SCHOLASTIC CORP
Form 10-K
July 26, 2016

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, 2016 | Commission File No. 000-19860
Scholastic Corporation
(Exact name of Registrant as specified in its charter)

Delaware	13-3385513
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

557 Broadway, New York, New York	10012
(Address of principal executive offices)	(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. o

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, 2015, was approximately $1,264,250,826. 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, 2016 was as follows: 32,658,447 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 21, 2016.

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Part I
Item 1 | Business

Overview

Scholastic Corporation (the "Corporation" and together with its subsidiaries, "Scholastic" or the "Company") is the world's largest publisher and distributor of children's books, a leading provider of print and digital instructional materials for grades pre-kindergarten ("pre-K") to grade 12, and a producer of educational and entertaining children's media. The Company creates quality books and ebooks, print and technology-based learning materials and programs, classroom magazines and other products that, in combination, offer schools customized and comprehensive solutions to support children's learning both at school and at home. Since its founding in 1920, Scholastic has emphasized quality products and a dedication to reading and learning. 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 6,500 people in the United States and approximately 2,400 people outside the United States.

Segments – Continuing Operations

The Company categorizes its businesses into three reportable segments: Children's Book Publishing and Distribution; Education; 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 reportable segment for the three fiscal years ended May 31:

		(Amounts in millions)	
	2016	2015	2014
Children's Book Publishing and Distribution	$1,002.5	$958.7	$893.0
Education	298.1	275.9	255.1
International	372.2	401.2	413.4
Total	$1,672.8	$1,635.8	$1,561.5

Additional financial information relating to the Company's reportable segments is included in Note 3 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

(59.9% of fiscal 2016 revenues)

General

The Company's Children's Book Publishing and Distribution segment includes the publication and distribution of children's books, ebooks, media and interactive products in the United States through its school book clubs and school book fairs 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 books, ebooks and audiobooks distributed through the trade channel. Scholastic offers a broad range of children's books through its school and trade channels, 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 pre-K through grade 8. In addition to its regular 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 classrooms in the vast majority of the pre-K to grade 8 schools in the United States. Classroom teachers who wish to participate in a school-based book club provide the promotional materials to their students, who may choose from curated selections at substantial reductions from list prices. The teacher aggregates the students' orders and forwards them to the Company. Approximately 66% of kindergarten ("K") to grade 5 elementary school teachers in the United States who received promotional materials in fiscal 2016 participated in the Company's school-based book clubs. In fiscal 2016, approximately 94% 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. Teachers 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. The Company is the leading distributor of school-based book fairs in the United States serving schools 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 and leased vehicles. Sales and customer service representatives, working from the Company's regional offices and 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 attendance at each book fair event and maximizing participation. Approximately 91% of the schools that conducted a Scholastic Book Fair in fiscal 2015 hosted a fair in fiscal 2016.

Trade

Scholastic is a leading publisher of children's books sold through bookstores, internet retailers and mass merchandisers in the United States. 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®, Pokemon® 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 Make Glitter Clay Charms, Sew Cute Mini Treats and Lego Chain Reactions.

The Company's trade organization focuses on publishing, marketing and selling books to bookstores, internet retailers, mass merchandisers, specialty sales outlets and other book retailers, and also supplies books for 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 two decades. Bestsellers in the trade division during fiscal 2016 included the Harry Potter series and the Minecraft handbooks, and multiple series, including I Survived, Spirit Animals, Wings of Fire, Amulet, Whatever After, Star Wars: Jedi Academy, The Baby-Sitters

Club® (Graphix) and Captain Underpants, as well as other titles such as Pam Munoz Ryan’s Echo, Brian Selznick’s The Marvels and Raina Telgemeier's titles Sisters, Drama and Smile.

Also included in the Company's trade organization are Weston Woods Studios, Inc. ("Weston Woods") and Scholastic Audio, as well as Scholastic Entertainment Inc. ("SEI"). Weston Woods creates audiovisual adaptations of classic children’s picture books distributed through the school and retail markets. Scholastic Audio provides audiobook productions of popular children's titles. SEI is responsible for exploiting the Company's film and television assets, which include a large television programming library based on the Company's properties.

EDUCATION

(17.8% of fiscal 2016 revenues)

Education includes the publication and distribution to schools and libraries of children’s books, classroom magazines, supplemental classroom materials, professional development materials and related services including custom curriculum and teaching guides and print and on-line reference, non-fiction and fiction focused products, as well as administrative and teacher professional development services, for grades pre-K to 12 in the United States.

The Company is a 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 and other groups engaged in literacy initiatives. 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 series. Scholastic serves customer needs with customized curriculum providing comprehensive literacy solutions with print, assessment and digital content. The Company 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, and provides related professional development services in support of its professional development products and materials.

Scholastic is the leading publisher of classroom magazines. Teachers in grades pre-K to 12 use the Company’s 32 classroom magazines, including Scholastic News®, Scope®, Storyworks®, Let's Find Out® and Junior Scholastic®, to supplement formal learning programs by bringing subjects of current interest into the classroom, including current events, literature, math, science, social studies and foreign languages. These offerings provide schools with substantial non-fiction material, which is required to meet new higher educational 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 2016 was approximately 15.1 million, with approximately 76% of the circulation in grades pre-K to 6. 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 2016.

Scholastic is also 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 include non-fiction books published in the United States under the imprints Children’s Press® and Franklin Watts®. Also included in the segment is the Company's consumer magazine business including Teacher magazine.

The products and services described above are offered by Scholastic to schools and districts as part of comprehensive reading and literacy solutions. These solutions encompass core literacy curriculum publishing including the Company’s guided reading programs, print programs involving the customized classroom and library book collections and the related supplemental materials made available through the Company’s classroom magazines, including the

additional non-fiction material available to students through the digital components accompanying the print classroom magazines, and the Company's custom curriculum and teaching guides and other professional development materials and services to aid teachers in the implementation of the Company's comprehensive solutions.

INTERNATIONAL

(22.3% of fiscal 2016 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; 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 is a publisher 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. Scholastic also holds equity method investments in two publishers and distributors in the United Kingdom.

Australia

Scholastic Australia, founded in 1968, is the largest school-based book club and book fair operator 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, and engages in direct sales in shopping malls and door to door. 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 also partners with governments and non-governmental agencies to create and distribute books to public schools in developing countries.

Discontinued Operations

During the fourth quarter of fiscal 2015, the Company sold its educational technology and services business (formerly the Company's Educational Technology and Services segment) to Houghton Mifflin Harcourt. The transaction was completed on May 29, 2015. The educational technology and services business was engaged, among other things, in the development and sale of reading and math improvement programs, as well as providing consulting and professional development services, principally to schools in the United States. The sale included the equity in two former subsidiaries, International Center for Leadership in Education and Tom Snyder Productions, as well as rights to sell all of the products of the business internationally.

Additionally, during fiscal 2015, the Company completed a restructuring of the Media, Licensing and Advertising segment and discontinued its Soup2Nuts animation and audio production studio operations, Scholastic Interactive, which designed software, apps and games for pre-K to grade 8, and the print edition of Parent and Child, a periodic consumer magazine.

PRODUCTION AND DISTRIBUTION

The Company's books, magazines 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, reference and non-fiction products, educational 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.

School-based book fair orders are fulfilled through a network of warehouses across the country, as well as from the Company's Jefferson City warehouse and distribution facility. The Company's international school-based book clubs, school-based book fairs, trade and educational operations use distribution systems similar to those employed in the United States.

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.

- 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.

SEASONALITY

The Company's Children's Book Publishing and Distribution school-based book fair and book club channels and most of its Education businesses 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, school-based channels and magazine revenues are minimal in the first quarter

of the fiscal year as schools are not in session. Trade sales can vary through the year due to varying release dates of published titles. The Company generally experiences a loss from operations in the first and third quarters of each fiscal year.

COMPETITION

The markets for children’s books, educational products and entertainment 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 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, 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. 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, 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 and magazines, 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	Previous Position(s) Held
Richard Robinson	79	1962	Chairman of the Board (since 1982), President (since 1974) and Chief Executive Officer (since 1975).
Maureen O'Connell	54	2007	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (since 2007).
Iole Lucchese	49	1991	Executive Vice President (since 2016), Chief Strategy Officer (since 2014); President, Scholastic Canada (2015-2016); and Co-President, Scholastic Canada (2003-2015).
Judith A. Newman	58	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).
Alan Boyko	62	1988	President, Scholastic Book Fairs, Inc. (since 2005).
Andrew S. Hedden	75	2008	Member of the Board of Directors (since 1991) and Executive Vice President, General Counsel and Secretary (since 2008).

