SCHOLASTIC CORP
Form 10-K
July 29, 2014

United States
Securities and Exchange Commission

Washington, D.C. 20549
Form 10-K
Annual Report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended May 31, 2014 | Commission File No. 000-19860
Scholastic Corporation
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3385513 (IRS Employer Identification No.)
557 Broadway, New York, New York (Address of principal executive offices)	10012 (Zip Code)

Registrant's telephone number, including area code: (212) 343-6100
Securities Registered Pursuant to Section 12(b) of the Act:

Title of class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:
NONE
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
x Large accelerated filer   o Accelerated filer   o Non-accelerated filer   o Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the Common Stock, par value $0.01, held by non-affiliates as of November 30, 2013, was approximately $807,200,649. As of such date, non-affiliates held no shares of the Class A Stock, $0.01 par value. There is no active market for the Class A Stock.

The number of shares outstanding of each class of the Registrant's voting stock as of June 30, 2014 was as follows: 30,613,339 shares of Common Stock and 1,656,200 shares of Class A Stock.

Documents Incorporated By Reference
Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held September 24, 2014.

Table of Contents

		PAGE
	Part I	
Item 1.	Business	1
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	12
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Mine Safety Disclosures	13
	Part II	
Item 5.	Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6.	Selected Financial Data	16
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	33
Item 8.	Consolidated Financial Statements and Supplementary Data	34
	Consolidated Statements of Operations	35
	Consolidated Statements of Comprehensive Income (Loss)	36
	Consolidated Balance Sheets	37
	Consolidated Statement of Changes in Stockholders’ Equity	39
	Consolidated Statements of Cash Flows	41
	Notes to Consolidated Financial Statements	43
	Reports of Independent Registered Public Accounting Firm	74
	Supplementary Financial Information	76
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	77
Item 9A.	Controls and Procedures	77
Item 9B.	Other Information	78
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	79
Item 11.	Executive Compensation	79
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	79
Item 13.	Certain Relationships and Related Transactions, and Director Independence	79
Item 14.	Principal Accounting Fees and Services	79
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	80
	Signatures	83
	Power of Attorney	83
	Schedule II: Valuation and Qualifying Accounts and Reserves	S-2

Part I
Item 1 | Business

Overview

Scholastic Corporation (the “Corporation” and together with its subsidiaries, “Scholastic” or the “Company”) is a global children’s publishing, education and media company. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. The Company is the world’s largest publisher and distributor of children’s books and a leading provider of educational technology products and related services and children’s media. Scholastic creates quality books and ebooks, print and technology-based learning materials and programs, magazines, multi-media and other products that help children learn both at school and at home. The Company is the leading operator of school-based book clubs and book fairs in the United States. It distributes its products and services through these proprietary channels, as well as directly to schools and libraries, through retail stores and through the internet. The Company’s website, scholastic.com, is a leading site for teachers, classrooms and parents and an award-winning destination for children. Scholastic has operations in the United States, Canada, the United Kingdom, Australia, New Zealand, Ireland, India, China, Singapore and other parts of Asia, and, through its export business, sells products in more than 150 countries.

The Company currently employs approximately 7,500 people in the United States and approximately 2,200 people outside the United States.

Operating Segments – Continuing Operations

The Company categorizes its businesses into five reportable segments: Children’s Book Publishing and Distribution; Educational Technology and Services; Classroom and Supplemental Materials Publishing; Media, Licensing and Advertising (which collectively represent the Company’s domestic operations); and International. This classification reflects the nature of products, services and distribution consistent with the method by which the Company’s chief operating decision-maker assesses operating performance and allocates resources.

The following table sets forth revenues by operating segment for the three fiscal years ended May 31:

		(Amounts in millions)	
	2014	2013	2012
Children’s Book Publishing and Distribution	$873.5	$846.9	$1,111.3
Educational Technology and Services	248.7	227.7	254.7
Classroom and Supplemental Materials Publishing	229.6	218.0	208.2
Media, Licensing and Advertising	56.2	58.7	75.3
International	414.3	441.1	489.6
Total	$1,822.3	$1,792.4	$2,139.1

Additional financial information relating to the Company’s operating segments is included in Note 4 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data,” which is included herein.

CHILDREN’S BOOK PUBLISHING AND DISTRIBUTION

(48.0% of fiscal 2014 revenues)

General

The Company’s Children’s Book Publishing and Distribution segment includes the publication and distribution of children’s books, media and interactive products in the United States through its book clubs and book fairs in its school channels and through the trade channel.

The Company is the world’s largest publisher and distributor of children’s books and is the leading operator of school-based book clubs and school-based book fairs in the United States. The Company is also a leading publisher of children’s print and ebooks distributed through the trade channel. Scholastic offers a broad range of children’s books, many of which have received awards for excellence in children’s literature, including the Caldecott and Newbery Medals.

The Company obtains titles for sale through its distribution channels from three principal sources. The first source for titles is the Company’s publication of books created under exclusive agreements with authors, illustrators, book packagers or other media companies. Scholastic generally controls the exclusive rights to sell these titles through all channels of distribution in the United States and, to a lesser extent, internationally. Scholastic’s second source of titles is obtaining licenses to publish books exclusively in specified channels of distribution, including reprints of books originally published by other publishers for which the Company acquires rights to sell in the school market. The third source of titles is the Company’s purchase of finished books from other publishers.

School-Based Book Clubs

Scholastic founded its first school-based book club in 1948. In fiscal 2014, the Company launched its new school-based book clubs consisting of reading clubs for grades pre-kindergarten ("pre-K") through grade 5 and middle school grades 6 to 8. In addition to its regular book club reading club offerings, the Company creates special theme-based and seasonal offers targeted to different grade levels during the year.

The Company mails promotional materials containing order forms to teachers in the vast majority of the pre-K to grade 8 schools in the United States. Teachers who wish to participate in a school-based book club distribute the promotional materials to their students, who may choose from selections at substantial reductions from list prices. The teacher aggregates the students’ orders and forwards them to the Company. The Company estimates that approximately 63% of all elementary school teachers in the United States who received promotional materials in fiscal 2014 participated in the Company’s school-based book clubs. In fiscal 2014, approximately 85% of total book club revenues were placed via the internet through COOL (Clubs Ordering On-Line), the Company’s online ordering platform, which allows parents, as well as teachers, to order online. The orders are shipped to the classroom for distribution to the students. Sponsors who participate in the book clubs receive bonus points and other promotional incentives, which may be redeemed from the Company for additional books and other resource materials and items for their classrooms or the school.

School-Based Book Fairs

The Company began offering school-based book fairs in 1981 under the name Scholastic Book Fairs. Today, the Company is the leading distributor of school-based book fairs in the United States with operations in all 50 states. Book fairs give children access to hundreds of popular, quality books and educational materials, increase student reading and help book fair organizers raise funds for the purchase of school library and classroom books, supplies and equipment. Book fairs are generally weeklong events where children and families peruse and purchase their favorite books together. The Company delivers its book fairs from its warehouses to schools principally by a fleet of Company-owned vehicles. Sales and customer service representatives, working from the Company’s regional offices, distribution facilities and national distribution facility in Missouri, along with local area field representatives, provide support to book fair organizers. Book fairs are conducted by school personnel, volunteers and parent-teacher organizations, from which the schools may receive either books, supplies and equipment or a portion of the proceeds from every book fair they host. The Company is currently focused on increasing the number of second and third fairs conducted by its school customers during the school year and increasing attendance at each book fair event. Approximately 90% of the schools that conducted a Scholastic Book Fair in fiscal 2013 hosted a fair in fiscal 2014.

Trade

Scholastic is a leading publisher of children’s books sold through bookstores, internet retailers and mass merchandisers in the United States. The Company maintains approximately 6,100 titles for trade distribution. Scholastic’s original publications include Harry Potter®, The Hunger Games, The 39 Clues®, Spirit Animals™, The Magic School Bus®, I

Spy™, Captain Underpants®, Goosebumps® and Clifford The Big Red Dog®, and licensed properties such as Star Wars®, Lego®, Minecraft® and Geronimo Stilton®. In addition, the Company's Klutz® imprint is a publisher and creator of "books plus" products for children, including titles such as Clay Charms, Nail Style Studio, and Pom-Pom Puppies.

The Company's trade organization focuses on publishing, marketing and selling print and ebook properties to bookstores, internet retailers, mass merchandisers, specialty sales outlets and other book retailers, and also supplies the Company's proprietary school channels. The Company maintains a talented and experienced creative staff that constantly seeks to attract, develop and retain the best children's authors and illustrators. The Company believes that its trade publishing staff, combined with the Company's reputation and proprietary school distribution channels, provides a significant competitive advantage, evidenced by numerous bestsellers over the past decade. Print bestsellers in the trade division during fiscal 2014 included the

Hunger Games trilogy by Suzanne Collins, which was also an ebook bestseller, the Harry Potter series, the Spirit Animal series, the Wings of Fire series and the I Survived series, as well as other titles, such as Star Wars: Jedi Academy by Jeffrey Brown.

EDUCATIONAL TECHNOLOGY AND SERVICES

(13.6% of fiscal 2014 revenues)

General

Scholastic Education, which encompasses the Company's core curriculum publishing operations, develops and distributes technology-based instructional materials directly to schools in the United States, primarily purchased through school and district budgets, often with the help of federal and state funding, as well as local funding. These operations include reading and math improvement programs and other educational technology products, as well as consulting and professional development services.

Scholastic Education's efforts are focused on partnering with school districts to raise student achievement by providing solutions that combine technology, content and services in the areas of reading and math. Significant technology-based reading and math improvement programs that Scholastic offers include:

- READ 180®, a reading intervention program for students in grades 4 to 12 reading at least two years below grade level, READ 180 Next Generation, a substantially revised version of the original product; and Read 180 for iPad®, a comprehensive reading program for iPad;
- System 44®, a foundational reading intervention program for students in grades 4 to 12 who have not yet mastered the 44 sounds and 26 letters of the English language, and System 44 Next Generation, a revised version of the original product;
- Scholastic Reading Inventory, which is a research-based, computer-adaptive assessment for grades K to 12 that allows educators to assess a student's reading comprehension;
- MATH 180®, a revolutionary math intervention program for students in grades 6 and up;
- iRead™, a digital foundational reading program for grades K-2; and
- Common Core Code X®, a middle school English Language Arts program with more complex texts required by the Common Core State Standards.

Other major programs include FASTT Math®, a technology-based program to improve math fact fluency developed with the creator of READ 180, and Do The Math®, a mathematics intervention program created by Marilyn Burns, a nationally known math educator and the founder of Math Solutions. The Company considers its educational technology products and related services to be a growth driver and continues to focus on investment in its technology and services businesses. Significant recent activity includes the expansion of the Company's offering to include its Math 180 intervention mathematics solutions. The segment's consulting and professional development services focus on optimizing the utilization of the Scholastic products described above, as well as helping teachers and school districts meet professional standards and implement new requirements and standards, including the Common Core State Standards.

CLASSROOM AND SUPPLEMENTAL MATERIALS PUBLISHING

(12.6% of fiscal 2014 revenues)

General

Classroom and Supplemental Materials Publishing includes the publication and distribution to schools and libraries of children’s books, classroom magazines, supplemental classroom materials, custom curriculum and teaching guides and print and on-line reference and non-fiction products for grades pre-K to 12 in the United States.

Scholastic Classroom and Community Group

The Company is the leading provider of classroom libraries and paperback collections, including classroom books and guided reading products, to schools and school districts for classroom libraries and other uses, as well as to literacy organizations. Scholastic helps schools compile classroom collections of high quality, award-winning books for every grade level, reading level and multicultural background, including the Phyllis C. Hunter and the Leveled Math Readers series. This segment often customizes classroom library solutions for its customers, tailoring its offerings in some instances.

The teaching resources business publishes and sells professional books and supplemental materials designed for and generally purchased by teachers, both directly from the Company and through teacher stores and booksellers, including the Company's on-line Teacher store, which provides professional books and other educational materials to schools and teachers.

Scholastic Library Publishing and Classroom Magazines

Scholastic is a leading publisher of quality children's reference and non-fiction products and subscriptions to databases sold primarily to schools and libraries in the United States. The Company's products also include non-fiction/fiction books published in the United States under the imprints Children's Press® and Franklin Watts®.

Scholastic is a leading publisher of classroom magazines. Teachers in grades pre-K to 12 use the Company's 31 classroom magazines, including Scholastic News®, Junior Scholastic® and Weekly Reader®, to supplement formal learning programs by bringing subjects of current interest into the classroom, including literature, math, science, current events, social studies and foreign languages. These offerings provide schools with substantial non-fiction material, which is required to meet Common Core State Standards. Each magazine has its own website with online digital resources that supplement the print materials. Scholastic's classroom magazine circulation in the United States in fiscal 2014 was approximately 13.1 million, with approximately 75% of the circulation in grades pre-K to six. The majority of magazines purchased are paid for with school or district funds, with parents and teachers paying for the balance. Circulation revenue accounted for substantially all of the classroom magazine revenues in fiscal 2014.

MEDIA, LICENSING AND ADVERTISING

(3.1% of fiscal 2014 revenues)

General
The Company's Media, Licensing and Advertising segment includes the production and/or distribution of digital media, movie production, consumer promotions and merchandising and advertising revenue, including sponsorship programs.
Production and Distribution
Through Scholastic Media, the Company creates and produces programming and digital content for all platforms, including television, DVDs, audio, movies, interactive games, apps (applications) and websites. Scholastic Media builds consumer awareness and value for the Company's franchises by creating family-focused media that form the foundation for the Company's global branding campaigns. The media group generates revenue by exploiting these assets throughout the Scholastic distribution channels, globally across multiple media platforms and by developing and executing cross platform brand-marketing campaigns that support the Company's key franchises. Scholastic Media consists of Scholastic Entertainment Inc. (SEI), Scholastic Audio, Soup2Nuts Inc. (S2N), Weston Woods Studios, Inc. and Scholastic Interactive L.L.C.
SEI has built a large television library of half-hour productions, including: Clifford The Big Red Dog®, Clifford's Puppy Days®, Dear America®, I Spy®, WordGirl®, Maya & Miguel™ , The Magic School Bus®, Goosebumps®, Turbo Dogs, Animorphs®, Horrible Histories®, The Baby-sitters Club® and Sammy's Storyshop™. These series have been sold in the United States and throughout the world and have garnered major awards including Emmys, Peabodys and an Academy award.
S2N is an animation and audio production studio, supplying animation and audio services for the Company that supports audio books and SEI programming, including the Emmy award-winning animated series Word Girl. Weston Woods Studios, Inc. creates audio visual adaptations of classic children's picture books, such as Where the Wild Things Are, Chrysanthemum and Make Way for Ducklings, which were initially produced for the school and library market and are now distributed through the retail market. Scholastic Audio produces young adult and children's audio recordings for the school, library and retail markets.

