a)	95	247
Adjustments to CVR liability ^(f)	74	161
Goodwill impairment ^(h)		14,700
Adjusted EBITDA	\$ 24,752	\$ 16,906

Adjusted EBITDA by segment was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

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Voyager Sopris Learning	\$ 8,298	\$ 9,701	\$ 16,326	\$ 11,268
Learning A-Z	4,760	3,705	13,301	10,697
ExploreLearning	792	1,314	3,262	3,542
Kurzweil/IntelliTools	974	958	2,529	2,095
Shared Services	(3,477)	(3,157)	(10,666)	(10,696)
Adjusted EBITDA	\$ 11,347	\$ 12,521	\$ 24,752	\$ 16,906

(a) Under applicable accounting guidance for business combinations, an acquiring entity is required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date fair value. Net revenues have been reduced by \$0.1 million, \$0.1 million, \$0.1 million, and \$0.3 million, respectively, for the quarters ended September 30, 2013 and 2012 and the nine month periods ended September 30, 2013 and 2012 in the historical financial statements due to the write-down of deferred revenue to its estimated fair value as of the merger date. The write-down was determined by estimating the cost to fulfill the related future customer obligations plus a normal profit margin. Partially offsetting this impact, cost of revenues were reduced for other purchase accounting adjustments, primarily a write-down of deferred costs to zero at the acquisition date. The adjustment of deferred revenue and deferred costs to fair value is required only at the purchase accounting date; therefore, its impact on net revenues and cost of revenues is non-recurring.

(b) In late 2011, we launched a reengineering and restructuring initiative to align our organizational and cost structure to our strategic goals. The financial goal of these actions is to provide savings to both improve earnings and to fund re-investment in growth areas of the business. During the three and nine months ended September 30, 2012 we recorded reengineering and

restructuring charges of \$0.5 million and \$6.2 million, respectively, including impairment charges of \$0.2 million and \$3.3 million, respectively, related to our leased facility in Frederick, Colorado and warehouse related assets and previously capitalized amounts that were determined to have no ongoing value.

(c) Costs are related to merger and acquisition activities including due diligence and other non-operational charges such as pension and severance costs for former employees.

(d) Stock-based compensation and expense is related to our outstanding options, restricted stock awards and warrants. This total also includes legal fees incurred in connection with the Company's exchange offer which were recorded as consulting expenses and therefore were not included in stock-based compensation and expense as detailed in Note 3 to the Condensed Consolidated Financial Statements.

(e) Embezzlement-related expense includes changes in the fair value of the recovered properties and warrant liability based on the estimated cash sales price of certain properties recovered as a result of an embezzlement discovered in 2008.

(f) Adjustments to the CVR liability as a result of changes in the likelihood of collecting potential tax receivables and related interest income included in the estimate of the fair value of the CVRs.

(g) Severance charges recorded in connection with the management transition completed in the first quarter of 2013.

(h) For additional information on goodwill impairment charges, see Note 5 to our Condensed Consolidated Financial Statements included herein.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as of September 30, 2013 that have or are reasonably likely to have a current or future material effect on the Company's financial condition, changes in financial conditions, sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

There have been no material changes in the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Issued Financial Accounting Standards

In February 2013, new guidance was issued which requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the accompanying notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, companies are required to cross-reference to other disclosures that provide additional detail on those amounts. This guidance is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In July 2013, new guidance was issued which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This guidance is effective prospectively for reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this standard to have a significant impact on the Company's results of operations or financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As described in Note 14 to our Condensed Consolidated Financial Statements, we have outstanding a \$175 million aggregate principal amount of Notes (fixed rate) due 2017 and have available an asset-based revolving credit facility of up to \$40 million. We have no amounts outstanding under the revolving credit facility, which is our only variable interest debt. Therefore, as of September 30, 2013 we have no material interest rate risk.

Foreign Currency Risk

The Company does not have material exposure to changes in foreign currency rates. As of September 30, 2013, the Company does not have any outstanding foreign currency forwards or option contracts.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is communicated to management, including the Chief Executive Officer, Chief Financial Officer and its Board of Directors, to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2012, the Company was involved in a tax litigation matter related to a Michigan state tax issue. The resolution of the tax litigation resulted in a total net refund from the taxing authority to the Company of \$12.3 million. Of this amount, \$5.8 million was distributed to the holders of the CVRs in June 2013 and the remainder was retained by the Company.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as such factors could materially affect the Company's business, financial condition, or future results. In the three and nine months ended September 30, 2013, there were no material changes to the risk factors disclosed in the Company's 2012 Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following is a description of the Company's securities that were issued or sold by the Company during the period covered by this report and which were not registered under the Securities Act of 1933, as amended (the Securities Act).

Warrant to Purchase Common Stock

During the quarter ended September 30, 2013, the number of shares of common stock of the Company underlying the warrant issued to VSS-Cambium Holdings III, LLC, the sole stockholder of VSS-Cambium Holdings II Corp. (Cambium) immediately prior to the Company's acquisition of Cambium, as part of the merger consideration payable to such stockholder in connection with the Cambium merger, was increased by 17,864 shares. The increase resulted from cash recoveries during the quarter in connection with the employee embezzlement matter, in accordance with the terms of the warrant. The warrant is exercisable for shares of common stock at an exercise price of \$0.01 per share, and expires on December 8, 2014. The issuance of these securities to VSS-Cambium Holdings III, LLC was exempt from registration under Section 4(2) of the Securities Act.

Item 5. Other Information.

On November 4, 2013, the Company entered into a stock purchase agreement with an investor pursuant to its share repurchase program. As previously announced, on March 19, 2013 the Company's board of directors authorized the extension of the Company's \$5 million share repurchase program for an additional one year period (through July 5, 2014) and increased the remaining \$2.2 million available for repurchases of shares thereunder up to \$5 million. The transaction settled on November 6, 2013 with the Company purchasing 1,861,969 shares for a total cost of \$4,375,627. Upon repurchase these treasury shares are no longer registered under the Securities Act of 1933.

The summary above is not intended to be complete and is qualified in its entirety by reference to the complete text of the stock purchase agreement attached hereto as Exhibit 10.1 and incorporated herein by reference.

Item 6. Exhibits.

The following exhibits are filed as part of this report.

Exhibit Number	Description
10.1	Stock Purchase Agreement.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
101.ins	XBRL Instance Document.*
101.def	XBRL Taxonomy Extension Definition Linkbase Document.*
101.sch	XBRL Taxonomy Extension Schema Document.*
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.lab	XBRL Taxonomy Extension Label Linkbase Document.*
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document.*

*Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

SIGNATURES

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

Date: November 7, 2013 CAMBIUM LEARNING GROUP, INC.
/s/ Barbara Benson
Barbara Benson,
Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

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