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 trade publishing, educational, 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 previously determined to 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 systems development and service delivery in its evolving school ordering and ecommerce businesses.

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 continue to 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.

We own certain significant real estate assets which are subject to various risks related to conditions affecting the real estate market.

The Company has direct ownership of certain significant real estate assets, in particular, the Company's headquarters location in New York City and its primary distribution center in Jefferson City, Missouri. The New York headquarters location serves a dual purpose as it also contains premium retail space that is, from time to time, leased to retail tenants in order to generate rental income and cash flow, and the Company is currently engaged in a renovation of its New York headquarters which will include making additional space available for retail use. Accordingly, the Company is sensitive to various risk factors such as changes to real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the credit worthiness of any retail tenants. There is also no guarantee that investment objectives for the retail component of the Company's real estate will be achieved.

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 trade, educational and media markets for children. In particular, the Company's educational publishing business 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, state and local 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 educational materials and programs 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 trade and educational 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 materials and programs 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 or has access to personal data, including that of customers. 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 materials or programs produced by the Company's Education segment. Further, a failure to adequately protect personal data, including that of customers or children, 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

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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 programs in its educational publishing 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 in the United States 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 continues to implement its new enterprise-wide customer and content management systems and the migration to software as a service ("SaaS") and cloud-based technology solutions, in its initiatives to integrate its separate legacy platforms into a cohesive enterprise-wide system, there can be no assurance that it will be successful in its efforts or that the staged implementation of these initiatives in the Company's global operations will not involve disruptions in its systems or processes having a short term adverse impact on its operations and ability to service its customers.

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 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 distribution and other 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. In addition, the Company and its foreign operations could be adversely impacted by a downturn in general economic conditions on a more global basis caused by general political instability or unrest or changes in economic affiliations. For example, the announcement of the Referendum of the United Kingdom’s (or the UK) Membership of the European Union (EU) (referred to as Brexit), advising for the exit of the United Kingdom from the European Union, could affect our sales in the UK, as the uncertainty caused by the vote and the uncertain future course of negotiations between the EU and the UK could negatively impact the economies of the UK and other nations.

Failure to reduce certain overhead costs previously allocated to the educational technology and services business sold in fiscal 2015 could negatively impact us, as could our increased dependence on our remaining businesses as a result of such sale.

Certain administrative, distribution and other costs are centralized across the Company's domestic operations, and these costs are allocated to each of the Company's domestic businesses. In respect to the portion of these costs previously allocated to the educational technology and services ("Ed Tech") business which the Company sold to Houghton Mifflin Harcourt ("HMH") in fiscal 2015, the Company had been covering most of these costs through its

charges for services provided to HMH under a transition services agreement with HMH, pursuant to which it continued to provide certain administrative, distribution and other services to the Ed Tech business following its acquisition by HMH. That transition services agreement is now terminating, and the failure to reduce costs within other areas of the Company's operations to offset the unallocated overhead burden previously associated with the Ed Tech business could cause the Company's earnings to decline.

In addition, the Company is substantially less diversified than before the sale of the Ed Tech business, and accordingly could experience higher volatility of revenues and earnings than in periods prior to the sale.

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 United States, the Company is regulated by the Internal Revenue Service, the Securities and Exchange Commission, 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, new education standards, goals, revenues, improved efficiencies, general costs, manufacturing costs, medical costs, potential cost savings, merit pay, operating margins, working capital, liquidity, capital needs, the cost and timing of capital projects, 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, and the Company has recently commenced the renovation of this headquarters space to create new premium retail space and a more modern and efficient office plan.

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 2.8 million square feet of office and warehouse space in approximately 70 facilities in the United States, principally for Scholastic book fairs. The Company owns or leases approximately 1.4 million square feet of office and warehouse space in approximately 130 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 5 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 sales prices for the Common Stock as reported by NASDAQ for the periods indicated:

	For fiscal years ended May 31,			
	2016		2015	
	High	Low	High	Low
First Quarter	$46.28	$40.01	$36.87	$31.12
Second Quarter	44.24	37.58	36.23	30.49
Third Quarter	43.74	30.34	37.57	33.21
Fourth Quarter	39.45	34.51	45.49	35.40

Holders: The number of holders of Class A Stock and Common Stock as of July 6, 2016 were 3 and approximately 10,000, respectively.

Dividends: During fiscal 2016, the Company declared four regular quarterly dividends in the amount of $0.15 per Class A and Common share, amounting to total dividends declared during fiscal 2016 of $0.60 per share. During fiscal 2015, the Company declared four regular quarterly dividends in the amount of $0.15 per Class A and Common share amounting to total dividends declared during fiscal 2015 of $0.60 per share.

On July 20, 2016, 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 2017. This dividend is payable on September 15, 2016 to shareholders of record on August 31, 2016. All dividends have been in compliance with the Company’s debt covenants.

Share purchases: During fiscal 2016, the Company repurchased 413,960 Common shares on the open market at an average price paid per share of $34.75 for a total cost of approximately $14.4 million, pursuant to a share buy-back program authorized by the Board of Directors. During fiscal 2015, pursuant to the same share buy-back program, the Company repurchased 110,336 Common shares on the open market at an average price paid per share of $31.64 for a total cost of approximately $3.5 million.

The following table provides information with respect to repurchases of shares of Common Stock by the Corporation during the three months ended May 31, 2016:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares (or approximate dollar value) that may yet be purchased under the plans or

				programs (i)
March 1, 2016 through March 31, 2016	129,132	$ 35.06	129,132	$ 48.4
April 1, 2016 through April 30, 2016	16,002	$ 36.31	16,002	$ 47.8
May 1, 2016 through May 31, 2016	61,795	$ 36.26	61,795	$ 45.5
Total	206,929	$ 35.52	206,929	$ 45.5

(i) Represents the remaining amount under the $200 million Board authorization for Common share repurchases announced in connection with the modified Dutch auction tender offer commenced by the Company on September 28, 2010 and completed in November 2010, and the $50 million Common share repurchase program announced on July 22, 2015. Approximately $156 million was used for repurchases in such tender offer, leaving, after subsequent additional open market repurchases of $41.1 million, $52.9 million at March 1, 2016 for further repurchases, from time to time as conditions allow, on the open market or through negotiated private transactions, under the current Board authorizations.

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 index and in the peer group (with the reinvestment of all dividends) from June 1, 2011 to May 31, 2016. 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 5/31/11 in stock or index, including reinvestment of dividends.

	Fiscal year ending May 31,					
	2011	2012	2013	2014	2015	2016
Scholastic Corporation	$100.00	$100.57	$114.70	$123.15	$174.66	$155.07
NASDAQ Composite Index	100.00	99.72	121.89	149.64	178.82	174.52
Peer Group	100.00	95.84	101.86	117.64	132.91	93.39

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,

	2016	2015	2014	2013	2012
Statement of Operations Data:					
Total revenues	$1,672.8	$1,635.8	$1,561.5	$1,549.8	$1,858.0
Cost of goods sold [1]	762.3	758.5	725.0	715.4	859.0
Selling, general and administrative expenses (exclusive of depreciation and amortization) [2]	777.7	771.1	727.3	734.8	787.2
Depreciation and amortization [3]	38.9	47.9	60.3	65.4	67.6
Severance [4]	11.9	9.6	10.5	13.1	13.8
Asset impairments and loss on leases [5]	14.4	15.8	28.0	—	7.0
Operating income	67.6	32.9	10.4	21.1	123.4
Interest expense, net	1.1	3.5	6.9	14.5	15.5
Gain (loss) on investments and other [6]	2.2	0.5	(5.8)	0.0	(0.1)
Earnings (loss) from continuing operations before income taxes	68.7	29.9	(2.3)	6.6	107.8
Provision (benefit) for income taxes [7]	24.7	14.4	(15.6)	1.7	39.5
Earnings (loss) from continuing operations	44.0	15.5	13.3	4.9	68.3
Earnings (loss) from discontinued operations, net of tax	(3.5)	279.1	31.1	26.2	34.1
Net income (loss)	40.5	294.6	44.4	31.1	102.4
Share Information:					
Earnings (loss) from continuing operations:					
Basic	$1.29	$0.47	$0.42	$0.15	$2.18
Diluted	$1.26	$0.46	$0.41	$0.15	$2.14
Earnings (loss) from discontinued operations:					
Basic	$(0.11)	$8.53	$0.97	$0.82	$1.09
Diluted	$(0.10)	$8.34	$0.95	$0.80	$1.07
Net income (loss):					
Basic	$1.18	$9.00	$1.39	$0.97	$3.27
Diluted	$1.16	$8.80	$1.36	$0.95	$3.21
Weighted average shares outstanding - basic	34.1	32.7	32.0	31.8	31.2
Weighted average shares outstanding - diluted	34.9	33.4	32.5	32.4	31.7
Dividends declared per common share	$0.600	$0.600	$0.575	$0.500	$0.450
Balance Sheet Data:					
Working Capital	$571.8	$562.9	$233.2	$299.2	$420.5
Cash and cash equivalents	399.7	506.8	20.9	87.4	194.9
Total assets	1,713.1	1,822.3	1,528.5	1,441.0	1,670.3
Long-term debt (excluding capital leases)	—	—	120.0	—	152.8
Total debt	6.3	6.0	135.8	2.0	159.3
Long-term capital lease obligations	7.5	0.4	0.0	57.5	56.4
Total capital lease obligations	8.6	0.7	0.0	57.7	57.4
Total stockholders' equity	1,257.6	1,204.9	915.4	864.4	830.3