Scholastic Interactive designs and produces software, apps, games, etc., based on Scholastic properties, for grades pre-K to 8. Its products are distributed through the Company’s school-based book clubs and book fairs, as well as to the library/teacher market and the retail market. The Company’s titles for Leapster and LeapPad include the series I Spy, Brain Play®, Clifford®, Goosebumps®, The Magic School Bus®, The 39 Clues® series, Scholastic Animal Genius® and Math Missions®.

Other

Also included in this segment is Scholastic National Partnerships, which partners with non-profit organizations, government agencies, associations and selected corporations to develop literacy, education and pro-social campaigns which are aligned to

the Company's corporate mission of supporting children's reading and learning in classrooms and at home, and the Company's consumer magazines business, including Parent and Child and Instructor Magazines.

INTERNATIONAL

(22.7% of fiscal 2014 revenues)

General

The International segment includes the publication and distribution of products and services outside the United States by the Company's international operations, and its export and foreign rights businesses.

Scholastic has operations in Canada, the United Kingdom, Australia, New Zealand, Ireland, India, China, Singapore and other parts of Asia. The Company's international operations have original trade and educational publishing programs; distribute children's books, software and other materials through school-based book clubs, school-based book fairs and trade channels; engage in direct sales in shopping malls and door to door; produce and distribute magazines; and offer on-line services. Many of the Company's international operations also have their own export and foreign rights licensing programs and are book publishing licensees for major media properties. Original books published by most of these operations have received awards for excellence in children's literature. In Asia, the Company also publishes and distributes reference products and provides services under the Grolier name, engages in direct sales in shopping malls and door to door and operates tutorial centers that provide English language training to students.

Canada

Scholastic Canada, founded in 1957, is a leading publisher and distributor of English and French language children's books. Scholastic Canada also is the largest school-based book club and school-based book fair operator in Canada and is one of the leading suppliers of original or licensed children's books to the Canadian trade market. Since 1965, Scholastic Canada has also produced quality Canadian-authored books and educational materials, including an early reading program sold to schools for grades K to 6.

United Kingdom

Scholastic UK, founded in 1964, is the largest school-based book club and book fair operator in the United Kingdom and one of the leading suppliers of original or licensed children's books to the United Kingdom trade market. Scholastic UK also publishes supplemental educational materials, including professional books for teachers.

Australia

Scholastic Australia, founded in 1968, is the largest school-based book club and book fair operation in Australia, reaching approximately 90% of the country's primary schools. Scholastic Australia also publishes quality children's books supplying the Australian trade market.

New Zealand

Scholastic New Zealand, founded in 1962, is the largest children's book publisher and the leading book distributor to schools in New Zealand. Through its school-based book clubs and book fairs, Scholastic New Zealand reaches approximately 90% of the country's primary schools. In addition, Scholastic New Zealand publishes quality children's books supplying the New Zealand trade market.

Asia

The Company's Asian operations include initiatives for educational programs based out of Singapore, as well as the wholly-owned Grolier direct sales business, which sells English language and early childhood learning materials

through a network of independent sales representatives in India, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In addition, the Company operates school-based book clubs and book fairs throughout Asia; publishes original titles in English and Hindi languages in India, including specialized curriculum books for local schools; conducts reading improvement programs inside local schools in the Philippines; and operates a chain of English language tutorial centers in China in cooperation with local partners.

Foreign Rights and Export

The Company licenses the rights to selected Scholastic titles in 45 languages to other publishing companies around the world. The Company's export business sells educational materials, software and children's books to schools, libraries, bookstores and other book distributors in over 150 countries that are not otherwise directly serviced by Scholastic subsidiaries. The Company partners with governments and non-governmental agencies to create and distribute books to public schools in developing countries.

PRODUCTION AND DISTRIBUTION

The Company's books, magazines, software and interactive products and other materials are manufactured by the Company with the assistance of third parties under contracts entered into through arms-length negotiations or competitive bidding. As appropriate, the Company enters into multi-year agreements that guarantee specified volume in exchange for favorable pricing terms. Paper is purchased directly from paper mills and other third-party sources. The Company does not anticipate any difficulty in continuing to satisfy its manufacturing and paper requirements.

In the United States, the Company mainly processes and fulfills orders for school-based book clubs, trade, curriculum publishing, reference and non-fiction products and export orders from its primary warehouse and distribution facility in Jefferson City, Missouri. In connection with its trade business, the Company sometimes will ship product directly from printers to customers. Magazine orders are processed at the Jefferson City facility and are shipped directly from printers. Orders for ebooks are fulfilled through a third party.

School-based book fair orders are fulfilled through a network of warehouses across the country. The Company's international school-based book clubs, school-based book fair, trade and educational operations use distribution systems similar to those employed in the U.S.

CONTENT ACQUISITION

Access to intellectual property or content ("Content") for the Company's product offerings is critical to the success of the Company's operations. The Company incurs significant costs for the acquisition and development of Content for its product offerings. These costs are often deferred and recognized as the Company generates revenues derived from the benefits of these costs. These costs include the following:

- Prepublication costs. Prepublication costs are incurred in all of the Company's reportable segments. Prepublication costs include costs incurred to create and develop the art, prepress, editorial, digital conversion and other content required for the creation of the master copy of a book or other media. While prepublication costs in the Children's Book Publishing and Distribution segment are relatively modest amounts for each individual title, there are a large number of separate titles published annually. Prepublication costs in the Educational Technology and Services segment are often in excess of $1 million for an individual program, as the development of Content for complex intervention and educational programs requires significant resources and investment.

- Royalty advances. Royalty advances are incurred in all of the Company's reportable segments, but are most prevalent in the Children's Book Publishing and Distribution segment and enable the Company to obtain contractual commitments from authors to produce Content. The Company regularly provides authors with advances against expected future royalty payments, often before the books are written. Upon publication and sale of the books or other media, the authors generally will not receive further royalty payments until the contractual royalties earned from sales of such books or other media exceed such advances. The Company values its position in the market as the largest publisher and distributor of children's books in obtaining Content, and the Company's experienced editorial staff

aggressively acquires Content from both new and established authors.

- Production costs. Production costs are incurred in the Media, Licensing and Advertising segment. Production costs include the costs to create films, television programming, home videos and other entertainment Content. These costs include the costs of talent, artists, production crews and editors, as well as other costs incurred in connection with the production of this Content. Advertising and promotional costs are not included in production costs.

SEASONALITY

The Company's Children's Book Publishing and Distribution school-based book fair and book club channels and most of its magazines operate on a school-year basis; therefore, the Company's business is highly seasonal. As a result, the Company's revenues in the first and third quarters of the fiscal year generally are lower than its revenues in the other two fiscal quarters. Typically, these school-based channel revenues are greatest in the second and fourth quarters of the fiscal year, while revenues from the sale of instructional materials and educational technology products and services are highest in the first and fourth quarters. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year. Trade sales can vary through the year due to varying release dates of published titles.

COMPETITION

The markets for children's books and entertainment materials and educational technology products and other educational materials are highly competitive. Competition is based on the quality and range of materials made available, price, promotion and customer service, as well as the nature of the distribution channels. Competitors include numerous other book, ebook, textbook, library, reference material and supplementary text publishers, distributors and other resellers (including over the internet) of children's books and other educational materials, national publishers of classroom and professional magazines with substantial circulation, numerous producers of television and film programming (many of which are substantially larger than the Company), television and cable networks, publishers of computer software and interactive products, and distributors of products and services on the internet. In the United States, competitors also include regional and local school-based book fair operators, other fundraising activities in schools, and bookstores. In its educational technology business, additional competitive factors include the demonstrated effectiveness of the products being offered, as well as available funding sources to school districts, and, although the Company believes no other organization or company offers as comprehensive an offering as its suite of reading and math intervention products and services, the Company faces competition from textbook publishers, distributors of other technology-based programs addressing the subject areas of the Company's offerings, such as reading, phonics and mathematics, and, with respect to its consulting services, not-for-profit organizations providing consulting covering various areas related to education. Competition may increase to the extent that other entities enter the market and to the extent that current competitors or new competitors develop and introduce new materials that compete directly with the products distributed by the Company or develop or expand competitive sales channels. The Company believes that its position as both a publisher and distributor are unique to certain of the markets in which it competes, principally in the context of its children's book business.

COPYRIGHT AND TRADEMARKS

As an international publisher and distributor of books, software and other media products, Scholastic aggressively utilizes the intellectual property protections of the United States and other countries in order to maintain its exclusive rights to identify and distribute many of its products. Accordingly, SCHOLASTIC is a trademark registered in the United States and in a number of countries where the Company conducts business or otherwise distributes its products. The Corporation's principal operating subsidiary in the United States, Scholastic Inc., and the Corporation's international subsidiaries, through Scholastic Inc., have registered and/or have pending applications to register in relevant territories trademarks for important services and programs. All of the Company's publications, including books, magazines and software and interactive products, are subject to copyright protection both in the United States and internationally. The Company also obtains domain name protection for its internet domains. The Company seeks to obtain the broadest possible intellectual property rights for its products, and because inadequate legal and technological protections for intellectual property and proprietary rights could adversely affect operating results, the Company vigorously defends those rights against infringement.

Executive Officers

The following individuals have been determined by the Board of Directors to be the executive officers of the Company. Each such individual serves in his or her position with Scholastic until such person's successor has been elected or appointed and qualified or until such person's earlier resignation or removal.

Name	Age	Employed by Registrant Since	Position(s) for Past Five Years
Richard Robinson	77	1962	Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975).
Maureen O'Connell	52	2007	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (since 2007).
Margery W. Mayer	62	1990	Executive Vice President (since 1990), and President, Scholastic Education (since 2002); and Executive Vice President, Learning Ventures (1998-2002).
Judith A. Newman	56	1993	Executive Vice President and President, Book Clubs (since 2014), Book Clubs and eCommerce (2011-2014), Book Clubs (2005-2011) and Scholastic At Home (2005-2006); Senior Vice President and President, Book Clubs and Scholastic At Home (2004-2005); and Senior Vice President, Book Clubs (1997-2004).
Andrew S. Hedden	73	2008	Member of the Board of Directors (since 1991) and Executive Vice President, General Counsel and Secretary (since 2008).
Alan Boyko	60	1988	President, Scholastic Book Fairs, Inc. (since 2005).

Available Information

The Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are accessible at the Investor Relations portion of its website (scholastic.com) and are available, without charge, as soon as reasonably practicable after such reports are electronically filed or furnished to the Securities and Exchange Commission ("SEC"). The Company also posts the dates of its upcoming scheduled financial press releases, telephonic investor calls and investor presentations on the "Events and Presentations" portion of its website at least five days prior to the event. The Company's investor calls are open to the public and remain available through the Company's website for at least 45 days thereafter.

The public may also read and copy materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information, as well as copies of the Company's filings, from the Office of Investor Education and Advocacy by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site, at www.sec.gov, that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A | Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K and in other documents that the Corporation files with the SEC are risks that should be considered in evaluating the Corporation's common stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting the Company's operating results, the Company's past financial performance should not be considered an indicator of future performance.

If we cannot anticipate trends and develop new products or adapt to new technologies responding to changing customer preferences, this could adversely affect our revenues or profitability.

The Company operates in highly competitive markets that are subject to rapid change, including, in particular, changes in customer preferences and changes and advances in relevant technologies. There are substantial uncertainties associated with the Company's efforts to develop successful educational, trade publishing and media products and services, including digital products and services, for its customers, as well as to adapt its print and other materials to new digital technologies, including the internet, ebook readers, tablets and other devices and school-based technologies. The Company makes significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than the Company anticipates or has experienced historically. In particular, in the context of the Company's current focus on key digital opportunities, including ebooks for children and schools, the markets are continuing to develop and the Company may be unsuccessful in establishing itself as a significant factor in any market which does develop. Many aspects of an ebook market which could develop for children and schools, such as the nature of the relevant software and hardware, the size of the market, relevant methods of delivery and relevant content, as well as pricing models, are still evolving and will, most likely, be subject to change on a recurrent basis until a pattern develops and becomes more defined. There can be no assurance that the Company will be successful in implementing its ebook strategy, including the continuing development of its ereading applications for consumer and classroom markets, which could adversely affect the Company's revenues and growth opportunities. In this connection, the Company has determined that it will cease its support for its ereading applications offered to consumers through its school and ecommerce channels in favor of concentrating its efforts towards the introduction of a universal cross-platform streaming application, to be made available initially to the classroom market. There can be no assurance that the Company will ultimately be successful in its redirected strategy of introducing a streaming model directed to the classroom market or the subsequent development of a broader streaming model. In addition, the Company faces market risks associated with software product development and service delivery in its evolving educational technology and ecommerce businesses as it extends to new product lines focused on mathematics and providing services that assist school districts with meeting new standards, including the Common Core State Standards.

Our financial results would suffer if we fail to successfully differentiate our offerings and meet market needs in school-based book clubs and book fairs, two of our core businesses.

The Company's school-based book clubs and book fairs are core businesses, which produce a substantial part of the Company's revenues. The Company is subject to the risk that it will not successfully develop and execute new promotional strategies for its school-based book clubs or book fairs in response to future customer trends, including any trends relating to a demand for ebooks on the part of customers, or technological changes or that it will not otherwise meet market needs in these businesses in a timely or cost-effective fashion and successfully maintain teacher or school sponsorship and ordering levels, which would have an adverse effect on the Company's financial results. The Company differentiates itself from competitors by providing curated offerings in its school-based book clubs and book fairs designed to make reading attractive for children, in furtherance of its mission as a champion of literacy. Competition from mass market and on-line distributors could reduce this differentiation, posing a risk to the

Company's results.

If we fail to maintain the continuance of strong relationships with our authors, illustrators and other creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected.

The Company’s business, in particular the trade publishing and media portions of the business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent who produce the products and services that are sold to its customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on the Company’s business and financial performance.

If we fail to adapt to new purchasing patterns or trends, our business and financial results could be adversely affected.

The Company's business is affected significantly by changes in customer purchasing patterns or trends in, as well as the underlying strength of, the educational, trade and media markets for children. In particular, the Company's educational technology and services and educational publishing businesses may be adversely affected by budgetary restraints and other changes in educational funding as a result of new legislation or regulatory actions, both at the federal and state level, as well as changes in the procurement process, to which the Company may be unable to adapt successfully. In addition, there are many competing demands for educational funds, and there can be no guarantee that the Company will otherwise be successful in continuing to obtain sales of its products from any available funding.

