

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION	:	
	:	AMENDED COMPLAINT
Plaintiff,	:	
	:	
v.	:	05 Civ 7944 (SAS) (JCF)
	:	ECF Case
MARTIN E. KENNEY JR.	:	
	:	
	:	
	:	
	:	
Defendant.	:	

Plaintiff Securities and Exchange Commission (“Commission”) alleges as follows:

PRELIMINARY STATEMENT

1. In December 2002, Martin E. Kenney (“Kenney”), the Chief Executive Officer of WRC Media Inc. (“WRC”), aided and abetted WRC’s improper recognition of \$1.2 million in revenue from a purported sale of educational software to the Monroe City, Louisiana School District (“Monroe transaction”). The Monroe transaction did not meet the criteria under generally accepted accounting principles (GAAP) for revenue recognition, because it was contingent upon approval by the Monroe City School Board. As a result, WRC filed financial reports with the Commission that materially misstated its fourth quarter 2002 results.

2. As set forth below, Kenney aided and abetted WRC’s violations of Section 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §78o(d)] and

Rules 12b-20, 15d-1, 15d-11, and 15d-13 promulgated thereunder [17 C.F.R. §§ 240.12b-20, 240.15d-1, 240.15d-11, and 240.15d-13].

3. By this action, the Commission seeks (i) permanent injunctive relief, (ii) civil penalties, and (iii) such further relief as the Court may deem appropriate.

JURISDICTION

4. This Court has jurisdiction over this action pursuant to Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa].

5. Defendant Kenney, directly or indirectly, has made use of the means and instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange in connection with the acts, practices, and courses of business alleged herein.

6. Venue is proper in this District pursuant to Section 27 of the Exchange Act. Kenney engaged in certain transactions, acts, practices and courses of business alleged herein within this District.

DEFENDANT

7. Martin E. Kenney, Jr., age 59, resides in Berwyn, Pennsylvania, and was, at all times relevant to this complaint, the Chief Executive Officer and a director of WRC Media, Inc. Kenney was also the Chief Executive Officer of CompassLearning, Inc., a wholly owned subsidiary of WRC ("Compass"). Kenney was a principal spokesperson for WRC responsible for communicating the company's financial results to investors. He signed WRC's periodic reports on Forms 10-K and 10-Q and certified, among other things, that (i) the reports did not contain any untrue statement of a material fact or any material omissions,

15. The salespersons responsible for the Monroe account consulted with Compass' President to inquire whether Compass could book the revenue from the Monroe sale if the contract was contingent upon school board approval. The President informed them that revenue recognition would not be appropriate until the board approved the deal. Kenney later was informed of this accounting determination.

16. The Compass sales staff continued visiting the superintendent in Louisiana during November to assist him in securing board approval. In the first week of December 2002, the superintendent informed one of Compass' sales staff that the board would not consider the contract until 2003. The Compass sales person in turn so advised Kenney.

December Agreement with Superintendent

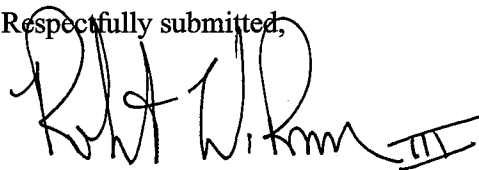
17. On December 11, 2002, Kenney returned to Louisiana with the Compass sales team for the purpose of having the superintendent sign a replacement agreement. During that trip, the superintendent signed a replacement Order Agreement as well as a Price Quote ("December Agreement") to lease Compass software and other materials for \$2.3 million. The superintendent executed the contract on December 12, 2002.

18. Thereafter, one of the Compass salespeople forwarded the signed contract to Compass' accounting department. This contract was not the standard sales agreement typically used by Compass and did not mention any requirement of school board approval. Unaware that school board approval for this contract was required but had not been obtained, the Compass Controller approved recognition of \$1.2 million in revenue for fiscal 2002.

19. Consequently, Compass improperly recorded nearly \$1.2 million in revenue in the fourth quarter of 2002, materially overstating fourth quarter operating income and understating WRC's reported fourth quarter net loss. On March 24, 2003, WRC issued a

Dated: March 23, 2007

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert W. Pommer III". The signature is written in a cursive style with a horizontal line underneath the name.

Robert W. Pommer III (RP 5328)

John D. Worland, Jr. (JW 1962)

Thomas C. Swiers

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