(1) In fiscal 2015, the Company recognized a pretax charge of $1.5 related to a warehouse optimization project in Canada and a $0.4 pretax charge related to unabsorbed burden associated with the former educational technology and services business. In fiscal 2014, the Company recognized a pretax charge of $2.4 for royalties related to Storia® operating system-specific apps that are no longer supported due to the transition to a Storia streaming model and a $0.3 pretax charge related to unabsorbed burden associated with the former educational technology and services business. In fiscal 2013 and 2012, the Company recognized a pretax charge for costs related to unabsorbed burden associated with the former educational technology and services business of $0.9 and $0.6, respectively.

(2) In fiscal 2016, the Company recognized a pretax charge of $1.5 related to a branch consolidation project in the Company's book fairs operations. In fiscal 2015, the Company recognized a pretax charge of $15.4 related to unabsorbed burden associated with the former educational technology and services business, a pretax pension settlement charge of $4.3, and a $0.4 pretax charge related to the relocation of the Company's Klutz® division. In fiscal 2014, the Company recognized a pretax charge of $15.9 related to unabsorbed burden associated with the former educational technology and services business, a pretax pension settlement charge of $1.7 and a pretax charge of $1.0 related to Storia operating system-specific apps. In fiscal 2013, the Company recognized a pretax charge of $16.5 related to unabsorbed burden associated with the former educational technology and services business and a pretax charge of $4.0 related to asset impairments. In fiscal 2012, the Company recognized a pretax charge of $15.5 related to unabsorbed burden associated with the former educational technology and services business.

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

(4) In fiscal 2016, the Company recognized pretax severance expense of $9.5 as part of cost reduction and restructuring programs. In fiscal 2015, the Company recognized pretax severance expense of $8.9 as part of cost reduction and restructuring programs. In fiscal 2014, the Company recognized pretax severance expense of $9.9 as part of a cost savings initiative. In fiscal 2013, the Company recognized pretax severance expense of $9.4 as part of a cost savings initiative. In fiscal 2012, the Company recognized pretax severance expense of $9.3 for a voluntary retirement program.

(5) In fiscal 2016, the Company recognized a pretax impairment charge of $7.5 related to legacy building improvements in connection with the Company's headquarters renovation and a pretax charge of $6.9 for certain legacy prepublication assets. In fiscal 2015, the Company recognized a pretax impairment charge of $8.3 in connection with the restructuring of the Company's media and entertainment businesses, a $4.6 pretax impairment charge related to the discontinuation of certain outdated technology platforms, and a $2.9 pretax impairment charge associated with the closure of the retail store located at the Company headquarters in New York City. In fiscal 2014, the Company recognized a pretax impairment charge of $14.6 for assets related to Storia operating system-specific apps and 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 recognized a pretax impairment loss of $6.2 related to certain subleases in lower Manhattan.

(6) In fiscal 2016, the Company recognized a pretax gain of $2.2 on the sale of a China-based cost method investment. In fiscal 2015, the Company recognized a pretax gain of $0.6 on the sale of a UK-based cost method investment. In fiscal 2014, the Company recognized a pretax loss of $1.0 and $4.8 related to a U.S.-based equity method investment and a UK-based cost method investment, respectively.

(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 the 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 three reportable segments: Children’s Book Publishing and Distribution; Education; 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 from continuing operations in fiscal 2016 were $1.67 billion, an increase of 2.3% from $1.64 billion in fiscal 2015, reflecting higher sales in the Company's Children's Book Publishing and Distribution and Education segments, partially offset by the negative impact of foreign exchange in the International segment of $43.2 million. Earnings from continuing operations per diluted share were $1.26 for the fiscal year ended May 31, 2016, compared to $0.46 in the prior fiscal year.

Fiscal 2016 results support the Company's strategy to closely align the Company's children's book and education businesses globally to serve the changing needs of the Company's educator, parent, and child customers. The Company's strong children's book publishing, available both through retail and school-based clubs and fair channels, along with customized curriculum solutions, such as classroom book collections, print and digital classroom magazines and instructional programs, as well as consulting services for professional learning and family and community engagement, all contribute to a comprehensive program that supports literacy and learning in school and at home.

In fiscal 2017, the Company expects that the ongoing focus on books and reading as critical components for student achievement will continue to steer educators and families to the Company's highly regarded book clubs and book

fairs channels and customized education solutions, including classroom book curriculum collections and classroom magazines, to support children's learning. At the same time, the Company anticipates that new publishing in the Harry Potter franchise, with the script book for Harry Potter and the Cursed Child: Parts One and Two, the eighth story; and the Fantastic Beasts and Where to Find Them screenplay book by J. K. Rowling, will drive significant revenue in trade publishing in the U.S. and Canada. These factors are expected to drive strong performance in the Company's Children's Book Publishing and Distribution and Education segments in fiscal 2017. The Company expects to maintain its current level of revenue in school-based clubs and fairs, while focusing on more profitable execution.

In the International segment, the Company is also planning for growth in trade publishing and education, and expects significant local currency gains across all channels in Asia. In Australia, the Company sees a strong market in trade and the UK's book fairs division is expected to continue to benefit from last year's acquisition of an additional fairs business. Additionally, Canada, which was adversely impacted by a labor action in Ontario schools in early fiscal 2016, should benefit from a stronger start of the school year in the book club and book fair business and sales of new Harry Potter publishing in the fiscal year.

The Company expects an increase in capital spending primarily attributable to the previously announced construction at the Company’s headquarters location in New York City, where the Company is building new premium retail space and a more modern and efficient office plan. The Company also expects higher strategic technology spend as the Company continues on a three-year initiative to upgrade its enterprise-wide customer and content management systems and the migration to software as a service ("SaaS") and cloud-based technology solutions.

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 advance reserves; 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.

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 revenue. The Company also estimates revenues for those fairs which have not reported final fair results.

Trade – Revenue from the sale of children's books for distribution in the retail channel is primarily 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 recognized as a reduction to revenue. Actual returns are charged to the reserve as received. Reserves for returns are based on historical return rates, sales patterns, type of product and expectations. In order to develop the estimate of returns that will be received subsequent to May 31, 2016, management considers patterns of sales and returns in the months preceding May 31, 2016, as well as actual returns received subsequent to year end, available customer and market specific data and other return rate information that management believes is relevant. Actual returns could differ from the Company's estimate. 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, 2016 of approximately $1.1 million.

Education – Revenue from the sale of educational materials is recognized upon shipment of the products, or upon acceptance of product by the customer depending on individual customer terms. Revenues from professional development services are recognized when the services have been provided to the customer.

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 recognized 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 recognized 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, type of product and expectations. In order to develop the estimate of returns that will be received subsequent to May 31, 2016, management considers patterns of sales and returns in the months preceding May 31, 2016, as well as actual returns received subsequent to year end, available customer and market specific data and other return rate information that management believes is relevant. Reserves for estimated bad debts are established at the time of sale and are based on an evaluation of accounts receivable aging, and, where applicable, specific reserves on a customer-by-customer basis, creditworthiness of the Company's customers and prior collection experience 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, 2016 of approximately $2.4 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 by channel and the 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, 2016 of approximately $3.4 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 reporting 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 seven reporting units with goodwill subject to impairment testing. 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 the identified asset is less than its carrying value. If it is more likely than not that the fair value of the asset 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 five to ten years, 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 is approximately five years.

Unredeemed Incentive Credits:

The Company employs incentive programs to encourage sponsor participation in its book clubs and book fairs operations. 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.