The competitive pressures we face in our businesses could adversely affect our financial performance and growth prospects.

The Company is subject to significant competition, including from other educational and trade publishers and media, entertainment and internet companies, as well as retail and internet distributors, many of which are substantially larger than the Company and have much greater resources. To the extent the Company cannot meet these challenges from existing or new competitors, including in the educational publishing business, and develop new product offerings to meet customer preferences or needs, the Company's revenues and profitability could be adversely affected.

Additionally, demand for many of the Company's product offerings, particularly books sold through school channels, is subject to price sensitivity. Failure to maintain a competitive pricing model could reduce revenues and profitability.

Our reputation is one of our most important assets, and any adverse publicity or adverse events, such as a significant data privacy breach or violation of privacy laws or regulations, could cause significant reputational damage and financial loss.

The businesses of the Company focus on children's reading, learning and education, and its key relationships are with educators, teachers, parents and children. In particular, the Company believes that, in selecting its products, teachers, educators and parents rely on the Company's reputation for quality books and educational products appropriate for children. Negative publicity, either through traditional media or through social media, could tarnish this relationship.

Also, in certain of its businesses the Company holds significant volumes of personal data, including that of customers, and, in its educational technology business, students. Adverse publicity stemming from a data breach, whether or not valid, could reduce demand for the Company's products or adversely affect its relationship with teachers or educators, impacting participation in book clubs or book fairs or decisions to purchase educational technology or other products or services of the Company's educational technology business. Further, a failure to adequately protect personal data, including that of customers or students, or other data security failure, such as cyber attacks from third parties, could lead to penalties, significant remediation costs and reputational damage, including loss of future business.

The Company is subject to privacy laws and regulations in the conduct of its business in the United States and in the other jurisdictions in which it conducts its international operations, many of which vary significantly, relating to use of information obtained from customers of, and participants in, the Company's on-line offerings. In addition, the Company is also subject to the regulatory requirements of the Children's Online Privacy Protection Act ("COPPA") in the United States relating to access to, and the use of information received from, children in respect to the Company's on-line offerings. Since the businesses of the Company are primarily centered on children, failures of the Company to comply with the requirements of COPPA in particular, as well as failures to comply generally with applicable privacy laws and regulations, could lead to significant reputational damage and other penalties and costs, including loss of future business.

We maintain an experienced and dedicated employee base that executes the Company’s strategies. Failure to attract, retain and develop this employee base could result in difficulty with executing our strategy.

The Company’s employees, notably its Chief Executive Officer, senior executives and other editorial staff members, have substantial experience in the publishing and education markets. Inability to adequately maintain a workforce of this nature could negatively impact the Company’s operations.

If we are unsuccessful in implementing our corporate strategy we may not be able to maintain our historical growth.

The Company’s future growth depends upon a number of factors, including the ability of the Company to successfully implement its strategies for its respective business units in a timely manner, the introduction and acceptance of new products and services, including the success of its digital strategy and its ability to implement and successfully market new product introductions in its educational technology business, as well as through the Company's developing educational publishing operation in Singapore, its ability to expand in the global markets that it serves, its ability to meet demand for content meeting current standards, including the Common Core State Standards, and its continuing success in implementing on-going cost containment and reduction programs. Difficulties, delays or failures experienced in connection with any of these factors could materially affect the future growth of the Company.

Failure of one or more of our information technology platforms could affect our ability to execute our operating strategy.

The Company relies on a variety of information technology platforms to execute its operations, including human resources, payroll, finance, order-to-cash, procurement, vendor payment, inventory management, distribution and content management systems. Many of these systems are integrated via internally developed interfaces and modifications. Failure of one or more systems could lead to operating inefficiencies or disruptions and a resulting decline in revenue or profitability. As the Company proceeds to develop an enterprise-wide platform in an effort to integrate its separate platforms into a cohesive system, there can be no assurance that it will be successful in its efforts or that the implementation of its initiative will not involve disruptions having a short term adverse impact on its operations.

Increases in certain operating costs and expenses, which are beyond our control and can significantly affect our profitability, could adversely affect our operating performance.

The Company’s major expense categories include employee compensation and printing, paper and distribution (such as postage, shipping and fuel) costs. Compensation costs are influenced by general economic factors, including those affecting costs of health insurance, post-retirement benefits and any trends specific to the employee skill sets that the Company requires.

Paper prices fluctuate based on worldwide demand and supply for paper in general, as well as for the specific types of paper used by the Company. If there is a significant disruption in the supply of paper or a significant increase in paper costs, or in its shipping or fuel costs, beyond those currently anticipated, which would generally be beyond the control of the Company, or if the Company’s strategies to try to manage these costs, including additional cost savings initiatives, are ineffective, the Company’s results of operations could be adversely affected.

Failure of third party providers to provide contracted outsourcing of business processes and information technology services could cause business interruptions and could increase the costs of these services to the Company.
The Company outsources business processes to reduce complexity and increase efficiency for activities such as distribution, manufacturing, product development, transactional processing, information technologies and various administrative functions. Increasingly, the Company is engaging third parties to provide software as a service (“SaaS”), which can reduce the Company’s internal execution risk, but increases the Company’s dependency upon third parties to execute business critical information technology tasks. If SaaS providers are unable to provide these services, or if outsource providers fail to execute their contracted functionality, the Company could experience disruptions to its business activities and may incur higher costs.
The inability to obtain and publish best-selling new titles such as Harry Potter and the Hunger Games trilogy could cause our future results to decline in comparison to historical results.

The Company invests in authors and illustrators for its Trade publication business, and has a history of publishing hit titles such as Harry Potter and the Hunger Games trilogy. The inability to publish best-selling new titles in future years could negatively impact the Company.

The loss of or failure to obtain rights to intellectual property material to our businesses would adversely affect our financial results.

The Company's products generally comprise intellectual property delivered through a variety of media. The ability to achieve
anticipated results depends in part on the Company's ability to defend its intellectual property against infringement, as well as the breadth of rights obtained. The Company's operating results could be adversely affected by inadequate legal and technological protections for its intellectual property and proprietary rights in some jurisdictions, markets and media, as well as by the costs of dealing with claims alleging infringement of the intellectual property rights of others, including claims involving business method patents in the ecommerce and internet area, and the Company's revenues could be constrained by limitations on the rights that the Company is able to secure to exploit its intellectual property in different media and distribution channels, as well as geographic limitations on the exploitation of such rights.

Because we sell our products and services in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results.

The Company has various operating subsidiaries domiciled in foreign countries. In addition, the Company sells products and services to customers located in foreign countries where it does not have operating subsidiaries, and a significant portion of the Company's revenues are generated from outside of the United States. The Company's business processes, including distribution, sales, sourcing of content, marketing and advertising, are, accordingly, subject to multiple national, regional and local laws, regulations and policies. The Company could be adversely affected by noncompliance with foreign laws, regulations and policies, including those pertaining to foreign rights and exportation. The Company is also exposed to fluctuations in foreign currency exchange rates and to business disruption caused by political, financial or economic instability or the occurrence of natural disasters in foreign countries.

Failure to meet the demands of regulators, and the associated high cost of compliance with regulations, as well as failure to enforce compliance with our Code of Ethics and other policies, could negatively impact us.

The Company operates in multiple countries and is subject to different regulations throughout the world. In the U.S., the Company is regulated by the Internal Revenue Service, the Securities and Exchange Commission, the Environmental Protection Agency, the Federal Trade Commission and other regulating bodies. Failure to comply with these regulators, including providing these regulators with accurate financial and statistical information that often is subject to estimates and assumptions, or the high cost of complying with relevant regulations, could negatively impact the Company.

In addition, the decentralized and global nature of the Company's operations makes it more difficult to communicate and monitor compliance with the Company's Code of Ethics and other material Company policies and to assure compliance with applicable laws and regulations, some of which have global applicability, such as the Foreign Corrupt Practices Act in the United States and the UK Bribery Act in the United Kingdom. Failures to comply with the Company's Code of Ethics and violations of such laws or regulations, including through employee misconduct, could result in significant liabilities for the Company, including criminal liability, fines and civil litigation risk, and result in damage to the reputation of the Company.

Certain of our activities are subject to weather risks, which could disrupt our operations or otherwise adversely affect our financial performance.

The Company conducts certain of its businesses and maintains warehouse and office facilities in locations that are at risk of being negatively affected by severe weather events, such as hurricanes, tornadoes, floods or snowstorms. Notably, much of the Company's domestic distribution facilities are located in central Missouri. A disruption of these or other facilities could impact the Company's school-based book clubs, school-based book fairs and education businesses. Additionally, weather disruptions could result in school closures, resulting in reduced demand for the Company's products in its school channels during the affected periods. Accordingly, the Company could be adversely affected by any future significant weather event.

Control of the Company resides in our Chairman of the Board, President and Chief Executive Officer and other members of his family through their ownership of Class A Stock, and the holders of the Common Stock generally have no voting rights with respect to transactions requiring stockholder approval.

The voting power of the Corporation's capital stock is vested exclusively in the holders of Class A Stock, except for the right of the holders of Common Stock to elect one-fifth of the Board of Directors and except as otherwise provided by law or as may be

established in favor of any series of preferred stock that may be issued. Richard Robinson, the Chairman of the Board, President and Chief Executive Officer, and other members of the Robinson family beneficially own all of the outstanding shares of Class A Stock and are able to elect up to four-fifths of the Corporation's Board of Directors and, without the approval of the Corporation's other stockholders, to effect or block other actions or transactions requiring stockholder approval, such as a merger, sale of substantially all assets or similar transaction.

Note

The risk factors listed above should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by the Company prior to and including the date hereof.

Forward-Looking Statements:

This Annual Report on Form 10-K contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in SEC filings and otherwise. The Company cautions readers that results or expectations expressed by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, plans, ecommerce and digital initiatives, new product introductions, strategies, Common Core State Standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, merit pay, operating margins, working capital, liquidity, capital needs, interest costs, cash flows and income, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to factors including those noted in this Annual Report and other risks and factors identified from time to time in the Company's filings with the SEC. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1B | Unresolved Staff Comments

None

Item 2 | Properties

The Company maintains its principal offices in the metropolitan New York area, where it owns or leases approximately 0.6 million square feet of space. On February 28, 2014, the Company acquired its headquarters space (including land, building, fixtures and related personal property and leases) at 555 Broadway, New York, NY from its landlord under a purchase and sale agreement. As a result of such purchase, the Company now owns the entirety of its principal headquarters space located at 557 and 555 Broadway in New York City.

The Company also owns or leases approximately 1.5 million square feet of office and warehouse space for its primary warehouse and distribution facility located in the Jefferson City, Missouri area. In addition, the Company owns or leases approximately 2.9 million square feet of office and warehouse space in over 70 facilities in the United States, principally for Scholastic book fairs.

Additionally, the Company owns or leases approximately 1.4 million square feet of office and warehouse space in over 100 facilities in Canada, the United Kingdom, Australia, New Zealand, Asia and elsewhere around the world for its international businesses.

The Company considers its properties adequate for its current needs. With respect to the Company's leased properties, no difficulties are anticipated in negotiating renewals as leases expire or in finding other satisfactory space, if current premises become unavailable. For further information concerning the Company's obligations under its leases, see Notes 1 and 6 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

Item 3 | Legal Proceedings

Various claims and lawsuits arising in the normal course of business are pending against the Company. The Company accrues a liability for such matters when it is probable that a liability has occurred and the amount of such liability can be reasonably estimated. When only a range can be estimated, the most probable amount in the range is accrued unless no amount within the range is a better estimate than any other amount, in which case the minimum amount in the range is accrued. Legal costs associated with litigation loss contingencies are expensed in the period in which they are incurred. The Company does not expect, in the case of those claims and lawsuits where a loss is considered probable or reasonably possible, after taking into

account any amounts currently accrued, that the reasonably possible losses from such claims and lawsuits would have a material adverse effect on the Company’s consolidated financial position or results of operations.

Item 4 | Mine Safety Disclosures

Not Applicable.

Part II

Item 5 | Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information: Scholastic Corporation's Common Stock, par value $0.01 per share (the "Common Stock"), is traded on the NASDAQ Global Select Market under the symbol SCHL. Scholastic Corporation's Class A Stock, par value $0.01 per share (the "Class A Stock"), is convertible, at any time, into Common Stock on a share-for-share basis. There is no public trading market for the Class A Stock. Set forth below are the quarterly high and low closing sales prices for the Common Stock as reported by NASDAQ for the periods indicated:

	For fiscal years ended May 31,			
	2014		2013	
	High	Low	High	Low
First Quarter	$33.14	$28.20	$31.99	$26.04
Second Quarter	31.84	27.40	34.55	25.03
Third Quarter	35.29	27.69	31.56	27.81
Fourth Quarter	36.74	30.58	32.09	25.62

Holders: The number of holders of Class A Stock and Common Stock as of July 14, 2014 were 3 and approximately 10,000, respectively.

Dividends: During fiscal 2013, the Company declared four regular quarterly dividends in the amount of $0.125 per Class A and Common share, amounting to total dividends declared during fiscal 2013 of $0.50 per share. During the first quarter of fiscal 2014, the Company declared a regular quarterly dividend in the amount of $0.125 per Class A and Common share, which dividend was increased to $0.15 per Class A and Common share in the second, third and fourth quarters of fiscal 2014. Accordingly, the total dividends declared during fiscal 2014 were $0.575 per share. On July 23, 2014, the Board of Directors declared a cash dividend of $0.15 per Class A and Common share in respect of the first quarter of fiscal 2015. This dividend is payable on September 15, 2014 to shareholders of record on August 29, 2014. All dividends have been in compliance with the Company's debt covenants.

Share purchases: During fiscal 2014, the Company repurchased 215,484 Common shares on the open market at an average price paid per share of $28.65 for a total of approximately $6.2 million, pursuant to a share buy-back program authorized by the Board of Directors. During fiscal 2013, pursuant to the same share buy-back program, the Company repurchased 432,330 Common shares on the open market at an average price paid per share of $27.34, for a total cost of approximately $11.8 million. As of May 31, 2014, approximately $13.4 million remained available for future purchases of Common shares under the current repurchase authorization of the Board of Directors.