Employee Benefit Plan Obligations:

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. On May 31, 2016, the Company changed the approach used to measure service and interest costs for pension and other postretirement benefits. The Company previously measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. The Company has now elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of the Company's plan obligations. The Company has accounted for this change as a change in accounting estimate and, accordingly, has accounted for it on a prospective basis. The Company expects estimated reductions in interest costs of $1.0 million and $0.3 million for the Pension Plans and Post-Retirement Benefits, respectively, in fiscal 2017.

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, 2016 of approximately $0.1 million and $0.2 million, respectively. 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, 2016 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. 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, 2016 of approximately $0.7 million and $0.8 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, 2016 of approximately $0.2 million and $0.1 million, respectively. 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, 2016 of approximately $4.3 million and $3.7 million, respectively.

Equity Awards:

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, except for the grants to retirement-eligible employees, 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.

Taxes:

Income Taxes – The Company uses the asset and liability method of accounting for income taxes. Under this method, for purposes of determining taxable income 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 be realized.

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 sales tax liability in respect to a jurisdiction 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,

	2016		2015		2014	
	$	% [1]	$	% [1]	$	% [1]
Revenues:						
Children's Book Publishing and Distribution	$1,002.5	59.9	$958.7	58.6	$893.0	57.2
Education	298.1	17.8	275.9	16.9	255.1	16.3
International	372.2	22.3	401.2	24.5	413.4	26.5
Total revenues	1,672.8	100.0	1,635.8	100.0	1,561.5	100.0
Cost of goods sold [2]	762.3	45.6	758.5	46.4	725.0	46.4
Selling, general and administrative expenses (exclusive of depreciation and amortization) [3]	777.7	46.5	771.1	47.1	727.3	46.5
Depreciation and amortization	38.9	2.3	47.9	2.9	60.3	3.9
Severance [4]	11.9	0.7	9.6	0.6	10.5	0.7
Asset impairments and loss on leases [5]	14.4	0.9	15.8	1.0	28.0	1.8
Operating income	67.6	4.0	32.9	2.0	10.4	0.7
Interest income	1.1	0.1	0.3	0.0	0.6	0.1
Interest expense	(2.2)	(0.1)	(3.8)	(0.2)	(7.5)	(0.5)
Gain (loss) on investments and other [6]	2.2	0.1	0.5	0.0	(5.8)	(0.4)
Earnings (loss) from continuing operations before income taxes	68.7	4.1	29.9	1.8	(2.3)	(0.1)
Provision (benefit) for income taxes [7]	24.7	1.5	14.4	0.9	(15.6)	(1.0)
Earnings (loss) from continuing operations	44.0	2.6	15.5	0.9	13.3	0.9
Earnings (loss) from discontinued operations, net of tax	(3.5)	(0.2)	279.1	17.1	31.1	1.9
Net income (loss)	$40.5	2.4	$294.6	18.0	$44.4	2.8
Earnings (loss) per share:						
Basic:						
Earnings (loss) from continuing operations	$1.29		$0.47		$0.42	
Earnings (loss) from discontinued operations	$(0.11)		$8.53		$0.97	
Net income (loss)	$1.18		$9.00		$1.39	
Diluted:						
Earnings (loss) from continuing operations	$1.26		$0.46		$0.41	
Earnings (loss) from discontinued operations	$(0.10)		$8.34		$0.95	
Net income (loss)	$1.16		$8.80		$1.36	

(1) Represents percentage of total revenues.

(2) In fiscal 2015, the Company recognized a pretax charge of $1.5 related to a warehouse optimization project in Canada and a $0.4 pretax charge related to unabsorbed burden associated with the former educational technology and services business. In fiscal 2014, the Company recognized a pretax charge of $2.4 for royalties related to Storia® operating system-specific apps that are no longer supported due to the transition to a Storia streaming model and a $0.3 pretax charge related to unabsorbed burden associated with the former educational technology and services business.

(3) In fiscal 2016, the Company recognized a pretax charge of $1.5 related to a branch consolidation project in the Company's book fairs operations. In fiscal 2015, the Company recognized a pretax charge of $15.4 related to unabsorbed burden associated with the former educational technology and services business, a pretax pension settlement charge of $4.3, and a $0.4 pretax charge related to the relocation of the Company's Klutz® division. In fiscal 2014, the Company recognized a pretax charge of $15.9 related to unabsorbed burden associated with the

former educational technology and services business, a pretax pension settlement charge of $1.7 and a pretax charge of $1.0 related to Storia operating system-specific apps.

(4) In fiscal 2016, the Company recognized pretax severance expense of $9.5 as part of cost reduction and restructuring programs. In fiscal 2015, the Company recognized pretax severance expense of $8.9 as part of cost reduction and restructuring programs. In fiscal 2014, the Company recognized pretax severance expense of $9.9 as part of a cost savings initiative.

(5) In fiscal 2016, the Company recognized a pretax impairment charge of $7.5 related to legacy building improvements in connection with the Company's headquarters renovation and a pretax charge of $6.9 for certain legacy prepublication assets. In fiscal 2015, the Company recognized a pretax impairment charge of $8.3 in connection with the restructuring of the Company's media and entertainment businesses, a $4.6 pretax impairment charge related to the discontinuation of certain outdated technology platforms, and a $2.9 pretax impairment charge associated with the closure of the retail store located at the Company headquarters in New York City. In fiscal 2014, the Company recognized 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 and 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.

(6) In fiscal 2016, the Company recognized a pretax gain of $2.2 on the sale of a China-based cost method investment. In fiscal 2015, the Company recognized a pretax gain of $0.6 on the sale of a UK-based cost method investment. In fiscal 2014, the Company recognized a pretax loss of $1.0 and $4.8 related to a U.S.-based equity method investment and a UK-based cost method investment, respectively.

(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 the fiscal years ended May 31, 2007, 2008 and 2009.

Results of Operations – Consolidated

Fiscal 2016 compared to fiscal 2015

Continuing Operations

Revenues from continuing operations for the fiscal year ended May 31, 2016 increased by $37.0 million, or 2.3%, to $1,672.8 million, compared to $1,635.8 million in the prior fiscal year. Within the Children’s Book Publishing and Distribution segment, revenues from trade publishing sales increased $35.5 million driven by strong sales for both frontlist and backlist titles, led by the strong performance of Harry Potter related titles, partially offset by lower year-over-year sales of Minecraft titles. The book fairs channel experienced higher revenues of $23.0 million driven by an increase in revenue per fair coupled with an increase in fair count. The increases within this segment were partially offset by lower media operations revenues of $9.8 million and lower book club channel revenues of $4.9 million due to a lower number of book club events. Education segment revenues for fiscal 2016 increased $22.2 million driven by strong fiscal year fourth quarter sales of classroom books and guided reading programs coupled with increased circulation in classroom magazines, while local currency revenues in the International segment increased $14.2 million, primarily driven by increased sales of local titles within the Australia trade channel. This was more than offset by foreign currency exchange declines of $43.2 million due to the strength of the U.S. dollar against most foreign currencies.

Cost of goods sold as a percentage of revenue for the fiscal year ended May 31, 2016 was 45.6%, compared to 46.4% in the prior fiscal year. The modest decrease in cost of goods sold as a percentage of revenue was driven by lower production costs associated with the Company's media operations and favorable product mix, partially offset by the strength of the U.S. dollar which impacted the Company's international operations due to purchases of U.S. product in U.S. dollars.

Components of Cost of goods sold for fiscal years 2016, 2015 and 2014 are as follows:

	($ amounts in millions)					
	2016	% of revenue	2015	% of revenue	2014	% of revenue
Product, service and production costs	$432.4	25.8 %	$429.3	26.2 %	$401.1	25.7 %

Royalty costs	92.0	5.5		84.3	5.2		87.1	5.6	
Prepublication and production amortization	27.1	1.6		30.0	1.8		33.7	2.1	
Postage, freight, shipping, fulfillment and all other costs	210.8	12.7		214.9	13.2		203.1	13.0	
Total cost of goods sold	$762.3	45.6	%	$758.5	46.4	%	$725.0	46.4	%

Selling, general and administrative expenses for the fiscal year ended May 31, 2016 increased to $777.7 million, compared to $771.1 million in the prior fiscal year, primarily as a result of higher strategic technology spending on new enterprise-wide customer and content management systems and the migration to software as a service ("SaaS") and cloud-based technology solutions. To a lesser extent, the increase was due to higher employee-related expenses of $7.8 million associated with the book fairs channel efforts to increase revenues, higher sales management-related expenses associated with the classroom books and literacy initiatives to increase sales and $1.5 million in expenses related to a branch consolidation project in the Company's book fairs operations, coupled with a $3.7 million insurance settlement in the prior fiscal year relating to a fire in a warehouse in India. The increases were partially offset

by lower international expense attributable to foreign currency translation of $15.3 million, lower unabsorbed overhead burden as costs were being offset by transition service fees under the transition services agreement with the purchaser of the educational technology and services business in fiscal 2016, and lower pension expense of $4.3 million related to a settlement on a portion of the domestic pension plan in the prior fiscal year.

Severance expense of $11.9 million in fiscal 2016 included $9.5 million related to cost reduction and restructuring programs. Severance expense of $9.6 million in fiscal 2015 included $8.9 million related to cost reduction and restructuring programs.

Asset impairments for the fiscal year ended May 31, 2016 were $14.4 million, compared to $15.8 million in the prior fiscal year. In fiscal 2016, the Company recognized a pretax impairment charge of $7.5 million on the abandonment of legacy building improvements in connection with the Company's renovation of its headquarters location in New York City. The renovation effort will occur in phases and, as additional floors are renovated over the project's life, additional building improvements will be abandoned. The first phase of the construction, which began in the fourth quarter of fiscal 2016, represents approximately 40% of the total renovation project for the entire building. The Company also recognized a pretax impairment charge of $6.9 million for certain legacy prepublication assets. In fiscal 2015, the Company recognized an impairment charge of $8.3 million in respect to certain goodwill, production and programming assets in connection with the restructuring of the Company's media and entertainment businesses, recognized an impairment charge of $4.6 million for the discontinuation of certain outdated technology platforms and recognized an impairment charge of $2.9 million associated with the closure of its retail store located at the Company headquarters in New York City.

For the fiscal year ended May 31, 2016, net interest expense decreased to $1.1 million, compared to $3.5 million in the prior fiscal year, due to the reduction in borrowings under the Loan Agreement described under "Financing" below.

In fiscal 2016, the Company recognized a pretax gain of $2.2 million on the sale of a China-based cost method investment. In fiscal 2015, the Company recognized a pretax gain of $0.6 million related to a UK-based cost method investment.

The Company’s effective tax rate for the fiscal year ended May 31, 2016 was 36.0%, compared to 48.2% in the prior fiscal year.

Earnings from continuing operations for fiscal 2016 increased by $28.5 million to $44.0 million, compared to $15.5 million in fiscal 2015. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were $1.29 and $1.26, respectively, in fiscal 2016, compared to $0.47 and $0.46, respectively, in fiscal 2015.

Discontinued Operations

Loss from discontinued operations, net of tax, for the fiscal year ended May 31, 2016 was $3.5 million, compared to earnings from discontinued operations, net of tax, of $279.1 million in the prior fiscal year. The decrease was driven by the net gain of $275.6 million associated with the sale of the educational technology and services business in the prior fiscal year. The basic and diluted loss from discontinued operations per share of Class A Stock and Common Stock were $0.11 and $0.10, respectively, in fiscal 2016, compared to basic and diluted earnings from discontinued operations per share of Class A Stock and Common Stock of $8.53 and $8.34, respectively, in fiscal 2015.

The resulting net income for fiscal 2016 was $40.5 million, or $1.18 and $1.16 per basic and diluted share, respectively, compared to net income of $294.6 million, or $9.00 and $8.80 per basic and diluted share, respectively,

in fiscal 2015.

Fiscal 2015 compared to fiscal 2014

Continuing Operations

Revenues from continuing operations for the fiscal year ended May 31, 2015 increased by $74.3 million, or 4.8%, to $1,635.8 million, compared to $1,561.5 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 $44.6 million and $25.1 million, respectively, driven by changes in the marketing strategies for these channels. Education segment revenues were also higher by $20.8 million, driven by increased circulation in classroom magazines and strong demand for the Company's guided reading programs. Offsetting the increases were lower revenues from the trade channel of $4.0 million, primarily resulting from lower Hunger Games trilogy sales, and lower revenues in the International segment, primarily

resulting from the adverse foreign exchange impact of $19.7 million in fiscal 2015 compared to fiscal 2014, offset by overall higher revenues from international sales of $7.5 million.

Cost of goods sold as a percentage of revenue for the fiscal year ended May 31, 2015 remained constant at 46.4% compared to the prior fiscal year. Higher product, service and production costs as a percentage of revenue were offset by lower royalty costs as a percentage of revenue, which were both primarily driven by the marketing strategies for the book club operations.

Selling, general and administrative expenses for the fiscal year ended May 31, 2015 increased to $771.1 million, compared to $727.3 million in the prior fiscal year. The increase was primarily driven in equal parts by higher promotional expense in the book clubs operations and higher technology expense on strategic initiatives. In addition, the Company experienced higher salary-related expenses and bad debt expense of $6.1 million and $3.3 million, respectively, and incremental pension expense of $2.6 million related to a settlement on a portion of the domestic pension plan. The overall technology spend increased by $2.9 million in fiscal 2015 as the higher technology expense within Selling, general and administrative expenses was largely offset by lower depreciation expense within Depreciation and amortization as more of the technology spend in fiscal 2015 related to the design phase of projects which resulted in lower capitalized technology costs.

Severance expense of $9.6 million in fiscal 2015 included $8.9 million related to cost reduction and restructuring programs. Severance expense of $10.5 million in fiscal 2014 included $9.9 million related to cost reduction initiatives.

In fiscal 2015, the Company recognized asset impairments of $15.8 million, compared to $28.0 million in the prior fiscal year. In fiscal 2015, the Company recognized an impairment charge of $8.3 million in respect to certain goodwill, production and programming assets in connection with the restructuring of the Company's media and entertainment businesses, recognized an impairment charge of $4.6 million for the discontinuation of certain outdated technology platforms and recognized an impairment charge of $2.9 million associated with the closure of its retail store located at the Company headquarters in New York City. In fiscal 2014, the Company recognized an asset impairment of $14.6 million related to Storia operating system-specific apps that were no longer supported due to the transition to a Storia streaming model and 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, 2015, net interest expense decreased to $3.5 million, compared to $6.9 million in the prior fiscal year, primarily due to the absence of capital leases associated with the purchase of 555 Broadway, partially offset by higher interest on borrowings under the Company's Loan Agreement related to such purchase.

In fiscal 2015, the Company recognized a gain of $0.6 million related to a UK-based cost method investment. In fiscal 2014, the Company recognized investment losses of $5.8 million relating to a $1.0 million loss for a U.S.-based equity method investment and a $4.8 million loss related to a UK-based cost method investment.

The Company’s effective tax rate for the fiscal year ended May 31, 2015 was 48.2%, compared to 678.3% 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 2015 increased by $2.2 million to $15.5 million, compared to $13.3 million in fiscal 2014. The basic and diluted earnings from continuing operations per share of Class A Stock and Common Stock were $0.47 and $0.46, respectively, in fiscal 2015, compared to $0.42 and $0.41, respectively, in fiscal 2014.

Discontinued Operations

Earnings from discontinued operations, net of tax, for the fiscal year ended May 31, 2015 were $279.1 million, compared to earnings from discontinued operations, net of tax, of $31.1 million in the prior fiscal year. The increase was driven by the net gain of $275.6 million associated with the sale of the educational technology and services business. Fiscal 2015 discontinued operations also included the net earnings from the educational technology and services business of $5.2 million, partially offset by net losses of $1.4 million associated with consumer magazine, production, and game console activities that were discontinued in fiscal 2015 and $0.3 million in losses from previously discontinued business units. In fiscal 2014, the educational technology and services business had net earnings of $31.4 million, partially offset by net losses of $0.4 million associated with consumer magazine, production, and game console activities that were discontinued in fiscal 2015 and $0.1 million in net gain from previously

discontinued business units. The basic and diluted earnings from discontinued operations per share of Class A Stock and Common Stock were $8.53 and $8.34, respectively, in fiscal 2015, compared to $0.97 and $0.95, respectively, in fiscal 2014.

The resulting net income for fiscal 2015 was $294.6 million, or $9.00 and $8.80 per basic and diluted share, respectively, compared to net income of $44.4 million, or $1.39 and $1.36 per basic and diluted share, respectively, in fiscal 2014.