Stock Price Performance Graph

The graph below matches the Corporation's cumulative 5-year total shareholder return on Common Stock with the cumulative total returns of the NASDAQ Composite index and a customized peer group of three companies that includes Pearson PLC, John Wiley & Sons Inc and Houghton Mifflin Harcourt. The graph tracks the performance of a $100 investment in the Corporation's Common Stock, in the peer group and in the index (with the reinvestment of all dividends) from June 1, 2009 to May 31, 2014. Houghton Mifflin Harcourt was added to the peer group on November 14, 2013, which was the first day they traded on the NASDAQ stock exchange.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Scholastic Corporation, the NASDAQ Composite Index
and a Peer Group
*$100 invested on 5/31/09 in stock or index, including reinvestment of dividends.

	Fiscal year ending May 31,					
	2009	2010	2011	2012	2013	2014
Scholastic Corporation	$100.00	$134.87	$142.27	$143.08	$163.18	$169.70
NASDAQ Composite Index	100.00	127.21	159.80	159.35	194.77	239.11
Peer Group	100.00	132.72	186.92	179.15	190.39	219.90

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6 | Selected Financial Data
(Amounts in millions, except per share data)
For fiscal years ended May 31,

	2014	2013	2012	2011	2010
Statement of Operations Data:					
Total revenues	$1,822.3	$1,792.4	$2,139.1	$1,877.6	$1,882.0
Cost of goods sold [1]	846.0	829.6	984.6	869.0	843.1
Selling, general and administrative expenses (exclusive of depreciation and amortization) [2]	812.5	815.0	878.5	834.7	798.7
Depreciation and amortization [3]	61.4	66.5	68.8	60.1	59.5
Severance [4]	11.3	13.4	14.9	6.7	9.2
Loss on leases and asset impairments [5]	28.0	0.0	7.0	3.4	40.1
Operating income	63.1	67.9	185.3	103.7	131.4
Other income (expense)	(0.0)	0.0	(0.1)	(0.4)	0.9
Interest expense, net	6.9	14.5	15.5	15.6	16.2
Loss on investments [6]	(5.8)	—	—	(3.6)	(1.5)
Earnings (loss) from continuing operations before income taxes	50.4	53.4	169.7	84.1	114.6
Provision (benefit) for income taxes [7]	6.1	17.6	61.6	38.8	54.1
Earnings (loss) from continuing operations	44.3	35.8	108.1	45.3	60.5
Earnings (loss) from discontinued operations, net of tax	0.1	(4.7)	(5.7)	(5.9)	(4.4)
Net income (loss)	44.4	31.1	102.4	39.4	56.1
Share Information:					
Earnings (loss) from continuing operations:					
Basic	$1.38	$1.12	$3.45	$1.36	$1.66
Diluted	$1.36	$1.10	$3.39	$1.34	$1.64
Earnings (loss) from discontinued operations:					
Basic	$0.01	$(0.15)	$(0.18)	$(0.18)	$(0.12)
Diluted	$0.00	$(0.15)	$(0.18)	$(0.18)	$(0.12)
Net income (loss):					
Basic	$1.39	$0.97	$3.27	$1.18	$1.54
Diluted	$1.36	$0.95	$3.21	$1.16	$1.52
Weighted average shares outstanding - basic	32.0	31.8	31.2	33.1	36.5
Weighted average shares outstanding - diluted	32.5	32.4	31.7	33.6	36.8
Dividends declared per common share	$0.575	$0.500	$0.450	$0.350	$0.300
Balance Sheet Data:					
Working Capital	$233.7	$299.5	$427.5	$335.4	$493.6
Cash and cash equivalents	20.9	87.4	194.9	105.3	244.1
Total assets	1,528.5	1,441.0	1,670.3	1,487.0	1,600.4

Long-term debt (excluding capital leases)	120.0	—	152.8	159.9	202.5
Total debt	135.8	2.0	159.3	203.4	252.8
Long-term capital lease obligations	0.0	57.5	56.4	55.0	55.0
Total capital lease obligations	0.0	57.7	57.4	55.5	55.9
Total stockholders' equity	915.4	864.4	830.3	740.0	830.4

(1) In fiscal 2014, the Company recorded a pretax charge of $2.4 for royalties related to Storia® operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

(2) In fiscal 2014, the Company recorded a pretax charge of $1.0 related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. In fiscal 2013, the Company recorded a pretax charge of $4.0 related to asset impairments. In fiscal 2012, the Company recorded a pretax charge of $1.3 for an impairment of a U.S.- based equity method investment. In fiscal 2011, the Company recorded a pretax charge of $3.0 associated with restructuring in the UK. In fiscal 2010, the Company recorded a pretax charge of $4.7 associated with restructuring in the UK.

(3) In fiscal 2012, the Company recorded a pretax charge of $4.9 for the impairment of intangible assets relating to certain publishing properties.

(4) In fiscal 2014, the Company recorded pretax severance expense of $10.8 as part of a cost savings initiative. In fiscal 2013, the Company recorded pretax severance expense of $9.6 as part of a cost savings initiative. In fiscal 2012, the Company recorded pretax severance expense of $9.3 for a voluntary retirement program.

(5) In fiscal 2014, the Company recorded a pretax impairment charge of $14.6 for assets related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. In fiscal 2014, the Company recorded a pretax impairment charge of $13.4 related to goodwill associated with the book clubs reporting unit in the Children's Book Publishing and Distribution segment. In fiscal 2012, the Company recorded a pretax impairment loss of $6.2 related to certain subleases in lower Manhattan. In fiscal 2011, the Company recorded a pretax impairment charge of $3.4 related to assets in the library publishing and classroom magazines business. In fiscal 2010, the Company recorded a pretax asset impairment charge of $36.3 attributable to intangible assets and prepublication costs associated with the library business and a pretax charge of $3.8 associated with a customer list.

(6) In fiscal 2014, the Company recorded a pretax loss of $1.0 and $4.8 related to a US-based equity method investment and a UK-based cost-method investment, respectively. In fiscal 2011, the Company recorded a pretax loss of $3.6 related to a UK-based cost method investment. In fiscal 2010, the Company recorded a pretax loss of $1.5 related to a U.S.-based cost method investment.

(7) In fiscal 2014, the Company recognized previously unrecognized tax positions resulting in a benefit of $13.8, inclusive of interest, as a result of a settlement with the Internal Revenue Service related to the audits for fiscal years ended May 31, 2007, 2008 and 2009.

Item 7 | Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

The Company categorizes its businesses into five reportable segments: Children’s Book Publishing and Distribution; Educational Technology and Services; Classroom and Supplemental Materials Publishing; Media, Licensing and Advertising (which collectively represent the Company’s domestic operations); and International. This classification reflects the nature of products, services and distribution consistent with the method by which the Company’s chief operating decision-maker assesses operating performance and allocates resources.

The following discussion and analysis of the Company’s financial position and results of operations should be read in conjunction with the Company’s Consolidated Financial Statements and the related Notes included in Item 8, “Consolidated Financial Statements and Supplementary Data.”

Overview and Outlook

Revenues in 2014 were $1.82 billion, an increase of 2% from $1.79 billion in 2013, reflecting higher engagement levels in school-based book clubs, buoyed by more popular titles and incentives and revamped marketing tools, the successful introduction of new educational technology products, higher circulation in classroom magazines, and

strong demand for the Company’s summer reading programs, all partially offset by unfavorable foreign currency translation of $24.2 million. Consolidated earnings per diluted share were $1.36 for the fiscal year ended May 31, 2014, compared to $0.95 in the prior fiscal year.

The Company began the year with the successful introduction of new innovative educational technology programs, including the ground-breaking math intervention program, MATH 180, further strengthening the Company’s portfolio of offerings to schools and classrooms. Book clubs operations improved significantly in the second half of the fiscal year, with new mailing and incentive marketing strategies that, combined with an expanded line of popular and engaging titles, resulted in higher value orders and increased ordering frequency. In addition to increased sales in the fiscal year, the Company achieved manufacturing and distribution efficiencies across all businesses, which are expected to drive sustained margin expansion and strong operating cash flows in fiscal 2015 and beyond.

In fiscal 2015, the Company expects revenue growth and enhanced profitability across the majority of its businesses and distribution channels. The Company expects sales of its educational technology products to continue their positive trajectory as the Company builds its sales organization and focuses on broadening the user base of its high-margin programs, including READ 180 and SYSTEM 44. This outlook also reflects the Company’s expectation for modest growth in its re-positioned book clubs and increased revenue per fair in its book fairs unit as it continues to rebalance its fair mix towards schools that generate higher revenue per fair. The Company expects growth in its International segment to be partially offset by increased investment in new products and the build-out of the sales organization in Asia. The Company anticipates the recent success of Minecraft to continue, with two additional titles and a boxed set scheduled for release later in 2014, and expects sales of the Hunger Games trilogy in its domestic trade and international major markets to decrease in fiscal 2015.

Critical Accounting Policies and Estimates

General:

The Company’s discussion and analysis of its financial condition and results of operations is based upon its Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements involves the use of estimates and assumptions by management, which affects the amounts reported in the Consolidated Financial Statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, future expectations and various other assumptions believed to be reasonable under the circumstances, all of which are necessary in order to form a basis for determining the carrying values of assets and liabilities. Actual results may differ from those estimates and assumptions. On an on-going basis, the Company evaluates the adequacy of its reserves and the estimates used in calculations, including, but not limited to: collectability of accounts receivable; sales returns; amortization periods; stock-based compensation expense; pension and other post-retirement obligations; tax rates; recoverability of inventories, deferred income taxes and tax reserves, fixed assets, prepublication costs, royalty advances and customer reward programs; and the fair value of goodwill and other intangibles. For a complete description of the Company’s significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data,” of this Report. The following policies and account descriptions include all those identified by the Company as critical to its business operations and the understanding of its results of operations:

Revenue Recognition:

The Company’s revenue recognition policies for its principal businesses are as follows:

School-Based Book Clubs – Revenue from school-based book clubs is recognized upon shipment of the products. For ebooks, revenue is recognized upon electronic delivery to the customer.

School-Based Book Fairs – Revenues associated with school-based book fairs are related to sales of product. Book fairs are typically run by schools and/or parent teacher organizations over a five business-day period. The amount of revenue recognized for each fair represents the net amount of cash collected at the fair. Revenue is fully recognized at the completion of the fair. At the end of reporting periods, the Company defers estimated revenue for those fairs that have not been completed as of the period end, based on the number of fair days occurring after period end on a straight-line calculation of the full fair’s estimated revenue.

Trade –Revenue from the sale of children’s books for distribution in the retail channel is recognized when risks and benefits transfer to the customer, or when the product is on sale and available to the public. For newly published titles, the Company, on occasion, contractually agrees with its customers when the publication may be first offered for sale to the public, or an agreed upon “Strict Laydown Date.” For such titles, the risks and benefits of the publication are not deemed to be transferred to the customer until such time that the publication can contractually be sold to the public, and the Company defers revenue on sales of such titles until such time as the customer is permitted to sell the product to the public. Revenue for ebooks, which is the net amount received from the retailer, is generally recognized upon electronic delivery to the customer by the retailer.

A reserve for estimated returns is established at the time of sale and recorded as a reduction to revenue. Actual returns are charged to the reserve as received. The calculation of the reserve for estimated returns is based on historical return rates, sales patterns, type of product and expectations. Actual returns could differ from the Company’s estimate. In order to develop the estimate of returns that will be received subsequent to May 31, 2014, management considers patterns of sales and returns in the months preceding May 31, 2014, as well as actual returns received subsequent to

year end, available sell-through information and other return rate information that management believes is relevant. A one percentage point change in the estimated reserve for returns rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $1.0 million. A reserve for estimated bad debts is established based on the aggregate aging of accounts receivable and specific reserves on a customer-by-customer basis, where applicable.

Educational Technology and Services – For shipments to schools, revenue is recognized when risks and benefits transfer to the customer. Shipments to depositories are on consignment and revenue is recognized based on actual shipments from the depositories to the schools. For certain software-based products, the Company offers new customers installation, maintenance and training with these products and, in such cases, revenue is deferred and recognized as services are delivered or over the life of the contract. Revenues from contracts with multiple deliverables are recognized as each deliverable is earned, based on the relative selling price of each deliverable, provided the deliverable has value to customers on a standalone basis, the customer

has full use of the deliverable and there is no further obligation from the Company. If there is a right of return, revenue is recognized if delivery of the undelivered items or services is probable and substantially in control of the Company.

Classroom and Supplemental Materials Publishing – Revenue from the sale of classroom and supplemental materials is recognized upon shipment of the products.

Film Production and Licensing – Revenue from the sale of film rights, principally for the home video and domestic and foreign television markets, is recognized when the film has been delivered and is available for showing or exploitation. Licensing revenue is recorded in accordance with royalty agreements at the time the licensed materials are available to the licensee and collections are reasonably assured.

Magazines – Revenue is deferred and recognized ratably over the subscription period, as the magazines are delivered.

Magazine Advertising – Revenue is recognized when the magazine is for sale and available to the subscribers.

Scholastic In-School Marketing – Revenue is recognized when the Company has satisfied its obligations under the program and the customer has acknowledged acceptance of the product or service. Certain revenues may be deferred pending future deliverables.

Accounts receivable:

Accounts receivable are recorded net of allowances for doubtful accounts and reserves for returns. In the normal course of business, the Company extends credit to customers that satisfy predefined credit criteria. Reserves for returns are based on historical return rates, sales patterns and an assessment of product on hand with the customer when estimable. Allowances for doubtful accounts are established through the evaluation of accounts receivable aging, prior collection experience and creditworthiness of the Company’s customers to estimate the ultimate collectability of these receivables. At the time the Company determines that a receivable balance, or any portion thereof, is deemed to be permanently uncollectible, the balance is then written off. A one percentage point change in the estimated bad debt reserve rates, which are applied to the accounts receivable aging, would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $3.0 million.

Inventories:

Inventories, consisting principally of books, are stated at the lower of cost, using the first-in, first-out method, or market. The Company records a reserve for excess and obsolete inventory based upon a calculation using the historical usage rates and sales patterns of its products, and specifically identified obsolete inventory. The impact of a one percentage point change in the obsolescence reserve rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $3.5 million.

Royalty advances:

Royalty advances are initially capitalized and subsequently expensed as related revenues are earned or when the Company determines future recovery through earndowns is not probable. The Company has a long history of providing authors with royalty advances, and it tracks each advance earned with respect to the sale of the related publication. Historically, the longer the unearned portion of the advance remains outstanding, the less likely it is that the Company will recover the advance through the sale of the publication, as the related royalties earned are applied first against the remaining unearned portion of the advance. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recovery. Additionally, the Company’s editorial

staff regularly reviews its portfolio of royalty advances to determine if individual royalty advances are not recoverable through earndowns for discrete reasons, such as the death of an author prior to completion of a title or titles, a Company decision to not publish a title, poor market demand or other relevant factors that could impact recoverability.