Results of Operations – Segments

CHILDREN'S BOOK PUBLISHING AND DISTRIBUTION

($ amounts in millions)				2016 compared to 2015		2015 compared to 2014	
	2016	2015	2014	$ change	% change	$ change	% change
Revenues	$1,002.5	$958.7	$893.0	$43.8	4.6 %	$65.7	7.4 %
Cost of goods sold	418.1	409.1	384.5	9.0	2.2	24.6	6.4
Other operating expenses *	470.1	453.8	456.7	16.3	3.6	(2.9)	(0.6)
Asset impairments	3.7	10.2	28.0	(6.5)	(63.7)	(17.8)	(63.6)
Operating income (loss)	$110.6	$85.6	$23.8	$25.0	29.2 %	$61.8	259.7 %
Operating margin	11.0 %	8.9 %	2.7 %				

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

Fiscal 2016 compared to fiscal 2015

Revenues for the fiscal year ended May 31, 2016 increased by $43.8 million to $1,002.5 million, compared to $958.7 million in the prior fiscal year. Trade channel revenues increased $25.7 million, primarily due to higher trade publishing sales of $35.5 million. The increase in trade publishing revenues were driven by strong sales for both frontlist and backlist titles and the strong performance of Harry Potter, including frontlist titles such as Harry Potter and the Sorcerer's Stone: The Illustrated Edition and the Harry Potter-themed coloring books as well as an increase in backlist titles, partially offset by lower year-over-year sales of Minecraft titles. The higher trade publishing revenues were partially offset by lower sales of $9.8 million in the media operations now included within the trade channel due to the Company's restructuring of the media and entertainment business. The book fairs channel revenues increased $23.0 million due to a 3.4% increase in revenue per fair coupled with a 1.0% increase in fair count. The book club channel revenues decreased $4.9 million due to lower number of book club events caused by the relatively late start to the school calendar compared to the prior fiscal year, partially offset by a 2.3% increase in revenue per event. Sales of Minecraft series handbook titles across all Children's Book Publishing and Distribution channels totaled $22.2 million for the current fiscal year, compared to $57.1 million in the prior fiscal year.

Cost of goods sold for the fiscal year ended May 31, 2016 was $418.1 million, or 41.7% of revenues, compared to $409.1 million, or 42.7% of revenues, in the prior fiscal year. Cost of goods sold as a percentage of revenue remained relatively flat for this segment, with a modest improvement due to lower production amortization costs.

Other operating expenses were $470.1 million for the fiscal year ended May 31, 2016, compared to $453.8 million in the prior fiscal year. The increase was partially due to higher employee-related expenses of $7.8 million in the book fairs channel, primarily associated with continued efforts to improve sales, and $1.5 million in expenses related to a branch consolidation project in the Company's book fairs operations.

Asset impairments were $3.7 million for the fiscal year ended May 31, 2016, compared to $10.2 million in the prior fiscal year. In fiscal 2016, the Company recognized an impairment charge of $3.7 million for certain legacy prepublication assets. In the prior fiscal year, the Company recognized an impairment charge of $8.3 million in respect to certain goodwill, production and programming assets associated with the restructuring of the media and entertainment business and a $1.9 million impairment charge relating to the transition to a new ecommerce software platform for club ordering.

Segment operating income for the fiscal year ended May 31, 2016 was $110.6 million, compared to $85.6 million in the prior fiscal year. The increase was driven by higher revenues, primarily from the trade publishing channel and the book fairs channel, relatively flat cost of goods sold as a percentage of revenues and lower impairment charges, partially offset by higher employee-related expenses associated with the efforts to improve the book fairs channel sales.

Fiscal 2015 compared to fiscal 2014

Revenues for the fiscal year ended May 31, 2015 increased by $65.7 million to $958.7 million, compared to $893.0 million in the prior fiscal year. Revenues from the book clubs channel increased $44.6 million due to the success of the Company's marketing initiatives implemented in fiscal 2014, higher revenue per book club event and a 5% increase in the number of teacher sponsors. The Company's book fair revenues increased $25.1 million due to a 4% increase in revenue per fair, coupled with a 1% increase in fair count. Revenues in the trade channel decreased $4.0 million when compared to the prior fiscal year. The decrease was primarily driven by lower gross sales of Hunger Games trilogy titles of $19.7 million and was partially offset by the success of the Minecraft handbook series that resulted in higher gross sales of $16.1 million, strong sales of Raina Telgemeier's titles Sisters, Drama and Smile and favorable returns experience on Harry Potter titles. Sales of Minecraft series handbook titles across all Children's Book Publishing and Distribution channels totaled $57.1 million for fiscal 2015, compared to $13.1 million in fiscal 2014.

Cost of goods sold for the fiscal year ended May 31, 2015 was $409.1 million, or 43% of revenues, compared to $384.5 million, or 43% of revenues, in the prior fiscal year. Cost of goods sold as a percentage of revenue remained relatively flat for this segment, with modestly higher costs for books sold through the book clubs and trade channels offset by lower prepublication and amortization costs.

Other operating expenses were $453.8 million for the fiscal year ended May 31, 2015, compared to $456.7 million in the prior fiscal year, as increased promotional expense for the book clubs operation of $11.0 million and higher bad debt expense of $2.7 million were more than offset by lower technology costs.

Asset impairments for the segment were $10.2 million for the fiscal year ended May 31, 2015, compared to $28.0 million in the prior fiscal year. As part of the Company's restructuring of the media and entertainment businesses, the trade channel recognized an impairment charge of $8.3 million in respect to certain goodwill, production and programming assets. In addition, the book clubs channel incurred a $1.9 million impairment charge relating to the transition to a new ecommerce software platform for club ordering. In fiscal 2014, the segment incurred $14.6 million of asset impairments related to Storia operating system-specific apps that are no longer supported due to the transition to a Storia streaming model and a $13.4 million goodwill impairment.

Segment operating income for the fiscal year ended May 31, 2015 was $85.6 million, compared to $23.8 million in the prior fiscal year. The increase was driven by the higher book club and book fair revenues, lower prepublication and amortization costs and lower technology costs. Results in fiscal 2015 included $10.2 million in asset impairment charges relating to the restructuring of the media and entertainment businesses and the transition to a new ecommerce software platform for club ordering. Results in fiscal 2014 included charges of $18.0 million related to Storia asset impairments and other charges due to the transition to a Storia streaming model and a $13.4 million goodwill impairment.

EDUCATION

($ amounts in millions)				2016 compared to 2015		2015 compared to 2014	
	2016	2015	2014	$ change	% change	$ change	% change
Revenues	$298.1	$275.9	$255.1	$22.2	8.0 %	$20.8	8.2 %
Cost of goods sold	99.3	94.0	89.6	5.3	5.6	4.4	4.9
Other operating expenses *	142.8	133.5	127.0	9.3	7.0	6.5	5.1
Asset impairments	3.2	—	—	3.2	100.0	—	N/A

Operating income (loss)	$52.8	$48.4	$38.5	$4.4	9.1 %	$9.9	25.7 %
Operating margin	17.7 %	17.5 %	15.1 %				

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

Fiscal 2016 compared to fiscal 2015

Revenues for the fiscal year ended May 31, 2016 increased by $22.2 million to $298.1 million, compared to $275.9 million in the prior fiscal year. $13.7 million of the increase was primarily driven by classroom books and literacy initiatives due to strong fiscal year fourth quarter sales of classroom books and guided reading and customized curriculum programs. Classroom magazines revenues increased $5.9 million due to higher circulation and consumer magazines revenues increased $3.2 million due to increased digital and custom publishing programs. These

businesses benefit from continued demand for in-class supplemental reading offerings. Partially offsetting the increase were lower sales in library publishing of $0.6 million.

Cost of goods sold for the fiscal year ended May 31, 2016 was $99.3 million, or 33.3% of revenue, compared to $94.0 million, or 34.1% of revenue, in the prior fiscal year. Cost of goods sold as a percentage of revenue remained relatively flat for this segment, with modest improvement due to the higher margins associated with the Company's classroom magazines.

Other operating expenses increased by $9.3 million for the fiscal year ended May 31, 2016, due to higher sales management-related expenses as part of the Company's continued efforts to increase sales from classroom books and literacy initiatives and higher operating expenses related to the increased circulation of classroom magazines.

Asset impairments were $3.2 million for the fiscal year ended May 31, 2016, due to impairment charges for certain legacy prepublication assets.
Segment operating income for the fiscal year ended May 31, 2016 improved by $4.4 million. The increase was driven by the higher sales from classroom books and literacy initiatives, as well as from classroom magazines, coupled with the relatively flat cost of goods sold as a percentage of revenues, partially offset by higher sales management-related expenses and impairment charges.
Fiscal 2015 compared to fiscal 2014

Revenues for the fiscal year ended May 31, 2015 increased by $20.8 million to $275.9 million, compared to $255.1 million in the prior fiscal year. As a result of the continued demand for independent reading materials for the classroom, revenues from classroom books and literacy initiatives, including guided reading programs such as the Guided Reading Nonfiction 2nd Edition, increased by $14.4 million in fiscal 2015, compared to the prior fiscal year. Classroom magazine revenues increased $8.1 million primarily due to increased circulation driven by demand for the Company's print and online offerings such as Scholastic News®, Scope® and Storyworks®. Revenues from sales of library publishing products were relatively flat. Revenues for supplemental teaching resource materials declined $3.5 million due to lower sales from retail channels.

Cost of goods sold for the fiscal year ended May 31, 2015 was $94.0 million, or 34% of revenue, compared to $89.6 million, or 35% of revenue, in the prior fiscal year. The lower cost of goods sold as a percentage of revenue was 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 $6.5 million for the fiscal year ended May 31, 2015, due to higher employee-related expenses and promotional costs.

Segment operating income for the fiscal year ended May 31, 2015 improved by $9.9 million. Higher classroom magazine circulation drove $4.1 million of this improvement, as demand continued for nonfiction materials to supplement classroom learning. Classroom books and literacy initiatives contributed $5.3 million to the increase in operating income.
INTERNATIONAL

($ amounts in millions)				2016 compared to 2015		2015 compared to 2014	
	2016	2015	2014	$ change	% change	$ change	% change
Revenues	$372.2	$401.2	$413.4	$(29.0)	(7.2)%	$(12.2)	(3.0)%
Cost of goods sold	194.4	201.7	202.7	(7.3)	(3.6)	(1.0)	(0.5)
Other operating expenses *	166.4	176.2	180.3	(9.8)	(5.6)	(4.1)	(2.3)

Asset impairments	—	2.7	—	(2.7)	(100.0)	2.7	100.0
Operating income (loss)	$11.4	$20.6	$30.4	$(9.2)	(44.7)%	$(9.8)	(32.2)%
Operating margin	3.1 %	5.1 %	7.4 %				

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

Fiscal 2016 compared to fiscal 2015

Revenues for the fiscal year ended May 31, 2016 decreased by $29.0 million to $372.2 million, compared to $401.2 million in the prior fiscal year. Total local currency revenues across the Company's foreign operations increased $14.2 million when compared to the prior fiscal year, but were offset by foreign currency exchange declines of $43.2 million as the U.S. dollar strengthened against most foreign currencies. Local currency revenues from Australia and New Zealand increased $10.3 million, primarily on increased sales of local titles within the Australia trade channel. Local currency revenues increased $6.3 million from the Company's Asia operations, primarily led by operations in Malaysia, India, and the Philippines. Local currency revenues from the UK increased $2.8 million, primarily due to an increase in book fairs channel revenues driven by the acquisition of Troubadour, Ltd., partially offset by lower sales within the trade and book clubs channels. Local currency revenue increases were partially offset by lower revenues in the Company's export and foreign rights channel of $3.1 million, reflecting the negative impact of the strengthened U.S. dollar. Lower local currency revenues in Canada of $2.1 million were due to the effect of the now settled labor action in Ontario schools.

Cost of goods sold for the fiscal year ended May 31, 2016 was $194.4 million, or 52.2% of sales, compared to $201.7 million, or 50.3% of sales, in the prior fiscal year. The increase in cost of goods sold as a percentage of revenues was primarily driven by the impact fixed costs had on the lower local currency sales in Canada. Additionally, the strong U.S. dollar further increased cost of goods sold as a percentage of revenues due to the fact that many of the Company's international operations purchase U.S. product in U.S. dollars. This increase was partially offset by $1.5 million in lower costs due to a warehouse optimization project in Canada during the prior fiscal year.

Other operating expenses decreased by $9.8 million when compared to the prior fiscal year. The decrease was primarily driven by $16.3 million in foreign exchange translation, partially offset by a $3.7 million insurance settlement in the prior fiscal year relating to a fire in a warehouse in India and a $1.9 million increase in bad debt expense due to economic conditions in Malaysia and Thailand. Other operating expenses were also impacted by $0.9 million and $1.5 million of the severance expenses for the fiscal years ended May 31, 2016 and 2015, respectively, related to cost saving initiatives.

Segment operating income for the fiscal year ended May 31, 2016 was $11.4 million, compared to $20.6 million in the prior fiscal year. The decrease was driven by $3.9 million in foreign exchange translation, higher cost of goods sold due to U.S. sourced product, a $3.7 million insurance settlement in the prior fiscal year relating to a fire in a warehouse in India, a $1.9 million increase in bad debt expense due to economic conditions in Malaysia and Thailand, lower revenues from the Canadian operations and lower gross margin sales in the Australian channels. This was partially offset by $2.7 million in impairment charges of certain outdated technology platforms in the prior fiscal year, $1.5 million in lower costs due to a warehouse optimization project in Canada during the prior fiscal year and $0.6 million in lower severance costs in fiscal 2016.

Fiscal 2015 compared to fiscal 2014

Revenues for the fiscal year ended May 31, 2015 decreased by $12.2 million to $401.2 million, compared to $413.4 million in the prior fiscal year. Total local currency revenues across the Company's foreign operations increased $7.5 million, but were offset by foreign currency exchange declines of $19.7 million as the U.S. dollar strengthened against most foreign currencies. Local currency revenues from the Asian operations increased $6.4 million due to improved revenues from trade and from the direct sales channel across the region. Local currency revenues from the major markets of Canada, the United Kingdom and Australia increased $0.2 million on the strength of trade and book fairs channel results and increased sales of media products in Australia, partially offset by lower revenues from the Company's Canadian operations. The lower local currency revenues in Canada were due in part to decreased revenues from book club operations, including the impact of a teachers' strike in British Columbia. Revenues from the

Company's export and foreign rights operations in the U.S. increased $0.9 million, as the Company continues to serve markets globally via this channel.

Cost of goods sold for the fiscal year ended May 31, 2015 was $201.7 million, or 50% of sales, compared to $202.7 million, or 49% of sales, in the prior fiscal year. The modest increase in cost of goods sold as a percentage of sales was primarily due to $1.5 million of increased costs in Canada for a warehouse optimization project and the higher cost of U.S. dollar-denominated product.

Other operating expenses decreased by $4.1 million when compared to the prior fiscal year. The decrease was primarily due to foreign currency exchange rates coupled with lower promotional and salary related costs and a $3.7 million insurance settlement relating to a fire in a warehouse in India, partially offset by $1.5 million in severance costs as part of cost reduction and restructuring programs.

Certain outdated technology platforms resulted in $2.7 million in impairment charges in fiscal 2015.

Segment operating income for fiscal 2015 decreased by $9.8 million to $20.6 million, compared to $30.4 million in the prior fiscal year. The decrease was driven by $2.7 million in impairment charges of certain outdated technology platforms, $1.5 million of increased costs in Canada for the warehouse optimization project and $1.5 million in severance costs as part of cost reduction and restructuring programs, coupled with lower revenues from the Canadian operations and lower gross margin sales in the Australian channels, partially offset by the $3.7 million insurance settlement relating to the fire in a warehouse in India.

Overhead

Fiscal 2016 compared to fiscal 2015

Corporate overhead for fiscal 2016 decreased by $14.5 million to $107.2 million, compared to $121.7 million in the prior fiscal year. The decrease primarily relates to lower unabsorbed overhead burden, as costs in fiscal 2016 have been offset by transition service fees under the transition services agreement with the purchaser of the educational technology and services business, and lower pension expense of $4.3 million related to a settlement on a portion of the domestic pension plan in the prior fiscal year. The decrease was partially offset by higher strategic technology spending on new enterprise-wide customer and content management systems and the migration to SaaS and cloud-based technology solutions and $4.6 million in higher impairment charges associated with a $7.5 million pretax impairment charge related to the abandonment of legacy building improvements in connection with the Company's renovation of its headquarters location in New York City, compared to a $2.9 million impairment charge in fiscal 2015 associated with the closure of the retail store located at the Company headquarters in New York City. Corporate overhead expenses were also impacted by $8.6 million and $7.4 million of severance expenses related to cost saving initiatives for the fiscal years ended May 31, 2016 and 2015, respectively.

Fiscal 2015 compared to fiscal 2014

Corporate overhead for fiscal 2015 increased by $39.4 million to $121.7 million, compared to $82.3 million in the prior fiscal year, primarily reflecting higher strategic technology spend on enterprise-wide management platforms and higher depreciation expense on the Company's corporate headquarters building acquired in fiscal 2014. The higher enterprise-wide technology spend reflected in overhead was partially offset by lower business unit-specific spend reflected in the segment results, primarily in the Children’s Book Publishing and Distribution segment. Included in overhead expenses were unallocated overhead costs that would have been charged to the educational technology and services business of $15.8 million and $16.2 million in fiscal 2015 and 2014, respectively, severance expenses as part of cost reduction and restructuring programs of $7.4 million and $9.3 million in fiscal 2015 and 2014, respectively, pension settlement charges of $4.3 million and $1.7 million in fiscal 2015 and 2014, respectively, and a $2.9 million impairment charge in fiscal 2015 associated with the closure of the retail store located at the Company headquarters in New York City.