Goodwill and intangible assets:

Goodwill and other intangible assets with indefinite lives are not amortized and are reviewed for impairment annually or more frequently if impairment indicators arise.

With regard to goodwill, the Company compares the estimated fair values of its identified reporting units to the carrying values of their net assets. The Company first performs a qualitative assessment to determine whether it is more likely than not that the fair values of its identified reporting units are less than their carrying values. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company performs the two-step test. For each of the reporting units, the estimated fair value is determined utilizing the expected present value of the projected future cash flows of the unit, in addition to comparisons to similar companies. The Company reviews its definition of reporting units annually or more frequently if conditions indicate that the reporting units may change. The Company evaluates its operating segments to determine if there are components one level below the operating segment level. A component is present if discrete financial information is available and segment management regularly reviews the operating results of the business. If an operating segment only contains a single component, that component is determined to be a reporting unit for goodwill impairment testing purposes. If an operating segment contains multiple components, the Company evaluates the economic characteristics of these components. Any components within an operating segment that share similar economic characteristics are aggregated and deemed to be a reporting unit for goodwill impairment testing purposes. Components within the same operating segment that do not share similar economic characteristics are deemed to be individual reporting units for goodwill impairment testing purposes. The Company has identified twelve separate reporting units for goodwill impairment testing purposes. The determination of the fair value of the Company's reporting units involves a number of assumptions, including the estimates of future cash flows, discount rates and market-based multiples, among others, each of which is subject to change. Accordingly, it is possible that changes in assumptions and the performance of certain reporting units could lead to impairments in future periods,which may be material.

With regard to other intangibles with indefinite lives, the Company determines the fair value by asset, which is then compared to its carrying value. The Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of its identified reporting unit is less than its carrying value. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company performs a quantitative test. The estimated fair value is determined utilizing the expected present value of the projected future cash flows of the asset.

Intangible assets with definite lives consist principally of customer lists, covenants not to compete, and certain other intellectual property assets and are amortized over their expected useful lives. Customer lists are amortized on a straight-line basis over a five-year period, while covenants not to compete are amortized on a straight-line basis over their contractual term. Other intellectual property assets are amortized over their remaining useful lives, which range from five to twenty years.

Unredeemed Incentive Credits:

The Company employs incentive programs to encourage sponsor participation in its book clubs and book fairs. These programs allow the sponsors to accumulate credits which can then be redeemed for Company products or other items offered by the Company. The Company recognizes a liability at the estimated cost of providing these credits at the time of the recognition of revenue for the underlying purchases of Company product that resulted in the granting of the credits. As the credits are redeemed, such liability is reduced.

Other noncurrent liabilities:

All of the rate assumptions discussed below impact the Company's calculations of its pension and post-retirement obligations. The rates applied by the Company are based on the portfolios' past average rates of return, discount rates and actuarial information. Any change in market performance, interest rate performance, assumed health care costs trend rate or compensation rates could result in significant changes in the Company's pension and post-retirement obligations.

Pension obligations – The Company's pension calculations are based on three primary actuarial assumptions: the discount rate, the long-term expected rate of return on plan assets and the anticipated rate of compensation increases. The discount rate is used in the measurement of the projected, accumulated and vested benefit obligations and interest cost components of net periodic pension costs. The long-term expected return on plan assets is used to calculate the expected earnings from the investment or reinvestment of plan assets. The anticipated rate of compensation increase is used to estimate the increase in compensation for participants of the plan from their current age to their assumed retirement age. The estimated compensation amounts are used to determine the benefit obligations and the service cost. A one percentage point change in the discount rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $0.2 million. A one percentage point change in the expected long-term return on plan assets would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $1.7 million. Pension benefits in the cash balance plan for employees located in the United States are based on formulas in which the employees' balances are credited monthly with interest based on the

average rate for one-year United States Treasury Bills plus 1%. Contribution credits are based on employees' years of service and compensation levels during their employment periods for the periods prior to June 1, 2009.

Other post-retirement benefits – The Company provides post-retirement benefits, consisting of healthcare and life insurance benefits, to eligible retired United States-based employees. The post-retirement medical plan benefits are funded on a pay-as-you-go basis, with the employee paying a portion of the premium and the Company paying the remainder of the medical cost. The existing benefit obligation is based on the discount rate and the assumed health care cost trend rate. The discount rate is used in the measurement of the projected and accumulated benefit obligations and the service and interest cost components of net periodic post-retirement benefit cost. A one percentage point change in the discount rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $0.6 million and $0.7 million respectively. The assumed health care cost trend rate is used in the measurement of the long-term expected increase in medical claims. A one percentage point change in the health care cost trend rate would have resulted in an increase or decrease in operating income for the year ended May 31, 2014 of approximately $0.1 million. A one percentage point change in the health care cost trend rate would have resulted in an increase or decrease in the post-retirement benefit obligation as of May 31, 2014 of approximately $3.6 million and $3.1 million, respectively.

Stock-based compensation – The Company measures the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recognizes the cost on a straight-line basis over an award's requisite service period, which is generally the vesting period, based on the award's fair value at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of the assumptions used in the Black-Scholes model requires management to make significant judgments and estimates. The use of different assumptions and estimates in the option pricing model could have a material impact on the estimated fair value of option grants and the related expense. The risk-free interest rate is based on a U.S. Treasury rate in effect on the date of grant with a term equal to the expected life. The expected term is determined based on historical employee exercise and post-vesting termination behavior. The expected dividend yield is based on actual dividends paid or to be paid by the Company. The volatility is estimated based on historical volatility corresponding to the expected life.

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to enter into the determination of taxable income.

The Company believes that its taxable earnings, during the periods when the temporary differences giving rise to deferred tax assets become deductible or when tax benefit carryforwards may be utilized, should be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of the tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely, the Company establishes a valuation allowance.

In assessing the need for a valuation allowance, the Company estimates future taxable earnings, with consideration for the feasibility of on-going tax planning strategies and the realizability of tax benefit carryforwards, to determine which deferred tax assets are more likely than not to be realized in the future. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable earnings. In the event that actual results differ from these estimates in future periods, the Company may need to adjust the valuation allowance.

The Company recognizes a liability for uncertain tax positions that the Company has taken or expects to file in an income tax return. An uncertain tax position is recognized only if it is "more likely than not" that the position is

sustainable based on its technical merit. A recognized tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information.

The Company assesses foreign investment levels periodically to determine if all or a portion of the Company's investments in foreign subsidiaries are indefinitely invested. If foreign investments are not expected to be indefinitely invested, the Company provides for income taxes on the portion that is not indefinitely invested.

Non-income Taxes – The Company is subject to tax examinations for sales-based taxes. A number of these examinations are ongoing and, in certain cases, have resulted in assessments from taxing authorities. Where a liability associated with these examinations and assessments is probable and can be reliably estimated, the Company has made accruals for these matters which are reflected in the Company's Consolidated Financial Statements. Future developments relating to the foregoing could result in adjustments being made to these accruals.

Results of Operations

(Amounts in millions, except per share data)
For fiscal years ended May 31,

	2014		2013		2012	
	$	% [1]	$	% [1]	$	% [1]
Revenues:						
Children's Book Publishing and Distribution	$873.5	48.0	$846.9	47.2	$1,111.3	52.0
Educational Technology and Services	248.7	13.6	227.7	12.7	254.7	11.9
Classroom and Supplemental Materials Publishing	229.6	12.6	218.0	12.2	208.2	9.7
Media, Licensing and Advertising	56.2	3.1	58.7	3.3	75.3	3.5
International	414.3	22.7	441.1	24.6	489.6	22.9
Total revenues	1,822.3	100.0	1,792.4	100.0	2,139.1	100.0
Cost of goods sold [2]	846.0	46.4	829.6	46.3	984.6	46.0
Selling, general and administrative expenses (exclusive of depreciation and amortization) [3]	812.5	44.6	815.0	45.5	878.5	41.1
Depreciation and amortization [4]	61.4	3.4	66.5	3.7	68.8	3.2
Severance [5]	11.3	0.6	13.4	0.7	14.9	0.7
Loss on leases and asset impairments [6]	28.0	1.5	0.0	0.0	7.0	0.3
Operating income	63.1	3.5	67.9	3.8	185.3	8.7
Interest income	0.6	0.0	1.2	0.1	1.0	0.1
Interest expense	(7.5)	(0.4)	(15.7)	(0.9)	(16.5)	(0.8)
Loss on investments and other[7]	(5.8)	(0.3)	—	—	(0.1)	—
Earnings (loss) from continuing operations before income taxes	50.4	2.8	53.4	3.0	169.7	8.0
Provision (benefit) for income taxes [8]	6.1	0.4	17.6	1.0	61.6	2.9
Earnings (loss) from continuing operations	44.3	2.4	35.8	2.0	108.1	5.1
Earnings (loss) from discontinued operations, net of tax	0.1	0.0	(4.7)	(0.3)	(5.7)	(0.3)
Net income (loss)	$44.4	2.4	$31.1	1.7	$102.4	4.8
Earnings (loss) per share:						
Basic:						
Earnings (loss) from continuing operations	$1.38		$1.12		$3.45	
Earnings (loss) from discontinued operations	$0.01		$(0.15)		$(0.18)	
Net income (loss)	$1.39		$0.97		$3.27	
Diluted:						
Earnings (loss) from continuing operations	$1.36		$1.10		$3.39	
Earnings (loss) from discontinued operations	$0.00		$(0.15)		$(0.18)	
Net income (loss)	$1.36		$0.95		$3.21	

(1) Represents percentage of total revenues.

(2) In fiscal 2014, the Company recorded a pretax charge of $2.4 for royalties related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

(3) In fiscal 2014, the Company recorded a pretax charge of $1.0 related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. In fiscal 2013, the Company recorded a pretax charge of $4.0 related to asset impairments. In fiscal 2012, the Company recorded a pretax charge of $1.3 for an impairment of a U.S.-based equity investment.

(4) In fiscal 2012, the Company recorded a pretax charge of $4.9 for the impairment of intangible assets relating to certain publishing properties.

(5)

In fiscal 2014, the Company recorded pretax severance expense of $10.8 as part of a cost savings initiative. In fiscal 2013, the Company recorded pretax severance expense of $9.6 as part of a cost savings initiative. In fiscal 2012, the Company recorded pretax severance expense of $9.3 for a voluntary retirement program.

(6) In fiscal 2014, the Company recorded a pretax impairment charge of $14.6 for assets in the Children's Book Publishing and Distribution segment related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. In fiscal 2014, the Company recorded a pretax impairment charge of $13.4 related to goodwill associated with the book clubs reporting unit in the Children's

Book Publishing and Distribution segment. In fiscal 2012, the Company recorded a pretax impairment loss of $6.2 related to certain subleases in lower Manhattan.

(7) In fiscal 2014, the Company recorded a pretax loss of $1.0 and $4.8 related to a US-based equity-method investment and a UK-based cost-method investment, respectively.

(8) In fiscal 2014, the Company recognized previously unrecognized tax positions resulting in a benefit of $13.8, inclusive of interest, as a result of a settlement with the Internal Revenue Service related to the audits for fiscal years ended May 31, 2007, 2008 and 2009.

Results of Operations – Consolidated

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 increased by $29.9 million, or 1.7%, to $1,822.3 million, compared to $1,792.4 million in the prior fiscal year. The book clubs and book fairs channels of the Children's Book Publishing and Distribution segment experienced higher revenues of $24.7 million and $14.1 million, respectively, driven by changes in the marketing strategies for these channels. Also contributing to the increase were strong results from new product offerings in the Company's Educational Technology and Services segment. MATH 180®, iRead™ and Common Core Code X®, all of which are new product offerings successfully launched for the 2013-2014 school year, resulted in increased revenues of $28.3 million. Classroom and Supplemental Materials Publishing segment revenues were also higher by $11.6 million, driven by higher classroom magazine circulation. Offsetting the increase were lower revenues from the Hunger Games trilogy of $27.3 million across the Children's Book Publishing and Distribution segment, the International segment and the Media, Licensing and Advertising segment.
Lower International segment revenues also resulted from the adverse impact of foreign exchange rates of $24.2 million in fiscal 2014 compared to fiscal 2013, and the absence of low margin software sales in Australia totaling $8.0 million.

Cost of goods sold as a percentage of revenue for the fiscal year ended May 31, 2014 remained relatively constant at 46.4%, compared to the prior fiscal year, despite higher prepublication amortization costs of $9.5 million in fiscal 2014. In fiscal 2014, 13.6% of the Company's revenues were from the Educational Technology and Services segment, compared to 12.7% in the prior fiscal year. The Educational Technology and Services segment experiences significantly higher gross margins than the Children's Book Publishing and Distribution and the International segments. Royalty costs in the Children's Book Publishing and Distribution segment include $2.4 million related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

Components of Cost of goods sold for fiscal years 2014, 2013 and 2012 are as follows:

	($ amounts in millions)								
	2014	% of revenue		2013	% of revenue		2012	% of revenue	
Product, service and production costs	$459.7	25.2	%	$456.0	25.4	%	$536.2	25.0	%
Royalty costs	94.0	5.2		90.7	5.1		157.4	7.4	
Prepublication and production amortization	61.2	3.4		51.7	2.9		56.1	2.6	
Postage, freight, shipping, fulfillment and all other costs	231.1	12.6		231.2	12.9		234.9	11.0	
Total cost of goods sold	$846.0	46.4	%	$829.6	46.3	%	$984.6	46.0	%

Selling, general and administrative expenses for the fiscal year ended May 31, 2014 decreased modestly to $812.5 million, compared to $815.0 million in the prior fiscal year. While the Company experienced lower salaries and

benefits of $11.4 million, as well as lower promotional spending of $11.3 million, compared to fiscal 2013, as a result of prior cost savings initiatives, the Company recognized higher incentive compensation of $17.8 million and higher stock based compensation of $3.0 million in fiscal 2014. The Company recorded a charge of $1.0 related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

Severance expense of $11.3 million in fiscal 2014 includes $10.8 million related to cost reduction initiatives as the Company continues to focus on efficiency initiatives.

In fiscal 2014, the Company recorded an asset impairment of $14.6 million related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. In fiscal 2014, the Company recognized a $13.4 million impairment of goodwill attributable to legacy acquisitions associated with the book club operations in the Children’s Book Publishing and Distribution segment.