Liquidity and Capital Resources

Fiscal 2016 compared to fiscal 2015

The Company’s cash and cash equivalents totaled $399.7 million at May 31, 2016 and $506.8 million at May 31, 2015. Cash and cash equivalents held by the Company’s U.S. operations totaled $385.3 million at May 31, 2016 and $491.2 million at May 31, 2015.

Cash used in operating activities was $78.9 million for the fiscal year ended May 31, 2016, compared to cash provided by operating activities of $166.9 million for the prior fiscal year, representing an increase in cash used by operating activities of $245.8 million. The increase in cash used was primarily due to current fiscal year income tax payments of approximately $186 million resulting from the gain on the sale of the educational technology and services business recognized in fiscal 2015, as well as to discontinued operations which contributed $69.5 million to the increase in cash used driven by the former educational technology and services business which was sold on May 29, 2015.

Cash used in investing activities was $39.5 million for the fiscal year ended May 31, 2016, compared to cash provided by investing activities of $445.3 million for the prior fiscal year, representing an increase in cash used by investing activities of $484.8 million. The increase in cash used was primarily driven by discontinued operations which resulted in an increase in the use of cash of $487.6 million. The change in discontinued operations was driven by the cash proceeds of $543.2 million received in the prior fiscal year which comprised the proceeds of $577.7 million less

restricted cash held in escrow of $34.5 million, the $33.9 million in cash used in investing activities associated with the former educational technology and services business before it was sold, the release of $24.6 million in restricted cash in the current fiscal year and a working capital adjustment resulting in a $2.9 million final payment.

Cash provided by financing activities was $12.0 million for the fiscal year ended May 31, 2016, compared to cash used in financing activities of $124.5 million for the prior fiscal year, representing an increase in cash provided by financing activities of $136.5 million. The Company experienced lower net repayment activity under the Loan Agreement of $120.0 million and higher proceeds pursuant to employee stock plans of $19.3 million, and the Company's short-term net borrowings position resulted in an increase in cash provided of $11.5 million. This increase was partially offset by an increase in the Company's repurchase of common stock of $10.9 million.

Fiscal 2015 compared to fiscal 2014

Cash provided by operating activities was $166.9 million for the fiscal year ended May 31, 2015, compared to cash provided by operating activities of $156.8 million for the prior fiscal year, representing an increase in cash provided by operating activities of $10.1 million. Changes in operating assets and liabilities resulted in a $47.0 million increase in cash provided by continuing operations, driven by improved collections of receivables and higher revenues from book clubs operations, where cash collections are generally contemporaneous with the sale of product. Discontinued operations also contributed a $7.0 million increase in cash provided by operating activities driven by the former educational technology and services business which was sold on May 29, 2015. Earnings from continuing operations increased by $2.2 million over the prior year. The increases were partially offset by decreased adjustments to reconcile earnings from continuing operations to net cash provided by operating activities of continuing operations of $46.1 million, including lower depreciation and amortization of $13.3 million, decreased asset impairments of $12.2 million and lower deferred income taxes of $12.4 million.

Cash provided by investing activities was $445.3 million for the fiscal year ended May 31, 2015, compared to cash used in investing activities of $345.7 million for the prior fiscal year, representing an increase in cash provided by investing activities of $791.0 million. The increase was primarily driven by the sale of the former educational technology and services business on May 29, 2015, which resulted in cash proceeds of $543.2 million comprised of the proceeds of $577.7 million less restricted cash held in escrow of $34.5 million. Also contributing to the increase was the prior fiscal year purchase of the land and building comprising the leased portion of the Company’s New York City corporate headquarters, located in SoHo, for $253.9 million. This was partially offset by a $3.2 million increase in use of cash from investing activities in discontinued operations driven by the former educational technology and services business.

Cash used in financing activities was $124.5 million for the fiscal year ended May 31, 2015, compared to cash provided by financing activities of $122.5 million for the prior fiscal year, representing a decrease in cash provided by financing activities of $247.0 million. The decrease was primarily driven by a $120.0 million repayment under the Company's Loan Agreement during fiscal 2015 compared to $120.0 million of borrowings outstanding in fiscal 2014, which resulted in a decrease of $240.0 million. The decrease was also attributable to net loan repayments of $9.0 million in fiscal 2015 compared to net borrowings of $13.9 million in the prior fiscal year, contributing to a decrease of $22.9 million. This was partially offset by higher proceeds pursuant to employee stock plans of $14.8 million.

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 fiscal 2016, the Company had substantial tax payment related to the gain on the sale of the educational technology and services business. The Company does not expect to incur significant domestic borrowings to meet operating needs in fiscal 2016.

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, 2016, the Company purchased $14.4 million of Company shares on the open market compared to $3.5 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, 2016, the Company's primary sources of liquidity consisted of cash and cash equivalents of $399.7 million, cash from operations, and funding available under the Loan Agreement totaling approximately $425.0 million. Additionally, the

Company has short-term credit facilities of $48.3 million, less current borrowings of $6.3 million and commitments of $4.9 million, resulting in $37.1 million of current availability at May 31, 2016. 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, 2016, the Company's contractual cash obligations by future period (see Notes 4, 5 and 13 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	$44.8	$91.8	$95.0	$48.6	$280.2
Royalty advances	10.2	4.3	0.9	0.2	15.6
Lines of credit and short-term debt	6.3	—	—	—	6.3
Capital leases (1)	1.4	2.6	2.2	3.6	9.8
Pension and post-retirement plans (2)	18.5	27.2	25.4	60.2	131.3
Operating leases	30.8	41.3	18.1	11.6	101.8
Total	$112.0	$167.2	$141.6	$124.2	$545.0

(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 4 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data." There were no outstanding borrowings under the Loan Agreement as of May 31, 2016. For a more complete description of the Loan Agreement, as well as the Company's other debt obligations, reference is made to Note 4 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. 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, 2016. The Company does not enter into derivative transactions or use other financial instruments for trading or speculative purposes.

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 4 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, 2016 (see Note 4 of Notes to Consolidated Financial Statements in Item 8, "Consolidated Financial Statements and Supplementary Data"):

								$ amounts in millions
	Fiscal Year Maturity							Fair Value
	2017	2018	2019	2020	2021	Thereafter	Total	2016
Debt Obligations								
Lines of credit and current portion of long-term debt	$6.3	$ —	$ —	$ —	$ —	$ —	$6.3	$ 6.3
Average interest rate	4.4 %	—	—	—	—	—		

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Item 8 | Consolidated Financial Statements and Supplementary Data

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The following consolidated financial statement schedule for the years ended May 31, 2016, 2015 and 2014 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,		
	2016	2015	2014
Revenues	$1,672.8	$1,635.8	$1,561.5
Operating costs and expenses:			
Cost of goods sold	762.3	758.5	725.0
Selling, general and administrative expenses	777.7	771.1	727.3
Depreciation and amortization	38.9	47.9	60.3
Severance	11.9	9.6	10.5
Asset impairments	14.4	15.8	28.0
Total operating costs and expenses	1,605.2	1,602.9	1,551.1
Operating income	67.6	32.9	10.4
Interest income	1.1	0.3	0.6
Interest expense	(2.2)	(3.8)	(7.5)
Gain (loss) on investments and other	2.2	0.5	(5.8)
Earnings (loss) from continuing operations before income taxes	68.7	29.9	(2.3)
Provision (benefit) for income taxes	24.7	14.4	(15.6)
Earnings (loss) from continuing operations	44.0	15.5	13.3
Earnings (loss) from discontinued operations, net of tax	(3.5)	279.1	31.1
Net income (loss)	$40.5	$294.6	$44.4
Basic and diluted earnings (loss) per share of Class A and Common Stock			
Basic:			
Earnings (loss) from continuing operations	$1.29	$0.47	$0.42
Earnings (loss) from discontinued operations	$(0.11)	$8.53	$0.97
Net income (loss)	$1.18	$9.00	$1.39
Diluted:			
Earnings (loss) from continuing operations	$1.26	$0.46	$0.41
Earnings (loss) from discontinued operations	$(0.10)	$8.34	$0.95
Net income (loss)	$1.16	$8.80	$1.36
Dividends declared per common share	$0.600	$	