For the fiscal year ended May 31, 2014, net interest expense decreased to $6.9 million, compared to $14.5 million in the prior fiscal year, primarily resulting from the April 2013 repayment of the Company's 5% Notes. In addition, in fiscal 2014, the Company increased its borrowings under the Loan Agreement (described under "Financing" below) by $175.0 million related to the purchase of its 555 Broadway headquarters building, but simultaneously satisfied its obligation under its 555 Broadway capital lease of $58.3 million. The net effect on interest expense prospectively is expected to be minimal, as the capital lease had a substantially higher imputed interest rate than the current floating rate under the Loan Agreement.

In the fourth quarter of fiscal 2014, the Company recorded a loss of $1.0 million related to a US-based equity-method investment. In the third quarter of fiscal 2014, the Company recorded a loss of $4.8 million related to a UK-based cost-method investment.

The Company's effective tax rate for the fiscal year ended May 31, 2014 was 12.1%, compared to 33.0% in the prior fiscal year. The effective tax rate for fiscal 2014 was favorably impacted by a settlement with the Internal Revenue Service and the associated recognition of $13.8 million of previously unrecognized income tax positions, including interest.

Earnings from continuing operations for fiscal 2014 increased by $8.5 million to $44.3 million, compared to $35.8 million in fiscal 2013. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were $1.38 and $1.36, respectively, in fiscal 2014, compared to $1.12 and $1.10, respectively, in fiscal 2013.

Earnings from discontinued operations, net of tax, for the fiscal year ended May 31, 2014 was $0.1 million, compared to a loss from discontinued operations, net of tax, of $4.7 million in the prior fiscal year. The Company did not discontinue any operations in fiscal 2014.

The resulting net income for fiscal 2014 was $44.4 million, or $1.39 and $1.36 per basic and diluted share, respectively, compared to net income of $31.1 million, or $0.97 and $0.95 per basic and diluted share, respectively, in fiscal 2013.

Fiscal 2013 compared to fiscal 2012

Revenues for fiscal 2013 decreased by $346.7 million, or 16.2%, to $1,792.4 million, compared to $2,139.1 million in fiscal 2012, due to lower revenues in the Children's Book Publishing and Distribution segment, the Educational Technology and Services segment, the International segment and the Media, Licensing and Advertising segment of $264.4 million, $27.0 million, $48.5 million and $16.6 million, respectively, partially offset by increased revenues of $9.8 million in the Classroom and Supplemental Materials Publishing segment.

Cost of goods sold as a percentage of revenue for fiscal 2013 remained relatively consistent at 46.3%, compared to 46.0% in the prior fiscal year. While cost of goods sold as a percentage of revenue remained relatively flat for the total Company, the Children's Book Publishing and Distribution segment experienced higher relative costs for free books and related fulfillment costs in the book clubs distribution channel and lower volumes in the trade business, but these were largely offset by improvements in the book fairs business. In the Company's educational segments, higher service revenues in the Educational Technology and Services segment, which carry a higher relative cost, were offset by improved margins in the Classroom and Supplemental Materials Publishing segment due to increased circulation of classroom magazines.

Selling, general and administrative expenses in fiscal 2013 decreased by $63.5 million to $815.0 million, compared to $878.5 million in the prior fiscal year. The decrease was driven by lower sales tax accrual in two jurisdictions in the Children's Book Publishing and Distribution segment resulting from sales tax assessments of $19.7 million recorded in fiscal 2012, and the absence of employee bonuses and lower stock compensation expense in fiscal 2013.

Severance expense of $13.4 million in fiscal 2013 included $9.6 million related to cost reduction initiatives. Severance expense was $14.9 million in fiscal 2012, related to the Company's cost reduction programs, which included $9.3 million recorded in fiscal 2012 relating to a voluntary retirement program.

During fiscal 2012, the Company entered into sublease arrangements for certain leased properties in lower Manhattan. The fair value of the net rents to be received was less than the Company's lease commitments for these properties over the remaining term of the leases. Accordingly, the Company recognized a loss on these subleases of $6.2 million.

For fiscal 2013, net interest expense decreased to $14.5 million, compared to $15.5 million in fiscal 2012, reflecting lower interest rates and borrowings.

The Company's provision for income taxes with respect to continuing operations resulted in an effective tax rate of 33.0% and 36.3% for fiscal 2013 and 2012, respectively. The decrease in the effective tax rate for fiscal 2013 was primarily due to the reversal of valuation allowances based on higher profitability in the UK and uncertain tax positions. These valuation allowances were established in fiscal 2011 and prior years.
Earnings from continuing operations for fiscal 2013 decreased by $72.3 million to $35.8 million compared to $108.1 million in fiscal 2012. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were $1.12 and $1.10, respectively, in fiscal 2013 and $3.45 and $3.39, respectively, in fiscal 2012.

Loss from discontinued operations, net of tax, for fiscal 2013 was $4.7 million, compared to $5.7 million for fiscal 2012. The loss in the current fiscal year was principally comprised of closure costs and asset impairments totaling $4.0 million. The loss in fiscal 2012 included an impairment of the Company's Maumelle facility of $2.2 million, which was sold in fiscal 2013, and operational losses from the Company's discontinued Back to Basics business of $2.1 million. In addition, in fiscal 2012 the Company recognized a liability for the present value of future lease payments due on multiple leases in a discontinued UK business as there is no opportunity for subleasing.

The resulting net income for fiscal 2013 was $31.1 million, or $0.97 and $0.95 per basic and diluted share, respectively, compared to net income of $102.4 million, or $3.27 and $3.21 per basic and diluted share, respectively, in fiscal 2012.

Results of Operations – Segments

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

($ amounts in millions)				2014 compared to 2013		2013 compared to 2012	
	2014	2013	2012	$ change	% change	$ change	% change
Revenues	$873.5	$846.9	$1,111.3	$26.6	3.1 %	$(264.4)	(23.8)%
Cost of goods sold	377.0	359.4	466.7	17.6	4.9	(107.3)	(23.0)
Other operating expenses *	445.7	463.0	491.9	(17.3)	(3.7)	(28.9)	(5.9)
Asset impairments	28.0	—	0.5	28.0	100.0	(0.5)	(100.0)
Operating income (loss)	$22.8	$24.5	$152.2	$(1.7)	(6.9)%	$(127.7)	(83.9)%
Operating margin	2.6 %	2.9 %	13.7 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses, depreciation and amortization.

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 increased by $26.6 million to $873.5 million, compared to $846.9 million in the prior fiscal year. The Company started to realize benefits from its marketing efforts to improve book clubs performance during the spring promotional period which included sponsor targeted promotions, more kid friendly offerings and better integration of the on-line and off-line ordering experiences. As a result, revenues from book clubs increased by $24.7 million in fiscal 2014 compared to the prior fiscal year, with the improvement occurring in the second half of fiscal 2014. The Company's book fair revenues increased $14.1 million, primarily due to higher revenue per fair. The Company continues to direct greater book fair resources and support to schools that generate higher revenue per fair. As a result of this focus, revenue per fair in fiscal 2014 increased 4.0% compared to the prior fiscal year. Revenues in the trade channel decreased by $12.2 million in fiscal 2014 compared to the prior fiscal year. The prior fiscal year benefited from higher sales of Hunger Games trilogy titles of $9.8 million and the impact of favorable Hunger Games returns experience of $8.8 million compared to the current fiscal year. Partially

offsetting the trade channel declines were sales of new cover artwork Harry Potter titles of $8.1 million and higher sales of other front list titles of $6.4 million, including Star Wars: Jedi Academy by Jeffrey Brown, Spirit Animals™ #1: Wild Born by Brandon Mull and Spirit Animals™ #2 : Hunted by Maggie Stiefvater, The Finisher by David Baldacci, Tui Sutherland's Wings of Fire #4: The Dark Secrets and Minecraft: Essential Handbook and Mincraft: Redstone Handbook.

Cost of goods sold for the fiscal year ended May 31, 2014 was $377.0 million, or 43% of revenues, compared to $359.4 million, or 42% of revenues, in the prior fiscal year. Cost of goods sold as percentage of revenue remained relatively flat for this segment, with modest improvements in the book fairs channel reflecting higher revenue per fair being offset by modest declines in the trade channel. Trade channel gross margins can vary from period to period based upon the mix and volume of products

sold. Royalty expenses in fiscal 2014 include $2.4 million related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

Other operating expenses were $445.7 million for the fiscal year ended May 31, 2014, compared to $463.0 million in the prior fiscal year, as lower expenses of $19.7 million in the book club operations, driven by cost reduction efforts and lower digital initiative costs, were partially offset by modestly higher salary and other costs in the book fair operations of $8.6 million. Selling, general and administrative expenses for fiscal 2014 include $1.0 million related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model.

Segment operating income for the fiscal year ended May 31, 2014 was $22.8 million compared to $24.5 million in the prior fiscal year. Results in fiscal year 2014 include charges of $18.0 million (inclusive of $14.6 million of asset impairments) related to Storia operating system-specific apps that will no longer be supported due to the planned transition to a Storia streaming model. and a $13.4 million goodwill impairment. The increase in operating income, when the impairment charges are excluded, was a result of higher revenues and profitability in the book clubs channel, as the Company stabilized its sponsor base in this channel during fiscal 2014, as well as higher revenues and profitability in the book fairs channel. Additionally, the Company's trade publishing efforts continue to produce popular new titles for the trade and other channels.

Fiscal 2013 compared to fiscal 2012

Revenues for fiscal 2013 decreased by $264.4 million to $846.9 million, compared to $1,111.3 million in fiscal 2012. Lower net revenues in the Company's trade channel of $213.0 million reflected decreased sales of the Hunger Games trilogy compared to the trilogy's strong results in fiscal 2012. Revenues from the Company's book clubs channel declined $57.5 million, related to lower revenue per event and decreased sponsorship. These decreases were partially offset by an increase in the Company's book fairs channel of $6.1 million in fiscal year 2013 over the prior fiscal year, driven by modest increases in the number of fairs and revenue per fair.

Cost of goods sold for fiscal 2013 was $359.4 million, or 42% of revenues, compared to $466.7 million, or 42% of revenues, in fiscal 2012. The absolute decrease in cost of goods sold of $107.3 million was due predominantly to the lower level of Hunger Games trilogy sales in fiscal 2013. Cost of goods sold as a percentage of revenue remained flat, with higher relative costs for free books and related fulfillment costs of $3.2 million in the book clubs channel and lower volumes in the trade channel being offset by improved margins, primarily from the book fairs channel, but also the book clubs channel, driven by lower inventory obsolescence in fiscal 2013.

Other operating expenses decreased by $28.9 million to $463.0 million in fiscal 2013, compared to $491.9 million in fiscal 2012. The decrease was primarily related to the presence of additional sales tax expense of $19.7 million in fiscal 2012 relating to sales tax assessments in two jurisdictions in the Company's book clubs channel, as well as the higher fiscal 2012 employee-related expenses for incentive compensation, favorability in collections in the Company's trade channel customer accounts in fiscal 2013, and higher amortization expense of $4.9 million in fiscal 2012 for impairment of certain publishing and trademark rights. These decreases were partially offset by higher promotional expense of $5.7 million in the book clubs channel in fiscal 2013.

Segment operating income for fiscal 2013 decreased by $127.7 million to $24.5 million, compared to $152.2 million in the prior fiscal year. Fiscal 2012 benefited from the success of the Hunger Games trilogy, while fiscal 2013 experienced strong results from the book fairs channel, offset by lower revenues and higher promotional expenses in the book clubs channel. Operating income from trade channel sales was lower in fiscal 2013 compared to fiscal 2012 due to Hunger Games related revenues, but remained strong from titles such as The 39 Clues® series and the Harry Potter series, as well as other titles, such as Drama by Raina Telgemeier, The Raven Boys by Maggie Stiefvater, and Captain Underpants and the Revolting Revenge of the Radioactive Robo-Boxers by Dav Pilkey.

EDUCATIONAL TECHNOLOGY AND SERVICES

($ amounts in millions)				2014 compared to 2013		2013 compared to 2012	
	2014	2013	2012	$ change	% change	$ change	% change
Revenues	$248.7	$227.7	$254.7	$21.0	9.2 %	$(27.0)	(10.6)%
Cost of goods sold	96.2	88.7	90.5	7.5	8.5	(1.8)	(2.0)
Other operating expenses *	112.9	109.5	115.0	3.4	3.1	(5.5)	(4.8)
Operating income (loss)	$39.6	$29.5	$49.2	$10.1	34.2 %	$(19.7)	(40.0)%
Operating margin	15.9 %	13.0 %	19.3 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and depreciation and amortization.

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 increased by $21.0 million to $248.7 million, compared to $227.7 million in the prior fiscal year. Fiscal 2014 segment activity was highlighted by the successful launch of new products, including MATH 180®, iRead™ and Common Core Code X® which accounted for $28.3 million of increased revenues. Most of these revenues were recognized in the first half of fiscal 2014, as customer implementation of these new solutions coincided with the start of the school year. Revenues from the Company's established curriculum technology reading programs and services decreased $1.2 million for fiscal 2014, as increased revenues from sales of System 44®Next Generation were largely offset by revenue declines for Read 180®. During third quarter of fiscal 2014, a sales force realignment temporarily impacted the efforts of the sales force, resulting in lower segment revenues for the third quarter, but revenues from product sales largely recovered in the fourth quarter. Revenues from consulting services declined by $4.8 million in fiscal 2014 compared to fiscal 2013, primarily due to lower renewals experience in fiscal 2014.

Cost of goods sold increased to $96.2 million, or 39% of revenues, in the fiscal year ended May 31, 2014, compared to $88.7 million, or 39% of revenues, in the prior fiscal year. Higher amortization of prepublication costs of $6.7 million for newly launched products drove the absolute increase.

Other operating expenses for the fiscal year ended May 31, 2014 increased to $112.9 million, compared to $109.5 million in fiscal 2013. The increase resulted from higher travel expenses of $2.4 million, most of which was associated with the sales force realignment activities.

Segment operating income for the fiscal year ended May 31, 2014 increased by $10.1 million to $39.6 million, compared to $29.5 million in the prior fiscal year. The segment benefited from the strong sales of the new products mentioned above, which expanded the segment's product offerings into areas such as math intervention and digital reading programs, complimenting and leveraging the segment's established market presence in reading intervention.

Fiscal 2013 compared to fiscal 2012

Revenues for the fiscal year ended May 31, 2013 decreased by $27.0 million, or 10.6%, to $227.7 million, compared to $254.7 million in the prior fiscal year, primarily related to decreased sales of curriculum educational technology products of $32.9 million, due to lower spending by school districts, as well as a significant sale of adoption product in Texas in fiscal 2012. In addition, fiscal 2012 benefited from higher revenues related to the launch of READ 180® Next Generation. The decrease was partially offset by higher revenues of $7.8 million for products and services provided by the Math Solutions business and by the consulting business associated with training for the Common Core State Standards.

Cost of goods sold decreased to $88.7 million, or 39% of revenues, in fiscal 2013, compared to $90.5 million, or 36% of revenues, for fiscal 2012. The increase in Cost of goods sold as a percentage of revenue was primarily due to a shift in revenues from higher margin product sales to lower margin service revenues. The Company’s service revenues as a percentage of total Educational Technology and Services revenue was 38% for fiscal 2013, compared to 31% for fiscal 2012. Fiscal 2013 included accelerated prepublication costs of $2.0 million, while fiscal 2012 included accelerated amortization of $0.8 million.

Other operating expenses for fiscal 2013 decreased by $5.5 million, or 4.8%, to $109.5 million, compared to $115.0 million in the prior fiscal year. The decrease was partially related to lower commission expense of $2.4 million, resulting from the lower revenue, as well as higher incentive compensation costs in the prior fiscal year.

Segment operating income for fiscal 2013 decreased by $19.7 million, or 40.0%, to $29.5 million, compared to $49.2 million in the prior fiscal year. In fiscal 2012, this segment benefited from the launch of READ 180 Next Generation, but did not have similar new product launches in fiscal 2013.

CLASSROOM AND SUPPLEMENTAL MATERIALS PUBLISHING

($ amounts in millions)				2014 compared to 2013		2013 compared to 2012	
	2014	2013	2012	$ change	% change	$ change	% change
Revenues	$229.6	$218.0	$208.2	$11.6	5.3 %	$9.8	4.7 %
Cost of goods sold	83.6	83.9	86.2	(0.3)	(0.4)	(2.3)	(2.7)
Other operating expenses *	108.5	104.5	103.7	4.0	3.8	0.8	0.8
Operating income (loss)	$37.5	$29.6	$18.3	$7.9	26.7 %	$11.3	61.7 %
Operating margin	16.3 %	13.6 %	8.8 %				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and depreciation and amortization.

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 increased $11.6 million to $229.6 million, compared to $218.0 million in the prior fiscal year. This increase partially resulted from higher circulation revenues of classroom magazines of $6.6 million, increased sales of digital and customized print packages of $4.1 million, including increased revenues from Summer reading programs of approximately $2.5 million, and modest increases in sales of teaching resource products of $1.2 million. While sales of collections to classrooms were relatively flat to the prior fiscal year, the Company has enhanced its online store for teachers, providing teachers and schools greater access to the Company's offerings, resulting in improved ecommerce activity from this source, and streamlining the segment's distribution process. The success of the classroom magazines business continues to reflect the increased classroom demand for current non-fiction content and the segment's ability to deliver this content in both print and digital formats.

Cost of goods sold for the fiscal year ended May 31, 2014 was $83.6 million, or 36% of revenue, compared to $83.9 million, or 38% of revenue, in the prior fiscal year, primarily due to higher volumes of classroom magazines, which carry relatively low variable costs, and improved postage, freight and handling costs.

Other operating expenses increased by $4.0 million for the fiscal year ended May 31, 2014, due predominantly to higher information technology costs for digital magazines, offset by cost savings in the teaching resource business.

Segment operating income for the fiscal year ended May 31, 2014 improved by $7.9 million. The classroom magazines business continues to experience improved circulation, driving $4.6 million of this improvement, as customers seek supplemental current content to meet Common Core State Standards. Reduced costs in the teaching resource business also added to the improved results.

Fiscal 2013 compared to fiscal 2012

Revenues for fiscal 2013 increased by $9.8 million to $218.0 million, compared to $208.2 million in the prior fiscal year. This increase was due to higher revenues from sales of classroom magazines of $16.8 million. Circulation improved in the classroom magazines business, as the Company experienced increased demand for non-fiction content to meet the requirements of the Common Core State Standards, as well as strong interest for digital magazine content. Partially offsetting this increase were decreased sales of classroom libraries.

Cost of goods sold for the fiscal year ended May 31, 2013 was $83.9 million, or 38% of revenue, compared to $86.2 million, or 41% of revenue, in fiscal 2012. The absolute decrease in Cost of goods sold was the result of the lower

sales volume of classroom libraries. The improvement as a percentage of sales was the result of higher circulation in the classroom magazines business, as much of the content cost in this business is fixed and does not vary with increased circulation. Other operating expenses for fiscal 2013 were relatively consistent at $104.5 million, compared to $103.7 million in fiscal 2012.

Segment operating income for fiscal 2013 improved significantly to $29.6 million, compared to $18.3 million in fiscal 2012, primarily due to growth in the classroom magazines business.

MEDIA, LICENSING AND ADVERTISING

($ amounts in millions)				2014 compared to 2013		2013 compared to 2012	
	2014	2013	2012	$ change	% change	$ change	% change
Revenues	$56.2	$58.7	$75.3	$(2.5)	(4.3)%	$(16.6)	(22.0)%
Cost of goods sold	23.4	22.0	40.6	1.4	6.4	(18.6)	(45.8)
Other operating expenses *	33.5	32.0	39.6	1.5	4.7	(7.6)	(19.2)
Operating income (loss)	$(0.7)	$4.7	$(4.9)	$(5.4)	**	$9.6	**
Operating margin	—	8.0%	—				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses and depreciation and amortization.

** Not meaningful.

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 decreased by $2.5 million to $56.2 million, compared to $58.7 million in the prior fiscal year. This decrease was due to lower sales of the Hunger Games trilogy audio books of $3.7 million, lower sales of Leapster products of $2.1 million and decreased advertising revenues of $1.0 million. The strong prior year results of the Hunger Games trilogy audio books corresponded to the same period success experienced in the trade channel of the Children's Book Publishing and Distribution segment. Revenues for Company programming increased by $4.6 million in fiscal 2014, driven by the Company's agreement with Netflix for internet distribution rights of Clifford® and The Magic School Bus programming, and an agreement with PBS for WordGirl programming.

Cost of goods sold increased to $23.4 million, or 42% of revenue, for the fiscal year ended May 31, 2014, compared to $22.0 million, or 37% of revenue, for the prior fiscal year. Higher amortization of production costs of $2.3 million and the higher sales volumes of Hunger Games audio books in fiscal 2013, which carry a relatively low cost of goods sold, were responsible for the increase as a percentage of sales.

Other operating expenses were $33.5 million for the fiscal year ended May 31, 2014, compared to $32.0 million for the prior fiscal year. The prior fiscal year included $1.3 million of settlement income received from a former programming partner.

Segment operating loss for the fiscal year ended May 31, 2014 was $0.7 million, compared to operating income of $4.7 million in the prior fiscal year. The decline in profitability was due to the substantially lower volumes of Hunger Games audio book sales, combined with lower Leapster sales, and the prior year inclusion of settlement income from a former programming partner, partially offset by the improvements in programming revenues. The segment is now focusing its efforts on repurposing proprietary content for digital platforms, both internally and through distributors such as Netflix.

Fiscal 2013 compared to fiscal 2012

Revenues for fiscal 2013 decreased by $16.6 million to $58.7 million, compared to $75.3 million in fiscal 2012. This decrease was primarily related to the absence of $9.9 million of revenues from sales of console games, as the Company reduced its focus on interactive console products. Lower production revenues of $6.1 million, principally of Word Girl®, and lower advertising and consumer magazine revenues of $1.3 million also contributed to the decline. Partially offsetting these declines were increased sales of audio books, primarily of the Hunger Games trilogy, of $2.0 million.

Cost of goods sold was $22.0 million, or 37% of revenue, for fiscal 2013, compared to $40.6 million, or 54% of revenue, for fiscal 2012. The improvement as a percentage of revenue was driven by the decrease in low-margin console game sales. Contributing to the improvement was the prior year acceleration of amortization on certain owned properties.

Other operating expenses for fiscal 2013 decreased by $7.6 million to $32.0 million, compared to $39.6 million in the prior fiscal year. The decrease was related to settlement income received from a former programming partner of $1.3 million, as well as lower promotional, employee and other operating expenses in the Company’s consumer magazine business and Scholastic Entertainment, Inc.

Segment operating income for fiscal 2013 was $4.7 million, compared to a loss of $4.9 million in the prior fiscal year. The absence of accelerated amortization in the production business in fiscal 2012, and the success of the audio book business and the return of the consumer magazines business to a profitable position in fiscal 2013, were responsible for the improvements in fiscal 2013.

INTERNATIONAL

($ amounts in millions)				2014 compared to 2013		2013 compared to 2012	
	2014	2013	2012	$ change	% change	$ change	% change
Revenues	$414.3	$441.1	$489.6	$(26.8)	(6.1)%	$(48.5)	(9.9)%
Cost of goods sold	202.8	213.6	242.5	(10.8)	(5.1)	(28.9)	(11.9)
Other operating expenses *	180.7	187.7	189.2	(7.0)	(3.7)	(1.5)	(0.8)
Asset impairments	—	—	0.3	—	—	(0.3)	(100.0)
Operating income (loss)	$30.8	$39.8	$57.6	$(9.0)	(22.6)%	$(17.8)	(30.9)%
Operating margin	7.4%	9.0%	11.8%				

* Other operating expenses include selling, general and administrative expenses, bad debt expenses, severance and depreciation and amortization.

Fiscal 2014 compared to fiscal 2013

Revenues for the fiscal year ended May 31, 2014 decreased by $26.8 million to $414.3 million, compared to $441.1 million in the prior fiscal year. This decrease was due to the adverse impact of foreign exchange rates of $24.2 million and a decrease of $8.0 million in an Australian low margin software business, as well as lower trade sales in the United Kingdom of $4.3 million primarily due to a decline in the sales of Hunger Games titles. Decreased export sales of $1.8 million also contributed to the segment's decline in revenues. Partially offsetting these decreases were improved revenues from Asian markets of $10.0 million, as operations in India, Malaysia, the Philippines and Thailand all experienced improved revenues, mostly from the Company's direct sales of English language reference products, and the Company's growing educational business in the region, where it has established educational publishing operations locally in Singapore to serve the regional need for English language materials and educational programs. Also, the Company's operations in Canada and the United Kingdom had higher revenues from book fairs of $1.4 million and $1.0 million, respectively, as well as higher education-related revenues in the United Kingdom of $1.5 million, compared to the prior fiscal year.

Cost of goods sold for the fiscal year ended May 31, 2014 was $202.8 million, or 49% of sales, compared to $213.6 million, or 48% of sales, in the prior fiscal year. The absolute decreases in both periods were attributable to the effect of foreign exchange. No single factor was responsible for the increase of cost of goods sold as a percent of revenues.

For the fiscal year ended May 31, 2014, other operating expenses declined by $7.0 million, as increased costs paid by the U.S. operations on behalf of foreign subsidiaries of $3.5 million and increased bad debt expense of $0.6 million were more than offset by currency exchange and the impact of cost savings initiatives.

Segment operating income for fiscal 2014 decreased by $9.0 million to $30.8 million, compared to $39.8 million in the prior fiscal year. Lower trade channel sales in major markets for the fiscal year ended May 31, 2014 were primarily due to the high level of Hunger Games trilogy sales in the prior fiscal year, and had a corresponding impact on earnings. The decrease in sales from the Australian software business did not significantly impact earnings, as these sales were low margin sales. The Company continues to focus on English language educational businesses, based in Singapore, which it views as a future growth driver. Demand from the Asian region continues to grow, and the Company is well positioned to meet this demand.

Fiscal 2013 compared to fiscal 2012

Revenues for fiscal 2013 decreased by $48.5 million to $441.1 million, compared to $489.6 million in the prior fiscal year. This decrease was primarily related to lower revenues in Canada of $27.4 million, primarily in the trade and book clubs channels, as well as lower revenues in Australia of $13.4 million, primarily in the new media and trade businesses. In both cases, the lower revenues in the trade channel resulted from lower sales of the Hunger Games trilogy, as well as the negative impact of foreign currency exchange rates of $3.9 million, all of which were partially offset by higher revenues in the

Company's export business of $2.0 million and increases in the Company's businesses in Asia of $2.8 million, where the Company is focused on educational products.

Cost of goods sold decreased to $213.6 million in fiscal 2013 from $242.5 million in fiscal 2012, commensurate with the revenue decline, but remained relatively consistent at 48% as a percentage of revenue, compared to 50% of revenue in fiscal 2012.

Other operating expenses decreased slightly to $187.7 million in fiscal 2013 from $189.2 million in fiscal 2012.

Segment operating income for fiscal 2013 decreased by $17.8 million to $39.8 million, compared to $57.6 million in the prior fiscal year. The decrease is primarily due to unfavorable results in the Company's Australia and Canada operations of $5.4 million and $5.6 million, respectively, and a $1.1 million decrease in its operating income in Asia. Lower results in Asia reflect the Company's continuing investment in English language educational businesses.

Overhead

Corporate overhead for fiscal 2014 increased by $6.7 million to $66.9 million, compared to $60.2 million in the prior fiscal year, primarily due to reinstated bonus and higher stock compensation. Corporate overhead for fiscal 2013 decreased by $26.9 million to $60.2 million, compared to $87.1 million in the prior fiscal year, primarily due to lower employee-related expenses and incentive compensation in fiscal 2013 compared to the prior year.

Liquidity and Capital Resources

Fiscal 2014 compared to fiscal 2013

The Company's cash and cash equivalents totaled $20.9 million at May 31, 2014 and $87.4 million at May 31, 2013. Cash and cash equivalents held by the Company's U.S. operations totaled $2.1 million at May 31, 2014 and $60.0 million at May 31, 2013.

Cash provided by operating activities was $156.8 million for the fiscal year ended May 31, 2014, compared to cash provided by operating activities of $189.1 million for the prior fiscal year, representing a decrease in cash provided by operating activities of $32.3 million. In the fourth quarter of fiscal 2012, the Company experienced strong sales of the Hunger Games trilogy titles, and subsequently collected significant cash from these customers in the first quarter of fiscal 2013. In fiscal 2014, the Company experienced strong sales in its education and book fairs operations late in the fourth quarter, resulting in higher receivable balances from these operations as of May 31, 2014. Partially offsetting this disparity in collections between the two fiscal years were higher royalty payments in fiscal 2013 associated with the Hunger Games success, and higher payouts for incentive compensation of $28.7 million in the first quarter of fiscal 2013. Lower net income tax payments of $28.0 million in fiscal 2014 compared to fiscal 2013 also partially offset the decline.

Cash used in investing activities was $345.7 million for the fiscal year ended May 31, 2014, compared to $124.0 million in fiscal 2013. In fiscal 2014, the Company purchased the land and building comprising the leased portion of the Company's New York City corporate headquarters, located in SoHo, for $253.9 million. In fiscal 2014, the Company also invested $1.0 million for a 20% interest in a software development entity, and collected $1.3 million of proceeds from a sold asset. In fiscal 2013, the Company incurred higher spending on technology assets of $19.9 million.

Cash provided by financing activities was $122.5 million for the fiscal year ended May 31, 2014, compared to cash used in financing activities of $172.7 million for the prior fiscal year. To finance the purchase of the SoHo land and

building in the third quarter of fiscal 2014, the Company used existing cash and incurred borrowings under its Loan Agreement of $175.0 million. Other fiscal 2014 net short-term repayments totaled $41.1 million, which includes a fourth quarter repayment of $55.0 million under the Loan Agreement, compared to net repayments of $4.3 million in the prior fiscal year. Proceeds pursuant to employee stock plans declined $2.7 million in the fiscal year ended May 31, 2014 compared to the prior fiscal year, while dividend payments increased by $1.9 million due to an increase in the Company's quarterly dividend.

Fiscal 2013 compared to fiscal 2012

Cash provided by operating activities was $189.1 million for fiscal 2013, compared to $260.2 million for fiscal 2012, representing a decrease in cash provided by operating activities of $71.1 million. The key driver of the decrease was the lower operating profitability of $71.3 million, driven by the prior year’s strong Hunger Games sales. Working capital balances

shifted, but the net impact from changes in the total working capital was modest, as collections of receivables in fiscal 2013 were offset by royalty payments and higher payments of employee bonuses of $31.4 million in fiscal 2013 related to fiscal 2012 performance.

Cash used in investing activities was $124.0 million for fiscal 2013, compared to $121.3 million in the prior fiscal year. In fiscal 2013, the Company sold a vacant facility in Maumelle, Arkansas, receiving $5.0 million in cash, while in the prior year the Company made strategic acquisitions totaling $9.5 million in cash expenditures.

Cash used in financing activities was $172.7 million for fiscal 2013, compared to $47.4 million for the prior fiscal year. In fiscal 2013, the Company's 5% Notes due April 2013 matured and were fully repaid for $153.0 million. In fiscal 2012, the Company paid $50.2 million in scheduled payments on the 5% Notes. Dividend payouts increased by $2.7 million, as the Company implemented a higher per share dividend rate. Contributing to the higher use of cash were lower net borrowings under lines of credit of $12.9 million and a decrease in proceeds pursuant to stock-based compensation plans of $8.5 million in fiscal 2013 compared to the prior fiscal year.

Due to the seasonal nature of its business as discussed under "Seasonality" above, the Company usually experiences negative cash flows in the June through October time period. As a result of the Company's business cycle, borrowings have historically increased during June, July and August, have generally peaked in September or October, and have been at their lowest point in May. In recent years, the Company had fixed debt in the form of the 5% Notes, which, while providing liquidity, resulted in high cash balances throughout the year.

The Company's operating philosophy is to use cash provided by operating activities to create value by paying down debt, reinvesting in existing businesses and, from time to time, making acquisitions that will complement its portfolio of businesses or acquiring other strategic assets, as well as engaging in shareholder enhancement initiatives, such as share repurchases or dividend declarations. During the fiscal year ended May 31, 2014, the Company purchased $6.2 million of Company shares on the open market compared to $11.8 million of share purchases in the prior fiscal year.

The Company has maintained, and expects to maintain for the foreseeable future, sufficient liquidity to fund ongoing operations, including working capital requirements, pension contributions, dividends, currently authorized common share repurchases, debt service, planned capital expenditures and other investments. As of May 31, 2014, the Company's primary sources of liquidity consisted of cash and cash equivalents of $20.9 million, cash from operations, and funding available under the Loan Agreement totaling approximately $305.0 million. Additionally, the Company has short-term credit facilities of $33.9 million, net of current borrowings of $15.8 million. The Company may at any time, but in any event not more than once in any calendar year, request that the aggregate availability of credit under the Loan Agreement be increased by an amount of $10.0 million or an integral multiple of $10.0 million (but not to exceed $150.0 million). Accordingly, the Company believes these sources of liquidity are sufficient to finance its ongoing operating needs, as well as its financing and investing activities.

The following table summarizes, as of May 31, 2014, the Company’s contractual cash obligations by future period (see Notes 5, 6 and 12 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data”):

				$ amounts in millions	
	Payments Due By Period				
Contractual Obligations	1 Year or Less	Years 2-3	Years 4-5	After Year 5	Total
Minimum print quantities	$47.6	$93.1	$91.8	$143.4	$375.9
Royalty advances	10.4	3.6	0.8	—	14.8
Lines of credit and short-term debt	15.8	—	—	—	15.8
Debt	—	—	120.0	—	120.0
Capital leases (1)	0.0	—	—	—	0.0
Pension and post-retirement plans (2)	18.4	28.5	27.1	63.2	137.2
Operating leases	32.1	44.9	22.6	14.1	113.7
Total	$124.3	$170.1	$262.3	$220.7	$777.4

(1) Includes principal and interest.
(2) Excludes expected Medicare Part D subsidy receipts.

Financing

Loan Agreement

The Company is party to the Loan Agreement with various banks as described in Note 5 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data.” Outstanding borrowings under the Loan Agreement were $120.0 million as of May 31, 2014. For a more complete description of the Loan Agreement, as well as the Company's other debt obligations, reference is made to Note 5 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data.”

Acquisitions

In the ordinary course of business, the Company explores domestic and international expansion opportunities, including potential niche and strategic acquisitions. As part of this process, the Company engages with interested parties in discussions concerning possible transactions. On January 3, 2012, the Company acquired Learners Publishing, a Singapore-based publisher of supplemental learning materials for English-Language Learners. The Company has integrated this business into its International segment. On February 8, 2012, the Company acquired the business and certain assets of Weekly Reader, a publisher of weekly educational classroom magazines designed for children in grades pre-K – 12. The Company has fully integrated this business in its Classroom and Supplemental Materials Publishing segment (see Note 2 of Notes to Consolidated Financial Statements in Item 8, “Consolidated Financial Statements and Supplementary Data”). The Company will continue to evaluate such expansion opportunities and prospects.

Item 7A | Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its business in various foreign countries, and as such, its cash flows and earnings are subject to fluctuations from changes in foreign currency exchange rates. The Company sells products from its domestic operations to its foreign subsidiaries, creating additional currency risk. The Company manages its exposures to this market risk through internally established procedures and, when deemed appropriate, through the use of short-term

forward exchange contracts which were not significant as of May 31, 2014. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

Market risks relating to the Company's operations result primarily from changes in interest rates in its variable-rate borrowings. The Company is subject to the risk that market interest rates and its cost of borrowing will increase and thereby increase the interest charged under its variable-rate debt.

Additional information relating to the Company's outstanding financial instruments is included in Note 5 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data," which is included herein.

The following table sets forth information about the Company's debt instruments as of May 31, 2014 (see Note 5 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

							$ amounts in millions	
	Fiscal Year Maturity							Fair Value
	2015	2016	2017	2018	2019	Thereafter	Total	2014
Debt Obligations								
Lines of credit and current portion of long-term debt	$15.8	$—	$—	$—	$—	$—	$15.8	$15.8
Average interest rate	2.3 %	—	—	—	—	—		
Long-term debt	$—	$—	$—	$120.0	$—	$—	$120.0	$120.0
Average interest rate				various (1)				

(1)The average rate is variable and is anticipated to be that under the Company's Loan Agreement as discussed in Note 5 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data."

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Item 8 | Consolidated Financial Statements and Supplementary Data

	Page
Consolidated Statements of Operations for the years ended May 31, 2014, 2013 and 2012	38
Consolidated Statements of Comprehensive Income (Loss) for the years ended May 31, 2014, 2013 and 2012	39
Consolidated Balance Sheets at May 31, 2014 and 2013	40
Consolidated Statement of Changes in Stockholders' Equity for the years ended May 31, 2014, 2013 and 2012	42
Consolidated Statements of Cash Flows for the years ended May 31, 2014, 2013 and 2012	44
Notes to Consolidated Financial Statements	46
Reports of Independent Registered Public Accounting Firm	79
Supplementary Financial Information - Summary of Quarterly Results of Operations	81

The following consolidated financial statement schedule for the years ended May 31, 2014, 2013 and 2012 is filed with this annual report on Form 10-K:

Schedule II — Valuation and Qualifying Accounts and Reserves	S-2

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

Consolidated Statements of Operations

	(Amounts in millions, except per share data)		
	For fiscal years ended May 31,		
	2014	2013	2012
Revenues	$1,822.3	$1,792.4	$2,139.1
Operating costs and expenses:			
Cost of goods sold	846.0	829.6	984.6
Selling, general and administrative expenses	812.5	815.0	878.5
Depreciation and amortization	61.4	66.5	68.8
Severance	11.3	13.4	14.9
Loss on leases and asset impairments	28.0	0.0	7.0
Total operating costs and expenses	1,759.2	1,724.5	1,953.8
Operating income	63.1	67.9	185.3
Interest income	0.6	1.2	1.0
Interest expense	(7.5)	(15.7)	(16.5)
Loss on investments and other	(5.8)	0.0	(0.1)
Earnings (loss) from continuing operations before income taxes	50.4	53.4	169.7
Provision (benefit) for income taxes	6.1	17.6	61.6
Earnings (loss) from continuing operations	44.3	35.8	108.1
Earnings (loss) from discontinued operations, net of tax	0.1	(4.7)	(5.7)
Net income (loss)	$44.4	$31.1	$102.4
Basic and diluted earnings (loss) per share of Class A and Common Stock			
Basic:			
Earnings (loss) from continuing operations	$1.38	$1.12	$3.45
Earnings (loss) from discontinued operations	$0.01	$(0.15)	$(0.18)
Net income (loss)	$1.39	$0.97	$3.27
Diluted:			
Earnings (loss) from continuing operations	$1.36	$1.10	$3.39
Earnings (loss) from discontinued operations	$0.00	$(0.15)	$(0.18)
Net income (loss)	$1.36	$0.95	$3.21
Dividends declared per common share	$0.575	$0.50	$0.45

See accompanying notes

Consolidated Statements of Comprehensive Income (Loss)

	(Amounts in millions, except per share data) For fiscal years ended May 31,		
	2014	2013	2012
Net income (loss)	$44.4	$31.1	$102.4
Other comprehensive income (loss), net:			
Foreign currency translation adjustments	(3.1)	(2.6)	(8.2)
Pension and post-retirement adjustments:			
Amortization of prior service credit	(0.2)	(0.4)	(0.6)
Amortization of unrecognized gains and losses included in net periodic cost	13.5	11.8	(11.5)
Total other comprehensive income (loss)	$10.2	$8.8	$(20.3)
Comprehensive income (loss)	$54.6	$39.9	$82.1

See accompanying notes

Consolidated Balance Sheets

(Amounts in millions, except share data)

Balances at May 31,		
ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents	$20.9	$87.4
Accounts receivable (less allowance for doubtful accounts of $17.3 at May 31, 2014 and $19.3 at May 31, 2013)	253.3	214.9
Inventories	272.7	278.1
Deferred income taxes	81.0	79.2
Prepaid expenses and other current assets	35.1	61.2
Current assets of discontinued operations	0.4	0.4
Total current assets	663.4	721.2
Property, Plant and Equipment		
Land	77.4	37.3
Buildings	243.3	100.7
Capitalized software	214.0	239.9
Furniture, fixtures and equipment	225.1	241.4
Leasehold improvements	171.6	172.4
	931.4	791.7
Less accumulated depreciation and amortization	(464.4)	(480.1)
Net property, plant and equipment	467.0	311.6
Other Assets and Deferred Charges:		
Prepublication costs	143.1	147.3
Royalty advances (less allowance for reserves of $87.0 at May 31, 2014 and $81.5 at May 31, 2013)	38.5	37.0
Production costs	4.5	1.7
Goodwill	144.5	157.9
Other intangibles	12.2	14.6
Noncurrent deferred income taxes	4.1	14.9
Other assets and deferred charges	51.2	34.8
Total other assets and deferred charges	398.1	408.2
Total assets	$1,528.5	$1,441.0

See accompanying notes

(Amounts in millions, except share data)

Balances at May 31, LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
Current Liabilities:		
Lines of credit and current portion of long-term debt	$15.8	$2.0
Capital lease obligations	0.0	0.2
Accounts payable	145.3	156.2
Accrued royalties	34.1	34.4
Deferred revenue	48.7	48.1
Other accrued expenses	184.7	179.5
Current liabilities of discontinued operations	1.1	1.3
Total current liabilities	429.7	421.7
Noncurrent Liabilities:		
Long-term debt	120.0	—
Capital lease obligations	0.0	57.5
Other noncurrent liabilities	63.4	97.4
Total noncurrent liabilities	183.4	154.9
Commitments and Contingencies:	—	—
Stockholders' Equity:		
Preferred Stock, $1.00 par value Authorized - 2,000,000; Issued - None	—	—
Class A Stock, $.01 par value Authorized - 4,000,000; Issued and Outstanding - 1,656,200 shares	0.0	0.0
Common Stock, $.01 par value Authorized - 70,000,000; Issued - 42,911,624 shares; Outstanding - 30,605,978 shares at May 31, 2014 (42,911,624 shares issued and 30,105,479 shares outstanding at May 31, 2013)	0.4	0.4
Additional paid-in capital	580.8	582.9
Accumulated other comprehensive income (loss)	(55.2)	(65.4)
Retained earnings	765.1	738.9
Treasury stock at cost	(375.7)	(392.4)
Total stockholders' equity	915.4	864.4
Total liabilities and stockholders' equity	$1,528.5	$1,441.0

See accompanying notes

Consolidated Statement of Changes in Stockholders' Equity

	Class A Stock		Common Stock		Additional Paid-in Capital
	(Amounts in millions, except share data)				
	Shares	Amount	Shares	Amount	
Balance at May 31, 2011	1,656,200	$0.0	29,316,691	$0.4	$576.6
Net Income (loss)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—
Pension and postretirement adjustments (net of tax of $(6.5))	—	—	—	—	—
Stock-based compensation	—	—			